PACIFIC BRANDS

# Annual Report

## For the Period 12 December 2003 to 30 June 2004

Pacific Brands Limited and its Controlled Entities
ABN 64 106 773 059

# Contents

# About Pacific Brands

Pacific Brands is a leading manager of consumer brands in Australia and New Zealand, marketing some of the most recognised brands including Berlei, Bonds, Clarks (children's), Dunlop, Everlast, Grosby, Holeproof, Hush Puppies, KingGee, Slazenger, Sleepmaker and Tontine.

Pacific Brands' commitment to market leadership has provided it with number one or two positions across its major product categories in Australia and New Zealand. These category leading positions have been achieved through a focus on being at the forefront of brand development, product innovation, marketing and an efficient and effective supply and distribution network.

Pacific Brands strives to be one of Australia and New Zealand's most informed companies on the "what, where, when and why" of a consumer's branded everyday essentials.

Pacific Brands has four Operating Groups: The Underwear & Hosiery Group, The Outerwear & Sport Group, The Home Comfort Group and The Footwear Group.

## Market leader in the Australian and New Zealand TCF industries

| | |
|---|---|
| Underwear & Hosiery | Pacific Brands dresses a nation. The Underwear & Hosiery Group is a leading marketer in the Australian and New Zealand TCF industries in each of its major product categories. Sales are derived from a broad range of products, including underwear, intimate apparel, hosiery and socks for women, men and children, which are distributed throughout Australia and New Zealand and in selected international markets. |

## One of Australia's leading suppliers of outerwear and sporting equipment

| | |
|---|---|
| Outerwear & Sport | Pacific Brands keeps a nation at work and play. The Outerwear & Sport Group is one of Australia's leading suppliers of workwear, casual clothing, sports clothing and footwear, sporting equipment and hardgoods (bicycles and bicycle helmets). |

## Leading manufacturer and marketer of mattresses, pillows, foam and carpet underlay in Australia and New Zealand

| | |
|---|---|
| Home Comfort | Pacific Brands beds down a nation. The Home Comfort Group is a leading manufacturer and marketer of mattresses, pillows, quilts, foam and carpet underlay in Australia and New Zealand. Manufacturing operations are in Australia and New Zealand and through a joint venture in Malaysia. |

## Largest supplier of footwear in Australia

| | |
|---|---|
| Footwear | Pacific Brands keeps a nation on its toes. The Footwear Group is the largest supplier of footwear in Australia offering a comprehensive range of casual, comfort and fashion footwear for men, women and children. |

# Chairman's Report

On behalf of the Directors of Pacific Brands Limited, I am pleased to present you with the first Business Overview Report since the Company was listed on the Australian and New Zealand Stock Exchanges on Friday, 2 April 2004.

Pacific Brands' wide-ranging stable of brands includes Berlei, Bonds, Clarks (children's), Dunlop, Everlast, Grosby, Holeproof, Hush Puppies, KingGee, Slazenger, Sleepmaker and Tontine. These brands, together with our category leading positions across consumer everyday essentials, provides a strong combination of growth and defensive attributes to deliver sustainable shareholder value into the foreseeable future.

The Company's recent achievements would not be possible without the support of management that has a wealth of experience in the consumer goods industry. The Board has been appointed to ensure that a highly experienced and complementary skill set exists across corporate governance and financial management and to oversee the implementation of strategic growth initiatives. Since listing, we have been delighted to welcome Ms Maureen Plavsic to our ranks as a Non-Executive Director. Maureen complements our board with a background in advertising and brand marketing.

In this inaugural Review, it is pleasing to be able to report that we have exceeded Prospectus profit forecasts outlined for FY2004. For the full year, Pacific Brands achieved a pro-forma net profit after tax (pre goodwill amortisation) of $88.4 million, compared to a Prospectus forecast of $81.3 million. This translates to an earnings per share (pre goodwill amortisation) of 17.6 cents.

Directors have declared a fully franked dividend of 3.5 cents per share, which will be paid to all eligible shareholders at the end of September 2004. This was above the dividend forecast in our Prospectus of 3.0 cents per share.

Pacific Brands is committed to delivering strong returns to its shareholders whilst at the same time ensuring compliance with all aspects and principles of corporate governance.

On behalf of the Directors, I would like to thank you for becoming shareholders of this Company. We look to the future with confidence, with the knowledge that the Company's strategic direction, coupled with its strong portfolio of brands, places it in a position to deliver value to shareholders for many years to come.

Pat Handley

**Pat Handley**
Chairman

# Chief Executive Officer's Report

2004 was a year of significant achievement for Pacific Brands. The IPO was one of the largest ever undertaken in Australia with the Company now ranking as one of Australia's top 100 by market capitalisation.

Pacific Brands achieved a pro-forma full year EBITA of $155.2 million, which was 22% above the previous year. This result was achieved on revenues of $1,535 million. Overall sales grew 3.1% over the previous year with the Group's Australian based sales growing at 4.7%.

The group's strong cash flow generation also continued throughout the year with pro-forma operating cash flow increasing 32.9% to $171.3 million, which exceeded the Prospectus forecast by 3.7%. This strong result is further evidence of the low capital intensity of the business. With the strong earnings and cash flow performance, we are committed to retaining the financial flexibility and optimal balance sheet composition to support well targeted acquisitions, that will contribute to the overall growth of the group.

Our strategy of growing key brands through the use of creative advertising, continuous product development and innovation has provided the catalyst for strong earnings growth during the year. Together with the operational efficiencies extracted from our Brave New Way program, this ensures the company is in a strong position to deliver future earnings growth.

The 37% increase in advertising spend in FY2004 has contributed to strong sales growth for a number of our leading brands:

- Bonds 13%
- Everlast 13%
- Holeproof 20%
- Hush Puppies 29%
- Stubbies 39%
- Tontine 13%.

In August 2003, the Company acquired the Kolotex hosiery business which has been successfully integrated into our existing operations. Significant cost synergies have been achieved as a result of this acquisition. In addition, we welcome two new brands to our stable, with Esprit offering a new range of fashion bed linen, bedding accessories and footwear and the Kenneth Cole range of fashion footwear.

During the year, we continued to drive cost efficiencies through our supply chain by rationalising warehouses, reducing complexity across product ranges, and developing more collaborative relationships with our customers and suppliers.

Our strategy continues to focus on growing earnings by investment in brands, operational effectiveness (ie the Brave New Way program) and strategic acquisitions. To do this, we will continue to invest in the three key drivers of our business – people, brands and products.

I would like to extend thanks and appreciation to our 7,172 employees on the delivery of an outstanding result for the Company. We remain focused on continued earnings growth which will see this Company recognised as consistently delivering value to its shareholders.

**Paul Moore**
CEO

# Review of Operations

## Basis of Preparation

The IPO of the Pacific Brands business involved the incorporation of the newly listed Pacific Brands Limited ('the Company'), a company with no financial history. On 6 April 2004, Pacific Brands Limited, through its 100% owned subsidiary, Pacific Brands (Australia) Pty Ltd acquired the Pacific Brands business from its former owners.

The Annual Report prepared for the Company and its controlled entities includes the performance of the Company and its controlled entities since the date of the Company's incorporation on 12 December 2003, with trading commencing on 6 April 2004, through to 30 June 2004.

However, to ensure that investors and other users of the Annual Report are able to compare the earnings with those appearing in the Company's Prospectus (dated 1 March 2004), pro-forma results for the year ended 30 June 2004 have been prepared to reflect the full year impact of the same corporate and capital structures, as if they had been in place at 1 July 2003.

## Pro-forma results for the year ended 30 June 2004

### Financial Highlights

- EBITA of $155.2 million representing 22.0% growth over the year ended 30 June 2003
- Earnings per share (pre goodwill amortisation) of 17.6 cents, 8.6% above the Prospectus forecast of 16.2 cents
- Final dividend of 3.5 cents per share above the Prospectus forecast of 3.0 cents per share

### Business Achievements

- Successful IPO
- Strong earnings growth in Underwear & Hosiery, up 35.0% on the year ended 30 June 2003
- Double-digit sales growth in key "make-over" brands
- Margin growth through focus on branded product sales
- Continued elimination of unprofitable sales across all Operating Groups
- Successful integration of Kolotex and Sachi acquisitions
- Entry into new licence arrangements with:
  - Esprit to offer a new range of fashion bed linen, bed accessories and footwear; and
  - Kenneth Cole for fashion footwear.

## Financial period from 12 December 2003 to 30 June 2004 with trading commencing from 6 April 2004

### Financial Highlights

- Net profit after tax attributable to members of the parent entity of $11.8 million compared against the Prospectus forecast of $8.2 million.
- Strong cashflows - net operating cashflow (net cash provided by operating activities adjusted for capital expenditure) of $48.3 million compared against the Prospectus forecast of $47.3 million (2.1% increase).

# Review of Financial Performance
# Pro-forma Year to 30 June 2004

## Revenue

Sales revenue increased 3.1% to $1,535 million.

Major factors influencing sales included:

- Strong growth in Bonds, Holeproof, Hush Puppies and Tontine
- Continued development of KingGee and Everlast
- Late Winter impacted Q4 sales, particularly in Outerwear and Sport
- Continued elimination of unbranded and unprofitable sales

## Earnings Before Interest, Tax and Amortisation (EBITA)

Total EBITA increased 22% over the year ended 30 June 2003 and was $4 million above the Prospectus forecast. Improvement in EBITA was a result of:

- Continued focus on increasing sales of profitable branded products together with on-going elimination of unbranded and unprofitable sales.
- Improved gross margin through commitment to increased brand and marketing support together with net favourable impact on cost of sales of foreign currency movements, raw material and freight costs.
- Operational efficiencies achieved by Brave New Way program including through the continued reduction of business complexity across the Group and a significant reduction in SKUs.

## Interest

Net interest expense was $31 million in line with the Prospectus forecast. Interest cover is approximately 5 times.

## Tax

Income tax expense was $35 million which was 5.0% below the Prospectus forecast. This reflects an effective tax rate of 28.6%.

## Dividend

Directors have declared a final dividend of 3.5 cents per share which will be fully franked in Australia.

## Review of Financial Position

Pacific Brands net assets at year end were $1,239 million. The major balance sheet movements, when compared against the pro-forma 31 December 2003 net assets of $1,183 included in the prospectus, were:

- Increase in cash of $73 million.
- 10% reduction in working capital from $339 million to $305 million. This reduction was in line with the Prospectus forecast. The full year reduction was $18 million.
- Increase in intangibles of $17 million due to an increased float price offset by the seasonal impact of working capital balance at acquisition date (6 April 2004).

## Review of Cash Flow

Pacific Brands pro-forma operating cash flow (after capital expenditure) was $110 million against the pro-forma forecast included in the prospectus of $103 million. The significant items comprising the increase are:

- $4 million improvement in EBITDA for the year;
- $2 million reduction in net borrowing costs; and
- $1 million reduction in capital expenditure; offset by
- $1 million increase in income taxes paid.

As a consequence of the IPO, Pacific Brands raised $1,258 million which was used to acquire the Pacific Brands business for $1,204 million and to pay the IPO transaction costs of $53 million.

# Review of Business Segment Performance
# Pro-forma Year to 30 June 2004

## Underwear and Hosiery

The principal activities of the underwear and hosiery business segment are as the marketer, importer, manufacturer and wholesaler of underwear, intimate apparel, socks and hosiery.

| | 2004 $m | 2003 $m | Change % |
|---|---|---|---|
| Sales | $667.2 | $612.0 | 9.0% |
| EBITA | $90.3 | $66.9 | 35.0% |

The largest business within Pacific Brands had another solid year of growth. Icon brands Bonds and Holeproof both enjoyed double-digit sales growth for the year.

Underdaks, Antz Pantz, Rio, Explorer Socks and Love Kylie were among the fastest growing brands within the Holeproof umbrella, and benefited from strong marketing and advertising commitment.

At Bonds, men's and women's underwear yielded strong growth, as did Chesty, on the back of successful marketing and product development initiatives. Pat Rafter and Sarah O'Hare continued to front the marketing efforts, which were increased significantly on the prior year.

The Kolotex business, which was acquired in August 2003, has been successfully integrated within the Pacific Brands hosiery operations. The benefits of this integration are coming to fruition, particularly via manufacturing economies.

## Outerwear and Sport

The principal activities of the outerwear and sport business segment are as the marketer, importer, manufacturer and wholesaler of outerwear, sports clothing, and footwear, and sporting equipment and hardgoods.

| | 2004 $m | 2003 $m | Change % |
|---|---|---|---|
| Sales | $313.8 | $322.8 | (2.8%) |
| EBITA | $26.4 | $30.6 | (13.7%) |

It was a slightly disappointing result for Outerwear and Sport, however, management has identified the operating issues driving the result and taken the necessary steps to correct the impact on profitability.

KingGee experienced continued sales growth, however, was down on expectations as a result of management and supply issues which have subsequently been resolved.

As in other areas of the business, The Outerwear & Sport Group continued to focus on branded product sales with the Stubbies and Everlast brands experiencing double-digit sales growth, as a result of enhanced product offerings and continued marketing emphasis.

Difficult conditions prevailed in sporting equipment, particularly in golf, where the entire industry was down on expectations with an adverse impact on profitability.

# Review of Business Segment Performance (continued)
# Pro-forma Year to 30 June 2004

## Home Comfort

The principal activities of the home comfort business segment are as the marketer, manufacturer, wholesaler and importer of foam, mattresses and bedding accessory products.

| | 2004<br>$m | 2003<br>$m | Change<br>% |
|---|---|---|---|
| Sales | $294.7 | $295.5 | (0.3%) |
| EBITA | $27.7 | $24.4 | 13.5% |

The foam and bedding operations contributed strongly to the result. The bedding business benefited from a re-focus on the product range and increased investment in the Sleepmaker brand which led to improved margins.

Tontine also experienced growth across department and discount department store chains, further strengthening its position as the market leader in pillows. The newly acquired Esprit license in bed linen and bedding accessories will contribute to sales commencing late in 2004.

