

# PACIFIC B BRANDS

24 February 2010

Manager Company Announcements  
Australian Securities Exchange Limited  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

Market Information Services  
New Zealand Exchange Limited  
9<sup>th</sup> Floor  
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2 Hunter Street  
Wellington  
New Zealand

Dear Sir/Madam

## **HALF YEAR REPORT FOR THE 6 MONTHS ENDED 31 DECEMBER 2009**

In accordance with Australian Securities Exchange Listing Rule 4.2A, attached is the Company's Appendix 4D – Half year Report for the period 1 July 2009 to 31 December 2009, which includes a copy of a Press Release which the Company intends to send to the media today.

These documents will also be available on the Company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au)

Yours faithfully  
Pacific Brands Limited



John Grover  
Company Secretary

Enc.

Wednesday, 24 February 2010

## Pacific Brands earnings in line with expectation. Transformation on track.

Pacific Brands today announced operating earnings were in line with expectation for the six months ended 31 December 2009 (1H10), with results being impacted by currency compared to the previous corresponding period and difficult market conditions. Underlying sales (being sales of continuing businesses and brands<sup>1</sup>) were down by approximately 3.2%. The balance of the portfolio that has been, or is being discontinued was further impacted. The company also announced cash flow and net debt reduction were strong, and its Pacific Brands 2010 transformation strategy remains on track.

### 1H10 Group results

	Before significant items*		Reported	
	\$ millions	% Change**	\$ millions	% Change**
<b>Sales</b>	960.8	(7.8)%	960.8	(7.8)%
<b>EBITA</b>	80.3	(31.0)%	61.4	n.m.
<b>NPAT</b>	35.5	(39.7)%	22.2	n.m.
<b>EPS (cps)</b>	3.8	(63.8)%	2.4	n.m.
<b>Cash flow***</b>	107.7	290.2%	60.9	n.m.
<b>Net debt</b>	419.1	(48.3)%	419.1	(48.3)%

\* Before asset impairment and restructuring expenses

\*\* Percentage change relative to previous corresponding period (ie 1H09)

\*\*\* Operating cash flow pre interest and tax (OCFPIT)

Note: n.m. = not meaningful as prior year was negative

Pacific Brands Chief Executive Officer Sue Morphet said: "As indicated to the market in August last year, our earnings in the first half have been affected primarily by the delayed impact of the sharp decline in currency rates. The impact was caused by historical hedge positions not being fully recovered in price or transformation savings – realised exchange rates will improve in the second half as hedges unwind but are expected to still be below the previous corresponding period. Transformation benefits are expected to have a positive impact on earnings in the second half of the year.

"For the first time in many years we have a cost efficient platform, on which we will continue to build the future of the company. We now have a sound base to take advantage of the new and extended capability sets to grow the business."

<sup>1</sup> Defined as total group sales less sales from divested businesses and brands subject to discontinuation.

## **Pacific Brands 2010**

The implementation of the Pacific Brands 2010 transformation strategy, which was announced twelve months ago, is on track and the company has met all key milestones.

Ms Morphet said: "When we announced Pacific Brands 2010 last year we said it would be an extended 3 year, all encompassing and critically important plan that would strengthen the company and deliver future growth and shareholder value for the long term. We are well advanced with the transformation – but there is still 2 years to go.

"We are beginning to realise the positive impacts of the strategy on the way we do business. We are reducing our cost base, focusing on margin and bedding down new systems and processes across the group. All these measures will ultimately deliver us a stronger more profitable business.

"We are very pleased with progress to date, particularly the way in which manufacturing closures are being managed to plan by our people in close co-operation with our unions.

"The whole company continues to make enormous progress towards the successful implementation of the strategy including the realisation of cost savings and the drive for organic growth in the business" Ms Morphet said.

The cost-out part of the program is on schedule to achieve more than \$50 million of savings in F10 and is tracking towards annualised savings of \$150 million by the end of F11 with full impact in F12 (based on current market conditions and currency rates, and before any reinvestment).

