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 2019

Current reporting period	Half year ended 31 December 2019
Previous corresponding period	Half year ended 31 December 2018

Half year ($'000)	**31 Dec 2019**	31 Dec 2018	***% Change***
Total revenue from ordinary activities from continuing operations	**129,889**	140,714	**-7.7%**
Net profit/(loss) for the half year from continuing operations after tax	**(1,045)**	1,271	**n.m.**
Net profit/(loss) for the year attributable to members	**(1,216)**	1,265	**n.m.**

Dividends – ordinary shares	**Amount per ordinary share**	**Franked amount per ordinary share**	**Record Date**	**Payment Date**
2020 Interim dividend	–	–	n/a	n/a
2019 Final dividend	–	–	n/a	n/a
2019 Interim dividend	–	–	n/a	n/a

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'), Earnings Before Interest and Tax ('EBIT') 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 EBITDA[1] 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 2019 was $129.9 million, a decrease of $10.8 million on the previous corresponding period. The current reporting period statutory loss after tax from continuing operations was ($1.0) million, a decrease of $2.3 million on the previous corresponding period. Net loss for the year attributable to members (incorporating both continued and discontinued operations) was ($1.2) million, down $2.5 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 H1 FY20 Results Presentation.

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

Net tangible asset backing	**31 Dec 2019**	31 Dec 2018
Net tangible asset backing per ordinary security	**$0.25**	$0.27

[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 impairment and share based payment expenses recognised in accordance with AASB 2 *Share-based payment* and has been adjusted to exclude the impact of adopting AASB 16 *Leases*.

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

Interim Financial Report

For the half year ended 31 December 2019

Index

	Page
Directors' report	1
Condensed consolidated statement of profit or loss and other comprehensive income	4
Condensed consolidated statement of financial position	5
Condensed consolidated statement of changes in equity	6
Condensed consolidated statement of cash flows	7
Notes to the financial statements	8-16
Directors' declaration	17
Auditor's independence declaration	18
Independent auditor's review report	19
Corporate directory	21

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 2019 (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:

Launa Inman	Non-Executive Chairman	(appointed 1 February 2020)
Eric Morris	Chief Executive Officer and Managing Director	
Michael Gordon	Non-Executive Director	(appointed 15 January 2020)
Silvia Mazzucchelli	Non-Executive Director	
Adam Gray	Non-Executive Chairman	(resigned 1 February 2020)
Christopher Murphy	Non-Executive Director	(resigned 15 January 2020)
Craig Holland	Non-Executive Director	(resigned 22 November 2019)

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

Commentary on the operations and results of the consolidated entity is contained in the PAS half-year results announcement dated 24 February 2020.

A comparison between the continuing result for the half years ended 31 December 2019 and 2018 is shown in the table below.

	31 Dec 2019 $'000	**31 Dec 2018 $'000**
Revenue from sales	**129,889**	140,714
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	**10,069**	5,657
Underlying EBITDA	**3,651**	6,676
Earnings Before Interest and Tax (EBIT)	**(531)**	2,019
Net profit after tax (NPAT) from continuing operations	**(1,045)**	1,271
NPAT attributable to members of the parent	**(1,216)**	1,265

The financial statements of the Group were materially impacted by the implementation of AASB 16 *Leases* which when excluded from the reported result, reduces EBITDA by $7,715,000, reduces EBIT by $591,000 and increases NPAT by $61,000.

Prior to the application of AASB 16 *Leases*, underlying EBITDA was $3,651,000 down 45.3% from $6,676,000 in the prior period as reported in the below reconciliation. Underlying NPAT attributable to members of the parent for the half year ended 31 December 2019 was down $1,864,000 to a loss of ($12,000) (2019: $1,852,000).

Reconciliation of Reported and Underlying EBIT and EBITDA[1]	31 Dec 2019 $'000	31 Dec 2018 $'000
Reported EBITDA from continuing operations	**10,069**	**5,657**
Less: Reported depreciation and amortisation	10,600	3,638
Reported EBIT from continuing operations	**(531)**	**2,019**
Add back:		
Underlying adjustments before tax[2]	1,298	1,019
Impact of applying AASB 16 *Leases* before tax	(591)	-
Underlying EBIT from continuing operations	**176**	**3,038**
Add: Reported depreciation and amortisation	10,600	3,638
Less: Depreciation of right-of-use assets under AASB 16	(7,125)	-
Underlying EBITDA from continuing operations	**3,651**	**6,676**