The carpet underlay business produced a strong result benefiting from a strong residential demand and enhanced product offering.

## Footwear

The principal activities of the footwear business segment are as the marketer, importer, manufacturer and wholesaler of footwear.

| | 2004<br>$m | 2003<br>$m | Change<br>% |
|---|---|---|---|
| Sales | $228.9 | $224.7 | 1.9% |
| EBITA | $20.4 | $17.0 | 20.0% |

The strategy of changing the mix from unbranded to branded product continues to be successful and led to a strong result in Footwear.

Hush Puppies, Julius Marlow, Candy, Clarks (children's), Naturaliser, and CAT have all enjoyed profitable growth. This was particularly evident at department store level, highlighted by the recent establishment of a concept store for Hush Puppies in Myer Melbourne. Grosby's stronger brand presence within its retail distribution channels contributed to its double-digit earnings growth over the period.

In women's fashion, Sachi also experienced increases following an extensive advertising campaign. Having only acquired the licenses late in the 2004 financial year, sales of Kenneth Cole and Esprit are due to commence later this year.

# Board Members

**Pat Handley**
Chairman, Independent Non-Executive

BA (Econ), MBA (Finance) Age 59

Pat has been Chairman of Pacific Brands Limited since incorporation in December 2003 and was Chairman of its predecessor, Pacific Brands Holdings Pty Ltd, since December 2001.

Pat brings with him over 30 years of international financial services experience. He has previously been an Executive Director and Chief Financial Officer of Westpac Banking Corporation, Chairman and Chief Executive Officer of Country Savings Bank (USA), Chief Financial Officer of BancOne Corporation (USA) and a director of Suncorp-Metway Limited, AMP Limited and HHG plc.

In addition, Pat is currently a strategic adviser to PricewaterhouseCoopers and Nomura Securities.

**Paul Moore**
Chief Executive Officer, Executive Director

BEcon, Age 53

Paul joined Pacific Brands in 1979. Within two years, he was appointed General Manager of adidas Australia (previously part of Pacific Brands) and since that time has held various leadership roles across all of Pacific Brands' operations. Prior to joining Pacific Brands, Paul held various marketing roles at The Gillette Company and Petersville Sleigh Limited.

In August 1999, Paul was appointed to the role of Managing Director of Pacific Brands (then a division of Pacific Dunlop Limited) where he has facilitated the development of a group-wide business strategy, which included the acquisition of synergy-generating businesses. In November 2001, he was appointed Chief Executive Officer and an executive director of Pacific Brands Holdings Pty Ltd. Paul was appointed to the Board of Pacific Brands Limited in December 2003.

**Stephen Tierney**
Chief Financial Officer, Executive Director

BComm, CA, Age 46

Stephen joined Pacific Brands in 1990 as Group Accountant after an 11 year career with Touche Ross & Co (now KPMG) specialising in finance, taxation and accounting.

Stephen was appointed to the role of Chief Financial Officer in December 1998. In November 2001, he was appointed an executive director of Pacific Brands Holdings Pty Ltd. Stephen was appointed to the Board of Pacific Brands Limited in December 2003.

**Andrew Cummins**
Director, Independent Non-Executive

BEng (Hons), MBA (Stanford), GradDip (Bus Studies), MIEAust, Age 55

Andrew joined the Board of Pacific Brands Holdings Pty Ltd in November 2001, bringing with him many years of experience as a senior executive in prominent Australian and international public companies. Andrew was appointed to the Board of Pacific Brands Limited in February 2004.

Currently, Andrew is Managing Director of CVC Asia Pacific Limited, Chairman of Amatek Holdings Limited and a director of Tech Pacific Holdings and Affinity Health. Previously, Andrew has been a director of Inchcape plc, Strategy Director of Elders IXL Limited/Foster's Brewing Group Limited and Chief Executive of Elders Investments Limited. Andrew also spent nine years with McKinsey & Company.

### Helen Lynch AM

Deputy Chairman, Independent Non-Executive

Age 61

Helen joined the Board of Pacific Brands Holdings Pty Ltd in November 2003 and brings extensive experience as a non-executive director of companies in the retail and financial services industries. Helen was appointed to the Board of Pacific Brands Limited in February 2004.

Helen is currently a director of Southcorp Limited and Westpac Banking Corporation. She is Chairman of Westpac Staff Superannuation Plan Pty Limited. Previously, Helen was a director of Coles Myer Ltd and Chair of OPSM Group Limited and Sydney Symphony Holdings Limited. Helen has had 35 years experience at Westpac Banking Corporation, including membership of its executive team, before retiring in 1994.

### Max Ould

Director, Independent Non-Executive

BEcon, Age 57

Max joined the Board of Pacific Brands Holdings Pty Ltd in September 2003, bringing leadership expertise in the consumer goods industry. Max was appointed to the Board of Pacific Brands Limited in February 2004.

Max is currently a director of Foster's Group Limited and The Australian Gas Light Company and has considerable experience in the Australian food industry, including previous roles as Managing Director of the East Asiatic Company, Chief Executive Officer of Peters Foods and Managing Director of National Foods Limited from 1996 to 2003.

### Maureen Plavsic

Director, Independent Non-Executive

Age 48

Maureen joined the Board of Pacific Brands Limited in May 2004, bringing a wealth of experience in advertising, media buying and brand marketing.

Maureen is currently a trustee of National Gallery of Victoria and was previously a director of Opera Australia. Maureen previously spent 14 years in various executive roles at the Seven Network, where she was also a Board member for five years. Her roles at the Seven Network included Director of Sales and Corporate Marketing and Managing Director and Chief Executive Officer, Broadcast Television. Maureen also held a major media role at Unilever for nearly three years.

# Corporate Governance Statement

Pacific Brands' directors and management are committed to conducting the Company's business ethically and in accordance with high standards of corporate governance.

This statement describes Pacific Brands' approach to corporate governance. The Board believes that Pacific Brands' policies and practices comply in all substantial respects with the ASX Corporate Governance Council's Principles of Good Corporate Governance. A checklist summarising this is found in section 17 of this Corporate Governance Statement.

## 1 Role and responsibilities

The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return and sustaining a stable of recognisable and successful brands.

In conducting business with these objectives, the Board is concerned to ensure that the Company is properly managed to protect and enhance shareholder interests, and that the Company, its directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has adopted corporate governance policies and practices designed to promote responsible management and conduct of the Company.

The Board has ultimate responsibility to establish policies regarding the business and affairs of the Company for the benefit of its shareholders and other stakeholders. The Board's key responsibilities include appointing the Chief Executive Officer, ensuring executive and Board succession planning, approving budgets and strategic plans, evaluating the performance of the Company against strategies and business plans, approving the Company's risk management strategy and monitoring its effectiveness, approving significant acquisitions or divestments, overseeing relations with shareholders and approving accounting policies and annual accounts. The Board delegates management of the Company's resources to senior management, under the leadership of the Chief Executive Officer, to deliver the strategic direction and goals determined by the Board. A key function of the Board is to monitor the performance of senior management in this function.

Details of the main policies of corporate governance adopted by the Company (including the Board's charter) can be found on the Company's website at www.pacificbrands.com.au.

## 2 Board appointment and composition

It is the Board's policy that there should be a majority of independent, non-executive directors. That is, the majority of directors should be free from any business or other relationship that could materially compromise their independent judgement. As an additional safeguard in preserving independence, the policy requires that the office of Chairman be held by an independent, non-executive director.

The Board considers a director to be independent where he or she is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the director's ability to act in the best interests of the Company. The Board will consider the materiality of any given relationship on a case by case basis and has adopted materiality guidelines to assist it in this regard. Under the Board's materiality guidelines, the following interests are regarded as, prima facie, material:

- a holding of 5% or more of the Company's shares; or
- an affiliation with a business which accounts for 5% or more of the revenue or expenses of the Company.

However, ultimately the Board will make a qualitative assessment of any factors or considerations which may, or might reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company. The Board reviews the independence of each director in light of interests disclosed to the Board from time to time, and directors are required to promptly disclose to the Board interests in contracts, other directorships or offices held, possible related party transactions and sales or purchases of the Company's shares.

The Board is currently made up of seven directors, five of whom are independent non-executive directors Details of the directors as at the date of this report, including their qualifications and experience are set out on pages 8 and 9.

In making recommendations to the Board regarding the appointment of directors, the Nomination and Remuneration Committee periodically assesses the appropriate mix of skills, experience and expertise required by the Board and assesses the extent to which the required skills and experience are represented on the Board. Nominations for appointment are then approved by the Board as a whole. Under the Company's Constitution and the Australian Stock Exchange Listing Rules, all directors other than the Chief Executive Officer are subject to shareholder re-election every three years.

The Company's Constitution requires directors to hold a minimum number of shares in the Company as determined by the Board from time to time, which is currently 500 shares, so that directors' interests are aligned with those of shareholders.

Directors' shareholdings are shown on page 18.

## 3 Board processes

The Board currently schedules 11 meetings per year. In addition, the Board meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. Extraordinary meetings take place at such other times as may be necessary to address any specific significant matters that may arise.

The table on page 18 shows the number of Board meetings held since the Company's incorporation in December 2003 and the attendance of each director.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Chairman and Chief Executive Officer, with periodic input from the Board. Comprehensive Board papers are distributed to directors in advance of scheduled meetings. Board meetings take place both at the Company's head office and at key operating sites, on a rotational basis, to assist the Board in its understanding of operational issues.

To assist the Board in the execution of its responsibilities, the Board has established an Audit, Business Risk and Compliance Committee and a Nomination and Remuneration Committee. Any issues of corporate governance which are not dealt with specifically by either committee are the responsibility of the full Board.

## 4 Audit, Business Risk and Compliance Committee

The Audit, Business Risk and Compliance Committee monitors and reviews the effectiveness of the Company's controls in the areas of operational and balance sheet risk, legal and regulatory compliance and financial reporting.

The committee discharges these responsibilities by:

- overseeing the adequacy of the controls established by senior management to identify and manage areas of potential risk and to safeguard the assets of the Company;
- overseeing the Company's relationships with the external auditor and the external audit function generally; and
- evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements and financial information provided to investors and the Board is accurate and reliable.

A copy of the committee's charter is available on the Company's website at: www.pacificbrands.com.au.

The committee has also adopted a policy on the provision of non-audit services and the rotation of external audit personnel. Subject to some limited exceptions, unless the committee determines otherwise, the auditor is prohibited from providing valuation and fairness opinions, internal audit services, advice on deal structuring, tax planning advice, IT systems services, executive recruitment services, material human resources functions or legal services or from acting as a broker, promoter or underwriter. The policy also requires the partner managing the Company's audit to be rotated within five years from the date of appointment. A copy of this policy is also available on the Company's website.

The committee's charter provides that the committee will comprise at least two non-executive directors, a majority of whom are independent. The current members of the committee are:

- Max Ould (Chair);
- Andrew Cummins; and
- Pat Handley.

The committee is scheduled to meet seven times in the 2005 financial year. The table on page 18 shows the number of committee meetings held since the Company's incorporation in December 2003 and the attendance of each director.

Members of management and the external auditors may also attend meetings of the committee by invitation. The committee may also have access to financial and legal advisers, in accordance with the Board's general policy.

## 5 Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for matters relating to succession planning, recruitment and the appointment and remuneration of the directors and the Chief Executive Officer. The committee also oversees succession planning, selection and appointment practices and remuneration guidelines for other management and employees.

The responsibilities of the committee include:

- assessing Board composition, strategic function and size;
- overseeing the effectiveness of the Board, its committees and individual directors;
- overseeing the selection and appointment practices for Non-Executive Directors and management of the Company;
- developing succession plans for the Board and overseeing the development of succession planning in relation to the Chief Executive Officer and senior management;
- making recommendations to the Board on the Chief Executive Officer's remuneration (including short and long term incentive plans); and
- reviewing and approving recommendations from the Chief Executive Officer on total levels of remuneration, and performance targets, for senior executives reporting to the Chief Executive Officer.

In making recommendations to the Board regarding the appointment of directors, the committee periodically assesses the appropriate mix of skills, experience and expertise required on the Board and assesses the extent to which the required skills and experience are represented on the Board.

The committee may obtain information from, and consult with, management and external advisers, as it considers appropriate.

A copy of the committee's charter is available on the Company's website at: www.pacificbrands.com.au.

The committee's charter provides that the majority of the committee members will be independent directors. The committee presently consists of three non-executive directors and the Chief Executive Officer as follows:

- Helen Lynch AM (Chair);
- Andrew Cummins;
- Paul Moore; and
- Maureen Plavsic.

The Chief Executive Officer does not participate in deliberations of the committee where he has a personal interest.

The General Manager, People attends meetings of the committee on an ex-officio basis.

The committee is scheduled to meet three times in the 2005 financial year. The table on page 18 shows the number of committee meetings held since the Company's incorporation in December 2003 and the attendance of each director.

## 6 Review of Board performance

The performance of the Board is to be reviewed annually by the Board.

The Nomination and Remuneration Committee may assist the Chairman in evaluating the Board's performance.

The evaluation will review:

- the Board's membership and charter;
- Board processes and its committees' effectiveness in supporting the Board; and
- the Board's performance.

A review of each director's performance will also be undertaken by the Chairman, with the assistance of the Nomination and Remuneration Committee, prior to the director standing for re-election, although the Board has determined that in respect of the two directors standing for re-election at this year's Annual General Meeting a performance review is unnecessary, given the directors concerned have held office for less than 12 months.

As the current Board has been operating for less than a year, no formal performance appraisal was conducted during the period between incorporation in December 2003 and 30 June 2004. The directors are currently considering the appropriate processes to be adopted to conduct the evaluation, which will be disclosed when finalised.