As planned, implementation achievements during 1H10 included:

- Extended and accelerated brand portfolio rationalisation
- Decreased the non-manufacturing workforce by more than 650
- Reduced cost of doing business by \$36 million
- Closed 7 factories and sold another with 3 more to close next month
- Sourced products identical to those previously made locally
- Reduced inventory by \$93 million versus previous corresponding period
- Sold 3 properties for more than \$8 million
- Continued to build capabilities across the group

As part of the supply chain and operations transformation, 7 factories have closed at Nunawading, Bellambi, Cessnock and West End as well as Palmerston North and two in Christchurch in New Zealand. In addition, after the reporting date, Pacific Brands divested its China footwear operations as a going concern, transferring the business and employees to a new owner. By March 2010, through rationalisation and divestment, the Pacific Brands workforce will have been reduced by approximately 3,000 employees.

During 1H10 Pacific Brands has executed several incremental brand divestments, sold 3 properties, divested Icon Clothing, transferred the Merrell footwear business, and subsequent to reporting date has sold the Pacific Brands international footwear business and the China manufacturing operations. The company will continue with its strategy of brand and business portfolio rationalisation and simplification, and disposal of surplus property assets.

## **Operating performance**

For the six months to 31 December 2009 (1H10), total sales revenue was down \$81 million or 7.8%. This was due to aggressive portfolio rationalisation of brands subject to discontinuation (~\$43m of decline), lower Australian underlying sales (~\$24m of decline) and poor underlying international sales (~\$14m of decline).

Ms Morphet said "While brand and business divestments and discontinuations have, as expected, impacted sales, key continuing brands had performed well.

"Our key brands such as Bonds group (up 4%), Mossimo (up 22%), Clarks (up 12%) and Volley (up 6%) have grown, affirming our strategy of focusing on our top performing brands.

"Our continuing portfolio of brands represented approximately 90% of our sales revenue in 1H10 and declined by 3.2% compared to 1H09. Other brands being discontinued declined sharply.

"We saw good growth in the department store and supermarket channels, but there was some softness for us in the discount department store channel and the independent retailer channel was particularly impacted by economic conditions. Beds, Bicycles and Industrial categories were impacted by demand and our international business performed poorly, particularly in the USA and New Zealand.

"The absence of fiscal stimulus packages, higher interest rates, price rises, lower consumer confidence and lower retailer inventory levels adversely impacted sales in many of our categories and channels. All of our businesses are responding to these challenges and we have strengthened the management team through key appointments in critical roles.

"As foreshadowed in previous announcements, operating earnings were significantly affected by the impact of currency on cost of goods sold. The average AUD/USD rate in 1H10 was in the high 60s compared to the high 80s in 1H09. The FX impact was partially offset by price increases and transformation benefits. Significant business, functional and corporate overhead costs have been taken out across the group as the implementation of Pacific Brands 2010 strategy continues. Total cost of doing business was down \$36 million or over 10%. The implementation of manufacturing closures is on track and expected to partially impact 2H10 results with full impact in F11. Operating cash flow was exceptionally strong at \$108 million, with cash conversion of 118% driven by a focus on working capital management with inventory down \$93 million and lower capital expenditure compared with the previous corresponding period" Ms Morphet said.

As is especially appropriate in the current economic climate, Pacific Brands continues to manage its balance sheet conservatively. Net debt was reduced by \$34 million from 30 June 2009, with gearing of 2.2 times and interest cover of 3.6 times at 31 December 2009. Pacific Brands balance sheet is in a substantially stronger position than this time last year with the combined impact of the equity raising and strong operating cash flow reducing net debt by \$392 million from its high point of \$811 million at 31 December 2008 to \$419 million at 31 December 2009.

## **Segment results**

As announced to the market on 16 February 2010, Pacific Brands has introduced a new segment reporting structure incorporating the requirements of AASB 8 Operating Segments and reflecting changes to the group's operating structure implemented in connection with Pacific Brands 2010 transformation strategy.

