

The PAS Group Limited

ABN 25 169 477 463

Appendix 4D

Half Year Report

Results for announcement to the market for the half year ended 31 December 2018

| | |
|-------------------------------|----------------------------------|
| Current reporting period | Half year ended 31 December 2018 |
| Previous corresponding period | Half year ended 31 December 2017 |

| Half year (\$'000) | 31 Dec 2018 | 31 Dec 2017 | % Change |
|---|-------------|-------------|----------|
| Total revenue from ordinary activities from continuing operations | 143,742 | 130,291 | 10.3% |
| EBITDA from continuing operations | 5,651 | 8,359 | -32.4% |
| Net profit after tax attributable to members | 1,265 | 2,977 | -57.5% |

| Dividends – ordinary shares | Amount per ordinary share | Franked amount per ordinary share | Record Date | Payment Date |
|-----------------------------|---------------------------|-----------------------------------|---------------|--------------|
| 2019 Interim dividend | – | – | n/a | n/a |
| 2018 Final dividend | – | – | n/a | n/a |
| 2018 Interim dividend | 1.5 cents | 100% | 16 March 2018 | 6 April 2018 |

Brief explanation of results for the period:

Statutory net profit after tax is prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards, which comply with International Financial Reporting Standards. Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') and Net Profit After Tax are reported in order to give information to shareholders and to provide a greater understanding of the performance of The PAS Group Limited and its controlled entities' operations. Underlying EBITDA¹ is presented on the basis that the Directors believe it provides the most meaningful measure of the Company's performance.

Total revenue from ordinary activities from continuing operations for the half year ended 31 December 2018 was \$143.7 million, an increase of \$13.5 million on the previous corresponding period. Underlying EBITDA for the half year was \$6.7 million, a decrease of \$2.6 million on the previous corresponding period. Net profit for the half year attributable to members was \$1.3 million, down \$1.7 million on the previous corresponding period.

Additional Appendix 4D disclosure requirements and other information requiring disclosure to comply with Listing Rule 4.3A is contained in the Interim Financial Report attached and The PAS Group Limited H1FY19 Results Presentation.

This report is based on accounts that have been reviewed by Deloitte Touche Tohmatsu.

| Net tangible asset backing | 31 Dec 2018 | 31 Dec 2017 |
|--|-------------|-------------|
| Net tangible asset backing per ordinary security | \$0.29 | \$0.29 |

¹ Underlying EBITDA is a non-IFRS unaudited measure defined for the purpose of this document as earnings before interest, tax, depreciation, amortisation, non-recurring income/expenditure and certain non-cash items such as share based payment expenses recognised in accordance with AASB 2 *Share-based payment*.

The PAS Group Limited and its controlled entities
ACN 169 477 463

Interim Financial Report

For the half year ended 31 December 2018

Index

| | Page |
|---|-------------|
| Directors' report | 1 |
| Condensed consolidated statement of profit or loss and other comprehensive income | 3 |
| Condensed consolidated statement of financial position | 4 |
| Condensed consolidated statement of changes in equity | 5 |
| Condensed consolidated statement of cash flows | 6 |
| Notes to the financial statements | 7-12 |
| Directors' declaration | 13 |
| Auditor's independence declaration | 14 |
| Independent auditor's review report | 15 |
| Corporate directory | 16 |

Directors' report

The Directors of The PAS Group Limited ('PAS') present their report on the consolidated entity consisting of The PAS Group Limited and its subsidiaries for the half year ended 31 December 2018 (the period).

In order to comply with the Corporations Act (2001), the Directors report as follows:

Directors

The Directors of The PAS Group Limited who held office during or since the end of the half year were:

| | |
|---------------------|---|
| Adam Gray | Non-Executive Chairman |
| Eric Morris | Chief Executive Officer and Managing Director |
| Craig Holland | Non-Executive Director |
| Christopher Murphy | Non-Executive Director |
| Silvia Mazzucchelli | Non-Executive Director |

Principal activities

The Group's principal activities include the buying, selling and usage of brands in furtherance of its endeavours as an apparel, accessories and sports equipment wholesaler and retailer.

