

# The PAS Group Limited ABN 25 169 477 463

## Corporate Governance Statement

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This statement outlines the Corporate Governance framework and practices adopted by the Board of The PAS Group Limited and its controlled entities ('PAS' or 'Company') and in place for the financial year ended 30 June 2017, by reference to the Corporate Governance Principles and Recommendations (3rd Edition) (the 'Recommendations') of the ASX Corporate Governance Council ('CGC'). This Statement was approved by the Board and is current as at 24 August 2017.

The Board of the Company and Senior Management are committed to acting responsibly, ethically and with high standards of integrity. The Company is committed to implementing the highest standards of corporate governance appropriate to it, taking into account the Company's size, structure and nature of its operations.

The Board considers and applies the Recommendations taking into account the circumstances of the Company. Where the Company's practices depart from a Recommendation, this Statement identifies the area of divergence and the reasons for divergence and any alternative practices adopted by the Company.

The Board has established a number of Corporate Governance Documents consistent with the Recommendations, which form the basis of the Company's Corporate Governance Framework. These documents are referenced in this Corporate Governance Statement where appropriate, and are as follows:

- Board Charter
- Audit and Risk Committee Charter
- Nomination and Remuneration Committee Charter
- Continuous Disclosure Policy
- Securities Trading Policy
- Shareholder Communications Policy
- Risk Management Policy
- Diversity Policy
- Code of Conduct

These documents are available on the PAS website in the 'Investor Relations' section and 'Corporate Governance' subsection at <http://www.thepasgroup.com.au/corporate-governance/>

### **Principle 1: Lay solid foundations for management and oversight**

The Board has primary responsibility for monitoring the business and affairs of the Company, including compliance with the Company's Corporate Governance Framework, and in conjunction with Senior Management, setting the strategic direction of the Company.

It is the role of Senior Management to manage the Company in accordance with the direction and delegation of the Board and the responsibility of the Board to provide leadership to, and oversee the activities of Management in carrying out those delegated duties.

The Board Charter sets out the roles and responsibilities of the Board, including those matters specifically reserved for the Board. The Charter also sets out the role and responsibility of the Managing Director/Chief Executive Officer and executive team, which is primarily the day to day management and administration of the Company in accordance with the strategy, plans and policies approved by the Board.

Prior to the appointment of a new Director, and before a candidate is put forward as a candidate for election as a Director, appropriate checks are undertaken including the person's experience, education, disqualification from holding certain offices, criminal record and bankruptcy history. At any AGM the Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director, including biographical details, other material directorships held by the director, terms of office and independence status. The Nomination and Remuneration

Committee is responsible under its Charter for ensuring that appropriate checks are undertaken, and requisite information is provided to shareholders in respect of election or re-election of a Director. An informal peer review is undertaken for each director seeking re-election at the AGM to enable a recommendation to be made by the Board to shareholders.

Non-Executive Directors are provided with a formal letter of appointment which sets out the key terms, conditions, responsibilities and expectations of their appointment. The letter of appointment also provides that Directors are expected to provide the time required to perform their duties and in relation to any additional matters that may arise. Senior Management personnel are employed under individual service contracts which set out the terms of their employment including details of their duties, responsibilities, rights and remuneration entitlements.

The Board Charter provides that Directors may seek independent professional advice necessary to fulfil their responsibilities, at the expense of the Company, subject to the consent of the Chairperson which will not be unreasonably withheld. Any such advice will be provided to the whole Board.

The Board Charter provides that the Company Secretary is directly accountable to the Board through the Chairperson on all matters to do with the proper functioning of the Board.

The Company is committed to achieving the goals of:

- Providing access to equal opportunity at all levels of work based on merit; and
- Fostering a corporate culture that embraces and values diversity

The Board has adopted a Diversity Policy which provides guidance for the development and implementation of relevant plans, programs and initiatives to recognise and promote workforce diversity. The Board believes diversity extends beyond gender and the Diversity Policy has been developed on this basis. In addition, the diversity programs the Company has implemented address all types of diversity at all levels of the Company.

In line with the Recommendations, the Diversity Policy provides that the Company will establish measurable objectives for achieving gender diversity and require senior management to measure and report in this regard. The Policy also provides that the Company will consider and where relevant implement policies and programmes that address impediments to gender diversity in the workplace.

Given that the Company has a high proportion of women in its workforce, the Company has not established measurable objectives for achieving gender diversity. It is noted that the high proportion of women in its workforce is likely attributable, at least in part, to the nature of the Company's business.