Reconciliation of Reported and Underlying NPAT[1]	31 Dec 2019 $'000	31 Dec 2018 $'000
Reported NPAT attributable to members of the parent	**(1,216)**	**1,265**
Reported NPAT from discontinued operations	(171)	(6)
Reported NPAT from continuing operations	**(1,045)**	**1,265**
Add back:		
Underlying adjustments after tax[2]	972	587
Impact of applying AASB 16 *Leases* after tax	61	-
Underlying NPAT from continuing operations	**(12)**	**1,852**

[1] The above reconciliation should be read in conjunction with the corresponding H1 FY2020 Results Investor Presentation and Results Announcement.

[2] Underlying adjustments includes a provision for $314,000 relating to a total receivable of $627,000 owing from Harris Scarfe at the time they entered into receivership on 11 December 2019 (notwithstanding this provision, the Group reserves the right to pursue this receivable in full). It also includes a provision for $490,000 relating to the Group's pledge to donate inventory in response to the recent bushfires.

Debt funding

During the half year the Group extended its finance facilities with its current lender, Commonwealth Bank of Australia (CBA), and concurrently entered into a new receivables financing arrangement with Moneytech Finance. The new facilities provide additional flexibility to support the Group's working capital cycle and will be classified as debt within the balance sheet when drawn.

The new finance package comprises in aggregate:
• $12.8 million, multi-option financing facility with CBA expiring August 2020;
• $10 million, two-year trade receivables facility with Moneytech Finance expiring December 2022. The Group is permitted to draw up to $20m during the annual peak working capital period of January to March.

The Group utilises borrowings primarily to fund its cyclical working capital needs and does not hold any long term debt. The process to refinance the existing arrangements which are due to expire in August 2020 has commenced.

As at 31 December 2019, PAS had cash on hand of $4.8m (30 June 2019: $0.3m) and all financing facilities were undrawn at 31 December 2019 (30 June 2019: nil).

Earnings per share ('EPS')

	Half Year ended 31 Dec 2019	Half Year ended 31 Dec 2018
Basic earnings per share	**(0.89) cents**	0.93 cents
Diluted earnings per share	**(0.89) cents**	0.93 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 (2019: 136,690,860, 2018: 136,690,860).

Dividends

An interim dividend has not been declared.

Subsequent events

Impact of Coronavirus

PAS sources a large component of its apparel from factories in China and the spread of the coronavirus has resulted in extensions to the traditional Chinese New Year factory and port closures whilst quarantine restrictions have been implemented. This prolonged slowdown in industrial activity has resulted in delays to the resumption of production and shipping which we expect to have a negative impact on the industry as a whole and in particular on the delivery of orders to our wholesale and retail businesses.

We have also observed further reductions to foot traffic in some key shopping precincts and until the potential shipping backlog is cleared from China and the local market response stabilises, it is not possible to accurately forecast the impact the coronavirus may have on the full year financial results.

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 18.

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

On behalf of the Directors:

Mrs Launa Inman
Chairman
Melbourne, 24 February 2020

	Note	**Half Year ended 31 Dec 2019 $'000**	Half Year ended 31 Dec 2018 $'000
Revenue	2	**129,889**	140,714
Cost of sales		**(62,714)**	(68,815)
Gross profit		**67,175**	71,899
Other revenue	2	**361**	728
Other gains and losses		**(400)**	165
Employee benefit expenses	2	**(32,951)**	(33,880)
Selling and distribution expenses		**(11,161)**	(10,987)
Occupancy expense	2	**(5,178)**	(14,035)
Marketing expenses		**(3,781)**	(3,807)
Administration expenses		**(3,996)**	(4,426)
Depreciation and amortisation	2	**(10,600)**	(3,638)
Net finance costs	2	**(1,053)**	(449)
Profit/(loss) before income tax expense		**(1,584)**	1,571
Income tax benefit/(expense)		**539**	(300)
Profit/(loss) after tax from continuing operations		**(1,045)**	1,271
(Loss) after tax from discontinued operations		**(171)**	(6)
Profit/(loss) attributable to members of the parent		**(1,216)**	1,265
Other comprehensive income, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(23)**	71
Net gain/(loss) on cash flow hedges		**(1,071)**	991
Other comprehensive income/(expense) for the period, net of income tax		**(1,094)**	1,063
Total comprehensive income/(expense) for the period attributable to members of the parent		**(2,310)**	2,328
Earnings per share for profit attributable to members of the parent			
From continuing and discontinued operations			
Basic (cents per share)	3	**(0.89)**	0.93
Diluted (cents per share)	3	**(0.89)**	0.93
From continuing operations			
Basic (cents per share)	3	**(0.76)**	0.93
Diluted (cents per share)	3	**(0.76)**	0.93

Notes to the condensed consolidated financial statements are included on pages 8 to 16.

