



KATHMANDU HOLDINGS LIMITED

INTERIM REPORT 2011



Kathmandu Holdings Limited
Interim Report
For the period ending 31 January 2011

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KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2011 DIRECTORS' REPORT

The Directors of Kathmandu Holdings Limited present the interim report for the Company and its controlled entities for the half year ended 31 January 2011.

Review of Operations

The consolidated net profit for the period was NZ\$10.510 million (2010: net loss NZ\$11.330 million). Last year's net loss was inclusive of NZ\$16.834 million of costs relating to the Initial Public Offering of shares in the Company. Sales for the period were NZ\$127.100 million (2010: NZ\$106.550 million).

A review of the operations of the Company and its controlled entities is set out in the accompanying Company's media release of 17 March 2011. Highlights during the half year included:

- Sales up 19.2% to NZ\$127.1m,
- EBIT up 28.4% to NZ\$19.9m,
- NPAT up NZ\$6.1m to NZ\$10.5m.

Additionally the Company's Christchurch operations were impacted by two earthquake events during the period, the initial 7.1 magnitude quake on 4 September 2010 and an aftershock on 26 December 2010, both of which caused minor business interruption costs that are expected to be recovered from insurance cover held for such events. A further more serious 6.3 magnitude earthquake on 22 February 2011 caused widespread damage to the city and some of the Company's premises, however the bulk of the costs and loss of income associated with this event are again expected to be fully insured, and the Company's head office and New Zealand distribution centre are fully operational.

Seasonality

Due to the seasonal nature of the Company and its' controlled entities activities, the activities in the second half of each year are expected to provide a larger portion of the sales and net profits for the full year.

The balance sheet at 31 January 2011 reflects a lower level of borrowings as compared to other times during the year due to the seasonal nature of the Company and its' controlled entities activities, in particular relating to the amounts spent to purchase inventory.

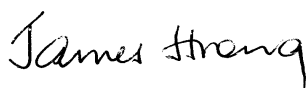
Dividends

On 16 March, the Directors declared a dividend of NZ 3 cents per share, which will be fully imputed for New Zealand shareholders, and the franked amount for Australian shareholders will be nil.

Auditors' Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 (Australia) is set out on page 15.

Signed in accordance with a resolution of the directors:



James Strong
Director



Peter Halkett
Director

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CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010	Audited Year Ended 31 July 2010
		NZ\$'000	NZ\$'000	NZ\$'000
Sales revenue		127,100	106,550	245,812
Cost of sales		(44,922)	(41,209)	(90,523)
Gross profit		82,178	65,341	155,289
Selling expenses	3	(43,949)	(35,732)	(77,556)
Administration and general expenses	3	(18,362)	(14,496)	(29,278)
		19,867	15,113	48,455
Finance income		272	2,149	2,277
Finance expenses		(3,404)	(7,741)	(11,934)
Finance costs - net	3	(3,132)	(5,592)	(9,657)
Profit before income tax and costs associated with IPO		16,735	9,521	38,798
Costs associated with IPO	4	-	(16,834)	(16,834)
Profit / (loss) before income tax		16,735	(7,313)	21,964
Income tax (expense)/benefit		(6,225)	(4,017)	(12,577)
Profit / (loss) after income tax		10,510	(11,330)	9,387
Basic earnings per share	13	5.3cps	-0.2cps	0.3cps
Diluted earnings per share	13	5.2cps	-0.2cps	0.3cps
Weighted average basic ordinary shares outstanding ('000)	13	200,000	5,268,003	2,754,829
Weighted average diluted ordinary shares outstanding ('000)	13	201,215	5,268,447	2,755,608

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010	Audited Year Ended 31 July 2010
	NZ\$'000	NZ\$'000	NZ\$'000
Profit / (loss) After Tax	10,510	(11,330)	9,387
Movement in cash flow hedge reserve	(5,665)	(2,341)	(2,580)
Movement in foreign currency translation reserve	5,088	(1,173)	(1,515)
Other comprehensive income for the period, net of tax	(577)	(3,514)	(4,095)
Total comprehensive income for the period attributable to shareholders	9,933	(14,844)	5,292

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010	Audited Year Ended 31 July 2010
		NZ\$'000	NZ\$'000	NZ\$'000
Total equity at the beginning of the period		239,127	132,686	132,686
Total comprehensive income and expense for the period		9,933	(14,844)	5,292
Dividends paid		(14,000)	-	-
Issue of share capital	8	-	100,903	100,903
Movements in share based payments reserve		150	82	246
Total equity at the end of the period		235,210	218,827	239,127