The Workwear Group has been separated from the previous Outerwear & Sport Group and includes KingGee, Yakka, NNT, Dowd, CTE and Yakka NZ. The Footwear, Outerwear & Sport Group combines the Footwear Group and the remaining businesses within the former Outerwear and Sport Group including Everlast, Slazenger, Dunlop, Bicycles and Brand Collective. There have been no changes to the Underwear & Hosiery, Home Comfort and Other reporting segments (other than a change in the name of the Home Comfort segment to Homewares).

Underwear & Hosiery sales were down 4.6% to \$297.1 million and EBITA (before significant items) down 23.0% to \$34.9 million. Its two largest brands, Bonds and Rio grew but this was offset by the loss of sales from discontinued brands and the closure of the New Zealand Thermals business. New Zealand was also down in line with very difficult market conditions.

Workwear sales were down 7.6% to \$186.5 million and EBITA (before significant items) down 24.9% to \$16.6 million. Sales were down in the first quarter but improved in the second in line with economic conditions and as new B2B customers came on line. Major new contracts won in the half include St George Bank and Asciano. Overall sales were impacted by a slowdown in the construction and mining industries, reduced corporate spending and higher unemployment. Although relatively small to date, Workwear is continuing to grow its uniform business offshore and in October 2009 was awarded Strategic Supplier of the Year by Compass Group UK and Ireland, whom it now supplies with uniforms in seven countries.

Homewares sales were down 10.0% to \$209.7 million and EBITA (before significant items) down 27.1% to \$15.6 million. The more discretionary categories, including beds and branded bed-linen continued to be depressed. Sheridan discontinued a number of minor brands and Tontine was down in discount department stores as private label increased. Industrial sales declined but remained profitable and resilient.

Footwear, Outerwear & Sport sales were down 7.0% to \$262.4 million and EBITA (before significant items) down 45.1% to \$19.1 million. EBITA was most impacted in the group by currency with all product being imported. Slazenger, Volley, Clarks, Grosby and Mossimo all performed well and grew. The group discontinued a large number of minor brands representing almost all of the total sales decline. Own retail stores and the independent channel disappointed. Footwear, Outerwear & Sport was also significantly restructured in the half when it sold Icon Clothing and transferred Merrell to new licensees, and closed down Women's Fashion Footwear and the Boydex outerwear apparel business. Subsequent to reporting date, Pacific Brands has also divested its international footwear business based in the UK and its China footwear manufacturing operations.

The focus on innovation and new product development continued. Examples include Bonds' hipsters revamp and roomies ranges, the New Vintage range by Hard Yakka, Tontine's Summer Cool Quilts range, the Sleepmaker Gel bed and KingGee's very successful workboardie. In its "Steel" range, King Gee also introduced odour-free work garments and Workwear is now using new body scanning technology for optimum fit in new uniform programs for selected major clients.

## **Dividend**

The Board has decided to preserve the company's capital and continue to reduce net debt. No interim dividend will be declared or paid. The Board will make a decision in respect of future dividends at each half having regard to the company's financial position, operating performance and outlook at that time.

## **Outlook**

Although the currently inconsistent trading environment, the cycling through of stimulus packages, and uncertain market conditions make it difficult to predict performance, Pacific Brands is confident that 2H10 EBITA before significant items will be up on the previous corresponding period. This will be primarily due to the realisation of transformation cost savings.

Based on current market conditions and currency rates, earnings momentum is expected to continue into F11 with the benefit of manufacturing closures and other transformation cost savings flowing through.

As previously stated, consistent with the strategy to rationalise and focus the portfolio, reported sales revenue is expected to reduce further over the course of the transformation period.

Importantly, implementation of the Pacific Brands 2010 strategy is expected to result in a more robust and profitable business.

For further information contact:

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**Pacific Brands Limited and its controlled entities**  
**ABN 64 106 773 059**

**ASX Appendix 4D - Interim Financial Report**  
**for the half year ended 31 December 2009**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

Sales revenue from ordinary activities	Down 7.8% to	\$960.8 million
Earnings before interest, tax, amortisation and significant items	Down 31.0% to	\$80.3 million
Net profit for the period	Up 114.9% to	\$22.4 million
Net profit attributable to members of the parent	Up 114.8% to	\$22.2 million

**DIVIDENDS**

No interim dividend has been declared.

