

KMD BRANDS LIMITED

INTERIM REPORT 2023

KMD BRANDS LIMITED - INTERIM REPORT 2023

DIRECTORS' REPORT

The Directors of KMD Brands Limited present the Interim Report for the Company and its controlled entities for the half year ended 31 January 2023.

Review of Operations

Group sales of \$547.9 million for the interim period are a record first half result with the Group cycling over 11,000 lost trading days from Australasian COVID lockdowns last year. The record sales result was further supported by an encouraging return of international travel and tourism.

Although the Group continued to experience elevated international freight costs and raw material cost pressures these pressures were offset by favorable exchange rates and careful moderation of the Kathmandu "high-low" pricing model. Gross margin was 58.7% for the period an increase of 100 basis points.

Increased operating expenses reflect continued investment to support brand expansion and leveraging the full reopening of our store network for the period. Operating expenses for the period are 50.4% of sales, demonstrating operating leverage year-on-year.

As at 31 January 2023, the Group had a net debt position of \$84.9 million with significant funding headroom over \$200 million.

The higher inventory balance reflects investments in Oboz inventory to meet second half forward orders, as well as investments in wetsuit raw material for perennial styles to mitigate international supply challenges. Inventory obsolescence provisions represent 1.4% of gross inventory on hand, 50 basis points below July 2022.

Operating cash flows were affected by the temporary inventory build. It is expected that an unwind of inventory will underpin the traditionally strong operating cashflow generation in the second half.

The Group's strong balance sheet and positive growth outlook resulted in a declared interim dividend of 3.0 cents per share (fully franked for Australian shareholders).

A further review of the operations of the Group is set out in the accompanying Company's media release of 22 March 2023

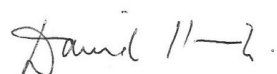
Seasonality

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

Impact of COVID-19

The Group has continued to review the impact on the business from the COVID-19 situation. During the comparative period, trade at a number of the Group's stores was disrupted by COVID-19 related travel restrictions and government mandated lockdowns and closures. Although these restrictions were relaxed during the half year the group continued to be disrupted by staff shortages. Refer to note 4 of the Financial Statements for further disclosure about the impact of COVID-19.

Signed in accordance with a resolution of the Directors:



David Kirk
Director



Michael Daly
Director

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six Months Ended 31 January 2023 NZ\$'000	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Audited Year Ended 31 July 2022 NZ\$'000
Sales revenue	5	547,924	407,304	979,802
Cost of sales		(226,173)	(172,359)	(403,069)
Gross profit		321,751	234,945	576,733
Other income	5	622	3,568	9,857
Selling expenses	6	(138,036)	(99,761)	(231,460)
Administration and general expenses	3, 6	(93,492)	(82,604)	(175,196)
		(230,906)	(178,797)	(396,799)
Earnings before interest, tax, depreciation, and amortisation		90,845	56,148	179,934
Depreciation and amortisation	3, 6	(59,474)	(55,317)	(112,516)
Earnings before interest and tax		31,371	831	67,418
Finance income		291	716	394
Finance expenses		(10,472)	(6,447)	(14,187)
Finance costs - net	6	(10,181)	(5,731)	(13,793)
Profit/(Loss) before income tax		21,190	(4,900)	53,625
Income tax expense	3	(7,213)	(641)	(16,797)
Profit/(Loss) after income tax		13,977	(5,541)	36,828
Profit/(Loss) for the period attributable to:				
Shareholders of the company		13,159	(5,919)	35,952
Non-controlling interest		818	378	876
Other comprehensive income/(loss) that may be recycled through profit and loss:				
Movement in cash flow hedge reserve		1,797	6,391	12,671
Movement in foreign currency translation reserve		(12,638)	16,121	36,188
Other comprehensive (loss)/income for the period, net of tax		(10,841)	22,512	48,859
Total comprehensive income for the period		3,136	16,971	85,687
Total comprehensive income for the period attributable to:				
Owners of the company		2,412	16,547	84,576
Non-controlling interest		724	424	1,111
Basic earnings per share		1.9 cps	(0.8) cps	5.1 cps
Diluted earnings per share		1.8 cps	(0.8) cps	5.0 cps
Weighted average basic ordinary shares outstanding ('000)		711,220	709,001	709,001
Weighted average diluted ordinary shares outstanding ('000)		716,072	715,331	717,266