## 7 Access to information and independent advice

Each director has the right of access to all relevant Company information and to the Company's senior management, external advisers and auditors. Directors may also seek independent professional advice at the Company's expense. Any director seeking such advice is required to make a formal request to the Chairman. Where the Chairman wishes to seek independent advice, he must make a formal request to the Chair of the Audit, Business Risk and Compliance Committee. Any advice so received must be made available to all other directors. Pursuant to a deed executed by the Company and each director, a director also has the right to have access to all documents which have been presented to meetings of the Board or to any committee of the Board or otherwise made available to the director whilst in office. This right continues for a term of seven years after ceasing to be a director or such longer period as is necessary to determine relevant legal proceedings that commenced during that term.

## 8 Risk management

The Company is committed to the proper identification and management of risk. The Company has in place a process to identify and measure business risk, including regular review of results from its risk identification procedures. The Audit, Business Risk and Compliance Committee is charged with oversight of this process.

The Board receives regular reports about the financial condition and operational results of the Company. The Chief Executive Officer and Chief Financial Officer provide formal statements to the Board that in all material respects:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results and comply with relevant accounting standards; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

The Company regularly undertakes reviews of its risk management procedures which include implementation of a system of internal sign-offs to ensure not only that the Company complies with its legal obligations but that the Board, and ultimately shareholders, can take comfort that an appropriate system of checks and balances is in place regarding those areas of the business which present financial or operating risks.

The committee reviews the appropriateness of the framework adopted by the Company for managing operational risk issues and action plans to strengthen and improve risk control practices.

Details of the Company's policies relating to interest rate management, foreign exchange risk management and credit risk management are included in Notes 1 and 23 to the financial statements for the financial period from 12 December 2003 to 30 June 2004.

The Company has also adopted a code of conduct which sets out the Company's commitment to maintaining the highest level of integrity and ethical standards in all business practices. The code of conduct sets out for all directors, management and employees the standards of behaviour expected of them, and the steps that should be taken in the event of uncertainty or a suspected breach by a colleague. The code of conduct is discussed in more detail on page 13.

## 9 Continuous disclosure and keeping shareholders informed

The Company aims to ensure that shareholders are well-informed of all major developments affecting the state of affairs of the Company. To achieve this, the Company has implemented the following procedures:

- shareholders can gain access to information about the Company, including media releases, key policies, Annual Reports and financial accounts and the terms of reference of the Company's Board committees, through the Company's website at www.pacificbrands.com.au or by writing to the Company Secretary at the Company's Registered Office address;
- all relevant announcements made to the market and any related information are posted on the Company's website as soon as they have been released to the ASX/NZX; and
- the Company encourages full participation of shareholders at its Annual General Meeting to ensure a high level of accountability and discussion of the Company's strategy and goals. The Company also invites the external auditor to attend its Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company's commitment to keeping shareholders fully informed is embodied in the Company's Shareholder Communications Policy, a copy of which can be found on the Company's website at www.pacificbrands.com.au.

The Company is fully aware of the obligations under the Corporations Act 2001, and the ASX and NZX Listing Rules, to keep the market fully informed of information which is not generally available and which may have a material effect on the price or value of the Company's securities. The Company has adopted a policy which establishes procedures to ensure that directors and management are aware of and fulfill their obligations in relation to the timely disclosure of material price-sensitive information. Information must not be selectively disclosed prior to being announced to the ASX and NZX. Directors and senior management must notify the Company Secretary as soon as they become aware of information that should be considered for release to the market. The Company Secretary is the person responsible for communication with the ASX and NZX. A copy of the Company's Continuous Disclosure Policy may be found on the Company's website at www.pacificbrands.com.au.

## 10 Trading in shares by directors and employees

The Company has adopted guidelines for dealing in securities which are intended to explain what is prohibited conduct in relation to dealings in securities under the Corporations Act 2001 and the Securities Markets Act 1988 (NZ). The guidelines also establish a best practice procedure in relation to directors, managements and employees dealings in the Company's shares.

Subject to the overriding restriction that persons may not deal in shares while they are in possession of material price-sensitive information, directors, management and employees will only be permitted to deal in shares during certain "window periods", such as following release of the Company's financial results and the Annual General Meeting. Outside of these periods, directors, management and employees must receive clearance for any proposed dealing in shares with such clearance only to be granted in exceptional circumstances. A separate procedure has been adopted for dealings by directors, management and employees on the NZX or off-market in New Zealand.

Except in circumstances of special hardship, with the Chairman's approval, employees may not buy and sell the Company's shares within a three month period.

A copy of the Company's Guidelines for Dealing in Securities is available on the Company's website at www.pacificbrands.com.au.

## 11 Ethical standards

The Board believes it is important to provide employees with a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct. Accordingly, the Company adopted a code of conduct which outlines how the Company expects directors and employees to behave and conduct business in a range of circumstances. In particular, the code requires:

- awareness of, and compliance with, laws and regulations relevant to the Company's operations including environmental laws and the Trade Practices Act 1974 and equivalent overseas legislation;
- all business transactions to be conducted solely in the best interests of the Company and for directors and employees to avoid situations where their personal interest could conflict with interests of the Company;
- employees and directors to protect any Company assets under their control and not to use Company assets for personal purposes, without prior Company approval;
- employees and directors to respect the privacy of others and comply with the Company's privacy policy;
- employees and directors not to disclose or use in any improper manner confidential information about the Company, its customers or affairs.

A copy of the code of conduct is available on the Company's website at www.pacificbrands.com.au.

The Company also has in place an Occupational Health and Safety Policy which outlines the methods and practices that the Company requires to be observed to provide a working environment, which is free, as far as practicable, from risk of injury or disease for the Company's employees, visitors and contractors. Occupational health and safety key performance indicators are reported to the Board on a regular basis to assist the Board in monitoring compliance with the Company's Occupational Health and Safety Policy.

## 12 Code of conduct for suppliers

The Company is committed to ethical and responsible conduct in all of its operations and respect for the rights of all individuals and the environment. The Company expects these same commitments to be shared by all suppliers of its products and seeks to enforce this policy through a formal code of conduct, which includes:

- not using child labour;
- not using any forced or involuntary labour; and
- providing employees with a safe and healthy workplace in compliance with all applicable laws and regulations.

The Company periodically conducts audits of its suppliers and in the event that a supplier is unable or unwilling to achieve compliance, the Company reserves the right to terminate or suspend the relevant supply contract.

## 13 Environment

The Company's operations are subject to environmental laws and regulations, the details of which vary depending upon the jurisdiction in which the operation is located. These environmental laws and regulations control the use of land, the erection of buildings and structures on land, the emission of substances to water, land and atmosphere, the emission of noise and odours, the treatment and disposal of waste, and the investigation and remediation of soil and groundwater contamination.

The Company has procedures in place designed to ensure compliance with all environmental regulatory requirements.

## 14 Non-executive director remuneration

Non-executive directors are paid an annual fee for their service on the Board and all committees of the Board within the maximum aggregate sum for such directors approved from time to time by shareholders. The current maximum aggregate sum is $1,000,000 per annum, which is intended to provide the Board with scope to appoint new directors in the future.

Directors are paid a fee for their contribution to the Board and committees of the Board. The Nomination & Remuneration Committee makes recommendations to the Board on the total level of remuneration of non-executive directors and individual fees for non-executive directors (including the Chairman), including any additional fees payable to directors for membership of Board committees. In order to ensure the objectivity and independence of non-executive directors, these fees are not performance based.

The aggregate fees paid to the non-executive directors during the 2004 financial period from 12 December 2003 to 30 June 2004 was $171,250. On an annualised, basis this would amount to $720,000 in non-executive directors' fees.

A minimum of 25% of a non-executive director's annual fee must be taken in the form of shares pursuant to the Non-Executive Director Share Plan. Shares acquired under the Non-Executive Director Share Plan must, in general, be held for the period the director holds office as a Director. Further details in respect of the Non-Executive Director Share Plan are found on page 53.

The Board has determined that, at present, retirement benefits are not payable to non-executive directors upon their retirement.

## 15 Remuneration of executive directors and senior executives

The remuneration of senior executives, and the performance targets for senior executives reporting to the Chief Executive Officer, are reviewed by the Nomination and Remuneration Committee (the composition of which is discussed on page 12). This committee is also responsible for both reviewing and making recommendations to the Board on the remuneration for the Chief Executive Officer, including short term and long term incentives.

Remuneration of executive directors and senior executives comprises a base component together with an incentive component which is "at risk". Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Nomination and Remuneration Committee obtains independent advice from external specialists on the appropriateness of remuneration packages in the context of remuneration packages offered by comparable companies.

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are based on the achievement of growth targets in the consolidated entity's profit after tax performance. The payment of bonuses can be cancelled, individually or collectively, at the discretion of the Chief Executive Officer, to take account of other material circumstances within the Company or the business environment. Bonuses are not payable to non-executive directors.

The Company has also established a long term incentive scheme for selected key senior executives, referred to as the Performance Rights Plan ("PRP"). The PRP was effectively approved by shareholders, the terms and conditions of the PRP having been fully disclosed in the Company's prospectus lodged with the Australian Securities & Investments Commission as part of the Company's IPO in April, 2004. Under the PRP, eligible executives may be granted performance rights (each being an entitlement to a share in the Company, subject to the satisfaction of vesting conditions, principally related to financial performance) on terms and conditions determined by the Board. If the vesting conditions are satisfied, the performance rights vest and shares will be delivered to the executive. The terms and conditions of the PRP, including the vesting conditions, are discussed in more detail in Note 28 to the Financial Statements of the Company.

At the end of the 2004 financial period an initial grant under the PRP had been made to the Chief Executive Officer, Chief Financial Officer and certain other senior management employees. The Company will value and disclose all performance rights granted under the PRP in accordance with relevant Australian Accounting Standards.

The rules of the PRP provide that the Board may determine a price that is payable upon allocation of a share following vesting of a performance right, or that no amount is payable by the executive upon allocation of a share once a performance right vests. The Board has determined that no amount is payable by the Chief Executive Officer, the Chief Financial Officer and other senior management on the vesting of their initial grant of rights.

The amount of remuneration, and all monetary and non-monetary components, for each of:

- the directors; and
- the five officers of the Company and the consolidated entity continuing in employment receiving the highest emoluments; and
- the five specified executives of the Company and the consolidated entity with the greatest authority is detailed on page 46.

## 16 Comparison of NZX and ASX corporate governance rules

The following statement is included in compliance with NZX Listing Rule 5.1.6(d), which requires the Company, as an "Overseas Listed Issuer" on the NZX, to include a statement in its Annual Report of any ASX corporate governance rules and principles ("ASX corporate governance rules") that materially differ from NZX's corporate governance rules and principles in the NZX Corporate Governance Best Practice Code ("NZX corporate governance rules").

As a general matter, the Australian equivalent of a number of the NZX corporate governance rules are contained in the Australian Corporations Act 2001 rather than the ASX Listing Rules.

Some differences arise between the corporate governance rules of the ASX and NZX because the relevant matters are mandatory under the NZX corporate governance rules but only best practice recommendations under the ASX corporate governance rules (requiring disclosure of non-compliance in the issuer's Annual Report). The Company has determined to adopt these ASX best practice recommendations in relation to corporate governance. However, for completeness the following differences may be considered material:

- the NZX Listing Rules require that a board consist of at least two independent directors or, if there are eight or more directors, three or one-third (rounded down, to the nearest whole number) of the total number of directors, whichever is the greater. The ASX Listing Rules contain no equivalent requirement, however, the ASX corporate governance rules recommend that the board of a listed issuer consist of a majority of independent directors. The Board of the Company does consist of a majority of independent directors; and
- the NZX Listing Rules also require the board to make determinations periodically as to the independence of directors and to make appropriate releases to the market. The ASX corporate governance rules require disclosure in the Annual Report only.

In addition, under the NZX Listing Rules, no obligation to pay any amount which is unpaid on any security may be cancelled, reduced or deferred without an ordinary resolution of the issuer. Under the Company's Constitution, the directors may waive or compromise all or part of any payment due. This difference between Australian legal requirements and the corporate governance rules of the NZX may also be considered material.

## 17 ASX Corporate Governance Council Best Practice Recommendations

| | ASX Principle | Reference[1] | Compliance |
|---|---|---|---|
| **Principle 1:** | **Lay solid foundations for management and oversight** | | |
| 1.1 | Formalise and disclose the functions reserved to the board and those delegated to management. | 1 | Comply |
| **Principle 2:** | **Structure the board to add value** | | |
| 2.1 | A majority of the board should be independent directors. | 2 | Comply |
| 2.2 | The chairperson should be an independent director. | 2 | Comply |
| 2.3 | The roles of chairperson and chief executive officer should not be exercised by the same individual. | 2 | Comply |
| 2.4 | The board should establish a nomination committee. | 5 | Comply |
| 2.5 | Provide the information indicated in Guide to reporting on Principle 2. | 1, 2, 5, 7, Board Members (pages 8 & 9), Directors' Report (page 18) | Comply |

[1] All references are to sections of this Corporate Governance Statement unless stated otherwise.

| | ASX Principle | Reference[1] | Compliance |
|---|---|---|---|
| **Principle 3:** | **Promote ethical and responsible decision-making** | | |
| 3.1 | Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:<br>3.1.1 the practices necessary to maintain confidence in the company's integrity<br>3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | 11 | Comply |
| 3.2 | Disclose the policy concerning trading in company securities by directors, officers and employees. | 10 | Comply |
| 3.3 | Provide the information indicated in Guide to reporting on Principle 3. | 10, 11 | Comply |
| **Principle 4:** | **Safeguard integrity in financial reporting** | | |
| 4.1 | Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. | 8 | Comply |
| 4.2 | The board should establish an audit committee. | 4 | Comply |
| 4.3 | Structure the audit committee so that it consists of:<br>• Only non-executive directors<br>• A majority of independent directors<br>• An independent chairperson, who is not chairperson of the board<br>• At least three members | 4<br>4 | Comply |
| 4.4 | The audit committee should have a formal charter. | 4 | Comply |
| 4.5 | Provide the information indicated in Guide to reporting on Principle 4. | 4, Directors' Report (page 18) | Comply |
| **Principle 5:** | **Make timely and balanced disclosure** | | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. | 9 | Comply |
| 5.2 | Provide the information indicated in Guide to reporting on Principle 5. | 9 | Comply |
| **Principle 6:** | **Respect the rights of shareholders** | | |
| 6.1 | Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings. | 9 | Comply |
| 6.2 | Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. | 9 | Comply |

[1] All references are to sections of this Corporate Governance Statement unless stated otherwise.

| | ASX Principle | Reference[1] | Compliance |
|---|---|---|---|
| **Principle 7:** | **Recognise and manage risk** | | |
| 7.1 | The board or appropriate board committee should establish policies on risk oversight and management. | 8 | Comply |
| 7.2 | The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:<br>7.2.1 the statement given in accordance with best practice recommendations 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.<br>7.2.2 the statement given in accordance with best practice recommendations 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board | 8 | Comply |
| 7.3 | Provide the information indicated in Guide to reporting on Principle 7. | 4, 8 | Comply |
| **Principle 8:** | **Encourage enhanced performance** | | |
| 8.1 | Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives. | 5, 6, 15 | Comply |
| **Principle 9:** | **Remunerate fairly and responsibly** | | |
| 9.1 | Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance. | 15, Directors' Report (page 18), Note 28(c) to the Financial Statements | Comply |
| 9.2 | The board should establish a remuneration committee. | 5 | Comply |
| 9.3 | Clearly distinguish the structure of non-executive directors' remuneration from that of executives. | 14, Note 28(c) to the Financial Statements | Comply |
| 9.4 | Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders | 15 | Comply |
| 9.5 | Provide the information indicated in Guide to reporting on Principle 9. | 5, 14, 15, Directors' Report (page 18) | Comply |
| **Principle 10:** | **Recognise the legitimate interests of stakeholders** | | |
| 10.1 | Establish and disclose a code of conduct to guide compliance with legal and other obligations. | 11 | Comply |

[1] All references are to sections of this Corporate Governance Statement unless stated otherwise.

