

**Australian Securities &
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Form 388

Corporations Act 2001

294, 295, 298-300, 307, 308, 319, 321, 322

Corporations Regulations

1.0.08

Copy of financial statements and reports

Company details

Company name

THE PAS GROUP PTY LTD

ACN

117 244 943

Reason for lodgement of statement and reports

A large proprietary company that is not a disclosing entity

Dates on which financial
year ends

Financial year end date

30-06-2011

Details of large proprietary company

What is the consolidated revenue of the large proprietary company and the entities that it controls?

246691410

What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?

182146940

How many employees are employed by the large proprietary company and the entities that it controls?

561

How many members does the large proprietary company have?

6

Auditor's report

Were the financial statements audited?

Yes

Form 388 - Copy of financial statements and reports
THE PAS GROUP PTY LTD ACN 117 244 943

Details of current auditor or auditors

Current auditor

Date of appointment **15-11-2006**
Name of auditor
DELOITTE TOUCHE TOHMATSU
Address
**550 BOURKE STREET
MELBOURNE VIC 3000**

Certification

I certify that the attached documents are a true copy of the original reports required to be lodged under section 319 of the Corporations Act 2001.
Yes

Signature

Select the capacity in which you are lodging the form
Secretary

I certify that the information in this form is true and complete and that I am lodging these reports as, or on behalf of, the company.
Yes

Authentication

This form has been submitted by
Name **Derrick KROWITZ**
Date **31-10-2011**

For help or more information
Telephone **1300 300 630**
Email **info.enquiries@asic.gov.au**
Web **www.asic.gov.au**

The PAS Group Pty Ltd

ACN 117 244 943

**Special Purpose financial report for the
financial year ended 30 June 2011**

**Annual financial report
for the financial year ended 30 June 2011**

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Directors' report

The directors of The PAS Group Pty Ltd (company) submit herewith the annual financial report of the company for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company during or since the end of the financial year are:

Name

- Robert Dalziel
- Albin Kurti
- Eric Morris
- Fraser Henderson

The above named directors held office during and since the end of the financial year.

Principal activities

The consolidated entity's principal activity in the course of the financial year was that of an apparel and accessories wholesaler and retailer as well as collecting royalties from licensees of owned brands. During the financial year, a wholly owned subsidiary of the company acquired an additional 13.5% shareholding in The Capelle Group Pty Limited.

Review of operations

In the 12 months under review the company has delivered a trading EBITDA of \$20,863,688 (before the unrealised loss arising from the year end revaluation of the ineffective forward exchange contracts of \$7,618,028).

Review of FY2011

FY2011 was a challenging year for both the company, as well as the broader retail market. The financial year started strongly, with the first quarter trading in line with budget. However, a number of factors, both internal and external, subsequently impacted trading performance.

External factors which had a significant impact on FY2011 performance included:

- interest rate rises;
- Queensland and Victoria floods, Queensland cyclone and Christchurch earthquake;
- price increases from China due to both labour cost increases and major cotton price increases;
- deferred orders from a major customer of Designworks;
- inability to benefit from the strong Australian Dollar as the group hedged at a rate well below parity;
- the closure of many independents (previously a strong distribution channel for PAS, which has negatively impacted both Hopkins Group and Yarra Trail in particular); and
- widespread discounting as retailers chased sales.

Internal factors affecting trading performance in FY2011 included:

- timing differences in store openings against budget; and
- a cutback on capex following deterioration in the trading performance, resulting in less stores being opened during FY2011.

As a result of the above external and internal factors an impairment of \$53,113,083 was incurred in respect to the consolidated entity's carrying value of goodwill, brandnames and property, plant and equipment.

Despite the difficult trading conditions, some of the positive factors for the group in FY2011 included:

- both Breakaway and Metalicus continued to deliver strong financial contributions despite the tough trading environment;
- 45 new retail sites (30 stores, 13 concessions and 2 outlets) were opened;
- the consolidated entity repaid \$17,336,795 of senior debt;

Review of operations (cont'd)

- the retail support team was strengthened with the addition of highly experienced leasing and store development managers;
- a new internationally experienced Divisional Director was recruited to run the Contemporary Brands division (i.e. Review and Metalicus);
- a new concession arrangement was signed with Myer for Metalicus, opening 13 concessions;
- further integration also took place across the group now that 5 of the 8 divisions are in the same facility at Hardner Rd, Mt Waverly;
- PwC was commissioned to conduct an IT review and has develop a roadmap reflecting IT requirements over the next 4 - 5 years; and
- on the Human Resources side, a talent program was developed with 9 high potential individuals selected to attend the program. The program is being conducted by an external facilitator with the aim of the program being the development and retention of middle management who have the ability to progress into more senior positions over time.

Senior debt facilities refinancing

Subsequent to the year end, the group successfully negotiated an amendment and extension of its senior debt facilities with its incumbent bankers, NAB and CBA. With the successful amendment and extension of the senior debt facilities, the company is better placed for future growth.

Outlook

The primary strategic objective for the group going forward will be the continuation of the group's vertical retail growth strategy. The group's planned retail roll-out will continue to focus on the group's key retail brands being Metalicus, Review and Breakaway, as well as the launch of Republic stores.

The group has initiated a closure and exit strategy for its underperforming and loss making businesses, which is forecast to reduce future working capital demands on the group.

Due to the combination of a unique product offering and original design, management believe there are opportunities to open retail sites in offshore markets for Metalicus and Review.

A major investment and emphasis will be placed on further improving the infrastructure and processes to support the future growth of the group as well as preparing the group for an exit. This will include:

- further enhancement to the retail structures across the businesses;
- the implementation of the IT review;
- a major focus on training, development and succession planning; and
- greater focus on our online strategy, including the use of digital media across all brands.