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Other Reserves	Retained Earnings	Non-controlling Interest	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Balance as at 31 July 2021	626,380	1,341	(29,462)	2,637	(47)	210,036	4,070	814,955
Profit after tax	-	-	-	-	-	35,952	876	36,828
Other comprehensive income	-	12,671	35,953	-	-	-	235	48,859
Dividends paid	-	-	-	-	-	(42,540)	-	(42,540)
Issue of share capital	-	-	-	-	-	-	-	-
Share based payment expense	-	-	-	914	-	-	-	914
Lapsed share options	-	-	-	(77)	-	77	-	-
Deferred tax on share-based payment transactions	-	-	-	(309)	-	-	-	(309)
Amounts transferred to initial carrying amount of hedged items	-	(7,794)	-	-	-	-	-	(7,794)
Dividends paid to non-controlling interest	-	-	-	-	-	-	(455)	(455)
Balance as at 31 July 2022	626,380	6,218	6,491	3,165	(47)	203,525	4,726	850,458
Profit after tax	-	-	-	-	-	13,159	818	13,977
Other comprehensive income	-	1,797	(12,544)	-	-	-	(94)	(10,841)
Dividends paid	-	-	-	-	-	(21,340)	-	(21,340)
Issue of share capital	2,699	-	-	(2,699)	-	-	-	-
Share based payment expense	-	-	-	925	-	-	-	925
Lapsed share options	-	-	-	-	-	-	-	-
Deferred tax on share-based payment transactions	-	-	-	22	-	-	-	22
Amounts transferred to initial carrying amount of hedged items	-	(10,421)	-	-	-	-	-	(10,421)
Dividends paid to non-controlling interest	-	-	-	-	-	-	(691)	(691)
Balance as at 31 January 2023	629,079	(2,406)	(6,053)	1,413	(47)	195,344	4,759	822,089

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CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 31 January 2023	Unaudited As at 31 January 2022	Audited As at 31 July 2022
		NZ\$'000	NZ\$'000	NZ\$'000
ASSETS				
Current assets				
Cash and cash equivalents		85,620	58,278	70,810
Trade and other receivables	3, 8	90,630	69,204	105,526
Inventories		318,757	249,603	295,522
Derivative financial instruments	11	2,174	9,133	9,936
Current tax asset		3,401	11,099	3,640
Other current assets		2,487	2,347	2,434
Total current assets		503,069	399,664	487,868
Non-current assets				
Trade and other receivables	8	1,774	1,576	1,588
Property, plant, and equipment		77,900	79,295	79,243
Intangible assets	3	704,833	697,811	719,322
Deferred tax assets	3	16,490	15,729	14,078
Right-of-use assets	9	264,705	252,340	250,372
Total non-current assets		1,065,702	1,046,751	1,064,603
Total assets		1,568,771	1,446,415	1,552,471
LIABILITIES				
Current liabilities				
Trade and other payables	3	165,030	131,534	194,034
Derivative financial instruments	11	4,607	-	-
Current tax liabilities		1,313	2,281	1,816
Current lease liability	9	76,674	74,809	75,293
Total current liabilities		247,624	208,624	271,143
Non-current liabilities				
Non-current trade and other payables	3	17,078	18,820	17,246
Interest bearing liabilities	10	170,496	106,838	110,881
Deferred tax		90,682	90,285	93,449
Non-current lease liability	9	220,802	212,032	209,294
Total non-current liabilities		499,058	427,975	430,870
Total liabilities		746,682	636,599	702,013
Net assets		822,089	809,816	850,458
EQUITY				
Issued capital		629,079	626,380	626,380
Reserves		(7,093)	(3,536)	15,827
Retained earnings	3	195,344	182,924	203,525
Non-controlling interest		4,759	4,048	4,726
Total equity		822,089	809,816	850,458