# Directors' Report

The directors of Pacific Brands Limited ("the Company") present the financial report of the Company and its controlled entities (collectively the "consolidated entity") for the period from 12 December 2003 to 30 June 2004 and the auditor's report thereon.

## Directors

The directors of the Company during the financial period and up to the date of this report are:

| | |
|---|---|
| R.P. Handley, Chairman | A.D. Cummins |
| H.A. Lynch, Deputy Chair | M.G. Ould |
| P.R. Moore, Chief Executive Officer | M.A. Plavsic. |
| S.J. Tierney, Chief Financial Officer | |

The office of company secretary is held by J.C. Grover LLB, BComm, FCIS. Particulars of directors' qualifications, experience and special responsibilities are detailed on pages 8 to 12 of the Annual Report.

## Directors' interests in share capital

The relevant interest of each director in the share capital of the Company as at the date of this report is as follows:

| | Fully paid ordinary shares |
|---|---|
| R.P. Handley | 1,214,853 |
| H.A. Lynch | 49,276 |
| P.R. Moore | 1,220,001 |
| S.J. Tierney | 400,001 |
| A.D. Cummins | 215,776 |
| M.G. Ould | 46,722 |
| M.A. Plavsic | 3,234 |

The executive directors and certain members of the senior management team have agreed with the Company that they will not dispose of their shares in the Company, acquired at the time of the Company's Initial Public Offering, prior to the announcement of the preliminary final result of the Company in respect of the financial year ending 30 June 2005 (anticipated to be in August 2005). The aggregate number of fully paid ordinary shares subject to this voluntary restriction is 3,200,000.

## Directors' meetings

The numbers of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the period from 12 December 2003 to the date of this report is:

| Director | Board | | Audit, Business Risk and Compliance Committee | | Nomination and Remuneration Committee | |
|---|---|---|---|---|---|---|
| | Held (1) | Attended (2) | Held (1) | Attended (2) | Held (1) | Attended (2) |
| R.P. Handley | 8 | 8 | 3 | 3 | | |
| H.A. Lynch | 8 | 8 | | | 2 | 2 |
| P.R. Moore | 8 | 8 | | | 2 | 2 |
| S.J. Tierney | 8 | 8 | | | | |
| A.D. Cummins | 8 | 8 | 3 | 3 | | |
| M.G. Ould | 8 | 8 | 3 | 3 | 2 | 2 |
| M.A. Plavsic | 4 | 4 | | | | |

(1) This column shows the number of meetings held during the period the director was a member of the Board or Committee.

(2) This column shows the number of meetings attended.

## State of affairs

The Company was registered in Victoria, Australia on 12 December 2003 as a public company. The Company was listed on the Australian Stock Exchange on 2 April 2004, raising $1,204.4 million (net of float costs). The Company was dormant until 6 April 2004 when the consolidated entity acquired the following legal entities for $1,203.7 million:

- Pacific Brands Holdings Pty Ltd;
- Pacific Brands Holdings (NZ) Ltd;
- Pacific Brands Holdings (Hong Kong) Ltd;
- Pacific Brands (UK) Ltd;
- PacBrands USA Inc; and
- Pacific Brands (Fiji) Limited.

## Principal activities

The principal activities of the consolidated entity in the course of the financial period from 12 December 2003 to 30 June 2004, with trading commencing from 6 April 2004, were the manufacture, importation, marketing and wholesaling of branded clothing, footwear, and sporting goods, foam components and bedding products predominantly sold throughout the Asia-Pacific region. The consolidated entity also markets and wholesales clothing and footwear in Europe and the United States.

## Dividends

The directors have declared a final dividend of $17.6 million to be paid at the rate of 3.5 cents per share on 503,000,003 ordinary shares. The dividend is expected to be paid on 27 September 2004 to shareholders on the register at the record date of 10 September 2004. This dividend will be fully franked at the 30% corporate tax rate in Australia.

## Review and results of operations

A review of the operations of the consolidated entity during the period from 12 December 2003 to 30 June 2004, with trading commencing from 6 April 2004, and of the results of those operations is contained on pages 4 to 7 of the Annual Report.

## Events subsequent to reporting date

The Board has approved the following grants of performance rights to specified executives, at no cost to the executive, under the PRP, effective 1 July 2004:

- 500,000 performance rights to P.R. Moore;
- 300,000 performance rights to S.J. Tierney;
- 250,000 performance rights to S.J. Audsley;
- 200,000 performance rights to I.C. Barton;
- 200,000 performance rights to M.S. Daniel;
- 200,000 performance rights to M.J. Ford; and
- 250,000 performance rights to S.M. Morphet.

The Board has granted a further 600,000 performance rights (in aggregate) to "non-specified" executives.

There has not arisen in the interval between the end of the financial period and the date of this report any other 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.

## Likely developments

Likely developments in the operations of the consolidated entity and the expected results of those operations are covered generally in the review of operations of the consolidated entity on pages 4 to 7 of the Annual Report.

Further information as to likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial periods has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the consolidated entity.

## Directors' and senior executives' emoluments

Particulars of directors, their experience and special responsibilities are detailed on pages 8 to 12 of the Annual Report.

Details of the nature and amount of each element of remuneration of each director of the Company and each of the five named officers of the consolidated entity receiving the highest remuneration for the financial period from 12 December 2003 to 30 June 2004, where no remuneration was paid or payable until trading commenced on 6 April 2004, are included in the following table:

| | Base remuneration (salary and fees) $[2] | Bonuses $ | Non-cash benefits $ | Superannuation contributions $ | Total $ |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| ***Non-executive*** [1] | | | | | |
| R.P. Handley | 41,714 | - | 15,625 | 5,161 | 62,500 |
| A.D. Cummins | 10,958 | - | 13,125 | 2,167 | 26,250 |
| H.A. Lynch | 22,329 | - | 12,075 | 3,096 | 37,500 |
| M.G. Ould | 16,154 | - | 9,075 | 2,271 | 27,500 |
| M.A. Plavsic | 11,680 | - | 4,375 | 1,445 | 17,500 |
| ***Executive*** | | | | | |
| P.R. Moore | 172,791 | 83,713 | 11,589 | 48,553 | 316,646 |
| S.J. Tierney | 89,175 | 43,856 | 7,838 | 25,437 | 166,306 |
| **Executive Officers** | | | | | |
| S.J. Audsley | 75,678 | 35,390 | 7,693 | 17,341 | 136,102 |
| I.C. Barton | 66,468 | 30,391 | 7,563 | 17,627 | 122,049 |
| M.S. Daniel | 78,462 | 37,500 | 6,249 | 6,750 | 128,961 |
| S.M. Morphet | 61,366 | 34,942 | 14,488 | 17,121 | 127,917 |
| G.R. Nurse | 86,044 | 25,000 | 17,500 | 16,075 | 144,619 |

(1) Non-cash benefits in relation to non-executive directors relate to the purchase of shares under the Non-Executive Director Share Plan.

(2) Includes movements in annual leave and long service leave provisions.

Details of the nature and amount of each element of remuneration of each director of the Company and each of the five named officers of the consolidated entity receiving the highest remuneration for the pro-forma financial year ended 30 June 2004 in respect of service to the consolidated entity or its predecessors are included in the following table:

| | Base remuneration (salary and fees) $[3] | Bonuses $ | Non-cash benefits $ | Superannuation contributions $ | Total $ |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| ***Non-executive*** [1] | | | | | |
| R.P. Handley | 165,464 | - | 15,625 | 68,911 | 250,000 |
| A.D. Cummins | 67,208 | - | 13,125 | 2,167 | 82,500 |
| H.A. Lynch[2] | 70,113 | - | 12,075 | 7,396 | 89,584 |
| M.G. Ould[2] | 55,257 | - | 9,075 | 5,790 | 70,122 |
| M.A. Plavsic[2] | 11,680 | - | 4,375 | 1,445 | 17,500 |
| ***Executive*** | | | | | |
| P.R. Moore | 756,470 | 334,852 | 46,357 | 189,345 | 1,327,024 |
| S.J. Tierney | 382,919 | 175,425 | 32,662 | 84,502 | 675,508 |
| **Executive Officers** | | | | | |
| S.J. Audsley | 294,930 | 141,558 | 30,653 | 68,746 | 535,887 |
| I.C. Barton | 251,908 | 121,563 | 30,251 | 70,114 | 473,836 |
| M.S. Daniel | 305,120 | 150,000 | 25,648 | 27,000 | 507,768 |
| S.M. Morphet | 282,174 | 139,766 | 58,410 | 65,850 | 546,200 |
| G.R. Nurse | 370,615 | 100,000 | 70,000 | 64,298 | 604,913 |

(1) Non-cash benefits in relation to non-executive directors relate to the purchase of shares under the Non-Executive Director Share Plan.

(2) Indicates directors who were appointed during the pro-forma financial year ended 30 June 2004.

(3) Includes movements in annual leave and long service leave provisions.

### Non-executive directors' emoluments

Non-executive directors' fees, including committee fees, are determined by the Board within the aggregate annual amount of $1,000,000 which was approved by the Board immediately prior to listing of the Company on the Australian Stock Exchange. Non-executive directors are not entitled to any form of incentive payments.

## Indemnification and insurance of officers

In accordance with the Company's Constitution, the Company has agreed to indemnify every person who is, or has been, an officer of the Company or its controlled entities against any liability (including reasonable legal costs) incurred by the person as such an officer of the Company or its controlled entities, to the extent permitted by law and subject to the restrictions in section 199A of the Corporations Act 2001. Indemnified officers are the directors and secretaries of the Company or its controlled entities. During the financial period, there have been no claims made against any officer of the Company which would invoke the above indemnity.

The Company has paid a premium to maintain directors and officers insurance for all current and former directors and officers of the Company and its controlled entities.

## Environmental regulation

The consolidated entity's operations are subject to environmental laws and regulations, the details of which vary depending upon the jurisdiction in which the operation is located. These environmental laws and regulations control the use of land, the erection of buildings and structures on land, the emission of substances to water, land and atmosphere, the emission of noise and odours, the treatment and disposal of waste, and the investigation and remediation of soil and groundwater contamination.

The consolidated entity has procedures in place designed to ensure compliance with all environmental regulatory requirements.

## Rounding off

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 and 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 31st day of August 2004.

Signed in accordance with a resolution of the directors:

**Paul Moore**
Director

# Statements of Financial Performance

for the period from 12 December 2003 to 30 June 2004

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| Revenue from sale of goods | 2 | 363,367 | - |
| Other revenues from ordinary activities | 2 | 6,404 | 1,545 |
| Total revenue from ordinary activities | 2 | 369,771 | 1,545 |
| Cost of goods sold | | (218,802) | - |
| Freight and distribution expenses | | (22,661) | - |
| Sales, marketing and advertising expenses | | (64,493) | - |
| Information technology expenses | | (4,555) | - |
| Administrative expenses | | (19,405) | (344) |
| Borrowing expenses | 3 | (8,683) | - |
| Goodwill amortisation | 3 | (10,347) | - |
| **Profit from ordinary activities before income tax expense** | | **20,825** | **1,201** |
| Income tax expense relating to ordinary activities | 5 | (8,927) | (360) |
| **Net profit** | | **11,898** | **841** |
| Net profit attributable to outside equity interests | 22 | (106) | - |
| **Net profit attributable to members of the parent entity** | 20 | **11,792** | **841** |
| Net exchange difference relating to self-sustaining foreign operations | 19 | 1,693 | - |
| **Total changes in equity from non-owner related transactions attributable to the members of the parent entity** | | **13,485** | **841** |

| Basic earnings per share: | | | |
|---|---|---|---|
| Ordinary shares | 6 | 2.3 cents | |

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 25 to 55.