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CONSOLIDATED BALANCE SHEET

	Note	Unaudited as at 31 January 2011	Unaudited as at 31 January 2010	Audited as at 31 July 2010
		NZ\$'000	NZ\$'000	NZ\$'000
ASSETS				
Current assets				
Cash and cash equivalents		2,752	6,434	4,736
Trade and other receivables		2,114	3,084	3,903
Derivative financial instruments		2	200	-
Inventories		55,486	38,940	37,416
Total current assets		60,354	48,658	46,055
Non-current assets				
Property, plant and equipment		29,502	23,888	28,018
Intangible assets		247,205	241,919	241,825
Derivative financial instruments		26	216	44
Deferred tax		3,553	3,097	3,472
Total non-current assets		280,286	269,120	273,359
Total assets		340,640	317,778	319,414
LIABILITIES				
Current liabilities				
Trade and other payables		14,418	13,379	16,891
Derivative financial instruments		7,380	4,176	4,819
Interest bearing liabilities	7	17,251	-	-
Current tax liabilities		3,078	674	4,297
Total current liabilities		42,127	18,229	26,007
Non-current liabilities				
Derivative financial instruments		297	341	315
Interest bearing liabilities	7	63,006	80,380	53,965
Total non-current liabilities		63,303	80,721	54,280
Total liabilities		105,430	98,950	80,287
Net assets		235,210	218,828	239,127
EQUITY				
Contributed equity - ordinary shares	8	197,049	197,049	197,049
Reserves		(1,701)	(856)	(1,274)
Retained earnings		39,862	22,635	43,352
Total equity		235,210	218,828	239,127

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010	Audited Year Ended 31 July 2010
		NZ\$'000	NZ\$'000	NZ\$'000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		128,877	104,839	244,422
Interest received		87	174	258
		128,964	105,013	244,680
Cash was applied to:				
Payments to suppliers and employees		126,669	91,090	189,699
Income tax paid		7,558	6,727	11,904
Interest paid		3,557	6,717	10,474
		137,784	104,534	212,077
Net cash inflow / (outflow) from operating activities	5	(8,820)	479	32,603
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		-	-	9
		-	-	9
Cash was applied to:				
Purchase of property, plant and equipment		3,964	4,407	12,823
Intangibles		175	662	746
		4,139	5,069	13,569
Net cash (outflow) from investing activities		(4,139)	(5,069)	(13,560)
Cash flows from financing activities				
Cash was provided from:				
Proceeds from share issue		-	105,426	105,426
Proceeds of loan advances		72,112	97,129	126,884
		72,112	202,555	232,310
Cash was applied to:				
Repurchase of shares		-	-	-
Costs associated with IPO		-	21,357	21,357
Dividends		14,000	-	-
Repayment of loan advances		47,059	203,121	258,511
		61,059	224,478	279,868
Net cash inflow / (outflow) from financing activities		11,053	(21,923)	(47,558)
Net increase / (decrease) in cash held		(1,906)	(26,513)	(28,515)
Opening cash and cash equivalents		4,736	32,209	32,209
Effect of foreign exchange rates		(78)	738	1,042
Closing Cash		2,752	6,434	4,736

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1 GENERAL INFORMATION

Kathmandu Holdings Limited (the Company) and its subsidiaries (together the Group) is a designer, marketer and retailer of clothing and equipment for travel and adventure. It operates in New Zealand, Australia and the United Kingdom.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 23-29 Albert Street, Auckland.

These consolidated financial statements have been approved for issue by the Board of Directors on 17 March 2011, 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 2011 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting. In complying with NZ IAS 34, these consolidated interim financial statements also comply with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2010 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2010, except as described below.

Reverse Acquisition

The acquisition of Milford Group Holdings Limited by Kathmandu Holdings Limited was identified as a reverse acquisition and the consolidated financial statements have therefore been prepared as a continuation of the financial statements of the accounting acquirer, Milford Group Holdings Limited.

Seasonality

The majority of Kathmandu's annual sales are derived from three major sales promotions in each year, occurring in a portion of the months of December and January (Christmas), March and April (Easter) and June and July (Winter). Two of these sales occur in the second half of the financial year, and the Winter Sale is the largest of these three promotions. As a consequence, a greater proportion of Kathmandu's sales and EBITDA are derived in the second half of each financial year, with the proportion in any given year dependent on the relative success of each of these promotions.