Analysis of results from continuing operations

A comparison between the continuing result for the half years ended 31 December 2018 and 2017 is shown in the table below.

| | 31 Dec 2018 | 31 Dec 2017 |
|---|--------------------|--------------------|
| | \$'000 | \$'000 |
| Revenue | 142,962 | 130,103 |
| Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) | 5,651 | 8,359 |
| Earnings Before Interest and Tax (EBIT) | 1,563 | 4,574 |
| Net profit after tax (NPAT) from continuing operations | 1,265 | 2,977 |
| Net profit after tax (NPAT) attributable to members of the parent | 1,265 | 2,977 |

Commentary on the operations and results of the consolidated entity is contained in the PAS half-year results announcement dated 26 February 2019.

As at 31 December 2018, PAS had cash on hand of \$3.6m (30 June 2018: (\$0.7m)) and three complementary financing facilities with a combined committed limit of \$28 million of which \$5m was drawn at 31 December 2018 (30 June 2018: nil). In addition to the \$28 million of committed funding, the Group's facilities incorporate a further \$10m uncommitted facility and the Group may by written notice to CBA request the establishment of an accordion facility up to a maximum of \$60 million which may be used to support the Group's acquisitive growth strategy.

Earnings per share ('EPS')

| | Half Year ended | Half Year ended |
|----------------------------|------------------------|-----------------|
| | 31 Dec 2018 | 31 Dec 2017 |
| Basic earnings per share | 0.93 cents | 2.18 cents |
| Diluted earnings per share | 0.93 cents | 2.18 cents |

Basic and diluted earnings per share are calculated as set out in Note 3 to the financial statements based on the weighted average number of ordinary shares (2018: 136,690,860, 2017: 136,690,860).

Dividends

An interim dividend has not been declared.

Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial period, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

Rounding of amounts

The Company is of the kind referred to in ASIC Instrument 2016/191, and in accordance with that Class Order amounts in the Directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise stated.

Auditor's independence declaration

The auditor's independence declaration is on page 14.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors:



Mr Adam Gray
Chairman
Melbourne, 25 February 2019

The PAS Group Limited

Condensed consolidated statement of profit or loss and other comprehensive income

| | Note | Half Year ended 31 Dec 2018 \$'000 | Half Year ended 31 Dec 2017 \$'000 |
|--|------|--|--|
| Revenue | 2 | 142,962 | 130,103 |
| Cost of sales | | (71,097) | (56,290) |
| Gross profit | | 71,865 | 73,813 |
| Other revenue | 2 | 780 | 188 |
| Other gains and losses | | 166 | (144) |
| Employee benefit expenses | 2 | (34,590) | (33,151) |
| Selling and distribution expenses | | (9,851) | (8,497) |
| Occupancy expense | 2 | (14,179) | (15,579) |
| Marketing expenses | | (3,950) | (2,947) |
| Administration expenses | | (4,590) | (5,324) |
| Depreciation and amortisation | 2 | (3,639) | (3,785) |
| Net finance costs | 2 | (449) | (290) |
| Profit before income tax expense | | 1,563 | 4,284 |
| Income tax expense | | (298) | (1,307) |
| Profit attributable to members of the parent | | 1,265 | 2,977 |
| Other comprehensive income, net of income tax: | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | | 71 | (122) |
| Net gain on cash flow hedges | | 992 | 161 |
| Other comprehensive income for the period, net of income tax | | 1,063 | 39 |
| Total comprehensive income for the period attributable to members of the parent | | 2,328 | 3,016 |
| Earnings per share for profit attributable to members of the parent | | | |
| Basic (cents per share) | 3 | 0.93 | 2.18 |
| Diluted (cents per share) | 3 | 0.93 | 2.18 |

Notes to the condensed consolidated financial statements are included on pages 7 to 12.