# Statements of Financial Position

as at 30 June 2004

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash assets | 8 | 99,273 | 13,586 |
| Receivables | 9 | 174,350 | 769 |
| Inventories | 10 | 253,632 | - |
| Current tax assets | 5 | - | 2,967 |
| Other | 12 | 8,158 | - |
| **Total current assets** | | **535,413** | **17,322** |
| **Non-current assets** | | | |
| Receivables | 9 | 41 | 1,203,714 |
| Other financial assets | 11 | 2,134 | - |
| Property, plant and equipment | 13 | 171,850 | - |
| Intangible assets | 14 | 1,199,783 | - |
| Deferred tax assets | 5 | 44,279 | 11,928 |
| Other | 12 | 3,482 | - |
| **Total non-current assets** | | **1,421,569** | **1,215,642** |
| **Total assets** | | **1,956,982** | **1,232,964** |
| **Current liabilities** | | | |
| Payables | 15 | 132,608 | 11,677 |
| Interest bearing liabilities | 16 | 2,014 | - |
| Current tax liabilities | | 14,314 | - |
| Provisions | 17 | 57,147 | - |
| **Total current liabilities** | | **206,083** | **11,677** |
| **Non-current liabilities** | | | |
| Payables | 15 | 12,451 | - |
| Interest bearing liabilities | 16 | 491,514 | - |
| Provisions | 17 | 8,326 | - |
| **Total non-current liabilities** | | **512,291** | **-** |
| **Total liabilities** | | **718,374** | **11,677** |
| **Net assets** | | **1,238,608** | **1,221,287** |
| **Equity** | | | |
| Contributed equity | 18 | 1,220,446 | 1,220,446 |
| Reserves | 19 | 1,693 | - |
| Retained profits | 20 | 11,792 | 841 |
| **Total parent entity interest** | | **1,233,931** | **1,221,287** |
| Outside equity interests | 22 | 4,677 | - |
| **Total equity** | | **1,238,608** | **1,221,287** |

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 25 to 55.

# Statements of Cash Flows

for the period from 12 December 2003 to 30 June 2004

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts in the course of operations | | 380,861 | - |
| Cash payments in the course of operations | | (316,033) | (239) |
| Interest received | | 1,835 | 1,545 |
| Borrowing costs paid | | (8,465) | - |
| Income taxes paid | | (6,259) | - |
| **Net cash provided by operating activities** | 26(b) | **51,939** | **1,306** |
| **Cash flows from investing activities** | | | |
| Payments for controlled entities (net of cash acquired) | 26(c) | (1,157,910) | - |
| Payments for property, plant and equipment | | (3,959) | - |
| Proceeds from sale of property, plant and equipment | | 339 | - |
| Loans to controlled entities | | - | (1,203,714) |
| Loans from controlled entities | | - | 11,574 |
| **Net cash used in investing activities** | | **(1,161,530)** | **(1,192,140)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 1,257,500 | 1,257,500 |
| Transaction costs from issue of shares | | (53,080) | (53,080) |
| Proceeds from borrowings | | 3,046 | - |
| Finance lease payments | | (152) | - |
| **Net cash provided by financing activities** | | **1,207,314** | **1,204,420** |
| **Net increase in cash held** | | **97,723** | **13,586** |
| **Cash at the beginning of the financial period** | | **-** | **-** |
| **Cash at the end of the financial period** | 26(a) | **97,723** | **13,586** |

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 25 to 55.

# Notes to the Financial Statements

For the period from 12 December 2003 to 30 June 2004

**Note**

# 1 Statement of significant accounting policies

## (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. It has been prepared on the basis of historical costs and except where stated, does not take into account the changing money values or fair values of assets. These accounting policies have been consistently applied by each entity in the consolidated entity during the financial period.

## (b) Reporting period

Pacific Brands Limited was registered in Victoria, Australia on 12 December 2003 as a public company. The Annual Report presents information for the financial period from 12 December 2003 to 30 June 2004.

On 6 April 2004, the consolidated entity acquired Pacific Brands Holdings Pty Ltd and its associated international operations. Operating activities of the consolidated entity commenced from this date. Refer Note 26(c).

The Annual Report prepared for the Company and its controlled entities includes the performance of the Company and its controlled entities since the date of the Company's incorporation on 12 December 2003, with trading commencing on 6 April 2004 through to 30 June 2004.

## (c) Comparatives

As this is the first reporting period for the Company and its controlled entities there are no comparative balances to include in this financial report.

## (d) Principles of consolidation

**Controlled entities**
The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases. Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

**Transactions eliminated on consolidation**
Unrealised gains and losses and inter-entity balances resulting from transactions with or between entities comprising the consolidated entity are eliminated in full on consolidation.

## (e) Revenue recognition

Revenues are recognised at fair value of the consideration received, net of the amount of goods and services tax ("GST") payable to the relevant taxation authority.

**Sale of goods**
Revenue from sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to customers outside the consolidated entity. For sale of goods, control passes when the goods are shipped and legal title passes to the customer.

**Interest revenue**
Interest revenue is recognised as it accrues.

**Government grants**
Revenue from government grants received is recognised as revenue when the consolidated entity receives the cash.

**Sale of non-current assets**
The gross proceeds of non-current asset sales are included as revenue of the consolidated entity and are brought to account at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal.

**Dividends**
Dividend revenue is recognised net of any franking credits. Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and are not recognised in revenue.

## 1 Statement of significant accounting policies (continued)

### (f) Borrowing costs

Borrowing costs include interest and amortisation of premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, finance charges in respect of finance leases and other related charges.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

### (g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant taxation authorities. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the statement of financial position.

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

### (h) Income tax

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on profit from ordinary activities adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

**Tax consolidation**

The Company will elect to consolidate with its wholly-owned Australian controlled companies for income tax purposes from 1 April 2004. The Company will be the head entity in the tax consolidated group comprising the Australian wholly-owned controlled companies set out in Note 25.

The new income tax consolidations tax law rules also provide the means for pooling of Australian group franking credits and disregarding intra-group transactions in calculating tax liabilities. Complex rules applicable upon election restrict the ability to bring tax losses into a consolidated group and permit reset of the tax cost base of assets in certain limited circumstances.

The consolidated entity has not amended any values as a consequence of the proposal to enter the tax consolidations regime.

### (i) Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

### (j) Receivables

Trade debtors are recognised as at the date goods are shipped and legal title passes to the customer and are principally on 30 day terms. The collectibility of debts is assessed at reporting date and specific allowance is made when collection is no longer probable.

### (k) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost includes direct materials, direct labour, other direct variable costs and allocated production overheads necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

**Manufacturing activities**

The cost of manufacturing inventories and work in progress are assigned on a first-in, first-out basis. Costs arising from exceptional wastage are expensed as incurred.

**Net realisable value**

Net realisable value is determined on the basis of each inventory line’s normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

Obsolete and slow moving stocks are allowed for, to ensure the inventories are recorded at net realisable value where such value is below cost.

# 1 Statement of significant accounting policies (continued)

## (l) Investments

**Controlled entities**
Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer to Note 1(o).

**Other entities**
Investments in other entities are carried at the lower of cost and recoverable amount.

## (m) Property, plant and equipment

**Acquisition**
Items of property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. The cost of property, plant and equipment constructed by the consolidated entity includes the cost of materials and direct labour.

**Depreciation and amortisation**
Items of property, plant and equipment are depreciated over their estimated useful lives as set out below.

Depreciation and amortisation is calculated on a straight line basis so as to write off the cost of each item of property, plant and equipment, excluding land, over its estimated useful life.

The expected useful lives are as follows:

- freehold buildings: 40 years;
- leasehold improvements: life of lease; and
- owned and leased plant and equipment: 3 to 10 years.

## (n) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

**Finance leases**
A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

**Operating leases**
Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

## (o) Recoverable amount of non-current assets valued on the cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written-down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value.

## (p) Payables

**Trade and other creditors**
Trade and other creditors are recognised for amounts to be paid in the future for goods and services received. Trade liabilities are normally settled on terms up to 60 days.

## (q) Interest bearing liabilities

Bank loans are carried at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in other creditors and accruals. Refer to Note 15.

# 1 Statement of significant accounting policies (continued)

## (r) Employee benefits

**Wages, salaries and annual leave**
Liabilities for employee benefits for wages, salaries and annual leave represent the present obligations resulting from employees' services provided up to the reporting date. The provisions have been calculated at undiscounted amounts based on expected wage and salary rates that the consolidated entity expects to pay as at reporting date and include related on-costs, such as workers' compensation insurance and payroll tax.

**Long service leave**
The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made by the consolidated entity resulting from employees' services provided up to the reporting date. Related on-costs have also been included in the provision.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

**Superannuation plans**
The consolidated entity contributes to various defined benefit and defined contribution superannuation plans. Employer contributions to these plans are recognised as an expense as they are made.

## (s) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

**Dividends**
A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

**Restructuring and employee termination benefits**
A provision for restructuring, including employee termination benefits, relating to an acquired entity or operation is recognised at the date of acquisition where:

- a detailed formal plan is developed by the earlier of three months after the date of the acquisition and the completion of this consolidated financial report; and
- the main features of the restructuring were announced, implementation of the restructuring commenced, or contracts were entered by the date of acquisition.

The provision only relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired. The provision includes liabilities for termination benefits that will be paid to employees of the acquired entity as a result of the restructuring.

Other provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefit has either commenced or been publicly announced, or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for. The liabilities for termination benefits that will be paid as a result of such restructurings are included in the provision for restructuring or termination benefits.

**Surplus lease space**
Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less.

The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

## (t) Accounting for acquisitions

Acquired businesses are accounted for on the basis of the cost method. Fair values are assigned at the date of acquisition to all the identifiable underlying assets acquired and to the liabilities assumed. Specific assessment is undertaken at the date of the acquisition of any appropriate additional costs to be incurred.

A liability for restructuring costs is only recognised as at the date of acquisition when there is a demonstrable commitment to restructuring together with a detailed plan. Further, the liability is only recognised when there is little or no discretion to avoid payment to other parties to settle such costs and a reliable estimate of the amount of the liability can be made.

# 1 Statement of significant accounting policies (continued)

## (u) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Acquired goodwill is capitalised and amortised to the statement of financial performance on a straight line basis over 20 years.

The benefits from the goodwill acquired may exceed 20 years but the goodwill is written off over periods not exceeding 20 years in compliance with Australian Accounting Standards. The unamortised balance of goodwill is reviewed at least at each reporting date to determine whether it is in excess of its recoverable amount. If the carrying amount exceeds its recoverable amount, the asset is written down to the lower amount, through a charge to the statement of financial performance.

## (v) Brandnames

Brandnames acquired on 6 April 2004 are recorded in the financial statements at cost based upon an independent valuation conducted by Interbrand. No amortisation is allowed for against the carrying value of these brandnames on the basis that the lives of these assets are considered indefinite at this point in time, as they are not currently associated with products which are likely to become commercially or technically obsolete.

The unamortised balance of brandnames is reviewed at least at each reporting date to determine whether it is in excess of its recoverable amount. If the carrying amount exceeds its recoverable amount, the asset is written down to the lower amount, through a charge to the statement of financial performance.

## (w) Foreign currency

**Transactions**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates thereof.

Amounts payable and receivable in foreign currencies at the reporting date are restated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial period in which the exchange rates change, except where:

- hedging specific anticipated transactions or net investments in self-sustaining operations (see Note 1(x)); and
- amounts payable or receivable in foreign currency form part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.

**Translation of controlled foreign operations**

The assets and liabilities of foreign operations within the consolidated entity that are self-sustaining are translated at the rates of exchange ruling on the reporting date. Equity items are translated at historical rates. The statement of financial performance is translated at a weighted average rate for the relevant period. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

## (x) Derivatives

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: interest rate swaps, forward foreign exchange contracts and foreign currency options. Derivative financial instruments are not held for speculative purposes.

**Hedges**

*Anticipated transactions*

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services or purchase of qualifying assets, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts payable or receivable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net payable or receivable is revalued using the foreign currency rates current at reporting date. Refer to Note 23.

The net amounts payable or receivable under interest rate and foreign currency options and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised the net payable or receivable is revalued using the interest or foreign currency rates current at reporting date. Refer to Note 23.

Option premiums are recorded in other assets when paid and included in the measurement of the transaction when it occurs.

## 1 Statement of significant accounting policies (continued)

### (x) Derivatives (continued)

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

*Net investment in foreign operation*

Foreign exchange differences relating to foreign currency transactions hedging a net investment in a self-sustaining foreign operation, together with any related income tax expense/revenue, are transferred to the foreign currency translation reserve on consolidation.

*Other hedges*

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the rates ruling on that date and any gains or losses are brought to account in the statement of financial performance.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

### (y) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The 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 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.

| | **Consolidated** 2004 $'000 | **The Company** 2004 $'000 |
|---|---|---|
| **2 Revenue from ordinary activities** | | |
| Sale of goods revenue from operating activities | 363,367 | - |
| **Other revenues** | | |
| *From operating activities* | | |
| Interest – other parties | 1,835 | 1,545 |
| Royalties received | 103 | - |
| Sundry income | 4,466 | - |
| Total other revenues | 6,404 | 1,545 |
| Total revenue from ordinary activities | 369,771 | 1,545 |

## 3 Profit from ordinary activities before income tax expense

**Profit from ordinary activities before income tax expense has been arrived at after charging the following items:**

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| Depreciation of: | | |
| Buildings | 418 | - |
| Plant and equipment | 3,463 | - |
| | 3,881 | - |
| Amortisation of: | | |
| Goodwill | 10,347 | - |
| Leased plant and equipment | 108 | - |
| | 10,455 | - |
| Total depreciation and amortisation | 14,336 | - |
| Borrowing costs: | | |
| Other parties | | |
| - bank loans and overdraft | 8,430 | - |
| - amortisation of deferred borrowing costs | 218 | - |
| - finance charges on capitalised leases | 35 | - |
| | 8,683 | - |
| Bad debts written off in relation to trade debtors | 214 | - |
| Amounts set aside to allow for: | | |
| Doubtful debts | 143 | - |
| Rebates, claims and allowances | 15,044 | - |
| Employee benefits | 10,635 | - |
| Net foreign exchange losses | 211 | - |
| Operating lease rental expense: | | |
| Minimum lease payments | 22,166 | - |

## 4 Auditors' remuneration

| | Consolidated 2004 $ | The Company 2004 $ |
|---|---|---|
| **Audit services** | | |
| ***Auditors of the Company*** | | |
| *KPMG Australia* | | |
| Audit of financial reports | 505,000 | - |
| *Overseas KPMG firms* | | |
| Audit of financial reports | 95,000 | - |
| | 600,000 | - |
| **Other services** | | |
| ***Auditors of the Company*** | | |
| *KPMG Australia* | | |
| Other assurance services | 286,000 | 286,000 |
| Taxation services | 27,729 | - |
| *Overseas KPMG firms* | | |
| Taxation services | 21,012 | - |
| Other assurance services | 2,661 | - |
| | 337,402 | 286,000 |

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|

## 5 Income tax expense

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| Prima facie income tax expense calculated at 30% on the profit from ordinary activities | 6,248 | 360 |
| Increase/(decrease) in income tax expense due to: | | |
| Amortisation of goodwill | 3,104 | - |
| Sundry items | (425) | - |
| Income tax expense attributable to profit from ordinary activities | 8,927 | 360 |
| Income tax expense attributable to profit from ordinary activities is made up of: | | |
| Current income tax provision | 11,399 | 360 |
| Future income tax benefit | (2,472) | - |
| | 8,927 | 360 |

Current and deferred tax assets of the Company represent tax losses recoverable.