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CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited Six Months Ended 31 January 2023	Unaudited Six Months Ended 31 January 2022	Audited Year Ended 31 July 2022
		NZ\$'000	NZ\$'000	NZ\$'000
Cash was provided from:				
Receipts from customers		563,109	413,710	955,968
Government grants received		188	2,948	3,407
Interest received		291	140	394
Income tax received		509	-	448
		<u>564,097</u>	<u>416,798</u>	<u>960,217</u>
Cash was applied to:				
Payments to suppliers and employees	3	517,264	405,287	843,605
Income tax paid		7,923	13,982	22,181
Interest paid		8,986	6,173	12,623
		<u>534,173</u>	<u>425,442</u>	<u>878,409</u>
Net cash inflow / (outflow) from operating activities		<u>29,924</u>	<u>(8,644)</u>	<u>81,808</u>
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of property, plant, and equipment		-	-	4
		<u>-</u>	<u>-</u>	<u>4</u>
Cash was applied to:				
Purchase of property, plant, and equipment		11,311	8,929	21,567
Purchase of intangibles	3	3,533	3,754	11,266
		<u>14,844</u>	<u>12,683</u>	<u>32,833</u>
Net cash (outflow) from investing activities		<u>(14,844)</u>	<u>(12,683)</u>	<u>(32,829)</u>
Cash flows from financing activities				
Cash was provided from:				
Proceeds of borrowings		110,848	24,000	99,619
		<u>110,848</u>	<u>24,000</u>	<u>99,619</u>
Cash was applied to:				
Dividends paid		22,031	21,716	42,995
Repayment of borrowings		45,811	24,000	99,619
Repayment of lease liabilities		41,726	41,896	82,265
		<u>109,568</u>	<u>87,612</u>	<u>224,879</u>
Net cash inflow / (outflow) from financing activities		<u>1,280</u>	<u>(63,612)</u>	<u>(125,260)</u>
Net increase / (decrease) in cash held		<u>16,360</u>	<u>(84,939)</u>	<u>(76,281)</u>
Opening cash and cash equivalents		70,810	142,614	142,614
Effect of foreign exchange rates		(1,550)	603	4,477
Closing cash and cash equivalents		<u>85,620</u>	<u>58,278</u>	<u>70,810</u>

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

	Unaudited Six Months Ended 31 January 2023 NZ\$'000	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Audited Year Ended 31 July 2022 NZ\$'000
Profit/(Loss) after income tax	13,977	(5,541)	36,828
<i>Movement in working capital:</i>			
(Increase) / decrease in trade and other receivables	13,098	1,883	(27,953)
(Increase) / decrease in inventories	(29,727)	(29,973)	(66,555)
(Increase) / decrease in other current assets	(101)	-	9
Increase / (decrease) in trade and other payables	(25,256)	(21,698)	31,736
Increase / (decrease) in tax liability	(271)	(15,562)	(8,518)
	(42,257)	(65,350)	(71,281)
<i>Add non-cash items:</i>			
Depreciation of property, plant, and equipment	11,272	10,227	22,572
Amortisation of intangibles	7,408	5,566	12,339
Depreciation of right-of-use assets	40,794	39,524	77,605
Impairment of assets	-	-	940
Foreign currency translation of working capital balances	(2,503)	3,327	(2,294)
Movement in deferred taxation	71	2,221	3,580
Employee share-based remuneration	925	1,205	914
Loss on disposal of property, plant, and equipment and intangibles	237	177	605
	58,204	62,247	116,261
Cash inflow/(outflow) from operating activities	29,924	(8,644)	81,808

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1 GENERAL INFORMATION

KMD Brands 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. KMD Brands Limited is a company registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is 223 Tuam Street, Central Christchurch, Christchurch.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 22 March 2023, and have been reviewed, not audited.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general-purpose financial statements for the six months ended 31 January 2023 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting. In complying with NZ IAS 34, these consolidated interim financial statements also comply with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of KMD Brands Limited for the year ended 31 July 2022 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

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

There have been no changes to the Group's climate change risk since 31 July 2022.