The PAS Group Limited
Condensed consolidated statement of financial position

| | Note | 31 Dec 2018 \$'000 | 30 Jun 2018 \$'000 |
|--------------------------------------|------|-----------------------|-----------------------|
| Assets | | | |
| <i>Current assets</i> | | | |
| Cash and cash equivalents | | 3,617 | – |
| Trade and other receivables | | 23,300 | 19,251 |
| Inventories | 5 | 35,566 | 35,990 |
| Current tax assets | | 1,165 | 1,273 |
| Other financial assets | | 3,131 | 1,715 |
| Other current assets | | 3,945 | 2,884 |
| Total current assets | | 70,724 | 61,113 |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | | 10,847 | 12,737 |
| Deferred tax asset | | 7,101 | 6,418 |
| Goodwill | | 54,106 | 54,106 |
| Intangible assets | | 29,660 | 29,912 |
| Other non-current assets | | 859 | 1,141 |
| Total non-current assets | | 102,573 | 104,314 |
| Total assets | | 173,297 | 165,427 |
| Liabilities | | | |
| <i>Current liabilities</i> | | | |
| Trade and other payables | | 21,000 | 20,001 |
| Financial liabilities | | 5,000 | 732 |
| Current tax liabilities | | 5 | 37 |
| Provisions | | 6,172 | 5,843 |
| Other liabilities | | 4,032 | 2,709 |
| Total current liabilities | | 36,209 | 29,322 |
| <i>Non-current liabilities</i> | | | |
| Deferred tax liabilities | | 8,647 | 7,913 |
| Provisions | | 826 | 797 |
| Other liabilities | | 4,142 | 5,124 |
| Total non-current liabilities | | 13,615 | 13,834 |
| Total liabilities | | 49,824 | 43,156 |
| Net assets | | 123,473 | 122,271 |
| Equity | | | |
| Issued capital | | 153,963 | 153,963 |
| Reserves | | (1,767) | (2,266) |
| Retained losses | | (28,723) | (29,426) |
| Total equity | | 123,473 | 122,271 |

Notes to the condensed consolidated financial statements are included on pages 7 to 12.

The PAS Group Limited
Condensed consolidated statement of changes in equity

| Consolidated | Share capital \$'000 | Retained (losses) / earnings \$'000 | Foreign currency translation reserve \$'000 | Share based payment reserve \$'000 | Corporate reorganisa- -tion reserve \$'000 | Cash flow hedge reserve \$'000 | Total equity \$'000 |
|---|---------------------------------|--|--|---|---|---|--------------------------------|
| Balance at 1 July 2018 | 153,963 | (29,426) | (462) | 820 | (3,825) | 1,201 | 122,271 |
| Profit for the half year | - | 1,265 | - | - | - | - | 1,265 |
| Other comprehensive income for the half year, net of income tax | - | - | 71 | - | - | 992 | 1,063 |
| Total comprehensive income for the half year | - | 1,265 | 71 | - | - | 992 | 2,328 |
| Adjustment on adoption of AASB 9 | - | (88) | - | - | - | - | (88) |
| Adjustment on adoption of AASB 15 | - | (1,216) | - | - | - | - | (1,216) |
| Recognition of share-based payments | - | 742 | - | (564) | - | - | 178 |
| Balance at 31 December 2018 | 153,963 | (28,723) | (391) | 256 | (3,825) | 2,193 | 123,473 |
| Balance at 1 July 2017 | 153,963 | (22,404) | (346) | 428 | (3,825) | (1,233) | 126,583 |
| Profit for the half year | - | 2,977 | - | - | - | - | 2,977 |
| Other comprehensive income for the half year, net of income tax | - | - | (122) | - | - | 161 | 39 |
| Total comprehensive income for the half year | - | 2,977 | (122) | - | - | 161 | 3,016 |
| Dividends provided for or paid | - | (2,050) | - | - | - | - | (2,050) |
| Recognition of share-based payments | - | - | - | (72) | - | - | (72) |
| Balance at 31 December 2017 | 153,963 | (21,477) | (468) | 356 | (3,825) | (1,072) | 127,477 |

Notes to the condensed consolidated financial statements are included on pages 7 to 12.

The PAS Group Limited
Condensed consolidated statement of cash flows

| | Note | Half Year ended 31 Dec 2018 \$'000 | Half Year ended 31 Dec 2017 \$'000 |
|---|------|---|---|
| Cash flows from operating activities | | | |
| Receipts from customers | | 153,292 | 147,103 |
| Payments to suppliers and employees | | (151,708) | (138,919) |
| Cash flows from operations | | 1,584 | 8,184 |
| Interest received | | 2 | 2 |
| Interest and other costs of finance paid | | (427) | (273) |
| Income tax paid | | (586) | (1,161) |
| Net cash flows from operating activities | | 573 | 6,752 |
| Cash flows from investing activities | | | |
| Payment for property, plant and equipment | | (708) | (2,763) |
| Payment for intangible assets | | (518) | (1,011) |
| Proceeds from the sale of equipment | | - | 2 |
| Net cash outflow on acquisition of subsidiaries | | - | (101) |
| Net cash flows used in investing activities | | (1,226) | (3,873) |
| Cash flows from financing activities | | | |
| Dividends paid | | - | (2,050) |
| Borrowings | | 5,000 | - |
| Net cash flows used in financing activities | | 5,000 | (2,050) |
| Net increase in cash and cash equivalents | | 4,347 | 829 |
| Cash and cash equivalents at the beginning of the period | | (732) | 4,912 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | 2 | (57) |
| Cash and cash equivalents at the end of the period | | 3,617 | 5,684 |

Notes to the condensed consolidated financial statements are included on pages 7 to 12.