**OTHER INFORMATION**

	CURRENT PERIOD	PREVIOUS CORRESPONDING PERIOD
Net tangible asset backing per ordinary share:	(\$0.04)	(\$0.40)

The previous corresponding period is 31 December 2008.

The financial report has been subject to a review by the Company's auditor KPMG.

**FURTHER INFORMATION:**

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## Directors' Report

The directors of Pacific Brands Limited ('the Company') present their report together with the consolidated financial report of the Company and its controlled entities (collectively the 'consolidated entity') for the half year ended 31 December 2009 and the review report thereon.

### DIRECTORS

The directors of the Company at any time during or since the end of the half year are:

Non-executive	Year of Directorship
J.A.C. MacKenzie, Chairman	Director since May 2008. Appointed Chairman November 2008
A.D. Cummins	Director since February 2004
M.G. Ould	Director since February 2004, resigned October 2009
M.A. Plavsic	Director since May 2004
D.G. Fisher	Director since March 2007
N.L. Scheinkestel	Director since June 2009
J.S. King	Director since September 2009
<hr/>	
Executive	
S.M. Morphet, Chief Executive Officer	Director since January 2008

The office of company secretary is held by J.C. Grover.

### REVIEW OF OPERATIONS

Please refer to the accompanying Pacific Brands Limited half year results announcement dated 24 February 2010.

### LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 15 and forms part of the directors' report for the half year ended 31 December 2009.

### ROUNDING OFF

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998. In accordance with that Class Order amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Melbourne this 24th day of February 2010.  
Signed in accordance with a resolution of the directors.

**Sue Morphet**  
Director

For the half year ended 31 December 2009

**Condensed Consolidated Interim Statement of Comprehensive Income**

	NOTE	CONSOLIDATED	
		HALF YEAR ENDED 31 DECEMBER 2009 \$'000	HALF YEAR ENDED 31 DECEMBER 2008 \$'000
Sales revenue	5	960,783	1,041,626
Cost of sales		(571,470)	(583,493)
<b>Gross profit</b>		<b>389,313</b>	458,133
Other Income	5	5,903	8,999
Freight and distribution expenses		(66,994)	(72,886)
Sales, marketing and advertising expenses		(168,843)	(194,556)
Administrative expenses		(80,279)	(84,804)
Other expenses	7	(18,904)	(209,841)
<b>Results from operating activities</b>		<b>60,196</b>	(94,955)
Financial income	6	1,006	1,233
Financial expenses	6	(27,374)	(34,143)
<b>Net financing costs</b>		<b>(26,368)</b>	(32,910)
<b>Profit/(Loss) before income tax expense</b>		<b>33,828</b>	(127,865)
Income tax expense		(11,447)	(21,951)
<b>Profit/(Loss) for the period</b>		<b>22,381</b>	(149,816)
<b>Profit attributable to:</b>			
Equity holders of the parent		22,218	(149,951)
Minority interests		163	135
<b>Profit/(Loss) for the period</b>		<b>22,381</b>	(149,816)
<b>Other comprehensive income</b>			
Foreign currency translation differences		(5,134)	17,986
Effective portion of changes in fair value of cash flow hedges (net of tax)		30,550	(8,669)
Other comprehensive income for the period net of tax		25,416	9,317
<b>Total comprehensive income for the period</b>		<b>47,797</b>	(140,499)
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent		47,911	(141,788)
Minority interests		(114)	1,289
<b>Total comprehensive income for the period</b>		<b>47,797</b>	(140,499)
<b>Earnings per share:</b>			
Ordinary shares	10	2.4 cents	(26.8) cents
Diluted shares	10	2.4 cents	(26.8) cents

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the condensed notes to the financial statements set out on pages 8 to 13.