3 ACCOUNTING POLICIES

Other than the changes noted below, the consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as those used in the audited financial statements of KMD Brands Limited for the year ended 31 July 2022.

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

During the year ended 31 July 2022 the Group revised its accounting policy in relation to configuration and customization costs incurred in implementing Software-as-a-Service (SaaS) cloud computing arrangements. The Group's previous accounting policy was to record these configuration and customisation costs as part of the cost of an intangible asset and amortise these costs over the useful life of the software assets. The 31 January 2022 comparatives presented in these financial statements have been restated to reflect these changes.

A summary of the impact of the change in accounting policy on the Group's consolidated interim financial statements is provided below.

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	Previously reported	Change in accounting policy	Restated
	NZ\$'000	NZ\$'000	NZ\$'000
Consolidated Statement of Comprehensive Income			
Six months ended 31 January 2022			
Administration and general expenses	(82,630)	26	(82,604)
Depreciation and amortisation	(55,241)	(76)	(55,317)
(Loss) before income tax	(4,850)	(50)	(4,900)
Income tax expense	(655)	14	(641)
(Loss) after income tax	(5,505)	(36)	(5,541)

Consolidated Balance Sheet **As at 31 January 2022**

Current trade and other receivables	68,186	1,018	69,204
Intangible assets	699,178	(1,367)	697,811
Deferred tax assets	14,200	1,529	15,729
Total assets	1,445,235	1,180	1,446,415
Current trade and other payables	130,105	1,429	131,534
Non-current trade and other payables	15,137	3,683	18,820
Total liabilities	631,487	5,112	636,599
Retained earnings	186,856	(3,932)	182,924
Total Equity	813,748	(3,932)	809,816

Consolidated Statement of Cash Flows **Six months ended 31 January 2022**

Payments to suppliers and employees	404,812	475	405,287
Net cash (outflow) from operating activities	(8,169)	(475)	(8,644)
Purchase of intangibles	4,229	(475)	3,754
Net cash (outflow)/inflow from investing activities	(13,158)	475	(12,683)

Other comprehensive income

Other comprehensive income reported in the consolidated statement of comprehensive income for the period ended 31 January 2022 has been restated to remove the component of cash flow hedge reserve which was transferred to the initial carrying value of the hedged items as separately disclosed in the statement of changes in equity (\$1,899,000). The restatement is limited to the statement of other comprehensive income and has no impact on profit, cash flow or the balance sheet of the Group.

Use of non-GAAP disclosures

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

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

Non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be

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comparable to similar financial information presented by other entities. The non-GAAP information within the consolidated financial statements is subject to review procedures.

New standards first applied in the period

There are no new standards first applied in the period.

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

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

4 IMPACT OF COVID-19

The comparative half year period was impacted by COVID-19, with local and global restrictions on movement, travel and gatherings resulting in a sustained reduction in footfall. During the comparative period stores across Australia and New Zealand were significantly impacted by government mandated lockdowns and closures.

As outlined in the 2022 Annual Integrated Report, there continues to be uncertainties due to the COVID-19 pandemic that may affect the Group's ability to achieve future forecasts. Despite this the Directors are satisfied that there will be adequate cash flows generated from operating and financing activities to meet the obligations of the Group for a period of at least 12 months from the date of approving the consolidated financial statements.

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

Taking into consideration the current trading results, the net debt (excluding lease liabilities) of \$84,876,000 (2022: \$48,560,000) and liquidity of \$216,300,000 (2022: \$247,193,000) at 31 January 2023 (refer note 10), the financial statements continue to be prepared on a going concern basis.

5 REVENUE

	Unaudited Six Months Ended 31 January 2023 NZ\$'000	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Audited Year Ended 31 July 2022 NZ\$'000
Sale of goods	540,319	401,722	969,161
Royalty revenue	7,166	5,290	10,047
Commission revenue	439	292	594
	<u>547,924</u>	<u>407,304</u>	<u>979,802</u>

Other income includes government grants received by group entities in response to the impact of COVID-19 of nil (2022: \$2,948,000).