1. Significant accounting policies

(a) Statement of compliance

This interim financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and Accounting Standard, AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and any public announcements made by the Company during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(b) Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain derivative financial instruments and contingent consideration to fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to which ASIC Instrument 2016/191 applies and in accordance with that Instrument, amounts in the interim financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the consolidated entity's 2018 annual financial report for the year ended 30 June 2018, except for the adoption of new accounting standard for the half year ended 31 December 2018, refer Note 8. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

2. Revenues and expenses

(a) Revenue

Profit before income tax from continuing operations includes the following items:

| | Half Year ended 31 Dec 2018 | Half Year ended 31 Dec 2017 |
|----------------------|--|--------------------------------|
| | \$'000 | \$'000 |
| Sales revenue | | |
| Sale of goods | 142,962 | 130,103 |
| Other revenue | | |
| Royalty income | 75 | 54 |
| Other | 705 | 134 |
| | 780 | 188 |
| Total revenue | 143,742 | 130,291 |

(b) Expenses

Profit/(loss) before income tax from continuing operations includes the following items:

| | Half Year ended 31 Dec 2018 \$'000 | Half Year ended 31 Dec 2017 \$'000 |
|---|---|--|
| Occupancy expense: | | |
| Minimum lease payments on operating leases | 13,037 | 14,420 |
| Other occupancy expenses | 1,142 | 1,159 |
| Total occupancy expense | 14,179 | 15,579 |
| Employee benefit expenses: | | |
| Post-employment benefits – defined contribution plans | 2,502 | 2,480 |
| Other employee benefits | 32,088 | 30,671 |
| Total employee benefit expenses | 34,590 | 33,151 |
| Depreciation and amortisation: | | |
| Depreciation | 2,869 | 2,936 |
| Amortisation | 770 | 849 |
| Total depreciation and amortisation | 3,639 | 3,785 |
| Net finance costs: | | |
| Interest and finance charges paid to banks and other financial institutions | 429 | 269 |
| Amortisation of deferred borrowing costs | 22 | 23 |
| Interest revenue | (2) | (2) |
| Total net finance costs | 449 | 290 |

3. Earnings per share

| | Half Year ended 31 Dec 2018 | Half Year ended 31 Dec 2017 |
|------------------------------------|--|--------------------------------|
| Basic earnings per share (cents) | 0.93 | 2.18 |
| Diluted earnings per share (cents) | 0.93 | 2.18 |
| Net profit after tax (\$'000) | 1,265 | 2,977 |

The weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows.

| | Number of Shares | |
|------------------------------|--------------------|-------------|
| – Basic earnings per share | 136,690,860 | 136,690,860 |
| – Diluted earnings per share | 136,690,860 | 136,690,860 |

The PAS Group Limited

Directors' declaration

For the half year ended 31 December 2018

4. Segment information

PAS' operating segments are identified with reference to the information regularly reviewed by the Chief Executive Officer and Board of Directors (the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The reportable segments are based on aggregated operating segments determined by the method used to distribute the goods. PAS operates in two reportable segments, being Retail and Wholesale reflecting its primary distribution channels. Discrete financial information about these operating businesses is reported to the CODM on a monthly basis. The segments are described below.

Retail

The Retail segment includes revenues and profits generated by PAS' retail and online footprint associated with women's, men's and children's apparel and related products. This includes 245 retail sites (31 December 2017: 264) and a number of online sites as of 31 December 2018. The retail segment includes revenues and profits generated by Black Pepper, Jets Swimwear, Review, White Runway, Yarra Trail and Bondi Bather.

Wholesale

The Wholesale segment includes revenues and profits associated with the wholesaling of women's, men's and children's apparel, sporting equipment and related products. The Wholesale segment includes revenues and profits generated by Designworks, Black Pepper, Jets Swimwear, Marco Polo, Yarra Trail and Bondi Bather.