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3 EXPENSES

	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010
	NZ\$'000	NZ\$'000
Profit before tax includes the following expenses:		
Depreciation	2,755	2,301
Amortisation	611	218
Employee benefit expense	22,519	19,769
Rental expense	15,330	12,704
Finance costs – net consist of:		
Interest income	(87)	(174)
Interest expense	2,154	5,592
Other finance costs	1,126	608
Net exchange (gain)/loss on foreign currency borrowings	(61)	(434)

4 COSTS ASSOCIATED WITH THE INITIAL PUBLIC OFFERING (IPO)

	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010
	NZ\$'000	NZ\$'000
Costs associated with Initial Public Offering:		
Charged to income statement	-	16,834
Equity reduction	-	4,523
	-	21,357
The total costs associated with the IPO can be analysed as follows:		
(a) Direct IPO Costs	-	18,306
(b) Costs associated with IPO	-	3,051
Total costs associated with IPO	-	21,357

(a) The direct costs of the IPO included legal, accounting and tax due diligence and advice, Joint Lead Manager's fees (including the discretionary incentive fee), prospectus design and printing, advertising, marketing, share registry and other expenses. The direct costs were allocated based on the proportion of new equity raised to the total IPO proceeds and accounted for as either an expense or a reduction in equity as follows:

Reduction in equity	-	4,523
Charged to income statement	-	13,783
	-	18,306

(b) The costs associated with the IPO were expensed and comprised primarily the costs of exiting the previous banking facilities together with the related interest rate swaps.

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5 RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010	Audited Year Ended 31 July 2010
	NZ\$'000	NZ\$'000	NZ\$'000
Profit after taxation	10,510	(11,330)	9,387
Movement in working capital:			
(Increase) / decrease in receivables and prepayments	1,788	(455)	(1,274)
(Increase) / decrease in inventories	(18,071)	673	2,198
Increase / (decrease) in trade and other payables	(2,473)	(4,500)	(988)
Increase / (decrease) in tax liability	(1,218)	(5,336)	(1,710)
	(19,974)	(9,618)	(1,774)
<i>Add non cash items:</i>			
Depreciation	2,755	2,301	5,379
Amortisation of intangibles	611	218	594
Revaluation of derivative financial instruments	(2,817)	54	4
(Increase) / decrease in deferred taxation	(81)	1,846	1,643
Cost of Share Options	150	-	246
Gain of sale of property, plant and equipment	-	-	-
Loss on sale of property, plant and equipment	26	174	290
	644	4,593	8,156
<i>Items classified as financing activities:</i>			
Costs associated with the IPO	-	16,834	16,834
	-	16,834	16,834
Cash inflow from operating activities	(8,820)	479	32,603

6 RELATED PARTY DISCLOSURES

Parent and Ultimate Controlling Party

Kathmandu Holdings Limited is the immediate parent, ultimate parent and controlling party.

During the period, legal fees of \$39,316 (2010: \$50,812) were paid to Chapman Tripp for services (primarily related to property leases). John Holland is both a Director of Kathmandu Holdings Limited and a Partner of Chapman Tripp.

During the period, operating lease costs of \$89,501 (2010: \$61,474) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

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

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7 INTEREST BEARING LIABILITIES

	Unaudited As at 31 January 2011	Unaudited As at 31 January 2010	Audited As at 31 July 2010
	NZ\$'000	NZ\$'000	NZ\$'000
Current portion	17,251	-	-
Non-current portion	63,006	80,380	53,965
Total term loans	80,257	80,380	53,965

The bank loan is part of a facility agreement with ANZ National Bank, Bank of New Zealand and Commonwealth Bank of Australia dated 19 November 2009. The loan is repayable in full on final maturity date of the facility being 13 November 2012. The current portion of the loan is working capital drawdowns made under the same facility. Interest is payable based on the BKBM rate (\$NZ borrowings) or the BBSY rate (\$A borrowings) plus a margin of up to 1.25%. The bank loan is secured against the assets of the company and its subsidiaries.

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 quarter during the financial year. Similarly EBITDA must be no less than a specified proportion of total net debt at the end of each quarter. The calculations of these covenants are specified in the bank syndicated facility agreement of 19 November 2009 and have been complied with at the end of each quarter of the financial year to date.

The current interest rates, prior to hedging, on the term loans ranged between 3.87% - 6.10% (2010: 3.88% - 5.26%).