Management believes that with the successful amendment and extension of the group's senior debt facilities and growth strategies the business has put in place, they can place additional focus on the future growth of the business.

Changes in state of affairs

There was no significant change in the state of affairs of the company during the financial year.

Subsequent events

On 28 July 2011, a wholly owned subsidiary of the company refinanced its debt with its existing financiers. The debt facility has a 3 year tenure.

On 28 July 2011 the company received a \$25,000,000 cash injection from its shareholders in the form of a shareholder loan. \$20,000,000 of this amount was used to subscribe for new ordinary shares in Chestnut Apparel Pty Limited which in turn acquired \$20,000,000 of new ordinary shares in PAS Finance Pty Limited.

Subsequent events (cont'd)

In addition participating shareholders received 1 warrant at an exercise price of 0.01 for each \$17.0092 loaned to the company. The amount of warrants issued constituted approximately 15% of the fully diluted share capital of the company.

There has not been any other matter or circumstance that has arisen since the end of the financial year, that 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 years.

Future developments

Disclosure of further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The company's operations are not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends

In respect of the financial years ended 30 June 2011 and 30 June 2010, no dividends were declared or paid.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), and all executive officers of the company and of any related body corporate against a liability incurred as such a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 4.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Eric Morris
Director
Melbourne, 4 October 2011



Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

4 October 2011

Dear Board Members

The PAS Group Pty Ltd

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 Pty Ltd.

As the lead audit partner for the audit of the financial statements of The PAS Group Pty Ltd for the financial year ended 30 June 2011, I declare to the best of my knowledge and belief that there have been no contraventions of:

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

Yours sincerely


DELOITTE TOUCHE TOHMATSU


G J McLean
Partner
Chartered Accountants



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Independent Auditor's Report to the members of The PAS Group Pty Ltd

We have audited the accompanying financial report, being a special purpose financial report, of The PAS Group Pty Ltd, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the 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 year's end or from time to time during the financial year as set out on pages 7 to 36.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report and have determined that the basis of preparation described in Note 3 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the Members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, 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 Pty Ltd would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion


In our opinion, the financial report of The PAS Group Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 3, and the *Corporations Regulations 2001*.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 3 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.


DELOITTE TOUCHE TOHMATSU


G J McLean
Partner
Chartered Accountants
Melbourne, 4 October 2011

Directors' declaration

As detailed in Note 3 to the financial statements, the company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in dark ink, appearing to be 'Eric Morris', with a stylized, somewhat circular flourish at the beginning and a horizontal line extending to the right.

Eric Morris
Director
Melbourne, 4 October 2011

The PAS Group Pty Ltd
Statement of comprehensive income

**Statement of comprehensive income
for the financial year ended 30 June 2011**

	Note	Consolidated		Company	
		2011	2010	2011	2010
		\$	\$	\$	\$
Revenue	4	246,691,410	261,306,649	-	-
Cost of sales		(122,056,848)	(132,483,581)	-	-
Gross profit		124,634,562	128,823,068	-	-
Other gains and losses	4	(4,957,086)	1,528,485	-	-
Employee benefit expenses		(49,797,544)	(43,941,825)	-	-
Selling and distribution expenses		(17,867,530)	(19,613,572)	-	-
Occupancy expenses		(21,645,488)	(18,174,551)	-	-
Marketing expenses		(7,828,680)	(7,374,951)	-	-
Administration expenses		(9,292,574)	(9,167,709)	(23,186)	-
Earnings before interest, tax, depreciation, amortization and impairment		13,245,660	32,078,945	(23,186)	-
Depreciation and amortisation expense	4	(4,108,062)	(3,394,836)	-	-
Impairment expense	4	(53,113,083)	-	-	-
Net finance costs	4	(9,143,511)	(9,623,022)	(167,956)	(73,311)
(Loss) / Profit before tax		(53,118,996)	19,061,087	(191,142)	(73,311)
Income tax benefit / (expense)		874,926	(5,814,782)	57,343	21,993
(Loss) / Profit for the year		(52,244,070)	13,246,305	(133,799)	(51,318)
Other comprehensive income					
Exchange differences arising on translation of foreign operations		(87,178)	10,147	-	-
Net gain/(loss) on cash flow hedges		(689,436)	5,417,816	-	-
Other comprehensive income for the year (net of tax)		(776,614)	5,427,963	-	-
Total comprehensive income for the year		(53,020,684)	18,674,268	(133,799)	(51,318)
(Loss) / Profit Attributable to:					
Non-controlling interests		(10,013,353)	1,097,799	-	-
Owners of the company	19	(42,230,717)	12,148,506	(133,799)	(51,318)
		(52,244,070)	13,246,305	(133,799)	(51,318)
Total comprehensive income Attributable to:					
Non-controlling interests		(10,188,099)	1,846,000	-	-
Owners of the company		(42,832,585)	16,828,268	(133,799)	(51,318)
		(53,020,684)	18,674,268	(133,799)	(51,318)