Unallocated

Corporate overheads, interest revenue and interest expenses are not allocated to operating segments as they are not considered part of the core operations of a specific segment.

The accounting policies used in reporting segments are the same as those contained in Note 1 to the financial statements and in the prior period. Information regarding the results of each reportable segment is included below. Segment profit is used to measure performance as management believe that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The following is an analysis of PAS' revenue, EBITDA and results from continuing operations by reportable segment.

| Half year ended 31 December | Retail | | Wholesale | | Unallocated | | Total | |
|---|------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 | 2018 \$'000 | 2017 \$'000 |
| Revenue from sale of goods | 66,585 | 72,267 | 76,377 | 57,836 | - | - | 142,962 | 130,103 |
| Other revenue | 52 | - | 72 | 40 | 656 | 148 | 780 | 188 |
| Total revenue | 66,637 | 72,267 | 76,449 | 57,876 | 656 | 148 | 143,742 | 130,291 |
| Segment EBITDA | 5,283 | 9,129 | 6,810 | 6,158 | (6,442) | (6,928) | 5,651 | 8,359 |
| Depreciation and amortisation | (2,227) | (2,482) | (390) | (370) | (1,022) | (933) | (3,639) | (3,785) |
| Segment EBIT | 3,056 | 6,647 | 6,420 | 5,788 | (7,464) | (7,861) | 2,012 | 4,574 |
| Net financing costs | - | - | - | - | (449) | (290) | (449) | (290) |
| Statutory profit/(loss) before tax | 3,056 | 6,647 | 6,420 | 5,788 | (7,913) | (8,151) | 1,563 | 4,284 |
| | 31 Dec 2018 | 30 Jun 2018 | 31 Dec 2018 | 30 Jun 2018 | 31 Dec 2018 | 30 Jun 2018 | 31 Dec 2018 | 30 Jun 2018 |
| Segment assets | 67,396 | 69,635 | 65,655 | 62,926 | 40,246 | 32,866 | 173,297 | 165,427 |
| Segment liabilities | 13,540 | 13,659 | 13,528 | 11,423 | 22,756 | 18,075 | 49,824 | 43,156 |

Segment revenue reported above represents revenue generated from external customers. For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than prepayments, hedge receivable, trademarks and patents and current and deferred tax assets. Assets used jointly by reportable segments are allocated on the basis of cost of sales within individual reportable segments; and
- all liabilities are allocated to reportable segments other than borrowings, hedge payable, deferred considerations and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated on the basis of cost of sales within individual reportable segments.

The PAS Group Limited

Directors' declaration

For the half year ended 31 December 2018

5. Inventories

| | 31 Dec 2018 | 30 Jun 2018 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| <i>At lower of cost and net realisable value:</i> | | |
| Raw materials | 485 | 555 |
| Stock in transit | 5,985 | 6,882 |
| Work in progress | 373 | 304 |
| Finished goods | 28,723 | 28,249 |
| | 35,566 | 35,990 |

6. Dividends

During the half year, PAS made the following dividend payments:

| | Half Year ended 31 Dec 2018 | | Half Year ended 31 Dec 2017 | |
|----------------|-----------------------------|--------------|-----------------------------|--------------|
| | Cents per share | Total \$'000 | Cents per share | Total \$'000 |
| Final dividend | – | – | 1.5 | 2,050 |

An interim dividend has not been declared.

7. Impairment of goodwill and non-current assets

Goodwill is not amortised and is tested at least annually for impairment. Other intangible assets are carried at cost less accumulated amortisation and impairment losses.

The Group has tested the Review Cash Generating Unit (CGU) for impairment at 31 December 2018, applying the Value-in-Use (ViU) basis using a discounting cash flow valuation model.

Impairment testing was undertaken on the Review CGU by comparing its recoverable amount to its carrying amount. The recoverable value is estimated to be 125% of the carrying value of the CGU. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of the Review CGU goodwill and other non-cash assets.

- Cash flow forecasts: covering a period of five years – the first year is based on the current financial forecast and incorporates the Group's identified plans for strategy execution and enhanced trading performance. These elements are extrapolated over the five-year period taking account of specific initiatives and by applying a long-term growth rate to ongoing performance.
- Discount rates: Cash flow forecasts have been discounted using a pre-tax risk adjusted discount rate of 13.9%
- Terminal value: is calculated using a long-term growth rate based on the cash flow forecast for year five. The long-term growth rate applied is 2.9%, which does not exceed the long-term industry growth rate.