8 CONTRIBUTED EQUITY – ORDINARY SHARES

	Note	Unaudited Six Months Ended 31 January 2011	Unaudited Six Months Ended 31 January 2010	Audited Year Ended 31 July 2010
		NZ\$'000	NZ\$'000	NZ\$'000
Ordinary shares fully paid (\$)				
Balance at beginning of year		197,049	96,146	96,146
Shares issued during the year		-	105,426	105,426
Less capital raising costs	4	-	(4,523)	(4,523)
Balance at end of year		197,049	197,049	197,049

(a) Ordinary shares

At 31 July 2009 there were 9,081,072,000 issued shares in Milford Group Holdings Limited. As a result of the Initial Public Offer and subsequent reverse acquisition transaction there are now 200,000,000 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity.

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

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9 CONTINGENT LIABILITIES

	Unaudited As at 31 January 2011	Unaudited As at 31 January 2010	Audited As at 31 July 2010
	NZ\$'000	NZ\$'000	NZ\$'000
Liabilities outstanding under letters of credit	3,048	685	1,767
Rent Guarantees	8,088	7,130	7,643
Financial Guarantees	1,430	1,430	1,430

Financial guarantees cover overdrafts and credit card limits between banks across the group.

10 CONTINGENT ASSETS

There are no contingent assets in 2011 (2010: nil).

11 COMMITMENTS

(a) Operating lease commitments

Group as lessee:

Rent expenses reported in these financial statements relate to non-cancellable operating leases. The future commitments on these leases are as follows:

	Unaudited As at 31 January 2011	Unaudited As at 31 January 2010	Audited As at 31 July 2010
	NZ\$'000	NZ\$'000	NZ\$'000
Due within 1 year	28,303	21,702	23,834
Due within 1-2 years	25,360	20,641	21,459
Due within 2-5 years	49,782	46,109	46,580
Due after 5 years	16,506	19,892	17,760
	119,951	108,344	109,633

Some of the existing lease agreements have right of renewal options for varying terms.

The Group leases various properties under non-cancellable lease agreements. These leases are generally between 1 - 10 years.

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(b) Capital commitments

Capital commitments contracted for at balance date are:

	Unaudited As at 31 January 2011	Unaudited As at 31 January 2010
	NZ\$'000	NZ\$'000
Property, plant and equipment	1,078	1,600
Intangible assets	605	450

12 SEGMENTAL INFORMATION

The Group operates in three geographical areas: New Zealand, Australia and the United Kingdom.

31 January 2011	New Zealand NZ\$'000	Australia NZ\$'000	United Kingdom NZ\$'000	Elimination NZ\$'000	Total NZ\$'000
Segment profit / (loss) before income tax and IPO costs	9,589	10,897	(1,170)	(2,581)	16,735
Costs associated with IPO					-
Income tax expense					(6,225)
Profit/(loss) after tax					10,510
Segment profit / (loss) before income tax and IPO costs includes the following specific income and (expenses):					
Sales to external customers	48,107	74,434	4,559	-	127,100
Cost of sales	(19,289)	(23,736)	(1,897)	-	(44,922)
Net interest income/(expense)	(931)	(1,136)	-	-	(2,067)
Net other finance income/(expense)	(529)	(457)	(55)	(24)	(1,065)
Intercompany net finance income/(expense)	1,659	(1,659)	-	-	-
Intercompany recharges income/(expense)	2,324	(2,324)	-	-	-
Depreciation and software amortisation	(1,001)	(2,143)	(222)	-	(3,366)
FX income/(expense) on long term intercompany funding	-	2,581	-	(2,581)	-
Total current assets	386,384	31,644	2,919	(360,593)	60,354
Total non-current assets	334,555	139,629	929	(194,827)	280,286
Total assets	720,939	171,273	3,848	(555,420)	340,640
Total current liabilities	(18,542)	(82,998)	(2,379)	61,792	(42,127)
Total non-current liabilities	(27,797)	(35,506)	-	-	(63,303)
Total liabilities	(46,339)	(118,504)	(2,379)	61,792	(105,430)