## 6 Earnings per share

| | Consolidated 2004 $'000 |
|---|---|
| ***Earnings reconciliation*** | |
| Profit from ordinary activities after income tax expense | 11,898 |
| Less: outside equity interests | 106 |
| Basic earnings | 11,792 |

| | Consolidated 2004 Number |
|---|---|
| ***Weighted average number of shares used as the denominator*** | |
| **Number for basic earnings per share** | |
| Ordinary shares | 503,000,003 |

There are no dilutive potential ordinary shares, therefore, diluted EPS has not been calculated or disclosed.

## 7 Segment reporting

Inter-segment pricing is determined on an arm's length basis.

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

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

**Business segments**
The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

| | |
|---|---|
| Underwear & Hosiery | Marketer, wholesaler, importer and manufacturer of underwear, intimate apparel, socks and hosiery. |
| Outerwear & Sport | Marketer, wholesaler, importer and manufacturer of outerwear, sports clothing, sports footwear, and sporting equipment and hardgoods. |
| Home Comfort | Marketer, wholesaler, manufacturer and importer of foam, mattresses and bedding accessory products. |
| Footwear | Marketer, wholesaler, importer and manufacturer of footwear. |
| Other | Retail clearance outlets, administration functions and goodwill amortisation. |

| **Primary reporting Business segments** | Underwear & Hosiery 2004 $'000 | Outerwear & Sport 2004 $'000 | Home Comfort 2004 $'000 | Footwear 2004 $'000 | Other 2004 $'000 | Eliminations 2004 $'000 | Consolidated 2004 $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External segment revenue | 172,653 | 61,745 | 73,534 | 48,622 | 13,217 | - | 369,771 |
| Inter-segment revenue | - | 1,191 | - | 1,106 | - | (2,297) | - |
| Total segment revenue | 172,653 | 62,936 | 73,534 | 49,728 | 13,217 | (2,297) | 369,771 |
| **Result** | | | | | | | |
| Segment result | 22,584 | (1,416) | 5,950 | 2,487 | (8,780) | - | 20,825 |
| Income tax (expense)/benefit | (6,923) | (47) | (1,668) | (707) | 418 | - | (8,927) |
| Net profit | 15,661 | (1,463) | 4,282 | 1,780 | (8,362) | - | 11,898 |
| Depreciation and amortisation | 1,520 | 331 | 1,691 | 314 | 10,480 | - | 14,336 |
| Non-cash expenses other than depreciation and amortisation | 9,764 | 4,511 | 5,353 | 2,558 | 3,636 | - | 25,822 |
| Segment assets | 424,938 | 208,510 | 122,672 | 73,338 | 1,443,857 | (316,333) | 1,956,982 |
| Segment liabilities | 215,531 | 179,469 | 79,106 | 36,433 | 524,168 | (316,333) | 718,374 |
| Acquisitions of non-current assets | 882 | 1,365 | 1,351 | 54 | 307 | - | 3,959 |

## 7 Segment reporting (continued)

**Geographical segments**
In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets:

| | |
|---|---|
| Australia | Manufacturing facilities, distribution facilities and sales offices |
| New Zealand | Manufacturing facilities, distribution facilities and sales offices |
| Rest of world | Manufacturing facilities, distribution facilities and sales offices |

| | Australia | New Zealand | Rest of world | Consolidated |
|---|---|---|---|---|
| **Secondary reporting Geographical segments** | 2004 $'000 | 2004 $'000 | 2004 $'000 | 2004 $'000 |
| External segment revenue by location of customers | 312,259 | 34,113 | 23,399 | 369,771 |
| Segment assets by location of assets | 1,709,755 | 180,865 | 66,362 | 1,956,982 |
| Acquisitions of non-current assets | 3,455 | 175 | 329 | 3,959 |

| | Note | **Consolidated** 2004 $'000 | **The Company** 2004 $'000 |
|---|---|---|---|
| **8 Cash assets** | | | |
| Cash on hand | | 174 | - |
| Cash at bank | | 99,099 | 13,586 |
| | 26(a) | 99,273 | 13,586 |

The cash on deposit matures within 45 days and interest is paid at a weighted average interest rate of 4.6% per annum.

## 9 Receivables

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| **Current** | | | |
| Trade debtors | | 185,264 | - |
| Less provision for doubtful trade debtors | | (3,131) | - |
| Less provision for rebates, allowances, claims and settlement discounts | | (20,554) | - |
| | | 161,579 | - |
| Other debtors | | 12,771 | 769 |
| | | 174,350 | 769 |
| **Non-current** | | | |
| Amounts owing by controlled entities | 29 | - | 1,203,714 |
| Other debtors | | 41 | - |
| | | 41 | 1,203,714 |

Other debtor amounts generally arise from transactions outside the usual operating activities of the consolidated entity.

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| **10 Inventories** | | |
| Raw materials and stores | | |
| At cost | 52,670 | - |
| Less provision for inventory obsolescence | (1,820) | - |
| | 50,850 | - |
| Work in progress – at cost | 16,921 | - |
| Finished goods | | |
| At cost | 201,913 | - |
| Less provision for inventory obsolescence | (16,052) | - |
| | 185,861 | - |
| | 253,632 | - |
| **11 Other financial assets** | | |
| **Non-current** | | |
| Investments in associated entities – at cost | 2,134 | - |
| **12 Other assets** | | |
| **Current** | | |
| Deferred foreign currency hedge exchange difference and costs | 981 | - |
| Prepayments | 7,177 | - |
| | 8,158 | - |
| **Non-current** | | |
| Deferred borrowing costs | 3,700 | - |
| Accumulated amortisation | (218) | - |
| | 3,482 | - |

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|

## 13 Property, plant and equipment

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| *Freehold land* | | |
| At cost | 30,008 | - |
| *Freehold buildings* | | |
| At cost | 30,461 | - |
| Accumulated depreciation | (211) | - |
| | 30,250 | - |
| *Leasehold improvements* | | |
| At cost | 7,192 | - |
| Accumulated amortisation | (374) | - |
| | 6,818 | - |
| *Plant and equipment* | | |
| At cost | 103,533 | - |
| Accumulated depreciation | (4,295) | - |
| | 99,238 | - |
| *Leased plant and equipment* | | |
| At capitalised cost | 2,053 | - |
| Accumulated amortisation | (95) | - |
| | 1,958 | - |
| *Capital works in progress* | 3,578 | - |
| Total property, plant and equipment at net book value | 171,850 | - |

### Reconciliation

A reconciliation of the carrying amounts for each class of property, plant and equipment is set out below:

| | Freehold land $000 | Freehold buildings $000 | Leasehold improvements $000 | Plant and equipment $000 | Leased plant and equipment $000 | Capital works in progress $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| **Consolidated 2004** | | | | | | | |
| Carrying amount at the beginning of the financial period | - | - | - | - | - | - | - |
| Acquisitions through entities acquired | 29,825 | 30,156 | 6,540 | 99,551 | 2,125 | 2,719 | 170,916 |
| Additions | - | - | - | - | - | 3,959 | 3,959 |
| Transfer from/(to) capital works in progress | - | 46 | 113 | 2,963 | - | (3,122) | - |
| Disposals | - | - | (31) | (215) | (93) | - | (339) |
| Depreciation/amortisation | - | (227) | (191) | (3,463) | (108) | - | (3,989) |
| Net foreign currency differences on translation of self-sustaining operations | 183 | 275 | 387 | 402 | 34 | 22 | 1,303 |
| Carrying amount at the end of the financial period | 30,008 | 30,250 | 6,818 | 99,238 | 1,958 | 3,578 | 171,850 |

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|

## 14 Intangible assets

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| Goodwill – at cost | | 835,321 | - |
| Accumulated amortisation | | (10,538) | - |
| | | 824,783 | - |
| Brandnames – at cost | | 375,000 | - |
| Total net book value of intangibles | | 1,199,783 | - |

## 15 Payables

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| **Current** | | | |
| Trade creditors | | 110,686 | 104 |
| Amounts owing to controlled entities | 29 | - | 11,573 |
| Other creditors and accruals | | 21,922 | - |
| | | 132,608 | 11,677 |
| **Non-current** | | | |
| Other creditors | | 12,451 | - |

## 16 Interest bearing liabilities

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| **Current** | | | |
| Bank overdrafts – secured | 26(a) | 1,550 | - |
| Lease liabilities | 24 | 464 | - |
| | | 2,014 | - |
| **Non-current** | | | |
| Bank loans – secured | | 490,000 | - |
| Lease liabilities | 24 | 1,514 | - |
| | | 491,514 | - |

### Bank overdrafts

The bank overdraft of a controlled entity is secured by a guarantee from the Company.

Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 30 June 2004 is 6.9% per annum.

The total bank overdraft is also secured by the floating charge over the assets of the Australian and New Zealand controlled entities with a carrying amount of $1,891 million. The bank overdrafts are payable on demand and are subject to annual review.

### Finance lease liability

The consolidated entity's lease liabilities are secured by the leased assets of $2 million as in the event of default, the assets revert to the lessor.

### Bank loans

All bank loans are denominated in Australian dollars.

The bank loans are secured by a floating charge over the assets of the Australian and New Zealand controlled entities with a carrying amount of $1,891 million. The consolidated entity is also required to comply with various financial covenants which it has met.

In addition, the consolidated entity entered into a debtor securitisation arrangement by which it transfers to a third party its gross trade debtors in exchange for an immediate discounted cash payment while retaining an exposure to credit losses and continuing obligation to service its accounts with these customers. The maximum amount allowed to be drawn on this facility is $250 million. At 30 June 2004, this arrangement was drawn to $150 million. The gross trade debtors which have been securitised have been presented as trade debtors (see Note 9) with the secured borrowing included as a component of bank loans – secured.

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|

## 17 Provisions

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| **Current** | | | |
| Employee benefits | 27 | 51,821 | - |
| Restructuring and employee termination benefits | | 1,526 | - |
| Surplus leased premises | | 3,800 | - |
| | | 57,147 | - |
| **Non-current** | | | |
| Employee benefits | 27 | 8,326 | - |

**Reconciliation**

A reconciliation of the carrying amounts of each class of provision, except for employee benefits, is set out below:

| | Restructuring and employee termination benefits $'000 | Surplus leased premises $'000 |
|---|---|---|
| **Consolidated 2004** | | |
| Carrying amount at the beginning of the financial period | - | - |
| Increase through acquisition of entities | 1,723 | 3,800 |
| Additional provisions recognised during period | 113 | - |
| Payments | (310) | - |
| Carrying amount at the end of the financial period | 1,526 | 3,800 |

## 18 Contributed equity

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| **Share capital** | | |
| 503,000,003 ordinary shares, fully paid | 1,220,446 | 1,220,446 |
| **Movements during the financial period** | | |
| Balance at the beginning of the financial period | - | - |
| Shares issued: | | |
| 3 for cash on incorporation | - | - |
| 503,000,000 for cash pursuant to a prospectus | 1,257,500 | 1,257,500 |
| Net transaction costs arising from issue for cash pursuant to prospectus, recognised directly in equity | (37,054) | (37,054) |
| Balance at the end of the financial period | 1,220,446 | 1,220,446 |

**Terms and conditions**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|

## 19 Reserves

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| Foreign currency translation reserve | 1,693 | - |

### Foreign currency translation reserve

| **Movements during the financial period** | | |
|---|---|---|
| Balance at the beginning of the financial period | - | - |
| Translation of overseas controlled entities at the end of the financial period | 1,693 | - |
| Balance at the end of the financial period | 1,693 | - |

**Nature and purpose of reserve**

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation. Refer to accounting policy Note 1(w).

## 20 Retained profits

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| Balance at the beginning of the financial period | - | - |
| Net profit attributable to members of the parent entity | 11,792 | 841 |
| Balance at the end of the financial period | 11,792 | 841 |

## 21 Dividends

Since the end of the financial period, the directors have declared a final dividend of $17.6 million to be paid at the rate of 3.5 cents per share on 503,000,003 ordinary shares. This dividend will be fully franked at the 30% corporate tax rate in Australia based on the estimated tax payments for the financial year ending 30 June 2005.

The financial effects of these dividends has not been brought to account in the financial statements for the period ended 30 June 2004 and will be recognised in subsequent financial reports.

| | The Company 2004 $'000 |
|---|---|
| **Dividend franking account** | |
| 30% franking credits available to shareholders of the Company for subsequent financial periods | 2,924 |

The above available amounts are based on the balance of the dividend franking account at financial period end adjusted for franking credits that will arise from the payment of the current tax liability.

**Tax consolidation regime**

The Company will elect within the appropriate timeframe to consolidate with its wholly-owned Australian controlled companies for income tax purposes from 1 April 2004. All of the wholly-owned Australian controlled companies will become "subsidiary members" of the tax consolidated group, together with the Company.