6 EXPENSES

	Unaudited Six Months Ended 31 January 2023 NZ\$'000	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Audited Year Ended 31 July 2022 NZ\$'000
Profit/(Loss) before tax includes the following expenses:			
Depreciation of property, plant, and equipment	11,272	10,227	22,572
Amortisation	7,408	5,566	12,339
Depreciation of right-of-use assets	40,794	39,524	77,605
Impairment expense	-	-	940
Employee entitlements expense	119,129	94,591	201,261
Rental expense	14,536	7,225	21,122

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Finance costs

Interest income	(291)	(140)	(394)
Interest expense on interest bearing liabilities	3,282	629	1,809
Interest on lease liabilities	5,098	4,269	8,476
Other finance costs	1,586	1,549	3,057
Net exchange loss/(gain) on foreign currency	506	(576)	845
	<u>10,181</u>	<u>5,731</u>	<u>13,793</u>

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

7 SEGMENTAL INFORMATION

The Group has three operating segments representing the brands owned by the Group and a Corporate segment. These operating segments have been determined based on the reports reviewed by the Group Chief Executive Officer and Group Executive Management team. The comparative information have been restated to include the Software-as-a-Service restatement described in note 3.

- **Rip Curl** - designer, manufacturer, wholesaler and retailer of surfing equipment and apparel.
- **Kathmandu** - designer, retailer and wholesaler apparel, footwear and equipment for outdoor travel and adventure.
- **Oboz** - designer, wholesaler and online retailer of outdoor footwear.

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

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

31 January 2023	Rip Curl	Kathmandu	Oboz	Corporate	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Total segment sales	306,424	193,968	50,232	-	550,624
Sales to internal customers	-	-	(2,700)	-	(2,700)
Sales to external customers	306,424	193,968	47,532	-	547,924
EBITDA	57,538	37,570	3,101	(7,364)	90,845
Depreciation and amortisation	(27,033)	(31,650)	(791)	-	(59,474)
EBIT	30,505	5,920	2,310	(7,364)	31,371
Income tax expense	(7,509)	(2,489)	(684)	3,469	(7,213)
Total segment assets	767,654	609,529	176,851	14,737	1,568,771
<i>Total assets include:</i>					
Non-current assets	475,672	473,103	113,535	3,392	1,065,702
Additions to non-current assets	41,313	30,923	897	-	73,133
Total segment liabilities	309,613	304,125	28,646	104,298	746,682

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31 January 2022 - Restated	Rip Curl	Kathmandu	Oboz	Corporate	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Total segment sales	257,834	128,277	21,255	-	407,366
Sales to internal customers	-	-	(62)	-	(62)
Sales to external customers	257,834	128,277	21,193	-	407,304
EBITDA	52,657	8,529	109	(5,147)	56,148
Depreciation and software amortisation	(24,008)	(30,700)	(604)	(5)	(55,317)
EBIT	28,649	(22,171)	(495)	(5,152)	831
Income tax expense	(9,129)	7,375	127	986	(641)
Total segment assets	653,111	659,951	127,107	6,246	1,446,415
<i>Total assets include:</i>					
Non-current assets	443,681	490,445	112,612	13	1,046,751
Additions to non-current assets	23,729	32,619	769	-	57,144
Total segment liabilities	251,249	261,610	19,438	104,302	636,599

8 TRADE AND OTHER RECEIVABLES

	Unaudited Six Months Ended 31 January 2023	Unaudited Six Months Ended 31 January 2022	Audited Year Ended 31 July 2022
	NZ\$'000	NZ\$'000	NZ\$'000
Current			
Trade receivables	68,445	53,594	87,626
Allowance for expected credit losses	(6,061)	(5,193)	(5,964)
Prepayments	15,597	13,433	12,928
Other receivables	12,649	7,370	10,936
	90,630	69,204	105,526
Non-current			
Other debtors	1,774	1,576	1,588