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31 January 2010	New Zealand NZ\$'000	Australia NZ\$'000	United Kingdom NZ\$'000	Elimination NZ\$'000	Total NZ\$'000
Segment profit / (loss) before income tax and IPO costs	11,024	(665)	(2,196)	1,358	9,521
Costs associated with IPO					(16,834)
Income tax expense					(4,017)
Profit/(loss) after tax					(11,330)
Segment profit / (loss) before income tax and IPO costs includes the following specific income and (expenses):					
Sales to external customers	42,830	58,685	5,035		106,550
Cost of sales	(17,607)	(21,572)	(2,030)		(41,209)
Net interest income/(expense)	(2,359)	(3,059)	-	-	(5,418)
Net other finance income/(expense)	(173)	122	(124)	1,358	(174)
Intercompany net finance income/(expense)	2,990	(2,990)	-	-	-
Intercompany recharges income/(expense)	3,288	(3,288)	-	-	-
Depreciation and software amortisation	(770)	(1,453)	(296)	-	(2,519)
FX income/(expense) on long term					
Intercompany funding	-	-	(1,358)	1,358	-
Total current assets	370,722	26,855	3,491	(352,410)	48,658
Total non-current assets	620,968	131,723	1,414	(454,985)	269,120
Total assets	991,690	158,578	4,905	(837,395)	317,778
Total current liabilities	(297,310)	(67,044)	(14,631)	360,756	(18,229)
Total non-current liabilities	(40,078)	(40,643)	-	-	(80,721)
Total liabilities	(337,388)	(107,687)	(14,631)	360,756	(98,950)

Revenue is allocated based on the country in which the customer is located. New Zealand includes holding company costs and head office charges.

Total assets / liabilities are allocated based on where the assets / liabilities are located.

The Group operates in one industry being retailer of clothing and equipment for travel and adventure.

13 EARNINGS PER SHARE

Due to the reverse acquisition referred to in note 2 above, the capital structure of the Group changed in November 2009. 9,081,072,000 Milford Group Holdings Limited shares were on issue prior to the IPO. 200,000,000 shares were issued in the IPO by Kathmandu Holdings Limited. As a consequence there is a significant variation in the weighted average number of shares between 2010 and 2011.

14 EVENTS OCCURRING AFTER BALANCE DATE

The Christchurch earthquake that occurred on February 22nd 2011 is not expected to have a significant impact on future trading. Kathmandu has business interruption insurance that provides cover for this event. The company is not aware of any reason why its insurance would not cover all material costs or loss of profits in the current financial year that may be incurred as a result of the earthquake.

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

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STATUTORY INFORMATION

GROUP STRUCTURE

Kathmandu Holdings Limited owns 100% of the following companies:

Milford Group Holdings Limited

Kathmandu Limited

Kathmandu Pty Limited

Kathmandu (UK) Limited

DIRECTORS' DETAILS

James Strong	Chairman, Non Executive
Peter Halkett	Managing Director and Chief Executive Officer
Mark Todd	Finance Director and Chief Financial Officer
John Harvey	Non-Executive Director
John Holland	Non-Executive Director
Sandra McPhee	Non-Executive Director

EXECUTIVES' DETAILS

Peter Halkett	Chief Executive Officer
Mark Todd	Chief Financial Officer

DIRECTORY

Kathmandu New Zealand (Head Office)

11 Mary Muller Drive
Heathcote
PO Box 1234
Christchurch 8140

Kathmandu Australia

55-65 Sky Road
Melbourne Airport Business Park
Victoria 3045
PO Box 200
Tullamarine VIC 3043

Kathmandu UK

Unit 9, Oxonian Park
Langford Locks
Kidlington
Oxfordshire OX5 1FP

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SHARE REGISTRY

In New Zealand:	Link Market Services (LINK)
Physical Address:	Level 16, Brookfields House, 19 Victoria 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.com
In Australia:	Link Market Services (LINK)
Physical Address:	Level 1, 333 Collins Street Melbourne, VIC 3000 Australia
Postal Address:	Locked Bag A14 Sydney, South NSW 1235 Australia
Telephone:	+61 2 8280 7111
Investor enquiries:	+61 2 8280 7111
Facsimile:	+61 2 9287 0303
Internet address:	www.linkmarketservices.com.au

STOCK EXCHANGES

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

INCORPORATION

The company was incorporated in New Zealand.



Auditor's Independence Declaration

As lead auditor for the review of Kathmandu Holdings Limited to the half year ended 31 January 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kathmandu Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Robert Harris'.

Robert Harris
Partner
PricewaterhouseCoopers

Christchurch
17 March 2011



Independent Accountants' Report

To the shareholders of Kathmandu Holdings Limited

Report on the Interim Financial Statements

We have reviewed the interim condensed financial statements ("financial statements") of Kathmandu Holdings Limited on pages 2 to 12, which comprise the balance sheet as at 31 January 2011, the income statement, statement of comprehensive income and statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Interim Financial Statements

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 31 January 2011 and its financial performance and cash flows for the period ended on that date.