The PAS Group Pty Ltd
Statement of financial position

**Statement of financial position
as at 30 June 2011**

		Consolidated		Company	
	Note	2011 \$	2010 \$	2011 \$	2010 \$
Current assets					
Cash and cash equivalents	23(a)	7,331,295	8,647,180	2,775,050	2,695,677
Trade and other receivables	5	23,742,365	26,541,224	206	-
Inventories	6	29,620,786	28,169,912	-	-
Current tax assets		332,776	-	-	-
Other current assets	7	5,658,805	4,228,007	-	-
Total current assets		66,686,027	67,586,323	2,775,256	2,695,677
Non-current assets					
Trade and other receivables	5	75,212	-	-	-
Property, plant and equipment	8	10,433,506	8,956,037	-	-
Deferred tax assets		5,708,350	3,938,193	-	-
Goodwill	9	77,666,974	109,882,280	-	-
Other intangible assets	10	21,576,871	41,084,375	-	-
Other financial assets	11	-	-	35,306,405	33,997,344
Total non-current assets		115,460,913	163,860,885	35,306,405	33,997,344
Total assets		182,146,940	231,447,208	38,081,661	36,693,021
Current liabilities					
Trade and other payables	12	16,381,848	14,009,534	-	-
Borrowings	13	88,697,614	90,733,850	6,050,599	-
Current tax liabilities		1,888,464	461,844	970,015	635,716
Provisions	14	3,016,748	3,002,854	-	-
Other liabilities	15	650,787	350,517	-	-
Other financial liabilities	16	11,689,868	4,787,396	-	-
Total current liabilities		122,325,329	113,345,995	7,020,614	635,716
Non-current liabilities					
Borrowings	13	-	3,436,579	-	4,862,459
Deferred tax liabilities		1,272,188	3,792,901	-	-
Provisions	14	353,608	237,065	-	-
Other liabilities	15	2,466,360	1,657,215	-	-
Total non-current liabilities		4,092,156	9,123,760	-	4,862,459
Total liabilities		126,417,485	122,469,755	7,020,614	5,498,175
Net assets		55,729,455	108,977,453	31,061,047	31,194,846

The PAS Group Pty Ltd
Statement of financial position

**Statement of financial position
as at 30 June 2011**

		Consolidated		Company	
		2011	2010	2011	2010
	Note	\$	\$	\$	\$
Equity					
Issued capital	17	31,770,805	31,770,805	31,770,805	31,770,805
Reserves	18	6,241,293	3,406,526	-	-
Retained earnings / (Accumulated losses)	19	5,624,268	47,854,985	(709,758)	(575,959)
Equity attributable to equity holders of the parent		43,636,366	83,032,316	31,061,047	31,194,846
Non-controlling interest	20	12,093,089	25,945,137	-	-
Total equity		55,729,455	108,977,453	31,061,047	31,194,846

The PAS Group Pty Ltd
Statement of changes in equity

**Statement of changes in equity
for the financial year ended 30 June 2011**

Consolidated

	Fully paid ordinary shares \$	Retained earnings \$	Foreign Currency Translation Reserve \$	Non- controlling Interest Purchase Reserve \$	Hedge Reserve \$	Total attributable to equity holders of the parent \$	Non- controlling Interest \$	Total \$
Balance at 1 July 2009	31,770,805	35,327,801	(8,175)	3,377,832	(4,692,137)	65,776,126	25,802,702	91,578,828
Profit for the year	-	12,148,506	-	-	-	12,148,506	1,097,799	13,246,305
Other comprehensive income	-	-	10,147	-	4,669,686	4,679,833	748,130	5,427,963
Total comprehensive income		12,148,506	10,147		4,669,686	16,828,339	1,845,929	18,674,268
Non-controlling interest acquired during the year	-	-	-	-	-	-	(1,088,412)	(1,088,412)
Non-controlling interest Purchase Reserve	-	-	-	49,173	-	49,173	-	49,173
Dividends paid to non-controlling shareholder	-	-	-	-	-	-	(236,404)	(236,404)
Transfer from non-controlling interest	-	378,678	-	-	-	378,678	(378,678)	-
Balance at 30 June 2010	31,770,805	47,854,985	1,972	3,427,005	(22,451)	83,032,316	25,945,137	108,977,453
Balance at 1 July 2010	31,770,805	47,854,985	1,972	3,427,005	(22,451)	83,032,316	25,945,137	108,977,453
Loss for the year	-	(42,230,717)	-	-	-	(42,230,717)	(10,013,353)	(52,244,070)
Other comprehensive income	-	-	(83,532)	-	(518,336)	(601,868)	(174,746)	(776,614)
Total comprehensive income	-	(42,230,717)	(83,532)	-	(518,336)	(42,832,585)	(10,188,099)	(53,020,684)
Non-controlling interest acquired during the year	-	-	-	-	-	-	(3,507,983)	(3,507,983)
Non-controlling interest Purchase Reserve	-	-	-	3,436,635	-	3,436,635	-	3,436,635
Dividends paid to non-controlling shareholder	-	-	-	-	-	-	(155,967)	(155,967)
Balance at 30 June 2011	31,770,805	5,624,268	(81,560)	6,863,640	(540,787)	43,636,366	12,093,089	55,729,455

The PAS Group Pty Ltd
Statement of changes in equity

**Statement of changes in equity
for the financial year ended 30 June 2011**

Company

	Fully paid ordinary shares \$	Accumulated losses \$	Reserves \$	Total \$
Balance at 1 July 2009	31,770,805	(524,641)	-	31,246,164
Profit for the year	-	(51,318)	-	(51,318)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(51,318)	-	(51,318)
Balance at 30 June 2010	31,770,805	(575,959)	-	31,194,846
Balance at 1 July 2010	31,770,805	(575,959)	-	31,194,846
Loss for the year	-	(133,799)	-	(133,799)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(133,799)	-	(133,799)
Balance at 30 June 2011	31,770,805	(709,758)	-	31,061,047