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9 LEASES

Right-of-use assets

The movements in right of use assets were as follows:

	Unaudited Six Months Ended 31 January 2023 NZ\$'000	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Audited Year Ended 31 July 2022 NZ\$'000
Opening net book value	250,372	242,677	242,677
Additions and modifications to right-of-use asset	58,289	43,986	75,311
Depreciation for the period	(40,794)	(39,524)	(77,605)
Impairment for the period	-	-	(928)
Foreign exchange	(3,162)	5,201	10,917
Closing net book value	264,705	252,340	250,372

Lease liabilities

The movements in lease liabilities were as follows:

	Unaudited Six Months Ended 31 January 2023 NZ\$'000	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Audited Year Ended 31 July 2022 NZ\$'000
Opening lease liabilities	284,587	279,271	279,271
Additions and modifications to lease liability	58,942	44,484	75,816
Interest expense on lease liabilities	5,098	4,269	8,476
Repayment of lease liabilities (including interest)	(47,477)	(46,663)	(91,247)
Foreign exchange	(3,674)	5,480	12,271
Closing lease liabilities	297,476	286,841	284,587

10 INTEREST BEARING LIABILITIES

	Unaudited Six Months Ended 31 January 2023 NZ\$'000	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Audited Year Ended 31 July 2022 NZ\$'000
Interest bearing liabilities	170,496	106,838	110,881

Group Facility Agreement

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

Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD borrowings), or the applicable short-term rate for interest periods less than 30 days, plus a margin of up to 1.25%. The debt is secured by the assets of the guaranteeing group in accordance with the Security Trust Deed dated 25 October 2019 as amended 26 May 2021. The guaranteeing group comprises entities operating in New Zealand, Australia, North America and the United Kingdom. The carrying value of the assets pledged as security is \$1,489,325,000 (2022: \$1,324,675,000).

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

The current interest rate, prior to hedging, on the term loans range between 4.03% - 5.80% (2022: 1.00%).

11 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain risk exposures. Derivatives are exclusively used for economic hedging purposes, i.e. not as trading or other speculative instruments, however not all derivative financial instruments qualify for hedge accounting.

Risk management is carried out based on policies approved by the Board of Directors. The Group treasury policy provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages this risk by actively managing working capital and ensuring flexibility in funding arrangements. Refer to note 10 for details of the funding arrangements in place as at 31 January 2023. Also refer to note 4 for the liquidity risk in relation to the impact of COVID-19.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 July 2022. There have been no changes in the risk management department or in any risk.

(b) Fair value estimation

The only financial instruments held by the Group that are measured at fair value are over-the-counter derivatives. These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 13) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

There were no changes in valuation techniques during the period.

The following methods and assumptions were used to estimate the fair values for each class of financial instrument.

Trade debtors, trade creditors and bank balances

The carrying value of these items is equivalent to their fair value.

Term liabilities

The fair value of the Group's term liabilities is approximately carrying value.

Foreign exchange contracts and interest rate swaps

The forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are insignificant for these derivatives.

Guarantees and overdraft facilities

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments is approximately nil. All guarantees are repayable on demand.

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The following table presents the Group's assets and liabilities that are measured at fair value at balance date:

	Unaudited Six Months Ended 31 January 2023	Unaudited Six Months Ended 31 January 2022	Audited Year Ended 31 July 2022
	NZ\$'000	NZ\$'000	NZ\$'000
Assets			
Derivative financial instruments	2,174	9,133	9,936
Total assets	2,174	9,133	9,936
Liabilities			
Derivative financial instruments	4,607	-	-
Total liabilities	4,607	-	-

12 COMMITMENTS

Capital commitments

Capital commitments contracted for at balance date are:

	Unaudited Six Months Ended 31 January 2023	Unaudited Six Months Ended 31 January 2022	Audited Year Ended 31 July 2022
	NZ\$'000	NZ\$'000	NZ\$'000
Property, plant, and equipment	131	2,902	868
Intangible assets	3,506	11,108	2,962

Intangible asset commitments as at 31 January 2023 relate to various projects across the Group to upgrade information technology software and systems.