Accountants' Responsibility

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 31 January 2011 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We have no relationship with, or interests in Kathmandu Holdings Limited other than in our capacities as accountants conducting this review, auditors, and providers of other assurance related services. These matters have not impaired our independence as accountants of the Group.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 31 January 2011 and its financial performance and cash flows for the period ended on that date.

Restriction on Distribution or Use

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written over a horizontal line.

Chartered Accountants
17 March 2011

Christchurch

Appendix 1

Kathmandu Holdings Limited

Results for Announcement to the Market

Reporting Period: 6 months to 31 January 2011
 Previous Reporting Period: 6 months to 31 January 2010

	Amount (000's)	Percentage Change
Revenues from ordinary activities	\$NZ 127,100	19.3%
Profit from ordinary activities after tax attributable to security holder	\$NZ 10,510	91.0%
Net profit attributable to security holder	\$NZ 10,510	192.8%

Interim Dividend	Amount per Security	Imputed Amount per Security
Interim Dividend	\$NZ 0.03	\$NZ 0.03
Record Date	28 March 2011	
Payment Date	7 April 2011	

For commentary on the results please refer to the Directors' Report attached.

Financial Information

The appendix 1 should be read in conjunction with the consolidated interim financial statements for the 6 months ending 31 January 2011 contained in the Interim Report.

Net Tangible Assets per Security

	2011 \$	2010 \$
Net tangible assets per security	(0.06)	(0.12)

Information on Audit or Review

The interim report is based on accounts which have been subject to review.

Loss/Gain of Control over Entities having Material Effect

Kathmandu Holdings Limited does not have any interests in entities which are not controlled entities.

Appendix 4D

Kathmandu Holdings Limited (ARBN 139 836 918) (Incorporated in New Zealand)

Half Year Report

Reporting Period: 1 August 2010 to 31 January 2011
Previous Reporting Period: 1 August 2009 to 31 January 2010

Results for Announcement to the Market

For the half year ending 31 January 2011		
NZ \$'000		
Revenues from ordinary activities	Up 19.3% to	127,100
Profit from ordinary activities after tax attributable to members	Up 91.0% to	10,510
Net profit for the period attributable to members	Up 192.8% to	10,510
Dividends – Ordinary Shares	Amount per Security	Franked amount per security
	NZ\$ cents	NZ\$ cents
Interim Dividend	3.0	Nil
Final Dividend	Nil	Nil
The record date for determining entitlements to Interim Dividend	28 March 2011	

For commentary on the above figures refer to the Directors' Report and Media Release attached.

Financial Information

The Appendix 4D should be read in conjunction with the consolidated financial statements for the 6 months ending 31 January 2011 as contained in the interim report attached.

Net Tangible Assets per Security

	Current period NZ\$	Previous corresponding period NZ\$
Net tangible assets per security	(0.06)	(0.12)

Entities over which control has been gained or lost

Control has not been gained or lost in relation to any entity during the period.

Details of associates and joint venture entities

Not applicable.

Dividends – Ordinary Shares	Amount per Security NZ\$ cents	Franked amount per security NZ\$ cents
Interim Dividend	3.0	Nil
The record date for determining entitlements to the Interim Dividend	28 March 2011	
Interim Dividend payment date	7 April 2011	

There is no foreign sourced dividend or distribution included.

Dividend Reinvestment Plan

Not applicable.

Accounting Standards

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

Information on Audit or Review

The report is based on interim consolidated financial statements which have been subject to a review. The Independent Accountants Report, which is unqualified, is on page 16 of the Interim Report.

KATHMANDU HOLDINGS LIMITED



**ASX/NZX/Media Announcement
17 March 2011**

**Kathmandu Holdings announces first half year results
substantially ahead of last year:**

NZ\$ DENOMINATED RESULT

- **Sales up 19.2% to NZ\$127.1m,**
- **EBIT up 28.4% to NZ\$19.9m,**
- **NPAT up NZ\$6.1m to NZ\$10.5m.**

AU\$ DENOMINATED RESULT:

- **Sales up 13.5% to AU\$97.4m,**
- **EBIT up 21.6% to AU\$15.2m,**
- **NPAT up AU\$4.4m to AU\$8.0m.**

Kathmandu Holdings Limited (ASX/NZX:KMD) today announced a 28.4% increase in Earnings before interest and tax (EBIT) to NZ\$19.9 million, for the six months ended 31 January 2011. Net profit after tax (NPAT) increased from NZ\$4.4 million to NZ\$10.5 million for the same period. The results for last year are exclusive of the costs of the November 2009 Initial Public Offering and where applicable their associated tax deductions.