The proportion of women represented in the Company's workforce is set out in the following table. Senior Executives are the CEO, the Chief Financial and Operations Officer ('CFOO') and the CEO's direct reports.

Level in the Organisation	Proportion of Women
Board	0%
Senior Executives	37.5%
Whole Organisation	95.8%

As there have been numerous changes to the Board in the past 12 months, the issue of performance evaluation will be considered at a later stage. Therefore, the Company does not currently have a formal review process for the periodic evaluation of the performance of the Board, its committees and each individual member of the Board and a formal performance evaluation was not undertaken during the year.

There is currently an informal evaluation process in place by which the Board assesses Senior Management, including the Chief Executive Officer. During the reporting period, an evaluation of the CEO's performance was carried out by the Board. The CEO conducts an evaluation of the CFOO's performance on an annual

basis and the outcome of that evaluation is provided to the Nomination and Remuneration Committee to assist it in consideration of the CFOO's remuneration. The CEO also conducts performance evaluations of his direct reports annually in accordance with established performance appraisal criteria. The performance evaluations for the reporting period have been conducted and reviewed by the Board.

## Principle 2: Structure the Board to add value

The current Board has six Directors, comprising five Non-Executive Directors, Adam Gray (Chairperson), Rod Walker, Matthew Lavelle, Craig Holland, Chris Murphy and the Managing Director and CEO Eric Morris. The Company announced on 31 July 2017 that Rod Walker and Matthew Lavelle will retire from the Board on 30 September 2017.

The Board recognises the CGC's recommendation that the Board should comprise a majority of independent directors and have an independent Chairperson. The Board Charter sets out the criteria for determining whether a Director is independent, including by reference to criteria for independence set out in the Recommendations. The Board considers that all of the Non-Executive Directors except Adam Gray, Matthew Lavelle and Chris Murphy are independent. Adam Gray, Matthew Lavelle and Chris Murphy are not independent as they are nominated by Coliseum being the majority shareholder of the Company. As a result, the Board does not have a majority of independent directors.

The Chairperson of the Board, Adam Gray is not an independent director due to his relationship with Coliseum. Coliseum had nominated Adam Gray to be a Director and the Chairperson of the Board.

The roles of Chairperson and Chief Executive Officer are not held by the same individual.

The Board has established a Nomination and Remuneration Committee, the members of which are Adam Gray (Committee Chairperson), Rod Walker and Craig Holland. The Board recognises the CGC's recommendation that the Committee should be chaired by an independent Director and that the Committee should have at least three members of whom the majority should be independent Directors. The two members of the Committee being Rod Walker and Craig Holland are independent Directors. Therefore, the Committee currently comprises a majority of independent Directors.

However, the Chairperson of the Committee Adam Gray is not an independent Director. It is also envisaged that, once Rod Walker retires from the Committee as of 30 September 2017, the Committee will not comprise a majority of independent Directors.

The Board Charter and the charters of the various Board Committees were established at the time of the Company's listing on the ASX in 2014. As a consequence of Coliseum becoming a majority shareholder of the Company in June 2017, the charters have been overtaken by changes in the corporate structure. As such, the Board intends to review the Board Charter as well as the charters of the various Board Committees in the near future.

The Committee Charter available on the Company's website sets out the composition, functions, roles and responsibilities of the Committee.

The relevant qualifications and experience of each of the Committee members, and their attendance at Committee meetings is set out in the Directors' Report in the Annual Report 2017.

Clause 3 of the Board Charter sets out the Board Skills Matrix, which the Board considers are the specific key skills and experience that the Board seeks to achieve in its composition, in addition to more general attributes such as leadership and experience as a chief executive or Director of a large organisation. The following table sets out the Board Skills Matrix and the current mix of skills and experience of the Board. At this stage, the Board has not identified any gaps in the Skills Matrix, although it will continue to consider the appropriate skills for the Board to possess as the business evolves.

Skills and Experience	Number of Directors
Retail and apparel industry experience	5

Business acquisition and integration skills	6
Financial literacy, legal and regulatory knowledge	6
Diversity	6
Policy, regulatory development and reform	6
Health, safety, environment and social responsibility	6
Organisational development and human resources	5

New Directors are required to participate in an induction program in which they are given a full briefing on the Company, its strategy and operations, and policies and procedures. The program includes meeting members of the Board, the Company Secretary and Senior Management. The Nomination and Remuneration Committee Charter provides that the Committee is responsible for the induction program and for providing appropriate professional development opportunities for Directors to enable them to develop and maintain the necessary skills and knowledge to perform their roles effectively.