The PAS Group Pty Ltd
Statement of cash flows

**Statement of cash flows
for the financial year ended 30 June 2011**

Note	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Cash flows from operating activities				
Receipts from customers	275,876,093	266,873,702	-	-
Payments to suppliers and employees	(255,411,145)	(228,988,811)	-	-
Interest received	170,192	168,032	138,439	107,559
Income tax paid	(2,208,459)	(7,236,146)	(9,927)	15,753
Interest and other costs of finance paid	(8,176,549)	(10,073,607)	-	(359)
Net cash provided by operating activities 23(c)	10,250,132	20,743,170	128,512	122,953
Cash flows from investing activities				
Payment for business/investments 23(b)	(344,248)	(1,415,616)	-	-
Payment for property, plant and equipment	(4,878,914)	(2,550,256)	-	-
Payment to acquire intangible assets	(4,266)	(257,877)	-	-
Proceeds from sale of property, plant and equipment	50,334	-	-	-
Net cash used in investing activities	(5,177,094)	(4,223,749)	-	-
Cash flows from financing activities				
Repayment of borrowings	(17,336,795)	(11,110,641)	-	(940,000)
Loans to related parties	-	-	(49,139)	-
Dividends paid to non-controlling shareholders	(155,967)	(236,404)	-	-
Net cash used in financing activities	(17,492,762)	(11,347,045)	(49,139)	(940,000)
Net (decrease)/increase in cash and cash equivalents	(12,419,724)	5,172,376	79,373	(817,047)
Cash and cash equivalents at the beginning of the financial year	8,647,180	3,474,804	2,695,677	3,512,724
Cash and cash equivalents at the end of the financial year 23(a)	(3,772,544)	8,647,180	2,775,050	2,695,677

1. General information

The PAS Group Pty Ltd (the company) is a proprietary company, incorporated in Australia and operating principally in Australia.

The PAS Group Pty Ltd is owned:

- 87.71% (2010: 87.71%) by Propel Private Equity Fund II L.P., Macquarie Investment Management Ltd and SAS Trustee Corporation
- 12.29% (2010: 12.29%) by individual members of The PAS Group Pty Ltd management

The companies registered office and its principal place of business is:

17 Hardner Road
MOUNT WAVERLEY VIC 3149

2. Adoption of new and revised Accounting Standards

2.1 Standards and Interpretations affecting amounts reported in the current period (and/ or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2

Standards affecting presentation and disclosure

Amendments to AASB 101 *Presentation of Financial Statements* (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*) clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Amendments to AASB 107 *Statement of Cash Flows*

The amendments (part of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

2. Adoption of new and revised Accounting Standards (cont'd)**2.2 Standards and Interpretations adopted with no effect on financial statements**

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect accounting for future transactions or arrangements.

AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

Except for the amendments to AASB 107 described earlier in this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.

Except for the amendments to AASB 101 described earlier in this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.

2.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/ Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 124 <i>Related Party Disclosures</i> (revised December 2009), AASB 2009-12 <i>Amendments to Australian Accounting Standards</i>	1 January 2011	30 June 2012
• AASB 9 <i>Financial Instruments</i> , AASB 200911 <i>Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2010)	1 January 2013	30 June 2014
• AASB 2009-14 <i>Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</i>	1 January 2011	30 June 2012
• AASB 2010-5 <i>Amendments to Australian Accounting Standards</i>	1 January 2011	30 June 2012
• AASB 2010-6 <i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	1 July 2011	30 June 2012
• AASB 2010-8 <i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	1 January 2012	30 June 2013

The potential effect of the revised Standards/ Interpretations on the Company's financial statements has not yet been determined.

3. Significant accounting policies

Financial reporting framework

The company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

Statement of compliance

The financial report has been prepared in accordance with the Corporations Act 2001, the basis of accounting specified by all Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Cash Flow Statements' and AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Basis of preparation

These financial statements have been prepared on the basis that The PAS Group Pty Ltd is a going concern, able to realise assets and settle liabilities in the ordinary course of business. The Group has experienced some challenging trading conditions over the past year as a result of the fall in consumer confidence arising from the continuing economic instability post the Global Financial Crisis.

During the year ended 30 June 2011, the consolidated entity incurred a loss before income tax of \$53,118,996 which included non-cash impairment losses of \$53,113,083 arising from the write down of goodwill, brand names and plant and equipment of certain subsidiaries as a result of revised forecasts flowing from the challenging trading conditions. Despite this, the consolidated entity generated a positive cashflow from operating activities of \$10,250,132 and a positive trading EBITDA of \$20,863,688 (before the unrealised loss arising from the year end revaluation of the ineffective forward exchange contracts of \$7,618,028). It was also able to repay \$17,336,795 of senior debt.

At 30 June 2011, the consolidated entity had a deficiency of net current assets of \$55,639,302 and a net positive equity of \$55,729,455. The deficiency of net current assets has arisen principally due to the consolidated entity's borrowings of \$85,261,035 being classified as a "current liability" as the refinance of the existing facility was not completed at year end.

To continue as a going concern the consolidated entity requires, among other things,

- Generation of sufficient funds from operating activities;
- The continued support of its major shareholders and bankers; and
- The successful restructuring of some of its operational assets.