NPAT for the six months ended 31 January 2011 increased \$2.5 million (31.3%) on the pro-forma NPAT of \$8.0 million for the half year in FY10. The pro-forma calculation of last year's NPAT excluded IPO costs, and also adjusted for the costs associated with the new debt levels and listed company structure (net of associated tax deductions) as if they had applied for the whole period rather than only the last 11 weeks in that period after the private equity sell down.

RESULTS OVERVIEW

Half Year Ending 31 January 2011	NZ \$m		Growth	
	1H FY11	1H FY10	NZ \$m	%
Sales	127.1	106.6	20.5	19.2%
EBITDA ¹	23.2	18.1	5.1	28.2%
EBIT ¹	19.9	15.5	4.4	28.4%
NPAT ²	10.5	4.4	6.1	138.6%

¹ FY10 result excludes costs incurred for the IPO of the company

² FY10 result excludes costs and associated tax deductions incurred for the IPO of the company

Kathmandu Holdings Limited Chief Executive Officer, Mr Peter Halkett said he was satisfied with Kathmandu's trading performance for the half year, particularly the key December and January trading period. "We achieved Group same store sales growth of 12.1% for the half year. In November at our AGM update we reported same store sales growth of 2.1% for the first 16 weeks of the year. By 31 January we had lifted that performance significantly, as well as improving gross margins. Given the retail environment over the period we clearly consider this is a very solid performance", said Mr Halkett.

Highlights from 1H FY11 results include:

- Same store sales growth of 12.1% (9.5% at comparable exchange rates),
- Gross profit margin increased from 61.3% to 64.7%,
- Three new stores opened, all in Australia.

Kathmandu Holdings Limited Chief Executive Officer, Mr Peter Halkett, said the results were achieved in a very demanding economic environment, in all the countries Kathmandu operates. "The retail sector generally has been under pressure for some time, due to the weaker economic environment that has confronted consumers and as householders reduce their personal debt" said Mr Halkett. "However since our IPO Kathmandu has made a considerable investment in people and resources, and the Company is now delivering a broader product offering across a store network that has increased by 18 stores (approximately 22%) since the start of the 2010 financial year."

The Company's restructured balance sheet with lower debt levels has enabled it to carry higher stock holdings across key product categories when compared to the investment in stock prior to the company being listed.

"This is the first 6 month trading period that reflects the outcome of key growth initiatives, in particular an increased long term investment in inventory, that are now able to be pursued under our new capital structure with lower debt levels. We have seen strong ongoing same store sales growth in Australia and New Zealand since early December. The new products and ranges released this summer, supported by improved availability across our entire range have been a key driver of this result" said Mr Halkett. "During the December and January trading period, weather conditions were also favourable for sales in some categories, particularly in Australia given the relatively cool and unusually wet summer on the east coast."

The uplift of first half year sales and profitability provides a very solid start to the year, and looking ahead Kathmandu is cycling against a weaker trading performance in the second half year FY10, whereas first half year FY10 was a strong period. However given Kathmandu's annual trading pattern the overall result for the year remains dependent upon the second half year performance and in particular the key winter sale trading period at the end of the financial year. Peter Halkett observed that "Winter sale remains our largest annual promotional event, and this means we must successfully execute our strategies until virtually the last day of winter sale before we can be confident about our overall year's result. Nevertheless we've had a successful start and we are now well positioned to improve our year on year performance".

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Half year Ending 31 January 2011	NZ \$m 1H FY11	% of Total	Total Sales Growth % ¹	Same Store Growth %	1H FY11 # of New Stores
Sales - New Zealand	48.1	37.8%	12.4%	6.5%	0
Sales - Australia	74.4	58.5%	20.8%	12.4%	3
Sales - United Kingdom	4.6	3.6%	-0.9%	-1.3%	0
Total	127.1	100.0%	19.2%	12.1%	3

¹ Calculated on local currency sales results (not affected by year-on-year exchange rate variation)

Mr Halkett noted that “the higher same store sales increase in Australia reflected greater product focus and investment, growing brand awareness and favourable weather conditions in that market. We had good same store sales growth in all the Australian capitals, whereas New Zealand was more mixed. The UK business had the anticipated uplift prior to the 1 January increase in VAT but by the end of that month most of that sales gain had been offset”.