For the half year ended 31 December 2009

**Condensed Consolidated Interim Statement of Financial Position**

	CONSOLIDATED	
	31 DECEMBER 2009 \$'000	30 JUNE 2009 \$'000
<b>Current assets</b>		
Cash and cash equivalents	162,831	126,475
Trade and other receivables	261,751	252,873
Inventories	296,929	311,445
Income tax receivable	1,451	-
Other current assets	8,210	8,322
<b>Total current assets</b>	<b>731,172</b>	<b>699,115</b>
<b>Non-current assets</b>		
Trade and other receivables	33	32
Property, plant and equipment	130,380	144,402
Intangible assets	1,318,473	1,321,277
Deferred tax assets	37,221	60,669
<b>Total non-current assets</b>	<b>1,486,107</b>	<b>1,526,380</b>
<b>Total assets</b>	<b>2,217,279</b>	<b>2,225,495</b>
<b>Current liabilities</b>		
Trade and other payables	185,979	203,836
Interest bearing loans and borrowings	1,651	816
Income tax payable	-	7,175
Provisions	117,930	149,963
<b>Total current liabilities</b>	<b>305,560</b>	<b>361,790</b>
<b>Non-current liabilities</b>		
Trade and other payables	4,739	5,900
Interest bearing loans and borrowings	580,309	578,471
Provisions	11,971	12,644
<b>Total non-current liabilities</b>	<b>597,019</b>	<b>597,015</b>
<b>Total liabilities</b>	<b>902,579</b>	<b>958,805</b>
<b>Net assets</b>	<b>1,314,700</b>	<b>1,266,690</b>
<b>Equity</b>		
Contributed equity	1,469,094	1,469,094
Reserves	(39,445)	(65,351)
(Accumulated losses)	(118,829)	(141,047)
<b>Total equity attributable to equity holders of the parent</b>	<b>1,310,820</b>	<b>1,262,696</b>
Minority interest	3,880	3,994
<b>Total equity</b>	<b>1,314,700</b>	<b>1,266,690</b>

The condensed consolidated interim statement of financial position is to be read in conjunction with the condensed notes to the financial statements set out on pages 8 to 13.

For the half year ended 31 December 2009

**Condensed Consolidated Interim Statement of Cash Flow**

	CONSOLIDATED	
	HALF YEAR ENDED 31 DECEMBER 2009 \$'000	HALF YEAR ENDED 31 DECEMBER 2008 \$'000
<b>Cash flows from operating activities</b>		
Cash receipts from customers	1,044,331	1,118,556
Cash paid to suppliers and employees	(979,104)	(1,080,276)
Income taxes paid	(9,718)	(21,987)
Interest paid	(25,351)	(36,985)
Interest received	1,006	1,233
<b>Net cash from/(used in) operating activities</b>	<b>31,164</b>	<b>(19,459)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	4,779	725
Proceeds from sale of businesses (net of cash disposed)	7,193	-
Acquisition of property, plant and equipment	(4,306)	(14,163)
<b>Net cash from/(used in) investing activities</b>	<b>7,666</b>	<b>(13,438)</b>
<b>Cash flows from financial activities</b>		
Lease payments	(193)	(663)
Proceeds from borrowings	545	58,800
Dividends paid	-	(42,708)
<b>Net cash from financing activities</b>	<b>352</b>	<b>15,429</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>39,182</b>	<b>(17,468)</b>
Cash and cash equivalents at the beginning of the period	126,475	104,822
Effect of exchange rate fluctuations on cash held	(2,826)	8,529
<b>Cash and cash equivalents at the end of the period</b>	<b>162,831</b>	<b>95,883</b>

The condensed consolidated interim statement of cash flow is to be read in conjunction with the condensed notes to the financial statements set out on pages 8 to 13.