The directors consider the going concern basis of preparation to be appropriate given the following reasons:

- Although trading conditions have been difficult throughout the year, the consolidated entity continues to derive positive cash flows from operations (2011: \$10,250,132, 2010: \$20,743,170) enabling it to service its principal and interest commitments on its borrowings;
- The consolidated entity has an improved position in respect to its foreign exchange contracts as older contracts with unfavourable rates have been progressively utilised and settled or the unrealised loss has been recognised already in the current year. This is expected to result in improved trading terms during the 2012 financial year and a reduction of foreign currency losses compared to the 2011 financial year which arose due to the rapid appreciation of the Australian dollar against the US dollar;
- Subsequent to year end, the major shareholders injected an additional \$25,000,000 of shareholder loans into the company to support the consolidated entity's growth strategy and working capital requirements. Refer to Note 26 for further information;

3. Significant accounting policies (cont'd)

- On 28 July 2011, the consolidated entity refinanced all its external borrowings for a further three year term. This enables the majority of the debt to be reclassified from "current liabilities" to "non-current liabilities" in future periods and returns the consolidated entity to a positive net current asset position;
- The directors and management have conducted an extensive review of the recoverability of the consolidated entity's assets, which included recording significant impairment write downs at 30 June 2011 in accordance with the relevant accounting standards. At the time of this report, the directors consider no further impairments are necessary; and
- Management continues to execute initiatives which are expected to improve operating earnings and reduce costs in future periods.

Having carefully assessed the above factors and the cash flow forecasts of the consolidated entity and its ability to manage expenditures and meet financial covenants, the directors believe that the company and the consolidated entity will continue to operate as going concerns. Accordingly, the financial report has been prepared on a going concern basis.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 3(u) for a discussion of critical judgments in applying the entity's accounting policies, and key sources of estimation uncertainty.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Borrowing costs

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing and are netted off against the borrowings.

(b) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalent are short-term highly liquid investments that are readily convertible to known amounts of cash which are subjected to an insignificant risk of change in value and have maturity of three months or less at the date of acquisition.

Bank overdrafts are shown within borrowings in the current liabilities in the Statement of Financial Position.

3. Significant accounting policies (cont'd)

(c) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

Contributions to defined contribution superannuation plans are expensed when incurred.

(d) Financial assets

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.

Investment

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in associates are accounted for under the equity method.

3. Significant accounting policies (cont'd)**(d) Financial assets (cont'd)**Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each Statement of Financial Position date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity

Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

(e) Financial instruments issued by the companyDebt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments or component parts of compound instruments.

3. Significant accounting policies (cont'd)**(f) Foreign currency**Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except when exchange differences, which relate to assets under construction for future productive use, are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; or exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Foreign operations

The assets and liabilities of the company's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

(g) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition.

Goodwill is subsequently measured at its cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the company's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

3. Significant accounting policies (cont'd)**(h) Impairment of long-lived assets excluding goodwill**

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(i) Income tax

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The PAS Group Pty Ltd is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

3. Significant accounting policies (cont'd)**(i) Income tax (cont'd)**Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the head entity level of the group.

Deferred tax

Deferred tax is accounted for using the comprehensive Statement of Financial Position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Adjustments are made for transactions and events occurring within the tax-consolidated group that do not give rise to a tax consequence for the group or that have a different tax consequence at the head entity level of the group.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments except where the company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

3. Significant accounting policies (cont'd)**(j) Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(k) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of non-controlling shareholders is stated at the non-controlling proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(l) Joint venture arrangements

Interests in jointly controlled entities are accounted for under the equity method.

(m) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Significant accounting policies (cont'd)

(n) Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(o) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis or diminishing value basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

(p) Provisions

Provisions are recognised when the company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(q) Revenue

Sale of goods and Disposal of Other Assets: Revenue from the sale of goods is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest revenue: Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Rebates and Returns: Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Royalties: Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably) Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying agreement.

3. Significant accounting policies (cont'd)

(r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(s) Business combinations

Acquisitions of subsidiaries and businesses prior to 1 July 2009 are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(t) Derivative financial instruments

The company and the group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The company and the group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

3. Significant accounting policies (cont'd)**(t) Derivative financial instruments (cont'd)**

The fair value of a hedging derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The company and the group designates certain hedging instruments in respect of foreign currency and interest rate risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange and interest rate risk are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the Statement of Comprehensive Income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

3. Significant accounting policies (cont'd)**(u) Critical accounting adjustments and key sources of estimation uncertainty****Critical judgements in applying the entity's accounting policies**

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at the balance date:

- future increases in wages and salaries;
- future on costs and rates; and
- experience of employee departures and periods of service.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below or elsewhere in the financial statements.

Impairment of intangible assets with indefinite lives (goodwill and brand names)

Determining whether intangible assets with indefinite lives are impaired requires an estimation of the value in use of the cash generating units to which the asset has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit, and a suitable discount rate in order to calculate present value. The carrying amount of intangible assets with indefinite lives at the balance date was \$107,209,753 (2010: \$158,934,123) (consolidated). The directors have assessed that an impairment charge of \$53,113,083 is required for the year ended 30 June 2011.

Useful lives of property, plant and equipment

As described in the Note 3(o), the company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that there should be no changes to the useful life of the property, plant and equipment.

(v) Intangible Assets

Brand names recognised by the company and consolidated entity have an indefinite useful life and are not amortised.

Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy stated in note 3(h).