Management have assessed that the Review CGU is sensitive to reasonably possible changes in the cash flow forecasts covering a period of five years. The forecast is based on the current financial forecast approved by the Board and includes a number of initiatives designed to drive incremental sales and increased margins as well as reduce the costs of doing business. If 30% of the cash inflows from the sales and margin growth and cost saving initiatives included in the CGU cashflows are not achieved in each year of the forecast period, then the carrying value of the CGU would equal its recoverable amount.

The PAS Group Limited

Directors' declaration

For the half year ended 31 December 2018

8. Impact of new accounting standards

The Group has applied AASB 9 and AASB 15 retrospectively at 1 July 2018 with the cumulative effect of initial application being recognised as an adjustment to the opening balance of retained earnings, with no restatement of comparative figures. The impacts of application are shown below:

| | As reported 30 June 2018 \$'000 | AASB 9 impact refer note (a) \$'000 | AASB 15 impact refer note (b) \$'000 | Opening balance 1 July 2018 \$'000 |
|---------------------------------------|--|--|---|---|
| Trade and other receivables – current | 19,251 | (88) | - | 19,163 |
| Inventories | 35,990 | - | 129 | 36,119 |
| Other current assets | 2,884 | - | 408 | 3,292 |
| Deferred tax assets | 6,418 | 27 | 289 | 6,734 |
| Total assets impact | | (61) | 826 | |
| Other current liabilities | 2,709 | - | 1,752 | 4,461 |
| Total liabilities impact | | - | 1,752 | |
| Retained earnings | (29,426) | (61) | (926) | (30,413) |
| Total equity impact | | (61) | (926) | |

(a) AASB 9 Financial instruments

This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

Trade receivables – expected credit losses

The implementation of AASB 9 has resulted in a change to the methodology by which the Group has assessed the provision for doubtful debtors from the incurred loss model to the expected credit loss model. The Group has adopted the simplified approach to measuring expected credit losses, which uses lifetime expected loss allowance for all trade receivables.

The expected credit loss model requires the Group to determine the lifetime expected credit losses for groups of trade receivables with shared credit risk characteristics. An expected credit loss rate is then determined for each group based on the historic credit loss rates for each group, adjusted for any other current observable data that may materially impact the group's future credit risk. Other current observable data may include:

- Forecasts of economic conditions such as unemployment, interest rates, gross domestic product and inflation;
- Financial difficulties of a counterparty or probability that a counterparty will enter bankruptcy; and
- Conditions specific to the asset to which the receivable relates.

The requirements of AASB 9 were adopted on 1 July 2018 and applied to the Group's trade receivables at that time. Total trade receivables were disaggregated into groups deemed to have shared credit risk characteristics. Groupings were based on the nature of the customer and their geographic location.

The initial impact of adopting this change at 1 July 2018 was as follows:

- An increase in the provision for expected credit losses of \$88k was recognised
- Net deferred tax assets increased by \$27k
- Retained earnings decreased by \$61k

The provision for expecting credit losses at 31 December 2018 have been determined in a manner consistent with the methodology adopted on 1 July 2018.

| | Not due | 0-30 days | 31-60 days | 60-90 days | 90-120 days | 120+ days | Total |
|--|------------|--------------|---------------|---------------|----------------|--------------|--------------|
| Trade receivables (\$'000) | 14,413 | 5,949 | 2,291 | 747 | 170 | 1,757 | 25,326 |
| Loss allowance provision (\$'000) | 10 | 9 | 6 | 14 | 6 | 1,362 | 1,408 |

The PAS Group Limited

Directors' declaration

For the half year ended 31 December 2018

Hedge Accounting

In accordance with the transition provisions of AASB 9 for hedge accounting, the Group has applied the AASB 9 hedge accounting requirements prospectively from the date of initial application on 1 July 2018. There has been no change in the Group's transactions that are subject to hedge accounting from the adoption of AASB 9, being forward currency exchange contracts. Accordingly, there has been no impact on the hedging reserve from the adoption of AASB 9.