	Note	31 Dec 2019 $'000	30 Jun 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		**4,811**	274
Trade and other receivables		**16,927**	18,059
Inventories	5	**30,918**	36,458
Current tax assets		**282**	521
Other financial assets		**531**	2,061
Assets classified as held for sale		**1,129**	1,123
Other current assets		**3,190**	2,008
Total current assets		**57,788**	60,504
Non-current assets			
Right of use assets	8	**21,175**	-
Property, plant and equipment		**7,813**	9,376
Deferred tax asset		**15,970**	8,173
Goodwill	7	**54,106**	54,106
Intangible assets		**29,312**	29,567
Other non-current assets		**735**	1,827
Total non-current assets		**129,111**	103,049
Total assets		**186,899**	163,553
Liabilities			
Current liabilities			
Trade and other payables		**19,551**	20,668
Financial liabilities		**-**	-
Lease liabilities	8	**12,834**	-
Current tax liabilities		**41**	20
Provisions		**6,922**	6,148
Liabilities associated with assets classified as held for sale		**813**	846
Other liabilities		**1,600**	4,395
Total current liabilities		**41,761**	32,077
Non-current liabilities			
Non-current lease liabilities	8	**13,088**	-
Deferred tax liabilities		**13,936**	8,050
Provisions		**1,198**	815
Other liabilities		**-**	2,470
Total non-current liabilities		**28,222**	11,335
Total liabilities		**69,983**	43,412
Net assets		**116,916**	120,141
Equity			
Issued capital		**153,963**	153,963
Reserves		**(3,681)**	(2,364)
Retained losses		**(33,366)**	(31,458)
Total equity		**116,916**	120,141

Notes to the condensed consolidated financial statements are included on pages 8 to 16.

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 2019	153,963	(31,458)	(412)	430	(3,825)	1,443	120,141
Adjustment on adoption of AASB 16	-	(964)	-	-	-	-	(964)
Restated Balance at 1 July 2019	153,963	(32,422)	(412)	430	(3,825)	1,443	119,177
Profit for the half year	-	(1,216)	-	-	-	-	(1,216)
Other comprehensive (expense) for the half year, net of income tax	-	-	(23)	-	-	(1,071)	(1,094)
Total comprehensive (expense) for the half year	-	(1,216)	(23)	-	-	(1,071)	(2,310)
Recognition of share-based payments	-	272	-	(223)	-	-	49
Balance at 31 December 2019	**153,963**	**(33,366)**	**(435)**	**207**	**(3,825)**	**372**	**116,916**
Balance at 1 July 2018	153,963	(29,426)	(462)	820	(3,825)	1,201	122,271
Adjustment on adoption of AASB 9	-	(88)	-	-	-	-	(88)
Adjustment on adoption of AASB 15	-	(1,216)	-	-	-	-	(1,216)
Restated Balance at 1 July 2018	153,963	(30,730)	(462)	820	(3,825)	1,201	120,967
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
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**

Notes to the condensed consolidated financial statements are included on pages 8 to 16.

	Note	**Half Year ended 31 Dec 2019 $'000**	Half Year ended 31 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers		**146,581**	153,292
Payments to suppliers and employees		**(130,755)**	(151,708)
Cash flows from operations		**15,826**	1,584
Interest received		**7**	2
Interest and other costs of finance paid		**(1,316)**	(427)
Income tax paid		**125**	(586)
Net cash flows from operating activities		**14,642**	573
Cash flows from investing activities			
Payment for property, plant and equipment		**(1,016)**	(708)
Payment for intangible assets		**(483)**	(518)
Payment for deferred consideration		**(736)**	-
Net cash flows used in investing activities		**(2,235)**	(1,226)
Cash flows from financing activities			
Borrowings		**-**	5,000
Repayments of principal on lease liabilities		**(7,871)**	-
Net cash flows used in financing activities		**(7,871)**	5,000
Net increase in cash and cash equivalents		**4,536**	4,347
Cash and cash equivalents at the beginning of the period		**274**	(732)
Effect of exchange rate changes on the balance of cash held in foreign currencies		**-**	2
Cash and cash equivalents at the end of the period		**4,811**	3,617

Notes to the condensed consolidated financial statements are included on pages 8 to 16.