The PAS Group Pty Ltd
Notes to the financial statements

	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
4. (Loss) / Profit for the year				
Sales revenue	246,691,410	261,306,649	-	-
Other gains and losses				
Royalty income	285,461	330,702	-	-
Other revenue	1,275,160	3,726,745	-	-
Foreign exchange gains	(5,946,607)	(1,580,548)	-	-
Hedge ineffectiveness on cash flow hedges – interest rate swaps	(569,888)	(918,859)	-	-
Loss on sale of non-current assets	(1,212)	(29,555)	-	-
	(4,957,086)	1,528,485	-	-
Bad and doubtful debts - trade debtors	347,463	164,825	-	-
Depreciation and amortisation of non-current assets	4,108,062	3,394,836	-	-
Impairment :				
Goodwill	32,528,100	-	-	-
Other intangible assets	19,547,362	-	-	-
Property, plant and equipment	1,037,621	-	-	-
	53,113,083	-	-	-
Finance Costs:				
Amortisation of deferred borrowing costs	900,885	755,311	-	-
Interest - related parties	433,324	431,689	306,396	181,336
Interest expense – other	7,979,495	8,603,054	-	-
Interest income - other	(170,193)	(167,032)	(138,440)	(108,025)
	9,143,511	9,623,022	167,956	73,311
Rental expense relating to operating leases				
Minimum lease payments	20,278,730	16,906,062	-	-
5. Trade and other receivables				
Current				
Trade receivables	22,683,844	25,174,960	-	-
Allowance for doubtful debts	(93,237)	(116,040)	-	-
	22,590,607	25,058,920	-	-
Trade discounts and rebates	(348,864)	(668,686)	-	-
Other receivables	1,500,622	2,150,990	206	-
	23,742,365	26,541,224	206	-
Non-current				
Other receivables	75,212	-	-	-
	23,817,577	26,541,224	-	-

The PAS Group Pty Ltd
Notes to the financial statements

	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
6. Inventory				
Raw material	1,894,746	1,092,556	-	-
Stock in transit	4,041,312	4,046,016	-	-
Work in progress	3,181,089	1,674,262	-	-
Finished goods	20,503,639	21,357,078	-	-
	29,620,786	28,169,912	-	-
7. Other current assets				
Prepayments	4,689,458	3,107,981	-	-
Other	969,347	1,120,026	-	-
	5,658,805	4,228,007	-	-

8. Property, plant and equipment

Consolidated	Cost \$	Accumulated depreciation \$	Impairment \$ (i)	Total \$
2011				
Plant and equipment	25,191,536	(13,732,327)	(1,037,621)	10,421,588
Motor vehicles	136,716	(136,716)	-	-
Leased assets	63,516	(51,598)	-	11,918
	25,391,768	(13,920,641)	(1,037,621)	10,433,506
2010				
Plant and equipment	18,362,684	(9,552,172)	-	8,810,512
Motor vehicles	357,160	(239,429)	-	117,731
Leased assets	63,516	(35,722)	-	27,794
	18,783,360	(9,827,323)	-	8,956,037

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 1 - 20 years
- Motor vehicles 1 - 7 years

(i) During the year, as a result of the challenging retail environment in the accessories and classic brands businesses, the consolidated entity carried out a review of the recoverable amount of assets. The review led to the recognition of an impairment loss of \$1,037,621, which has been recognised in profit and loss. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate used in measuring value in use was 14.9% per annum. The impairment losses have been included in the line item impairment expense in the statement of comprehensive income.

The PAS Group Pty Ltd
Notes to the financial statements

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
9. Goodwill				
Cost	110,195,074	109,882,280	-	-
Accumulated impairment (i)	(32,528,100)	-	-	-
	77,666,974	109,882,280	-	-

(i) During the year, as a result of the challenging retail environment in the accessories and classic brands businesses, the consolidated entity carried out a review of the recoverable amount of assets. The review led to the recognition of an impairment loss of \$52,075,462 (goodwill of \$32,528,100 and other intangible assets of \$19,547,362 – refer note 10), which has been recognised in profit and loss. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate used in measuring value in use was 14.9% per annum. The impairment losses have been included in the line item impairment expense in the statement of comprehensive

10. Other intangible assets				
Trademarks				
Cost	404,619	376,018	-	-
Accumulated depreciation	(23,394)	-	-	-
	381,225	376,018	-	-
Brandnames ⁽ⁱ⁾				
Cost	40,627,362	40,506,760	-	-
Accumulated impairment ⁽ⁱⁱ⁾	(19,547,362)	-	-	-
	21,080,000	40,506,760	-	-
Web site development costs				
Gross carrying amount	257,877	257,877	-	-
Accumulated depreciation	(142,231)	(56,280)	-	-
	115,646	201,597	-	-
	21,576,871	41,084,375	-	-

⁽ⁱ⁾ The brandnames were valued at relevant acquisition dates by Pitcher Partners using the relief from royalty method.

⁽ⁱⁱ⁾ Refer note 9(i)

11. Other financial assets				
Loans to Subsidiaries:				
Designworks Holdings Pty Ltd	-	-	539,462	539,462
Metalicus Pty Ltd	-	-	3,996,944	3,996,944
Chestnut Apparel Pty Ltd	-	-	16,999,192	15,690,131
Shares in controlled entities ⁽ⁱ⁾	-	-	13,770,807	13,770,807
	-	-	35,306,405	33,997,344

⁽ⁱ⁾ Refer to note 24 for disclosure of controlled entities.

The PAS Group Pty Ltd
Notes to the financial statements

	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
12. Trade and other payables				
Trade payables	7,408,005	6,739,215	-	-
Accruals	5,622,276			
Goods and services tax payable	3,225,473	937,352	-	-
Other payables and accruals	126,094	6,332,967	-	-
	16,381,848	14,009,534	-	-
13. Borrowings				
Current				
Secured – at amortised cost:				
Finance Lease liability ⁽ⁱ⁾	32,830	11,306	-	-
Bank overdraft ⁽ⁱⁱ⁾	11,103,839	-	-	-
Borrowings ^{(ii) (iii)}	74,157,196	91,482,685	-	-
Deferred borrowing costs	-	(760,141)	-	-
Unsecured – at amortised cost:				
- Loans from related parties				
- PAS Finance Pty Ltd	-	-	6,050,599	-
- Loan from non-controlling shareholder of controlled entity	3,403,749	-	-	-
	88,697,614	90,733,850	6,050,599	-
Non-current				
Unsecured – at amortised cost:				
Loans from related parties:				
- PAS Finance Pty Ltd	-	-	-	4,862,459
- Loan from non-controlling shareholder of controlled entity	-	3,403,749	-	-
Secured – at amortised cost:				
Finance lease liability ⁽ⁱ⁾	-	32,830	-	-
	-	3,436,579	-	4,862,459

- ⁽ⁱ⁾ Secured by the assets leased, the current market value of which exceeds the value of the finance lease liability.
⁽ⁱⁱ⁾ Secured by a first ranking fixed and floating charge over the assets and undertakings of the company and its controlled entities.
⁽ⁱⁱⁱ⁾ On 28 July 2011, the company refinanced its debt with its existing financiers. The debt facility has a 3 year tenure.

