KATHMANDU HOLDINGS LIMITED

21 September 2021

Preliminary Full Year Report
For the year ending 31 July 2021

Contents

Results announcement

Results for announcement to the market	
Name of issuer	Kathmandu Holdings Limited
Reporting Period	12 months to 31 July 2021
Previous Reporting Period	12 months to 31 July 2020
Currency	NZD

	Amount (000s)	Percentage change
Revenue from continuing operations	$922,792	15.1%
Total Revenue	$922,792	15.1%
Net profit/(loss) from continuing operations	$63,429	615.3%
Total net profit/(loss)	$63,066	675.3%

Dividend	
Amount per Quoted Equity Security	$0.03
Imputed amount per Quoted Equity Security	NIL
Record Date	30th November 2021
Dividend Payment Date	15th December 2021

	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	$0.18	$0.13
A brief explanation of any of the figures above necessary to enable the figures to be understood	The results are based on accounts which have been subject to audit. Refer to accompanying audited financial statements and media release for further information.	

Authority for this announcement	
Name of person authorised to make this announcement	Frances Blundell
Contact person for this announcement	Frances Blundell
Contact phone number	0064 3 421 5397
Contact email address	companysecretary@kathmandu.co.nz
Date of release through MAP	Tuesday, 21st September 2021

Audited financial statements accompany this announcement.

21 September 2021
(All amounts in NZ$ unless otherwise stated)

Group result underpinned by strong Rip Curl performance

- **Strong sales performance from Rip Curl and Oboz, driven by participation growth in surfing and hiking**
- **Kathmandu impacted by COVID related travel restrictions**
- **Investment program in online capabilities delivering results, with online sales accounting for 14.4% of direct to consumer (DTC) sales; a 4-year CAGR of 21.9% p.a.**
- **Strong forward order books for Rip Curl and Oboz, above pre-COVID levels**
- **Strong balance sheet with $37 million net cash, and clean inventory position**
- **Final dividend of 3.0 cents per share (fully franked for Australian shareholders); total FY21 dividend of 5.0 cents per share**
- **Refreshed Group strategy to drive global brand growth and cement ESG leadership**

Kathmandu Holdings Limited (ASX/NZX: KMD) is pleased to announce its results for the 12 months ended 31 July 2021 (FY21).

FY21 key highlights (vs FY20):

- Sales up 15.1% to $922.8 million, including a full 12-month contribution from Rip Curl
- Gross margin up 40 bps to 58.7%
- Underlying EBITDA up 35.9% to $113.3 million (excluding the impact of IFRS 16 and one-off abnormal costs), driven by strong sales performance and focused management of operating expenses
- Statutory NPAT of $63.4 million
- Underlying NPAT up 110% to $66.3 million (excluding the impact of IFRS 16 and one-off abnormal costs)
- Strong balance sheet with $37.0 million net cash, allows the Group to manage any short-term COVID-related challenges while supporting continued growth investment
- Final dividend of 3.0 cents per share (fully franked for Australian shareholders); total FY21 dividend of 5.0 cents per share

Commenting on the FY21 results, Group CEO & Managing Director Michael Daly said:

“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.”

“Rip Curl achieved sales above pre-COVID levels in the key regions of North America and Europe during the Northern Hemisphere summer season, benefiting from increased participation in surfing, and reflecting the brand’s technical product focus and strong consumer engagement. Rip Curl’s wholesale order books are now significantly above pre-COVID levels.”

"While Kathmandu has felt the impacts of COVID related travel restrictions, 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."

"Oboz continues its strong performance, with sales growth reflecting the successful product innovation strategy and diversification of its customer base. The forward order book is at its highest level ever, allowing investment to support future growth."

"Our refreshed Group strategy ensures we are focused on the things that matter most as we move into FY22 – building global brands focused on active outdoor activities, investing in digital platforms to provide consumers with a truly world class unified commerce experience, operational excellence, and sustainability [ESG] leadership."

Group financial performance

	Statutory	Underlying[1]		
NZ$ million[2]	**FY21**	**FY21**	**FY20**	**Change %**
Sales	922.8	922.8	801.5	15.1%
Gross Profit	541.6	541.6	467.0	16.0%
Operating Expenses	(333.6)	(428.3)	(383.7)	11.6%
EBITDA	208.0	113.3	83.4	35.9%
EBIT	92.2	83.8	56.2	49.3%

The FY21 Group results were underpinned by strong sales from both Rip Curl and Oboz, and included a full 12 months of Rip Curl (FY20 included 9 months of Rip Curl post-acquisition). Earnings growth further reflected the Group's focused management of operating expenses, including the benefit of rent abatements, and approx. $15 million annualised restructuring and synergy savings implemented during the onset of the COVID pandemic last financial year.