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.

(c) New accounting standards and interpretations

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period.

New and revised standards and amendments thereof and interpretations effective for the current half year period that are relevant to the Group include:

- AASB 16 *Leases*
- AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015-2017*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*

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 2019 annual financial report for the year ended 30 June 2019, except for the adoption of AASB 16 *Leases* which had a material impact for the half year ended 31 December 2019, refer Note 8. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. Revenues and expenses

(a) Revenue

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

	Half Year ended 31 Dec 2019 $'000	Half Year ended 31 Dec 2018 $'000
Sales revenue		
Sale of goods	**129,889**	140,714
Other revenue		
Royalty income	**43**	75
Other	**318**	653
	361	728
Total revenue	**130,250**	141,442

(b) Expenses

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

	Half Year ended 31 Dec 2019 $'000	Half Year ended 31 Dec 2018 $'000
Occupancy expense:		
Variable lease payments[(a)]	**4,417**	12,899
Other occupancy expenses	**761**	1,136
Total occupancy expense	**5,178**	14,035
Employee benefit expenses:		
Post-employment benefits – defined contribution plans	**2,336**	2,455
Other employee benefits	**30,615**	31,425
Total employee benefit expenses	**32,951**	33,880
Depreciation and amortisation:		
Depreciation – right-of-use assets	**7,131**	-
Depreciation – plant and equipment	**2,728**	2,869
Amortisation	**741**	769
Total depreciation and amortisation	**10,600**	3,638
Net finance costs:		
Interest – lease liabilities	**653**	**-**
Interest and finance charges paid to banks and other financial institutions	**374**	429
Amortisation of deferred borrowing costs	**33**	22
Interest revenue	**(7)**	(2)
Total net finance costs	**1,053**	449

[(a)] Represents expenses relating to variable lease payments not included in the measurement of lease liabilities upon adoption of AASB 16 *Leases* from 1 July 2019. The prior period reflects lease payments on operating leases under AASB 117 *Leases*.

3. Earnings per share

	Half Year ended 31 Dec 2019	Half Year ended 31 Dec 2018
Basic earnings per share		
From continuing operations	**(0.76)**	0.93
From discontinued operations	**(0.13)**	0.00
Total basic earnings per share	**(0.89)**	0.93
Diluted earnings per share		
From continuing operations	**(0.76)**	0.93
From discontinued operations	**(0.13)**	0.00
Total diluted earnings per share	**(0.89)**	0.93

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

	Half Year ended 31 Dec 2019	Half Year ended 31 Dec 2018
Profit/(loss) for the half year attributable to owners of the Company	**(1,216)**	1,265
Profit/(loss) used in the calculation of basic earnings per share	(1,216)	1,265
Profit/(loss) for the half year from discontinued operations used in the calculation of basic earnings per share	(171)	(6)
Profit/(loss) used in the calculation of basic earnings per share from continuing operations	**(1,045)**	1,271
The weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
– Basic earnings per share	**136,690,860**	136,690,860
– Diluted earnings per share	**136,690,860**	136,690,860

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 225 retail sites (31 December 2018: 245) and a number of online sites as of 31 December 2019. 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 with the exception of applying AASB 16 *Leases* for the first time. 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. This is to be read in conjunction with Note 8(c) which summarises the impact of AASB 16 *Leases* on segment EBITDA for the half year ended 31 December 2019.

Half year ended 31 December	Retail		Wholesale		Unallocated		Total	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000	**2019 $'000**	2018 $'000
Revenue from sale of goods	61,645	64,369	68,244	76,345	-	-	129,889	140,714
Other revenue	-	-	332	72	29	656	361	728
Total revenue	**61,645**	64,369	**68,576**	76,417	**29**	656	**130,250**	141,442
Segment EBITDA	**12,397**	5,218	**4,373**	6,855	**(6,701)**	(6,416)	**10,069**	5,657
Depreciation and amortisation	(8,192)	(2,226)	(893)	(390)	(1,515)	(1,022)	(10,600)	(3,638)
Segment EBIT	**4,205**	2,992	**3,480**	6,465	**(8,216)**	(7,438)	**(531)**	2,019
Net financing costs	-	-	-	-	(1,053)	(448)	(1,053)	(448)
Statutory profit/(loss) before tax	**4,205**	2,992	**3,480**	6,465	**(9,269)**	(7,886)	**(1,584)**	1,571
	31 Dec 2019	30 Jun 2019	**31 Dec 2019**	30 Jun 2019	**31 Dec 2019**	30 Jun 2019	**31 Dec 2019**	30 Jun 2019
Segment assets	**82,247**	68,596	**55,404**	60,962	**49,248**	33,995	**186,899**	163,553
Segment liabilities	**33,263**	12,484	**11,720**	12,249	**25,000**	18,679	**69,983**	43,412