The new income tax consolidation tax law rules also provide the means for pooling of Australian group franking credits and disregarding intra-group transactions in calculating tax liabilities. Complex rules applicable upon election restrict the ability to bring tax losses into a consolidated group and permit reset of the tax cost base of assets in certain limited circumstances.

The consolidated entity has not amended any values as a consequence of entering the tax consolidation regime.

| | Consolidated 2004 $'000 |
|---|---|

## 22 Outside equity interests

The outside equity interests relate to the 50% interest in Restonic (M) Sdn Bhd which is not held by the Company nor by one of its controlled entities.

| | Consolidated 2004 $'000 |
|---|---|
| **Outside equity interests in controlled entities comprise:** | |
| Interest in accumulated losses at the beginning of the financial period after adjustment for outside equity interests in entities acquired during the financial period | (245) |
| Net profit attributable to outside equity interests | 106 |
| Interest in accumulated losses at the end of the financial period | (139) |
| Interest in share capital | 4,293 |
| Interest in reserves | 523 |
| Total outside equity interests | 4,677 |

## 23 Additional financial instruments disclosure

### (a) Interest rate risk

The consolidated entity enters into interest rate swaps to manage cash flow risks associated with the interest rates on borrowings that are floating.

***Interest rate swaps***

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between two and five years. Each contract involves quarterly payment or receipt of the net amount of interest.

***Interest rate risk exposures***

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

| | | | Fixed interest maturing in: | | | |
|---|---|---|---|---|---|---|
| | Weighted average interest rate pa | Floating interest rate $'000 | 1 year or less $'000 | 1 to 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
| **2004** | | | | | | |
| ***Financial assets*** | | | | | | |
| Cash assets | 4.6% | 99,273 | - | - | - | 99,273 |
| Receivables | | - | - | - | 174,391 | 174,391 |
| Other financial assets | | - | - | - | 2,134 | 2,134 |
| | | 99,273 | - | - | 176,525 | 275,798 |
| ***Financial liabilities*** | | | | | | |
| Payables | | - | - | - | 145,059 | 145,059 |
| Bank overdrafts and loans | 6.9%[1] | 101,550 | - | 390,000 | - | 491,550 |
| Lease liabilities | 6.5% | - | 464 | 1,514 | - | 1,978 |
| Employee benefits | 5.0% | 60,147 | - | - | - | 60,147 |
| | | 161,697 | 464 | 391,514 | 145,059 | 698,734 |
| Interest rate swaps[2] | | (390,000) | - | 390,000 | - | - |

1 After incorporating the effect of interest rate swaps, forward agreements and options.

2 Notional principal amounts.

## 23 Additional financial instruments disclosure (continued)

### (b) Foreign exchange risk

From time to time in the ordinary course of business, the consolidated entity enters into forward exchange contracts to hedge a proportion of anticipated purchase and sale commitments denominated in foreign currencies (principally US dollars). The amount of anticipated future purchases and sales is forecast in light of current market conditions and commitments from customers. Hedge contracts are used to cover the next available trading exposure until all contacts are fully utilised. Hedge cover generally does not exceed 12 months.

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity:

| | **Consolidated** | |
|---|---|---|
| | 2004 | |
| | Weighted average rate | Australian dollar equivalent $'000 |
| *Not later than one year* | | |
| Buy US dollars | 0.71 | 161,761 |
| Buy Hong Kong dollars | 5.38 | 30,227 |
| Buy sterling pounds | 0.38 | 2,045 |
| Buy euros | 0.57 | 1,460 |
| Buy Japanese yen | 74.83 | 558 |
| Buy New Zealand dollars | 1.10 | 89 |

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales recognised in other current assets at Note 12 and the timing of their anticipated recognition as part of purchases and sales are:

| | **Consolidated** |
|---|---|
| | Net gains |
| | 2004 $'000 |
| Within 6 months | 894 |

This is a contract between two parties, which give the buyer of a put or call option the right, but not the obligation, to transact at a specified interest rate/exchange rate or commodity price at a future date, generally for a premium. Maturities are less than two years.

### (c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

***Recognised financial instruments***

The credit risk on financial assets, excluding investments, of the consolidated entity, which have been recognised in the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

***Unrecognised financial instruments***

Credit risk on derivative contracts, which have not been recognised in the statement of financial position, is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Interest rate swaps are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The credit risk on swap contracts is limited to the net amount to be received from counterparties on contracts that are favourable to the consolidated entity. The accrued amount due to the consolidated entity at 30 June 2004 amounted to $4,893,904.

## 23 Additional financial instruments disclosure (continued)

### (d) Net fair values of financial assets and liabilities

***Valuation approach***

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases.

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable on-market yield having regard to the timing of the cash flows. The carrying amounts of bank deposits, trade debtors, other debtors, bank overdrafts, accounts payable, bank loans, lease liabilities and employee benefits approximate net fair value due to their short term nature.

***Net fair values***

*Recognised financial instruments*

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

| | **Consolidated** 2004 | |
|---|---|---|
| | Carrying Amount $'000 | Net fair value $'000 |
| *Financial assets* | | |
| Cash assets | 99,273 | 99,273 |
| Receivables | 174,391 | 174,391 |
| Investments – associated entities | 2,134 | 2,134 |
| *Financial liabilities* | | |
| Payables | 145,059 | 145,059 |
| Bank overdrafts and loans | 491,550 | 491,550 |
| Lease liabilities | 1,978 | 1,978 |
| Employee benefits | 60,147 | 60,147 |

Cash assets are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

*Unrecognised financial instruments*

The net fair value of financial instruments not recognised on the statement of financial position held as at the reporting date is:

| | **Consolidated** 2004 $'000 |
|---|---|
| Interest rate swaps | 2,703 |

| | Consolidated 2004 $'000 |
|---|---|

## 24 Commitments

**Non-cancellable operating lease expense commitments**

| | Consolidated 2004 $'000 |
|---|---|
| Future operating lease commitments not provided for in the financial statements and payable: | |
| Within one year | 20,630 |
| One year or later and no later than five years | 49,689 |
| Later than five years | 16,777 |
| | 87,096 |

The consolidated entity leases property under non-cancellable operating leases expiring in two to seven years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| **Finance lease payment commitments** | | | |
| Finance lease commitments are payable: | | | |
| Within one year | | 576 | - |
| One year or later and no later than five years | | 1,672 | - |
| Later than five years | | - | - |
| | | 2,248 | - |
| Less future lease finance charges | | (270) | - |
| | | 1,978 | - |
| Lease liabilities provided for in the financial statements: | | | |
| Current | 16 | 464 | - |
| Non-current | 16 | 1,514 | - |
| Total lease liability | | 1,978 | - |

The consolidated entity leases motor vehicles under finance leases expiring in one to five years. At the end of the lease term, the consolidated entity has the option to purchase the motor vehicle at the agreed residual value.

## 25 Controlled entities

The following table outlines the particulars in relation to controlled entities:

| Name | Place of incorporation | Ordinary share Consolidated Entity interest 2004 % |
|---|---|---|
| **Parent entity** | | |
| Pacific Brands Limited | | |
| **Controlled entities** | | |
| Pacific Brands (Australia) Pty Ltd | Australia | 100% |
| Pacific Brands Holdings Pty Ltd | Australia[1] | 100% |
| Pacific Brands Footwear Pty Ltd | Australia | 100% |
| Sachi Australia Pty Ltd | Australia | 100% |
| Pacific Brands Sport & Leisure Pty Ltd | Australia | 100% |
| Pacific Brands Clothing Pty Ltd | Australia | 100% |
| Pacific Brands Household Products Pty Ltd | Australia | 100% |
| Bonds Industries Pty Ltd | Australia | 100% |
| Pacific Brands Services Group Pty Ltd | Australia | 100% |
| PT Berlei Indonesia | Indonesia | 100% |
| Restonic (M) Sdn Bhd | Malaysia | 50% |
| Dream Crafts Sdn Bhd | Malaysia | 50% |
| Dream Products Sdn Bhd | Malaysia | 50% |
| Dreamland Corporation (M) Sdn. Bhd | Malaysia | 50% |
| Dreamland (Singapore) Pte Ltd | Singapore | 50% |
| Dreamland Spring Manufacturing Sdn Bhd | Malaysia | 50% |
| Eurocoir Products Sdn Bhd | Malaysia | 50% |
| Sleepmaker Sdn Bhd | Malaysia | 50% |
| Pacific Brands Holdings (NZ) Ltd | New Zealand[2] | 100% |
| Pacific Brands Holdings (Hong Kong) Ltd | Hong Kong[2,3] | 100% |
| Grosby China Ltd | Hong Kong | 100% |
| Pacific Brands (Asia) Ltd | Hong Kong | 100% |
| Pacific Brands (UK) Ltd | UK[2] | 100% |
| PacBrands USA Inc | USA [2] | 100% |
| Pacific Brands (Fiji) Limited | Fiji[2] | 100% |

1. Acquired by Pacific Brands (Australia) Pty Ltd on 6 April 2004.
2. Acquired by Pacific Brands (Australia) Pty Ltd on 6 April 2004 – comprising entities that make up “associated international operations”.
3. Pacific Brands Holdings (Hong Kong) Ltd has a 36% interest in Dunlop Slazenger Philippines Inc and a 50% interest in Pacific Brands Marketing (Hong Kong) Ltd but does not have control of these entities.

## 26 Notes to the statements of cash flows

### (a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| Cash assets | 8 | 99,273 | 13,586 |
| Bank overdrafts | 16 | (1,550) | - |
| | | 97,723 | 13,586 |

### (b) Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities

| | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|
| Profit from ordinary activities after income tax | 11,898 | 841 |
| Add/(less) non-cash items: | | |
| Amortisation of goodwill | 10,347 | - |
| Amortisation of deferred borrowing costs | 218 | - |
| Amounts set aside to provisions | 25,822 | - |
| Depreciation and amortisation of property, plant and equipment | 3,989 | - |
| Unrealised foreign exchange loss | 3,151 | - |
| Increase in income taxes payable | 7,707 | 361 |
| Increase in current and deferred tax assets | (5,039) | - |
| Net cash provided by operating activities before change in assets and liabilities | 58,093 | 1,202 |
| Change in assets and liabilities | | |
| Decrease in receivables | 12,925 | - |
| Increase in inventories | (12,037) | - |
| Increase in prepayments | (685) | - |
| (Decrease)/increase in payables | (2,995) | 104 |
| Decrease in provisions | (3,362) | - |
| Net cash provided by operating activities | 51,939 | 1,306 |

## 26 Notes to the statements of cash flows (continued)

### (c) Acquisition of business

On 6 April 2004, the consolidated entity acquired Pacific Brands Holdings Pty Ltd and its associated international operations. Details of the acquisition are as follows:

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| Consideration | | 1,203,714 | - |
| Cash acquired | | (45,804) | - |
| Outflow of cash | | 1,157,910 | - |
| Fair value of net assets acquired: | | - | - |
| Cash assets | | 45,804 | - |
| Receivables | | 201,732 | - |
| Inventories | | 241,100 | - |
| Other assets | | 14,323 | - |
| Investments | | 1,936 | - |
| Property, plant and equipment | | 170,916 | - |
| Brandnames | | 375,000 | - |
| Deferred tax assets | | 27,312 | - |
| Payables | | (148,027) | - |
| Current tax liabilities | | (9,934) | - |
| Provisions | | (58,229) | - |
| Interest bearing liabilities | | (489,083) | - |
| Outside equity interests | | (4,145) | - |
| Net assets acquired | | 368,705 | - |
| Goodwill on acquisition | | 835,009 | - |
| Consideration (cash) | | 1,203,714 | - |

## 27 Employee benefits

| | Note | Consolidated 2004 $'000 | The Company 2004 $'000 |
|---|---|---|---|
| Aggregate liability for employee benefits, including on-costs: | | | |
| Current | 17 | 51,821 | - |
| Non-current | 17 | 8,326 | - |
| | | 60,147 | - |

A liability of $326,585 for termination benefits has been included in the provision for restructuring and employee termination benefits. Refer to Note 17.

The present values of employee benefits not expected to be settled within 12 months of reporting date have been calculated using the following weighted averages:

| | Consolidated 2004 $'000 |
|---|---|
| Assumed rate of increase in wage and salary rates (pa) | 4.0% |
| Discount rate (pa) | 5.5% |
| Settlement term (periods) | 10 years |
| **Number of employees** | |
| Number of employees at the end of the financial period | 7,172 |

## 27 Employee benefits (continued)

### Superannuation plans

The consolidated entity contributes to the Pacific Brands Superannuation Plan, various industry superannuation funds and a number of employee nominated superannuation funds.

**Pacific Brands Superannuation Plan**

The consolidated entity contributes to the Pacific Brands Superannuation Plan ("Plan"), which is a plan in the Mercer Super Trust, at rates advised from time to time by the Plan's actuary. The consolidated entity has been contributing at the rates set out in the previous actuarial review, as at 1 December 2001.

The actuarial assessment of the Plan as at 1 July 2004 was carried out by David Andrew Scott, Fellow of the Institute of Actuaries of Australia on behalf of Mercer Human Resource Consulting Pty Ltd. The results of the valuation were provided in a report dated August 2004. The actuary concluded that the assets of the Plan were sufficient to meet all benefits payable in the event of the Plan's termination, or the voluntary or compulsory termination of employment of each employee of the Company.

The Plan provides both defined benefits, based on years of service and final average salary, and accumulation benefits. With respect to the defined benefits component of the Plan, the accrued benefits, Plan assets at net market value and vested benefits are:

| | **1 July 2004** |
|---|---|
| | $'000 |
| Accrued benefits[1] | 42,386 |
| Plan assets at net market value | 43,410 |
| Excess | 1,024 |
| Vested benefits[2] | 42,386 |

**Note 1:** Accrued benefits have been determined based on the amount calculated by the actuary at the date of the most recent review, being 1 July 2004. Accrued benefits are benefits which the Plan is presently obliged to pay at some future date, as a result of membership of the Plan.