Rip Curl: result underpinned by growth in surfing

	Underlying[1]		
NZ$ million	**FY21**	**FY20 Nov 19 to Jul 20**	**Change**
Sales	490.4	315.7	55.3%
Gross Profit	288.9	178.5	61.9%
Operating Expenses	(222.6)	(166.8)	33.5%
EBITDA	66.3	11.7	468.1%
EBIT	56.9	4.2	1252.4%

Rip Curl's results have outperformed acquisition expectations, with total sales up 10.5% on the prior comparable twelve months, and sales levels above pre-COVID levels in the key regions of North America and Europe during the Northern Hemisphere summer season.

Direct-to-consumer (DTC) same store sales growth (comprising owned retail stores and online) was up 19.2% overall. Online sales of $33.5 million represented 12.5% of DTC sales, and generated a 4-year CAGR of 44.4% p.a.

[1] Underlying results exclude the impact of IFRS 16 leases and one-off abnormal costs
[2] FY21 NZD/AUD conversion rate 0.931 (FY20: 0.939), FY21 NZD/GBP conversion rate 0.515 (FY20: 0.504), FY21 NZD/USD conversion rate 0.699 (FY20 0.636)

Overall, sales returned to pre-COVID levels, even though stores in airports, Australia, Hawaii, Asia, and parts of Europe, continued to be affected in FY21.

Wholesale sales were 9.6% above the prior comparable twelve months despite a COVID disrupted sell-in period for 1H FY21. Wholesale forward order books are now significantly above pre-COVID levels.

Kathmandu: result reflects COVID impacts

	Underlying[1]		
NZ$ million	**FY21**	**FY20**	**Var %**
Sales	354.0	426.4	(17.0%)
Gross Profit	224.7	265.1	(15.2%)
Operating Expenses	(183.9)	(198.2)	(7.2%)
EBITDA	40.8	66.9	(38.9%)
EBIT	26.3	51.4	(48.8%)

Kathmandu's performance continued to be impacted 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. Same store sales (including online) were down 18.2% overall for the full year, and down 3.1% for the second half year.

Gross margin increased by 130 bps (1.3% of sales), benefitting from improved currency rates as well as a focus on promotional execution and inventory management.

Online sales of $56.8 million represented 15.8% of DTC sales, and generated a 4-year CAGR of 14.3% p.a.

Oboz: result underpinned by strong hiking participation

		Underlying[1]		
NZ$ million	**FY21 Reported**	**FY21 Constant Currency**	**FY20 Reported**	**Var Constant Currency**
Sales	78.4	86.1	59.4	44.9%
Gross Profit	28.0	30.7	23.5	30.7%
Operating Expenses	(16.2)	(17.8)	(15.9)	11.7%
EBITDA	11.8	12.9	7.6	70.3%
EBIT	11.4	12.6	7.3	72.6%

Oboz continues to grow strongly, with sales growth driven by a successful product innovation strategy and diversification of the customer base.

Gross margin was impacted by significant one-off air freight costs to support key customer deliveries of winter seasonal styles in 1H FY21, plus increased ocean freight costs due to supply chain congestion in 2H FY21. Gross margin is expected to normalise to historical levels when global supply chain congestions and related shipping rates come back into line.

The forward order book is at its highest level ever, allowing investment to support future growth.

Strong balance sheet and resilient cash flows

The Group finished FY21 with a net cash position of $37 million, providing significant balance sheet flexibility to manage any short-term COVID challenges, support growth investment, and consider potential capital management options.

In addition to the strong balance sheet position, adjusted operating cash flows of $93 million in FY21 has enabled the Directors to declare a final dividend of 3.0 cents per share, fully franked for Australian shareholders, and not imputed for New Zealand shareholders. The record date for this dividend is 30 November 2021, and the payment date is 15 December 2021.

Sustainability is at the core

Commenting on the Group's sustainability initiatives, Mr Daly said: "Our three brands are all about outdoor activities and experiencing the environment around us. Sustainability is at the core of our businesses."

"In 2019, Kathmandu became the largest certified B Corporation in Australasia at the time, and in 2021 the Group committed to the largest syndicated sustainability linked loan in New Zealand. Rip Curl has a wetsuit take-back program and is sourcing sustainable cotton, Kathmandu achieved carbon zero certification, and Oboz has planted four million trees since its establishment."

"We're not slowing down and there's a lot more we're doing to cement our sustainability leadership position going forward."