Further details about the Directors, including their tenure, skills, experience and expertise relevant to the position of Director, their Non-Executive and independent status, and attendance at Board and Committee meetings are set out in the Directors' Report in the Annual Report 2017.

### **Principle 3: Promote ethical and responsible decision making**

The Board is committed to ensuring that the Company maintains the highest standards of integrity, honesty and fairness in its dealings with all stakeholders, and that the Company complies with all legal and other obligations. The Company has established a Code of Conduct ('the Code') which applies to all Directors, Senior Management and staff, including contractors and consultants ('Employees'). The Code promotes practices that aim to foster the Company's key values, which include encouraging Employees to act with fairness, honesty and integrity, awareness of and abiding by relevant laws and regulations, respect for the community and environment and maintaining high standards of professional behaviour. The Code also sets out the requirements that apply to Directors and Employees respectively in relation to conflicts of interest.

The Company's Securities Trading Policy applies to all Directors, officers and Employees of PAS. The Policy sets out the prohibitions against insider trading, and prescribes certain requirements for dealing in PAS securities. All personnel of the Company are prohibited from trading in PAS securities while in possession of material non-public information, which is information a reasonable person would expect to have a material effect on the price or value of PAS securities. The Policy provides for certain closed periods when Designated Officers or their associates may not deal in the Company's securities.

### **Principle 4: Safeguard integrity in corporate reporting**

The Board has established an Audit and Risk Committee comprising Craig Holland, Rod Walker, Matthew Lavelle and Chris Murphy. The Chairperson of the Committee is Craig Holland who is an independent Director and who is not the Chairperson of the Board. The Board recognises the CGC's recommendation that the Committee should have at least three members of whom the majority should be independent Directors. The Committee does not have a majority of independent Directors as a result of the changes and proposed changes to the Board as set out further under Principle 2 above.

The Audit and Risk Committee Charter available on the Company's website sets out the composition, functions, roles and responsibilities of the Committee. As a consequence of Coliseum becoming a majority shareholder of the Company in June 2017, the Board intends to review the committee's charter in the near future.

The relevant qualifications and experience of each of the Committee members, and their attendance at Committee meetings are set out in the Directors' Report in the Annual Report 2017. In particular, it should be noted that:

- Craig Holland is a member of CPA Australia, a member of the Taxation Institute of Australia, holds a Bachelor of Economics and a Masters in Taxation ensuring that, along with his experience, he has a high level of financial expertise in accordance with the Committee Charter;
- Matthew Lavelle is an investment analyst and a Chartered Financial Analyst, holds a Bachelor of Science in Business Administration ensuring that, along with his substantial experience in finance and investments, he has a high level of financial expertise in accordance with the Committee Charter;
- Chris Murphy is an investment analyst, a CFA charterholder, a Certified Public Accountant, holds a Master of Accounting and a Bachelor of Science in Business Administration ensuring that, along with his substantial experience in audit and investments, he has a high level of financial expertise in accordance with the Committee Charter.

Prior to Board approval of the annual and half year financial statements, the Managing Director and Chief Financial and Operations Officer are required to provide the Board with written assurances in accordance with section 295A of the *Corporations Act 2001* (Cth) and the statement under Recommendation 4.2 of the Recommendations, as applicable.

For the half year ended 31 December 2016 and for the financial year ended 30 June 2017, the Managing Director and Chief Financial and Operations Officer provided the Board with declarations that, in their opinion, the financial records of Company had been properly maintained and that the financial statements complied with the appropriate accounting standards and gave a true and fair view of the financial position and performance of the Company and that the opinion had been formed on the basis of a sound system of risk management and internal control which was operating effectively.

The external auditor attends the Company's Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and preparation and conduct of the independent Auditor's Report. Shareholders are also given the opportunity to submit written questions prior to the meeting. The Company considers that this is important in promoting and encouraging shareholder participation and reflects and supports the roles of the auditor and the auditor's accountability to shareholders.

## **Principle 5: Make timely and balanced disclosure**

The Company's Continuous Disclosure Policy sets out the policies and procedures relating to:

- The Company's continuous disclosure obligations under the ASX Listing Rules and the Corporations Act 2001 (Cth); and
- How PAS staff are required to deal with potentially price-sensitive information, and communications with external stakeholders such as the media, security holders and the community to ensure that the Company meets its continuous disclosure obligations.