**Condensed Consolidated Interim Statement of Changes in Equity**

	ISSUED CAPITAL \$'000	EQUITY COMPENSATION RESERVE \$'000	FOREIGN CURRENCY TRANSLATION RESERVE \$'000	HEDGE RESERVE \$'000	(ACCUMULATED LOSSES)/ RETAINED EARNINGS \$'000	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT \$'000	MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
<b>Balance at 1 July 2009</b>	1,469,094	5,946	(24,913)	(46,384)	(141,047)	1,262,696	3,994	1,266,690
Effective portion of net changes in fair value of cash flow hedges <sup>1</sup>	-	-	-	30,550	-	30,550	-	30,550
Foreign currency translation differences	-	-	(4,857)	-	-	(4,857)	(277)	(5,134)
Total other comprehensive income	-	-	(4,857)	30,550	-	25,693	(277)	25,416
Profit/(Loss) for the period	-	-	-	-	22,218	22,218	163	22,381
Total other comprehensive income for the period	-	-	(4,857)	30,550	22,218	47,911	(114)	47,797
Dividends recognised during the period	-	-	-	-	-	-	-	-
Cost of share based payments	-	213	-	-	-	213	-	213
<b>Balance at 31 December 2009</b>	1,469,094	6,159	(29,770)	(15,834)	(118,829)	1,310,820	3,880	1,314,700
Balance at 1 July 2008	1,218,577	4,591	(31,834)	(1,087)	136,140	1,326,387	3,701	1,330,088
Effective portion of changes in fair value of cash flow hedges <sup>1</sup>	-	-	-	(8,669)	-	(8,669)	-	(8,669)
Foreign currency translation differences	-	-	16,832	-	-	16,832	1,154	17,986
Total income and expense for the period recognised directly in equity	-	-	16,832	(8,669)	-	8,163	1,154	9,317
Profit/(Loss) for the period	-	-	-	-	(149,951)	(149,951)	135	(149,816)
Total income/(expense) for the period	-	-	16,832	(8,669)	(149,951)	(141,788)	1,289	(140,499)
Dividends recognised during the period	-	-	-	-	(42,708)	(42,708)	-	(42,708)
Cost of share based payments	-	1,150	-	-	-	1,150	-	1,150
Balance at 31 December 2008	1,218,577	5,741	(15,002)	(9,756)	(56,519)	1,143,041	4,990	1,148,031

1. Amounts are stated net of tax.

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the condensed notes to the financial statements set out on pages 8 to 13.

## Condensed Notes to the Consolidated Interim Financial Statement

### 1. REPORTING ENTITY

Pacific Brands Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the half year ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

The condensed consolidated interim financial report was authorised for issue by the directors on 24 February 2010.

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2009 is available upon request from the Company's registered office at Level 3, 290 Burwood Road, Hawthorn, Victoria or on the company's website at [www.pacificbrands.com.au](http://www.pacificbrands.com.au).

### 2. STATEMENT OF COMPLIANCE

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2009. This report must also be read in conjunction with any public announcements made by Pacific Brands Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998. In accordance with that Class Order amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated annual financial report as at and for the year ended 30 June 2009 with the following exceptions:

#### Determination and presentation of operating segments

As of 1 July 2009 the Company determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer (CEO), who is the Company's chief operating decision maker. This change in accounting policy is due to the adoption of *AASB 8 Operating Segments*. Previously operating segments were determined and presented in accordance with *AASB 114 Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of *AASB 8*. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating result is reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

#### Presentation of financial statements

The Company applies revised *AASB 101 Presentation of Financial Statements (2007)*, which became effective as of 1 July 2009. This presentation has been applied in these condensed interim financial statements as of and for the six month period ended on 31 December 2009 and comparative information.

The following Accounting Standards have been applied during the period and did not have a material effect on the entity:

AASB 2008-5	<i>Amendments arising from the first annual improvements project</i>
AASB 2008-7	<i>Amendments to accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate</i>
AASB 2008-2	<i>Amendments to accounting for puttable financial instruments and obligations arising on liquidation</i>
AASB 2008-1	<i>Amendments to accounting for share-based payments, specifically vesting conditions and cancellations</i>
AASB 123	<i>Borrowing costs (Revised, June 2007) and AASB 2007-6 Amendments arising from the revisions to AASB 123</i>
AASB 2008-6	<i>Further amendments arising from the first annual improvements project</i>
AASB 2008-8	<i>Amendments to accounting for eligible hedged items</i>

**Condensed Notes to the Consolidated Interim Financial Statements****4. ESTIMATES**

The preparation of an interim financial report in conformity with AASB 134: Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 and in any future periods affected. There have been no such revisions in the current financial reporting period. In preparing this consolidated interim financial report the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial report as at and for the year ended 30 June 2009.