14. Provisions				
Current				
Employee benefits	3,016,748	3,002,854	-	-
Non-current				
Employee benefits	353,608	237,065	-	-
15. Other liabilities				
Current				
Lease incentives	650,787	350,517	-	-
Non-current				
Lease incentives	2,466,360	1,657,215	-	-

The PAS Group Pty Ltd
Notes to the financial statements

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
16. Other financial liabilities				
Interest rate swap contracts	-	226,139	-	-
Deferred consideration	3,200,000	3,200,000	-	-
Foreign currency forward contracts	8,489,868	1,361,257	-	-
	11,689,868	4,787,396	-	-
17. Issued capital				
8,329,450 fully paid ordinary shares (2010: 8,329,450)	31,770,805	31,770,805	31,770,805	31,770,805

Consolidated & Company	2011		2010	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning and end of financial year	8,329,450	31,770,805	8,329,450	31,770,805

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

18. Reserves				
Hedge Reserve	(540,787)	(22,451)	-	-
Non-controlling Interest Purchase Reserve	6,863,640	3,427,005	-	-
Foreign Currency Translation Reserve	(81,560)	1,972	-	-
	6,241,293	3,406,526	-	-
Hedge Reserve				
Balance at beginning of financial year	(22,451)	(4,692,137)	-	-
Gain/(loss) recognised on cash flow hedges				
Forward foreign exchange contracts	(782,011)	3,213,857	-	-
Interest rate swaps	-	1,774,309	-	-
Income tax related to gains/losses recognised in other comprehensive income	234,603	(1,496,450)	-	-
Reclassified to profit or loss				
Forward foreign exchange contracts	(763,995)	763,955	-	-
Interest rate swaps	796,027	918,859	-	-
Income tax related to amounts reclassified to profit or loss	(2,960)	(504,844)	-	-
Balance at end of financial year	(540,787)	(22,451)	-	-

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit and loss, or is included as a basis adjustment to the non financial hedged item, consistent with the applicable accounting policy.

The PAS Group Pty Ltd
Notes to the financial statements

18. Reserves (cont'd)

	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Non-controlling Interest Purchase Reserve				
Balance at beginning of financial year	3,427,005	3,377,832	-	-
Non-controlling Interest Purchases	3,435,075	49,173	-	-
Other	1,560	-	-	-
Balance at end of financial year	6,863,640	3,427,005	-	-

The non-controlling interest purchase reserve represents the difference between the consideration paid for the non-controlling interest and the sum of the issued capital and retained earnings relating to the acquired issued capital.

Foreign Currency Translation Reserve

Balance at beginning of financial year	1,972	(8,175)	-	-
Translation of foreign operations	(83,532)	10,147	-	-
Balance at end of financial year	(81,560)	1,972	-	-

Breakaway's New Zealand wholesale and retail businesses both operate out of a subsidiary and a branch in New Zealand. Breakaway Apparel Pty Limited has determined that both the subsidiary and branch have a functional currency of New Zealand dollars. Exchange differences relating to the translation from the functional currency of the foreign operation into Australian dollars (being the company's functional and presentation currency) are brought to account by entries made directly to the foreign currency translation reserve.

19. Retained earnings/(Accumulated losses)

Balance at beginning of financial year	47,854,985	35,327,801	(575,959)	(524,641)
(Loss) / Profit for the year	(42,230,717)	12,148,506	(133,799)	(51,318)
Transfer from non-controlling interest	-	378,678	-	-
Balance at end of financial year	5,624,268	47,854,985	(709,758)	(575,959)

20. Non-controlling interest

Non-controlling interest in controlled entities comprises:

Issued capital	15,718,421	18,864,249	-	-
Reserves	(84,562)	90,182	-	-
Retained profits / (Accumulated losses)	(3,540,770)	6,990,706	-	-
	12,093,089	25,945,137	-	-

21. Dividends

No dividends were declared or paid during the financial year (2010: Nil).

Adjusted franking account balance	50,709,088	45,255,408	19,391,188	15,690,262
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The PAS Group Pty Ltd
Notes to the financial statements

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
22. Commitments for expenditure				
Operating lease expenditure				
Non-cancellable operating lease payments:				
Not longer than 1 year	12,324,797	9,238,612	-	-
Longer than 1 year and not longer than 5 years	32,259,043	29,438,013	-	-
Longer than 5 years	2,242,095	5,964,059	-	-
	46,825,935	44,640,684	-	-

23. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the Statement of Financial Position as follows:

Cash and cash equivalents	7,331,295	8,647,180	2,775,050	2,695,677
Bank overdraft	(11,103,839)	-	-	-
	(3,772,544)	8,647,180	2,775,050	2,695,677

(b) Businesses Acquired

During the current and prior period there were no new acquisitions. Payments were made for prior acquisitions and the acquisition of non-controlling interests as detailed below.