It is the Company's policy to ensure that all market participants have an equal opportunity to review and access material information made available by the Company, and that the Company complies with both the letter and spirit of its continuous disclosure obligations under the ASX Listing Rules and the Corporations Act. The Continuous Disclosure Policy sets out the procedures that apply to the collection, control, assessment and where required, release to the ASX of material information. The Chief Executive Officer is the sole authorised spokesperson under the Policy.

## Principle 6: Respect the rights of shareholders

The Board has established a Shareholder Communications Policy to support the Company's commitment to providing shareholders with the necessary information and facilities to allow them to exercise their rights effectively, including:

- Providing shareholders with ready access to information about PAS and its governance;
- Communicating openly and honestly with shareholders; and
- Encouraging and facilitating participation in shareholder meetings.

The Company's website [www.thepasgroup.com.au](http://www.thepasgroup.com.au) provides detailed information about its business and operations. The Investor Relations section of the website provides helpful information to shareholders and a link to the Company's share registrar, Link Market Services. The Investor Relations section also provides information about the Company's current share price and dividend information, financial reports and presentations and an events calendar including dates of annual general meetings.

Shareholders can find information about the Company's corporate governance practices in the 'Corporate Governance' sub-section of the 'Investor Relations' section. This includes the Company's Constitution, Board and Committee Charters and Corporate Governance Policies.

The Company provides shareholders with the option of receiving communications from and sending communications to, the Company and Share Registry electronically. The Company only provides a printed copy of the Annual Report to those shareholders who have specifically elected to receive a printed copy. All other shareholders are advised that the Annual Report is available on the Company's website.

The Company's share register is managed and maintained by Link Market Services. Shareholders can access their shareholding details or make enquiries about their shareholding electronically through the link provided on the PAS website in the 'Investor Relations' section, or through the Link Market Services Investor Centre at <https://investorcentre.linkmarketservices.com.au>.

While the Company has not established a formal investor relations program it has implemented a number of measures to facilitate effective two-way communication with investors in addition to the measures outlined above. Senior Executives meet with key institutional investors on a regular basis, while ensuring no material information is disclosed at those meetings. The Company has also engaged external investor relations consultants to assist with its communications to shareholders and other stakeholders. The contact details of the Company's Senior Executives and external investor relations consultants are set out in each ASX announcement for easy reference by investors.

The Company will be holding its 2017 Annual General Meeting (AGM) in October 2017. To encourage shareholder engagement and participation at the AGM, shareholders have the opportunity to attend the AGM, ask questions from the floor, participate in voting and meet the Board and executive management in person.

Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form accompanying the notice of meeting or online through the share registry's website. Shareholders have the opportunity to submit written questions to the Company and external auditor, or make comments on the management of the Company and access AGM presentations and speeches made by the Chairperson and Managing Director prior to the commencement of the meeting. The Company will publish results of the AGM to the ASX and on its website following the conclusion of the AGM.

## Principle 7: Recognise and manage risk

The Company views effective risk management as being integral to achieving and maintaining its operational and strategic objectives. The Board has established the Enterprise Risk Management Framework which provides a framework for the oversight and management of risks associated with the Company's activities.

Comprised within the Enterprise Risk Management Framework is the Risk Management Policy which sets out, among other things, the risk management principles to be adhered to in managing risks, the roles of the Board, Audit and Risk Committee, management and other functions relevant to the monitoring, assessment, reporting and mitigation of risks and the processes in reviewing the effectiveness of the risk management system.

A key tool in identifying and assessing risks in order to manage risks is the Enterprise Risk Register and the steps undertaken in populating the register. The Enterprise Risk Register allows key risks to be identified through workshops at various levels of the organisation, and subsequently assessed and rated in order for management and mitigation steps to be prioritised.

The Board is primarily responsible for oversight of the Risk Management Policy, review and ratification of risk management system, and consideration of any specific issues reported to it. The Audit and Risk Committee has been established to assist the Board in monitoring risk and implementing the Risk Management Policy. The Committee has four members – Craig Holland (Committee Chairperson), Rod Walker, Matthew Lavelle and Chris Murphy, all of whom have considerable experience and expertise in financial matters and risk management. Craig Holland and Rod Walker are independent Non-Executive Directors.