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 provision of $314,000 relating to a total receivable of $627,000 owing from Harris Scarfe and the provision for $490,000 relating to the Group's pledge to donate inventory in response to the recent bushfires is included within the wholesale segment. The Group reserves the right to pursue the receivable owing from Harris Scarfe in full.

5. Inventories

	31 Dec 2019	30 Jun 2019
At lower of cost and net realisable value:	**$'000**	$'000
Raw materials	**378**	423
Stock in transit	**5,011**	6,906
Work in progress	**79**	43
Finished goods	**25,450**	29,086
	30,918	36,458

6. Dividends

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

	Half Year ended 31 Dec 2019		Half Year ended 31 Dec 2018	
	Cents per share	**Total $'000**	Cents per share	Total $'000
Final dividend	**–**	**–**	–	–

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 and JETS Cash Generating Units (CGU) for impairment at 31 December 2019, applying the Fair Value less Costs of Disposal (FVLCD) basis using a discounting cash flow valuation model.

Review and JETS CGU's

Impairment testing was previously undertaken on the Review and JETS CGU's by comparing their recoverable amount to their carrying amount. As at 31 December 2019 the recoverable value is 140% of the carrying value of the Review CGU and 127% of the carrying value of the JETS CGU.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of each CGU, its intangibles 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, with years 2 and 3 based on the Group's Board-approved plans for strategy execution and enhanced trading performance. These elements also take into account planned 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 both the Review and JETS CGU's are sensitive to reasonably possible changes in the cash flow forecasts covering the period of five years. The forecast is based on the respective three-year strategic plans 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 14% of the cash inflows from the sales and margin growth and cost saving initiatives included in the Review CGU cashflows are not achieved in each year of the forecast period, then the carrying value of the CGU would equal its recoverable amount. If 20% of the cash inflows from the sales and margin growth and cost saving initiatives included in the JETS CGU cashflows are not achieved in each year of the forecast period, then the carrying value of the CGU would equal its recoverable amount.

8. Impact of new accounting standards

Adoption of AASB 16 Leases from 1 July 2019

The Group has adopted AASB 16 Leases with a date of initial application of 1 July 2019. AASB 16 replaces AASB 117 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to recognise all leases on the balance sheet, as the distinction between operating and finance leases is removed. The adoption of AASB 16 results in the Group recognising a right-of-use (ROU) asset and a corresponding lease liability for all leases with a term of more than 12 months, excluding low-value assets. Operating lease expense is replaced by depreciation expense on the ROU assets and interest expense on the lease liability as they amortise.

The Group has applied the "Modified Retrospective Approach" when transition to the new standard. Under this approach, the Group recognised the cumulative effect of applying the new standard 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 2019 $'000	AASB 16 impact refer note (a) $'000	Opening balance 1 July 2019 $'000
Right of use assets	-	26,506	26,506
Deferred tax assets	8,173	8,407	16,580
Total assets impact		**34,913**	
Lease liabilities – current	-	14,578	14,578
Other liabilities – current	1,927	(1,927)	-
Provisions – current	6,148	665	6,813
Lease liabilities – non-current	-	17,151	17,151
Other liabilities – non-current	2,470	(2,470)	-
Deferred tax liabilities	8,050	7,880	15,930
Total liabilities impact		**35,877**	
Retained earnings	(31,458)	(964)	(32,422)
Total equity impact		**(964)**	

(a) Lease liabilities

On adoption of AASB 16, the Group has recognised lease liabilities for leases previously classified as operating leases under the principles of the previous standard AASB 117. These leases were measured at the present value of remaining lease payments discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied was 4.83%.