	CONSOLIDATED	
	HALF YEAR ENDED 31 DECEMBER 2009 \$'000	HALF YEAR ENDED 31 DECEMBER 2008 \$'000
<b>5. REVENUE AND OTHER INCOME</b>		
Sales revenue	<b>960,783</b>	1,041,626
Other income		
Royalties	<b>1,359</b>	1,310
Sundry income	<b>4,544</b>	7,689
Total other income	<b>5,903</b>	8,999
Total revenue and other income	<b>966,686</b>	1,050,625

**Condensed Notes to the Consolidated Interim Financial Statements**

	CONSOLIDATED	
	HALF YEAR ENDED 31 DECEMBER 2009 \$'000	HALF YEAR ENDED 31 DECEMBER 2008 \$'000
<b>6. OTHER EXPENSES</b>		
Depreciation of:		
Freehold buildings and leasehold improvements	1,814	2,289
Plant and equipment	7,145	8,385
	<b>8,959</b>	10,674
Amortisation of:		
Software assets	1,114	1,229
Other Intangibles	1,201	1,526
Leased plant and equipment	585	561
	<b>2,900</b>	3,316
Total depreciation and amortisation	<b>11,859</b>	13,990
Net financing costs:		
Financial income	(1,006)	(1,233)
Interest on bank loans and overdraft	27,303	34,000
Finance charges on capitalised leases	71	143
	<b>26,368</b>	32,910
Personnel expenses:		
Wages, salaries and entitlements	198,602	222,802
Contributions to defined contribution superannuation plans	13,538	14,897
Defined benefit superannuation expense	738	674
Share based payments	213	1,150
	<b>213,091</b>	239,523

**Condensed Notes to the Consolidated Interim Financial Statements****7. SIGNIFICANT ITEMS**

Other expenses are reconciled as follows:

	HALF YEAR ENDED 31 DECEMBER 2009 \$'000	HALF YEAR ENDED 31 DECEMBER 2008 \$'000
<b>Asset impairment</b>		
Goodwill impairment	-	128,813
Brand names impairment	-	52,529
Plant and Equipment impairments	800	6,286
Other asset impairments	-	18,815
	<b>800</b>	206,443
<b>Restructuring expenses</b>		
Redundancies, decommissioning and other costs	18,104	3,398
	<b>18,904</b>	209,841

The related income tax benefit/(expense) on significant items, where applicable, is \$5.6m for the Consolidated Entity.

The comparative period has been amended to include \$3.4m of redundancy costs previously recognised in administration expenses.

## Condensed Notes to the Consolidated Interim Financial Statements

### 8. SEGMENT REPORTING

Segment information is presented in the condensed consolidated interim financial statements in respect of the consolidated entity's business segments, which are based on the internal reports that are reviewed by the CEO (the chief operating decision maker). The changes in the segment note disclosures reflects both the adoption of AASB 8 as outlined in Note 3, and changes to Pacific Brands operating structure implemented in connection with the Pacific Brands transformation strategy announced in February 2009. In particular Workwear has been separated out from the previously reported Outerwear & Sport segment; and Footwear, Outerwear & Sport combines the previously reported footwear segment and the remainder of the Outerwear & Sport segment. Underwear & Hosiery and Homewares remain unchanged.

It is the consolidated entity's policy that inter-segment pricing is determined on an arm's length basis. Certain corporate charges such as the shared services function, are allocated to the segments largely on a usage basis. Net finance costs and income tax expense are not allocated to the operating segments. The CEO assesses the financial performance of each segment by analysing earnings before interest, tax and amortisation (EBITA) before significant items.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

#### Reporting Segments

The consolidated entity comprises the following reporting segments:

Underwear & Hosiery	Marketer, distributor, importer and manufacturer of underwear, intimate apparel, socks and hosiery
Workwear	Marketer, distributor, importer and manufacturer of industrial, corporate imagewear and other workwear
Footwear, Outerwear & Sport	Marketer, distributor, importer and manufacturer of women's, men's, children's and sporting footwear; casual outerwear; and sporting clothing and equipment
Homewares	Marketer, distributor, importer and manufacturer of bed linen, pillows, mattresses, foam and carpet underlay
Other	Retail clearance outlets, corporate expenses and amortisation of intangibles