	Consolidated	
	2011	2010
	\$	\$
Consideration		
Additional interest acquired in subsidiaries ⁽ⁱ⁾	72,907	1,027,782
Acquisition costs - prior year acquisitions ⁽ⁱⁱ⁾	271,341	387,834
Net cash outflow on acquisition	344,248	1,415,616

⁽ⁱ⁾ This relates to the non-controlling interest acquisitions of Capelle (Prior year: Yarra Trail and Review Australia).

⁽ⁱⁱ⁾ This relates to the acquisition of Metalicus.

The PAS Group Pty Ltd
Notes to the financial statements

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
23. Notes to the cash flow statement (cont'd)				
(c) Reconciliation of profit / (loss) for the year to net cash flows from operating activities				
Profit/(loss) for the year	(52,244,070)	13,246,305	(133,799)	(51,318)
Amortisation of deferred borrowing costs	900,885	755,311	-	-
Depreciation and amortisation	4,108,062	3,394,836	-	-
Impairment of intangible assets	53,113,083	-	-	-
Net loss of sale of plant and equipment	1,212	29,555	-	-
Decrease in amounts due under the tax-funding arrangement ⁽ⁱ⁾	-	-	(642,630)	-
Unrealised foreign exchange losses / (gains)	5,492,812	2,125,211	-	-
Unrealised Interest rate swap loss/(gain)	569,888	918,859	-	-
Interest accrued not paid	95,949	(1,038,157)	306,386	181,336
<i>(Increase)/decrease in assets:</i>				
Current trade and other receivables	2,102,192	8,473,497	264,255	-
Current tax assets	(158,904)	-	-	-
Deferred tax assets	(1,527,504)	2,192,429	-	-
Inventory	(1,450,874)	1,697,719	-	-
Other assets	(1,430,798)	(1,200,653)	-	-
Other non-current assets	(75,212)	(1,575,084)	-	-
<i>Increase/(decrease) in liabilities:</i>				
Trade and other payables	2,372,523	(5,897,247)	-	(825)
Provisions	130,437	(331,460)	-	-
Deferred tax liability	(2,520,714)	192,901	-	-
Current tax liability	1,252,750	(1,586,329)	334,300	(6,240)
Hedge Liability	-	(3,378,162)	-	-
Other liabilities	(481,585)	1,023,639	-	-
Other financial liabilities	-	1,700,000	-	-
Net cash from operating activities	10,250,132	20,743,170	128,512	122,953

⁽ⁱ⁾ The PAS Group taxation payments are made by a subsidiary entity

(d) Financing facilities

Secured work in capital facility:

• amount used	11,103,839	-	-	-
• amount unused	8,896,161	20,000,000	-	-
	20,000,000	20,000,000	-	-

Secured bank loans

• amount used	74,157,196	91,482,685	-	-
• amount unused	3,000,000	3,000,000	-	-
	77,157,196	94,482,685	-	-

Subsequent to year end, the company refinanced its senior debt and working capital facility with its existing financiers. The debt facility has a 3 year tenure. The working capital facility limit has not changed and remains at \$20,000,000. The secured bank loans amount to \$72,240,596, with the unused facility remaining at \$3,000,000.

The PAS Group Pty Ltd
Notes to the financial statements

24. Subsidiaries

Name of entity	Country of incorporation	Ownership interest	
		2011 %	2010 %
Subsidiaries			
Chestnut Apparel Pty Ltd	Australia	100%	100%
PAS Finance Pty Ltd	Australia	100%	100%
Yarra Trail Holdings Pty Ltd	Australia	100%	100%
Yarra Trail Pty Ltd ⁽ⁱ⁾	Australia	100%	100%
Breakaway Apparel Pty Ltd	Australia	83%	83%
Breakaway NZ Clothing Group Ltd ⁽ⁱ⁾	New Zealand	100%	100%
Designworks Holdings Pty Ltd	Australia	100%	100%
Designworks Clothing Company Pty Ltd ⁽ⁱ⁾	Australia	100%	100%
World Brands Pty Ltd ⁽ⁱ⁾	Australia	100%	100%
The Hopkins Group Aust Pty Ltd	Australia	75%	75%
Review Australia Pty Ltd	Australia	100%	100%
Fiorelli Licensing Pty Ltd ^(iv)	Australia	51%	51%
The Capelle Group Pty Ltd ^{(ii) (iii)}	Australia	73.5%	60%
Metalicus Pty Ltd	Australia	100%	100%

(i) Subsidiary of above entity.

(ii) Additional shares totalling 13.5% were acquired on 29/09/10.

(iii) Subsequent to year end, the remaining 26.5% outside equity interest was acquired.

(iv) Subsequent to year end, the remaining 49% outside equity interest was acquired.

25. Remuneration of auditors	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Auditor of the parent entity				
Audit or review of the financial report	384,612	379,850	13,000	12,500
Audit of lease and other agreements	-	13,000	-	-
Audit of acquisition earn out	-	200,000	-	-
Taxation services	68,000	72,750	900	-
	452,612	665,600	13,900	12,500

The auditor is Deloitte Touche Tohmatsu.

26. Subsequent events

On 28 July 2011, the consolidated entity refinanced all its external senior debt and working capital facility for a further three year term. This enables the majority of the debt to be reclassified from "current liabilities" to "non-current liabilities" in future periods and returns the consolidated entity to a positive net current asset position. The finance facility amounts are consistent with those disclosed in note 23(d) above.

On 28 July 2011 the company received a \$25,000,000 cash injection from its major shareholders in the form of a shareholder loan to support the consolidated entity's growth strategy and working capital requirements.

In addition participating shareholders received 1 warrant at an exercise price of 0.01 for each \$17.0092 loaned to the company. The amount of warrants issued constituted approximately 15% of the fully diluted share capital of the company.