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

Lease liabilities recognised in the Balance Sheet on 1 July 2019 reconcile back to operating lease commitments as disclosed at 30 June 2019 as follows:

	2019
	$'000
Operating lease commitments disclosed at 30 June 2019	31,449
Add: Adjustments upon application of AASB 16	2,650
Adjusted operating lease commitments as at 30 June 2019	34,099
Discounted using lessee's incremental borrowing rate at date of initial application	31,729
Less: lease commitments not giving rise to a lease liability at 1 July 2019	-
Lease liability at 1 July 2019	**31,729**
Current lease liabilities	**14,578**
Non-current lease liabilities	**17,151**

The movement in lease liabilities from adoption on 1 July 2019 to the half year 31 December 2019 is presented below:

	2019
	$'000
Lease liability at 1 July 2019	31,729
Additions	3,222
Remeasurement	(1,157)
Interest incurred	653
Payments on lease liabilities	(8,525)
Lease liability at 31 December 2019	**25,922**
Current lease liabilities	**12,834**
Non-current lease liabilities	**13,088**

(b) Lease Assets

The associated right-of-use assets for property leases and office equipment leases were measured on a retrospective basis as if the new rules had always been applied.

The movement in right of use assets from adoption on 1 July 2019 to the half year 31 December 2019 is presented below:

	Plant and Equipment	Office, property and leasehold Improvements	Total
	$'000	$'000	$'000
Right of use asset at 1 July 2019	198	26,308	26,506
Additions	-	2,922	2,922
Depreciation	(50)	(7,074)	(7,124)
Remeasurement	-	(1,129)	(1,129)
Right of use asset at 31 December 2019	**148**	**21,027**	**21,175**

(c) Impact on earnings

Adoption of the new standard has increased EBITDA, due to the Group no longer incurring fixed operating lease expenses under AASB 16, with a corresponding increase in interest and depreciation expense. The following segments were affected by the change in policy during the half year.

	Retail	Wholesale	Unallocated	Total
	$'000	$'000	$'000	$'000
Adjustment to EBITDA	**6,751**	**526**	**438**	**7,715**
Depreciation and amortisation	(6,023)	(504)	(597)	(7,124)
Finance costs	-	-	(652)	(652)
Net profit before tax	**728**	**22**	**(811)**	**(61)**

(d) The Group's leasing activities and how they are accounted for

The Group leases various offices, warehouses, retail stores, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 8 years, but may have extension options as described below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.
- lease payments to be made under reasonably certain extension options

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term, including options if reasonably certain to exercise them, on a straight-line basis.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly comprise of IT equipment.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. Extension and termination options held are exercisable only by the Group and not by the respective lessor.

Restoration costs are provided for where either such obligations are known with certainty or where it is not customary to avoid such obligations. The Group's policy is to provide for restoration costs for all support office sites given the costs to restore the site as per contractual obligations are unlikely to be avoided.

9. Subsequent events

Impact of Coronavirus

PAS sources a large component of its apparel from factories in China and the spread of the coronavirus has resulted in extensions to the traditional Chinese New Year factory and port closures whilst quarantine restrictions have been implemented. This prolonged slowdown in industrial activity has resulted in delays to the resumption of production and shipping which we expect to have a negative impact on the industry as a whole and in particular on the delivery of orders to our wholesale and retail businesses.

We have also observed further reductions to foot traffic in some key shopping precincts and until the potential shipping backlog is cleared from China and the local market response stabilises, it is not possible to accurately forecast the impact the coronavirus may have on the full year financial results.

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 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 2019 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

Launa Inman
Chairman
Melbourne, 24 February 2020

Deloitte.

Deloitte Touché Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
Australia

Tel: +61 3 9671 7000
www.deloitte.com.au

24 February 2020

The Board of Directors
The PAS Group Limited
17 Hardner Road
MOUNT WAVERLEY VIC 3149

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 2019, 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 faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte Network

Deloitte.

Deloitte Touché Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
Australia

Tel: +61 3 9671 7000
www.deloitte.com.au

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

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 2019, 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 2019 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.

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.

Liability limited by a scheme approved under Professional Standards Legislation
Member of Deloitte Asia Pacific Limited and the Deloitte Network

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 2019 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

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants
Melbourne, 24 February 2020

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
Mrs L Inman
Mr E Morris
Mr M Gordon
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
Hogan Lovells
Level 17, 20 Martin Place
Sydney NSW 2000
Tel: (02) 9903 3500

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