The Audit and Risk Committee Charter available on the Company's website sets out the composition, functions, roles and responsibilities of the Committee. Following the recent Board changes, the Committee Charter will be reviewed by the Board in the near future. The relevant qualifications and experience of each of the Committee members, and their attendance at Committee meetings are set out in the Directors' Report in the Annual Report 2017. Further details about the Audit and Risk Committee are set out under Principle 4 above.

The Board reviews the Company's risk profile and the Risk Management Framework on a regular basis, and at least annually, by reference to the Company's Risk Management Policy. The Board has reviewed the Company's Risk Management Framework and is satisfied that it continues to be sound and that the Company is operating within the risk appetite parameters set by the Board.

The Company does not have an internal audit function. The Board believes this is appropriate, taking into account the Company's size, structure and nature of its operations.

Senior Management fulfils the internal audit function within the Company and is responsible for identifying relevant business risks, designing controls to manage those risks and ensuring the relevant controls are appropriately implemented. Senior Management monitors the adequacy of the risk management system and the Risk Management Policy requires that Senior Management report to the Audit and Risk Committee and the Board in this regard. The reporting must identify the Company's material risks and the extent to which:

- the Company's ongoing risk management program effectively identifies all areas of potential risk, including with respect to licensing and regulatory issues;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- proper remedial action is undertaken to redress areas of weakness.

The Company also obtains assurances from the external auditor in relation to the internal audit processes as part of the external auditor's half-year and annual audit reviews.

At this time, the Company does not consider that it faces material exposure to environmental or social sustainability risks. However, being in the discretionary retail sector, economic sustainability risk remains a key focus of the Company. The Recommendations define 'material exposure' as a 'real possibility that the risk in question could substantively impact the listed entity's ability to create or preserve value for security holders over the short, medium or long term'. The Company has been able to manage its exposure to economic, environmental or social sustainability risks through the risk management system set out in the Risk Management Policy within the Enterprise Risk Management Framework.

Some risks relating to economic sustainability faced by the Company and the way they are being managed are:

- risks as a result of changes in economic and retail conditions, the cyclical patterns of consumer spending, the unpredictable changes in prevailing fashion and consumer preferences. The Company monitors the risks intensively and ensures it remains competitive by having a diversified business model and a clear strategy;
- supply chain risks including political instability in the country of the suppliers, costs and delays in international shipping arrangements and exchange rate fluctuations. The Company ensures its supplier base is diversified and carefully selected. Where necessary, foreign exchange fluctuation risk is hedged in accordance with the Company's Treasury Policy;
- risks arising out of the substantial number of retail sites with varying leasing terms and concession conditions. The Company employs a dedicated leasing and store development team to manage these sites.

## **Principle 8: Remunerate fairly and responsibly**

The Board has established a Nomination and Remuneration Committee, the members of which are Adam Gray (Committee Chairperson), Rod Walker and Craig Holland. Rod Walker and Craig Holland are independent Non-Executive Directors. The Committee Charter available on the Company's website sets out the role, composition, functions and responsibilities of the Committee. Following the recent Board changes, the Committee Charter will be reviewed by the Board in the near future.

The relevant qualifications and experience of each of the Committee members, and their attendance at Committee meetings are set out in the Directors' Report in the Annual Report 2017. Further details about the Nomination and Remuneration Committee are set out under Principle 2 above.

The Company's remuneration structure distinguishes between Non-Executive Directors and that of Senior Management. Non-Executive Directors are paid a fixed fee based on time, commitment and responsibilities, within the maximum aggregate amount of fees (including superannuation payments) approved by shareholders from time to time. No termination or retirement benefits are payable to Non-Executive Directors other than superannuation entitlements.

Senior Management are paid a salary in accordance with their employment contract and may be granted a short-term incentive (in cash or equity) and long-term incentives in the form of equity-based products designed to recognise and reward effort and to provide additional incentive to continue that effort for the benefit of the Company and shareholders as a whole. Any such incentives are subject to the successful completion of performance hurdles. Executive remuneration is reviewed at least annually to ensure market competitiveness.



More detailed information regarding remuneration, including the Company's policy on remuneration, is set out in the Remuneration Report required by section 300A of the *Corporations Act 2001* (Cth) in the Annual Report.

The Company's Securities Trading Policy specifically prohibits Directors and Senior Management from entering into transactions which would limit the economic risk of any unvested entitlements under any equity-based remuneration scheme. Further Directors and Senior Management are prohibited from entering into margin loans or other arrangements whereby their securities in the Company may be used as collateral. Breaches of this policy are regarded as serious misconduct.