(b) AASB 15 Revenue from contracts with customers

The requirements of AASB 15 replace AASB 118: *Revenue*. AASB 15 establishes a single comprehensive five-step model for entities to use in accounting for all revenue streams arising from contracts with customers with two separate approaches for recognising revenue: at a point in time or over time.

For each revenue stream, the Group has assessed the timing of revenue recognition. The differences in timing for revenue recognition were:

- Deferral of revenue for the value of the performance obligations attributed to loyalty vouchers issued
- Deferral of revenue attributable to the likelihood of a customer exercising their contractual 'right of return'
- Deferral of revenue attributable E-Commerce transactions where customer is yet to receive goods

The initial impact of adopting this change at 1 July 2018 was as follows:

- Inventories increased by \$0.1m
- Other current assets increased by \$0.4m
- Deferred tax assets increased by \$0.3m
- Other current liabilities increased by \$1.8m
- Retained earnings decreased by \$0.9m

The Group historically has recorded settlement discounts in selling and distribution expenses. AASB 15 requires companies to offset any settlement discount offered against the sale price of stock. The impact of this change in classification is a decrease in net revenue of \$1.4m for H1 FY2019 (H1 FY2018: \$1.3m).

The timing of sales revenue recognition by stream is summarised below.

| Revenue stream | Description | Performance obligation | Timing of recognition |
|--|--|------------------------------|-----------------------|
| Wholesale | Sales of goods to customers. Consideration recognised is net of settlement credits, rebates and other similar allowances. | Delivery of good to customer | Point in time |
| Retail – includes loyalty voucher issued | Sales of goods to customers, which include an agreed period over which the loyalty voucher can be redeemed. Consideration recognised is net of a provision for loyalty vouchers redeemable in future periods. | Delivery of good to customer | Point in time |
| Retail – gift cards | Sales of gift cards to customers which are redeemable over a specific period. | Consumption of gift card | Point in time |
| Retail – includes customer "right of return" | Sales of goods to customers which include an agreed period over which the inventory can be returned. Consideration recognised is net of a provision for returns. | Delivery of good to customer | Point in time |
| Retail – E-Commerce | Sales of goods to customers which require delivery to a specified location. | Delivery of good to customer | Point in time |

9. Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial period, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

The PAS Group Limited

Directors' declaration

For the half year ended 31 December 2018

The directors of The PAS Group Limited declare that, in their opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the financial position as at 31 December 2018 and of the performance for the half year ended on that date of the consolidated entity; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

The directors also declare that, in their opinion:

- (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors



Adam Gray
Chairman
Melbourne, 25 February 2019

The Board of Directors
The PAS Group Limited
17 Hardner Road
Mount Waverley VIC 3149

25 February 2019

Dear Board Members,

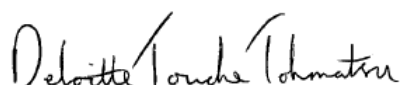
The PAS Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of The PAS Group Limited.

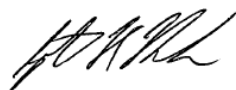
As lead audit partner for the review of the half year financial report of The PAS Group Limited for the half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants

Independent Auditor's Review Report to the Members of The PAS Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of The PAS Group Limited ("Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of The PAS Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

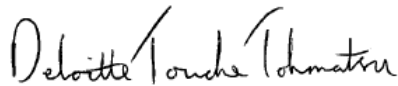
Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of The PAS Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of The PAS Group Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.



DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants
Melbourne, 25 February 2019

Corporate Directory

Registered office and principal place of business

The PAS Group Limited
17 Hardner Road
Mount Waverley VIC 3149
Tel: (03) 9902 5555

Directors

Mr A Gray
Mr E Morris
Mr C Holland
Mr C Murphy
Ms S Mazzucchelli

Company secretary

Mr M Crowe

Auditors

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000
Tel: (03) 9671 7000

Bankers

Commonwealth Bank of Australia
Ground Floor, Tower 1
201 Sussex Street
Sydney NSW 2000
Tel: (02) 9378 2000

Share registry

Link Market Services
Level 1, 333 Collins Street
Melbourne VIC 3000
Tel: (03) 9615 9800

Solicitors

Minter Ellison Lawyers
Level 19, Aurora Place
88 Phillip Street
Sydney NSW 2000
Tel: (02) 9921 8888

The PAS Group Limited is listed on the Australian Securities Exchange ('ASX') under ASX code 'PGR'.