Trading update & outlook

Same store sales (including online) for the six full weeks to 12 September 2021 were significantly impacted by ongoing Australasian COVID lockdowns as follows:

- Rip Curl -12.8% overall; +3.6% adjusted for COVID lockdowns[3]
- Kathmandu -19.9% overall; +18.3% adjusted for COVID lockdowns[3]

These results include online sales growth to date of 25.9%, with Kathmandu sales in regions less affected by COVID restrictions performing strongly. Rip Curl and Oboz wholesale order books are now significantly above pre-COVID levels.

In addition to ongoing Australasian lockdowns, COVID restrictions are also impacting the Group's supply chain. Suppliers have reduced factory capacity due to enforced closures, and freight congestion is leading to delivery delays and increased freight costs.

As a result, first half FY22 profit is expected to be below first half FY21.

[3] Adjusted same store sales removes stores that were not able to open for a comparable week in either year because of COVID lockdowns

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

"Despite navigating the ongoing impacts from COVID, our brands are well positioned to capitalise on growing participation in outdoor, beach and surfing activities. The rollout of COVID vaccinations across the globe is opening up markets and countries again, presenting exciting opportunities for our Group."

"We will continue to invest in building our global brands, through brand advertising, sponsorship, and sustainability initiatives, which include extending Kathmandu's B Corp accreditation to all Group brands and setting science-based targets."

"We have a number of key initiatives planned to elevate our digital capabilities, including the launch of Rip Curl loyalty, and the relaunch of Kathmandu Summit Club. We also plan to leverage Kathmandu online platform enhancements to increase conversion, and increase the use of data analytics and personalisation capability. We will also continue to invest in core systems and platform upgrades in order to leverage operational excellence across our brands."

"Rip Curl and Oboz wholesale order books are now significantly above pre-COVID levels. Rip Curl and Kathmandu are generating like-for-like retail sales growth excluding COVID-impacts from store closures. Online sales are continuing to grow for all three brands."

"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."

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

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

https://event.webcasts.com/starthere.jsp?ei=1488260&tp_key=c191381705

If you are unable to pre-register, at the time of the call please dial one of the numbers below and provide the **Participant Code 329079** to the operator.

Australia Toll Free:	1800 590 693
Australia Local:	+61 7 3105 0937
Australia Alt. Local:	+61 3 8317 0929
New Zealand Toll Free:	0800 423 972
United States:	+1 323 794 2095

This announcement has been authorised for release to ASX by the Board of Directors of Kathmandu Holdings Limited.

\- ENDS -

For further information, please contact:

Investors
Eric Kuret, Market Eye
P: +61 417 311 335
E: eric.kuret@marketeye.com.au

Media
Helen McCombie, Citadel-MAGNUS
P: + 61 2 8234 0103

Kathmandu Holdings Limited

CONSOLIDATED FINANCIAL STATEMENTS

31 July 2021

Introduction and Table of Contents

In this section …

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

Keeping it simple …

Notes to the consolidated financial statements provide information required by accounting standards or 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.

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 4 to 53.

David Kirk	21 September 2021 *Date*
Michael Daly	21 September 2021 *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	Cash flow hedge reserve	Foreign currency translation reserve	Share-based payments reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Balance as at 31 July 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
Movement in working capital:			
(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
Add non-cash items:			
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 below.

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 administrations expenses 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**
Total assets include:				
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**
Total assets include:				
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 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
Adjustments to taxation:		
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	(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	(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	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
Adjustment for:		
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 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
Cash and cash equivalents:		
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
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 (FVLCOD). Five-year projected cash flows are used to determine the FVLCOD.

The discounted cash flow valuations were calculated using post tax cash flow projections based on financial budgets prepared by management and approved by the Directors for the year ended 31 July 2022. Cash flows beyond July 2022 are based on three-year business plans presented to the Directors.

The key assumption used:

- The FVLCOD 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 in 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	-1%		+1%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	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	-1%		+1%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	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)	-	-	-	-

	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 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.

	Carrying amount	-10%		+10%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	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**

	Carrying amount	-10%		+10%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	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 '000	2020 '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 if 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**
Carrying amounts of identifiable assets acquired and liabilities assumed:	
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**	**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 Chermside Pty Ltd		Australia	100%	100%
Bondi Rip Pty Ltd		Australia	100%	100%
Rip Curl Japan		Japan	100%	100%
Curl Retail No 1. Pty Ltd		Australia	100%	100%
RC Surf Sydney Pty Ltd		Australia	100%	100%
RC Surf South Pty Ltd		Australia	100%	100%
RC Surf NZ Limited *(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 relived 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).

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)
- John Harvey
- Philip Bowman
- Brent Scrimshaw
- Andrea Martens

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.

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	How our audit addressed 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 (FVLCOD) 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.	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	How our audit addressed 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.	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.

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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:

PricewaterhouseCoopers

Chartered Accountants

21 September 2021

Christchurch