13 CONTINGENT LIABILITIES

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

14 CONTINGENT ASSETS

There are no contingent assets as at 31 January 2023 (2022: nil).

15 RELATED PARTY DISCLOSURES

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

16 EVENTS OCCURRING AFTER BALANCE DATE

On 22 March 2023, the Directors declared an interim dividend of NZ 3.0 cents per share to be paid on 30 June 2023. This dividend will not be imputed but will be fully franked for Australian shareholders.

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

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STATUTORY INFORMATION

GROUP STRUCTURE

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

Milford Group Holdings Limited
Kathmandu Limited
Kathmandu Pty Limited
Kathmandu (U.K.) Limited
Kathmandu US Holdings LLC
Oboz Footwear LLC
Barrel Wave Holdings Pty Ltd
Rip Curl Group Pty Ltd
Rip Curl International Pty Ltd
PT Jarosite
Rip Curl Pty Ltd
Onsmooth Thai Co Ltd
Rip Curl Investments Pty Ltd (*Deregistered 29 January 2023*)
Blue Surf Pty Ltd (*Deregistered 29 January 2023*)
RC Surf Pty Ltd (*Deregistered 29 September 2022*)
Rip Curl Airport & Tourist Stores Pty Ltd (*Deregistered 29 January 2023*)
JRRC Rundle Mall Pty Ltd (*Deregistered 29 January 2023*)
Rip Curl (Thailand) Ltd (Group owns 50%)
RC Airports Pty Ltd (*Deregistered 29 January 2023*)
Ozmosis Pty Ltd
RC Chermside Pty Ltd (*Deregistered 29 January 2023*)
Bondi Rip Pty Ltd (*Deregistered 29 January 2023*)
Rip Curl Japan
Curl Retail No 1. Pty Ltd
RC Surf Sydney Pty Ltd (*Deregistered 29 January 2023*)
RC Surf South Pty Ltd (*Deregistered 29 September 2022*)
RC Surf NZ Limited
Rip Curl Finance Pty Ltd
Rip Curl Europe S.A.S
Rip Curl Spain S.A.U
Rip Curl Suisse S.A.R.L
Rip Surf LDA
Rip Curl UK Ltd
Rip Curl Germany GMBH
Rip Curl Nordic AB
Rip Curl Inc
Rip Curl Canada Inc
Rip Curl Brazil LTDA

DIRECTORS' DETAILS

David Kirk	Chairman, Non-Executive Director
Michael Daly	Managing Director and Group Chief Executive Officer
John Harvey	Non-Executive Director (<i>Retired 1 December 2022</i>)
Philip Bowman	Non-Executive Director
Brent Scrimshaw	Non-Executive Director
Andrea Martens	Non-Executive Director
Abby Foote	Non-Executive Director
Zion Armstrong	Non-Executive Director (<i>Appointed 1 December 2022</i>)

EXECUTIVES' DETAILS

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

DIRECTORY

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

223 Tuam Street
Christchurch Central
PO Box 1234
Christchurch 8011

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SHARE REGISTRY

In New Zealand: **Link Market Services (LINK)**

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

Postal Address: PO Box 91976
Auckland, 1142
New Zealand

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

In Australia: **Link Market Services (LINK)**

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

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

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

STOCK EXCHANGES

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

INCORPORATION

The Company is incorporated in New Zealand.



Independent Review Report

To the shareholders of KMD Brands Limited

Report on the consolidated interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements on pages 3 to 15 do not:

- i. present fairly in all material respects the Group's financial position as at 31 January 2023 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 Interim Financial Reporting.

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

- the consolidated balance sheet as at 31 January 2023;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

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

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

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

Use of this Independent Review Report

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



Responsibilities of the Directors for the consolidated interim financial statements

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

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

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

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

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

This description forms part of our Independent Review Report.

KPMG
Christchurch
22 March 2023