Stores open 31 January	1H FY11	1H FY10
New Zealand	36	33
Australia	58	51
United Kingdom	6	6
Total Group	100	90

Kathmandu opened three new stores in the period, all in Australia:

- Logan QLD, Wollongong NSW and Perth Harbour Town WA.

Kathmandu has a target of 15 new stores to be opened for the full year. The following new locations have already been secured and are expected to be open prior to 31 July 2011:

- New Zealand: Whakatane, Coastlands (north of Wellington), Papanui (Christchurch)
- Australia: Southport, Toowoomba, Orange, Southland (Melbourne), Belconnen (Canberra), Whitford City (Perth).

The expectation remains that the current target of 15 new stores will be achieved by 31 July. No further new stores are planned for the UK this financial year.

Half Year Ending 31 January 2011	1H FY11	1H FY10
Gross profit margin %	64.7%	61.3%

Gross profit margins were improved, more so in Australia. This was primarily as a result of price changes and product mix, rather than reduction in the cost of goods sold. The impact of well publicised increases in cost of product sourced out of China in particular will be a more significant challenge to margins in the second half year. Retail pricing will continue to be adjusted where necessary to reflect increased costs. This will be balanced with the importance of ensuring price competitiveness is maintained, particularly in volume lines.

OPERATING COSTS

Operating Expenses excluding depreciation and IPO costs	NZ \$m & % of Sales	
	1H FY11	1H FY10
Rent	15.3m	12.7m
<i>% of sales</i>	12.0%	11.9%
Other Operating costs	43.7m	34.5m
<i>% of sales</i>	34.4%	32.4%
Total	59.0m	47.2m
<i>% of sales</i>	46.4%	44.3%

Kathmandu's operating expenses increased by 210 bps as a % of sales. The primary increases were in advertising, salaries and wages, and the uplift in expenses associated with a full period this half year as a listed company. It is anticipated that for the full year, operating costs as a % of sales will be the same or slightly higher than the result achieved in FY10. This is primarily because of the anticipated salaries and wages expense for the full year, inclusive of expected performance incentives payable at targeted overall earnings levels in FY11.

EBITDA margin for the first half year increased from 17.0% to 18.3% and EBIT margin similarly increased from 14.5% to 15.7%.

OTHER FINANCIAL INFORMATION

Half Year Ending 31 January 2011	NZ\$ m	
	1H FY11	1H FY10
Capital Expenditure	4.1	5.1
Operating Cashflow	(8.8)	0.5
Inventories	55.5	38.9
Net Debt	77.5	73.9
Net Debt: Net Debt + Equity	24.8%	25.2%

Capital expenditure for the year is expected to exceed last year's total of NZ\$13.6m. Total capital expenditure spend will be affected by the number of new stores opened this financial year.

Total inventories increased by 42.7%, or NZ\$16.6 million and by 28.5% on a \$ per store basis. This reflected planned investment in additional product, both in terms of depth (particularly in core lines) and range. On a per store basis stock levels remain below the peak levels of two years ago. The strong first half year profit performance meant that the reduction in operating cashflow (\$8.8 million) was less than half the additional investment in inventories. Total net debt at 31 January and peak net debt pre-Christmas sale required to fund the build in inventories were at similar levels to those in the previous year. The ratio of net debt to net debt plus equity has remained similar at approximately 25%.

INTERIM DIVIDEND

Kathmandu confirms that an interim dividend of NZ 3 cents will be paid. The dividend will be fully imputed for New Zealand shareholders. It will not be franked for Australian shareholders.

FULL YEAR RESULTS OUTLOOK

Kathmandu's strategy for the balance of the year will be focused on delivering the targeted store rollout plan, ongoing investment in inventory and the maintenance of an aggressive marketing programme to support key sales activity, and the wider brand.

The key risks to achieving an improvement in second half year performance remain similar to those that impacted the second half year performance in FY10, specifically:

- Stock availability and supply chain interruption arising from offshore events, particularly in China;
- The variability of performance that can occur in the two key promotional events in the second half of the year, which are impacted by both consumer sentiment and the risk of unseasonal weather. The latter risk is especially relevant to the key winter sale event;
- The general level of market confidence, which has been impacted by recent events such as the flooding in Australia and earthquakes in Christchurch and Japan.

Despite these risks the Company expects that year on year growth in earnings will be achieved. We are continuing to grow our store base, and by 31 July 2011 Kathmandu's target is to have 112 stores open, compared to the 82 in operation at the end of FY09. Our very solid first half year performance coupled with the benefit from the planned store rollout provides confidence that second half year earnings will be improved compared to last year.

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