#### Half Year ended 31 December 2009

	UNDERWEAR & HOSIERY	WORKWEAR	FOOTWEAR, OUTERWEAR & SPORT	HOMEWARES	OTHER	ELIMINATIONS	CONSOLIDATED
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	297,218	186,780	265,641	209,848	12,923	(5,724)	966,686
EBITA before significant items	34,856	16,579	19,147	15,646	(5,927)	-	80,301
Amortisation					(1,201)		(1,201)
Significant items	(7,425)	(1,683)	(1,261)	(2,267)	(6,268)	-	(18,904)
Results from operating activities	27,431	14,896	17,886	13,379	(13,396)	-	60,196
Net financing costs							(26,368)
Income tax expense							(11,447)
Profit for the period							22,381

#### Half Year ended 31 December 2008

	UNDERWEAR & HOSIERY	WORKWEAR	FOOTWEAR, OUTERWEAR & SPORT	HOMEWARES	OTHER	ELIMINATIONS	CONSOLIDATED
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue	311,814	202,568	286,258	233,227	16,838	(80)	1,050,625
EBITA before significant items	45,281	22,056	34,883	21,384	(7,192)	-	116,412
Amortisation					(1,526)		(1,526)
Significant items	(29,528)	-	(61,881)	(115,209)	(3,223)	-	(209,841)
Results from operating activities	15,753	22,056	(26,998)	(93,825)	(11,941)	-	(94,955)
Net financing costs							(32,910)
Income tax expense							(21,951)
Loss for the period							(149,816)

#### Major Customers

The consolidated entity supplies two customers which in combination account for 26% of revenue (2008: 26%).

**Condensed Notes to the Consolidated Interim Financial Statements**

	CONSOLIDATED	
	HALF YEAR ENDED 31 DECEMBER 2009 \$'000	HALF YEAR ENDED 31 DECEMBER 2008 \$'000
<b>9. DIVIDENDS</b>		
Ordinary shares		
Dividends paid during the half year not previously recognised as a liability.	-	42,708

Since the end of the half year the directors have not recommended that an interim dividend be paid. (31 December 2008: Nil dividend declared)

	HALF YEAR ENDED 31 DECEMBER 2009 \$'000	HALF YEAR ENDED 31 DECEMBER 2008 \$'000
	<b>10. EARNINGS PER SHARE</b>	
Net profit/(loss) used in the calculation of basic and diluted earnings per share	<b>22,218</b>	(149,951)
	HALF YEAR ENDED 31 DECEMBER 2009 No.	HALF YEAR ENDED 31 DECEMBER 2008 No.
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	<b>929,380,477</b>	558,986,708

The prior year has been restated as a result of the placement and rights issue in April and May 2009.

**11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

There are no material contingent liabilities or contingent assets that have arisen since 30 June 2009.

**12. EVENTS SUBSEQUENT TO REPORTING DATE**

There has not arisen in the interval since 31 December 2009 and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial periods.

**Director's Declaration**

In the opinion of the directors of Pacific Brands Limited ('the Company'):

- 1 the condensed interim financial statements and condensed notes set out on pages 3 to 13, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2009 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001; and
- 2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 24th day of February 2010.

Signed in accordance with a resolution of the directors.



**Sue Morphet**  
Director

## Lead Auditor's Independence Declaration

Under Section 307c of the Corporations Act 2001



To: the Directors of Pacific Brands Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

**KPMG**

Melbourne  
24 February 2010

A handwritten signature in black ink that reads 'Paul Shannon'.

**Paul Shannon**  
Partner

**Independent auditor's review report to the members of Pacific Brands Limited****Report on the financial report**

We have reviewed the accompanying interim financial report of Pacific Brands Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2009, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, a description of accounting policies and other explanatory notes 1 to 12 and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

**Directors' responsibility for the interim financial report**

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2009 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Pacific Brands Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim 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.

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Pacific Brands Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Melbourne  
24 February 2010

**Paul Shannon**  
Partner