**Note 2:** Vested benefits are benefits which are not conditional upon the continued membership of the Plan or any factor, other than resignation from the Plan.

The Company is under no legal obligation to make up any shortfall in the Plan's assets to meet payments due to employees.

Details of contributions to the defined benefits component of the Plan during the financial period 12 December 2003 to 30 June 2004 and contributions payable at 30 June 2004 are as follows:

| | **2004** |
|---|---|
| | $'000 |
| Employer contributions to the Plan | 1,063 |
| Employer contributions payable to the Plan at reporting date | - |

## 28 Director and executive disclosures

### (a) Directors' and specific executives' interests in share capital

The following table provides the relevant interest in the share capital of the Company as at 30 June 2004 of all directors of the Company ("specified directors") and the five or more executives of the consolidated entity with the greatest authority ("specified executives"):

| | Title | Fully paid ordinary shares |
|---|---|---|
| **Specified directors** | | |
| R.P. Handley | Chairman | 1,211,178 |
| H.A. Lynch | Deputy Chair | 46,189 |
| P.R. Moore | Chief Executive Officer | 1,220,001 |
| S.J. Tierney | Chief Financial Officer | 400,001 |
| A.D. Cummins | Non-executive director | 212,689 |
| M.G. Ould | Non-executive director | 44,588 |
| M.A. Plavsic | Non-executive director | 1,690 |
| **Specified executives** | | |
| S.J. Audsley | Group General Manager, Underwear & Hosiery (Holeproof, Jockey, Hosiery and Clothing New Zealand) | 201,800 |
| I.C. Barton | Group General Manager, Home Comfort | 120,400 |
| M.S. Daniel | General Manager, Supply Chain | 120,400 |
| M.J. Ford | Group General Manager, Footwear | 200,400 |
| S.M. Morphet | Group General Manager, Underwear & Hosiery (Bonds and The Berlei Group) | 200,400 |

### (b) Non-executive director remuneration

Non-executive directors are paid an annual fee for their service on the Board and all committees of the Board within the maximum aggregate sum for such directors approved from time to time by shareholders. The current maximum aggregate sum is $1,000,000 per annum, which is intended to provide the Board with scope to appoint new directors in the future.

Directors are paid a fee for their contribution to the Board and committees of the Board. The Nomination & Remuneration Committee makes recommendations to the Board on the total level of remuneration of non-executive directors and individual fees for non-executive directors (including the Chairman), including any additional fees payable to directors for membership of Board committees. In order to ensure the objectivity and independence of non-executive directors, these fees are not performance based.

A minimum of 25% of a non-executive director's annual fee must be taken in the form of shares pursuant to the Non-Executive Director Share Plan. Shares acquired under the Non-Executive Director Share Plan must, in general, be held for the period the director holds office as a Director. Further details in respect of the Non-Executive Director Share Plan are found on page 52.

The Board has determined that, at present, retirement benefits are not payable to non-executive directors upon their retirement.

### (c) Remuneration of executive directors and senior executives

The remuneration of senior executives, and the performance targets for senior executives reporting to the Chief Executive Officer, are reviewed by the Nomination and Remuneration Committee (the composition of which is discussed on page 12). This committee is also responsible for both reviewing and making recommendations to the Board on the remuneration for the Chief Executive Officer, including short term and long term incentives.

Remuneration of executive directors and senior executives comprises a base component together with an incentive component which is "at risk". Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Nomination and Remuneration Committee obtains independent advice from external specialists on the appropriateness of remuneration packages in the context of remuneration packages offered by comparable companies.

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are based on the achievement of growth targets in the consolidated entity's profit after tax performance. The payment of bonuses can be cancelled, individually or collectively, at the discretion of the Chief Executive Officer, to take account of other material circumstances within the Company or the business environment. Bonuses are not payable to non-executive directors.

The Company has also established a long term incentive scheme for selected key senior executives, referred to as the Performance Rights Plan. The rules of the Performance Rights Plan provide that the Board may determine a price that is payable upon allocation of a share following vesting of a performance right, or that no amount is payable by the executive upon allocation of a share once a performance right vests. The Board has determined that no amount is payable by the Chief Executive Officer, the Chief Financial Officer and other senior management on the vesting of their initial grant of rights. Further details in respect of the Performance Rights Plan are found on page 52.

The Company has paid a premium to maintain directors and officers insurance for all current and former directors and officers of the Company and its controlled entities.

## 28 Director and executive disclosures (continued)

### (d) Remuneration of specified directors and specified executives by the consolidated entity

The following table provides the details of the specified directors and the specified executives and the nature and amount of the elements of their remuneration for the financial period from 12 December 2003 to 30 June 2004, where no remuneration was paid or payable until trading commenced on 6 April 2004:

| | Primary | | | Post-employment | |
|---|---|---|---|---|---|
| | Base remuneration (salary and fees) $[2] | Bonuses $ | Non-monetary benefits $ | Superannuation contributions $ | Total $ |
| **Specified Directors** | | | | | |
| *Non-executive*[1] | | | | | |
| R.P. Handley | 41,714 | - | 15,625 | 5,161 | 62,500 |
| A.D. Cummins | 10,958 | - | 13,125 | 2,167 | 26,250 |
| H.A. Lynch | 22,329 | - | 12,075 | 3,096 | 37,500 |
| M.G. Ould | 16,154 | - | 9,075 | 2,271 | 27,500 |
| M.A. Plavsic | 11,680 | - | 4,375 | 1,445 | 17,500 |
| *Executive* | | | | | |
| P.R. Moore | 172,791 | 83,713 | 11,589 | 48,553 | 316,646 |
| S.J. Tierney | 89,175 | 43,856 | 7,838 | 25,437 | 166,306 |
| Total directors | 364,801 | 127,569 | 73,702 | 88,130 | 654,202 |
| **Specified executives** | | | | | |
| S.J. Audsley | 75,678 | 35,390 | 7,693 | 17,341 | 136,102 |
| I.C. Barton | 66,468 | 30,391 | 7,563 | 17,627 | 122,049 |
| M.S. Daniel | 78,462 | 37,500 | 6,249 | 6,750 | 128,961 |
| M.J. Ford | 59,463 | 29,808 | 9,088 | 17,289 | 115,648 |
| S.M. Morphet | 61,366 | 34,942 | 14,488 | 17,121 | 127,917 |
| Total specified executives | 341,437 | 168,031 | 45,081 | 76,128 | 630,677 |

(1) Non-cash benefits in relation to non-executive directors relate to the purchase of shares under the Non-Executive Director Share Plan.

(2) Includes movements in annual leave and long service leave provisions.

# 28 Director and executive disclosures (continued)

## (d) Remuneration of specified directors and specified executives by the consolidated entity (continued)

The following table provides the details of the specified directors and the specified executives and the nature and amount of the elements of their remuneration for the pro-forma financial year ended 30 June 2004 with respect to service provided to the consolidated entity or its predecessors:

| | Primary | | | Post-employment | |
|---|---|---|---|---|---|
| | Base remuneration (salary and fees) $[3] | Bonuses $ | Non-monetary benefits $ | Superannuation contributions $ | Total $ |
| **Specified Directors** | | | | | |
| *Non-executive*[1] | | | | | |
| R.P. Handley | 165,464 | - | 15,625 | 68,911 | 250,000 |
| A.D. Cummins | 67,208 | - | 13,125 | 2,167 | 82,500 |
| H.A. Lynch[2] | 70,113 | - | 12,075 | 7,396 | 89,584 |
| M.G. Ould[2] | 55,257 | - | 9,075 | 5,790 | 70,122 |
| M.A. Plavsic[2] | 11,680 | - | 4,375 | 1,445 | 17,500 |
| *Executive* | | | | | |
| P.R. Moore | 756,470 | 334,852 | 46,357 | 189,345 | 1,327,024 |
| S.J. Tierney | 382,919 | 175,425 | 32,662 | 84,502 | 675,508 |
| Total directors | 1,502,861 | 510,277 | 133,294 | 359,556 | 2,505,988 |
| **Specified executives** | | | | | |
| S.J. Audsley | 294,930 | 141,558 | 30,653 | 68,746 | 535,887 |
| I.C. Barton | 251,908 | 121,563 | 30,251 | 70,114 | 473,836 |
| M.S. Daniel | 305,120 | 150,000 | 25,648 | 27,000 | 507,768 |
| M.J. Ford | 232,700 | 119,230 | 36,350 | 68,519 | 456,799 |
| S.M. Morphet | 282,174 | 139,766 | 58,410 | 65,850 | 546,200 |
| Total specified executives | 1,366,832 | 672,117 | 181,312 | 300,229 | 2,520,490 |

(1) Non-cash benefits in relation to non-executive directors relate to the purchase of shares under the Non-Executive Director Share Plan.

(2) Indicates directors who were appointed during the pro-forma financial year ended 30 June 2004.

(3) Includes movements in annual leave and long service leave provisions.

## (e) Deferred Shares

The employment contracts for the Chief Executive Officer and Chief Financial Officer, provide that a percentage of any annual incentive award to which they may become entitled is to be applied in acquiring shares (“Deferred Shares”), effective from 1 July 2004. The executives may elect to apply more of any incentive to acquiring shares which are subject to the “restriction” condition described below.

The actual amount of the annual incentive award is determined by the Board based on achievement of annual performance conditions. Performance will be tested at the end of the financial year ending 30 June 2005 and the end of each subsequent financial year of the executive’s employment. The Chief Executive Officer is required to apply half of any annual incentive in acquiring Deferred Shares, while the Chief Financial Officer is required to apply one third of any incentive towards the acquisition of Deferred Shares.

In general, Deferred Shares are subject to a vesting period, which requires the executive to be employed by the consolidated entity for a period of two years from the date of allocation. If the executive is terminated for cause prior to the end of the two year vesting period, entitlement to the Deferred Shares ceases. If the employment of the executive ceases in other circumstances, the executive will, in general, be entitled to receive his Deferred Shares.

Deferred shares allocated under this arrangement will be acquired on-market and will be held on trust for the executive subject to a restriction on dealing until the earlier to occur of:

- three years after the date of allocation of the Shares; or
- 12 months after the date of cessation of employment with the consolidated entity.

The balance of any annual incentive award will be paid to the executive in cash.

## 28 Director and executive disclosures (continued)

### (f) Senior executive and director share plans

The Company has introduced a number of share plans pursuant to which senior executives and directors may acquire shares. These are:

- the Performance Rights Plan (which is open to executive directors and selected senior executives); and
- the Non-Executive Directors Share Plan (which applies to all non-executive directors).

**Performance Rights Plan ("PRP")**

*General*
The PRP is the Company's long-term incentive scheme for selected key senior executives. Under the PRP, eligible executives will be granted performance rights (each being an entitlement to a share, subject to the satisfaction of vesting conditions, principally related to financial performance) on terms and conditions determined by the Board. If the vesting conditions are satisfied, the performance rights vest and shares will be delivered to the executive.

The performance rights will be valued as at the grant date, 1 July 2004. The determined valuation will be first reported in the financial report for the six months ended 31 December 2004.

*Grant of performance rights*
The Board has approved the following grants of performance rights to specified executives, at no cost to the executive, under the PRP, effective 1 July 2004:

- 500,000 performance rights to P.R. Moore;
- 300,000 performance rights to S.J. Tierney;
- 250,000 performance rights to S.J. Audsley;
- 200,000 performance rights to I.C. Barton;
- 200,000 performance rights to M.S. Daniel;
- 200,000 performance rights to M.J. Ford; and
- 250,000 performance rights to S.M. Morphet.

The Board has granted a further 600,000 performance rights (in aggregate) to "non-specified" executives.

*Allocation of shares*
In respect of the above grants the performance conditions are based on the relative total shareholder return ("TSR") of the Company, measured against other companies in the ASX 100. TSR is, broadly, a measure of the return to shareholders provided by share price appreciation, plus reinvested dividends, expressed as a percentage of investment. In addition, the price of the Company's shares must, as at the relevant date, exceed the price at which the shares listed on the Australian Stock Exchange on 6 April 2004 ($2.50) prior to any performance rights vesting, subject to the operation of the PRP rules.

The TSR performance conditions in relation to the initial grant are:

| Target | Percentage of shares available in given year that vests |
|---|---|
| The Company's annual TSR does not meet performance of the median company in ASX 100 | 0% |
| The Company's annual TSR equals or exceeds performance of the median company in ASX 100 | 50% |
| The Company's annual TSR ranks in third quartile of companies in ASX 100 | Pro rata between 50% and 100% (2% increase for each higher ranking) |
| The Company's annual TSR ranks in fourth quartile of companies in ASX 100 | 100% |

In relation to the grants to date, performance conditions will be tested at the end of the financial year ending 30 June 2005 and the following three financial years. The percentage of the maximum performance rights granted to date vest in favour of the executives as follows:

| Vesting date | % Vesting |
|---|---|
| 1 July 2005 | 15% |
| 1 July 2006 | 20% |
| 1 July 2007 | 25% |
| 1 July 2008 | 40% |
| Maximum | 100% |

## 28 Director and executive disclosures by disclosing entities (continued)

**Performance Rights Plan (continued)**
Any performance rights which do not vest in a financial year will be added to the performance rights otherwise available in the next vesting year and tested against the performance condition applicable to that subsequent year.

In general, the executives are not entitled to trade in shares allocated on vesting of the performance rights until the earlier to occur of:

- three years after the date of grant of the shares allocated on vesting; or
- 12 months following the date of cessation of employment with the consolidated entity.

**Non-Executive Director Share Plan**
Under the Non-Executive Directors Share Plan, non-executive directors are required to sacrifice at least 25% (or such other minimum percentage determined by the Board from time to time) of their annual directors' fees. Non-executive directors are not able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition, the non-executive director ceasing to be a director of the Company, or the non-executive director applying to the Board and the Board determining (in exceptional circumstances) that any or all restrictions applying to the shares cease. Shares will usually be purchased on-market at the prevailing market price of shares by applying an amount equal to the amount of fees a non-executive director has elected to sacrifice to acquire shares. Shares are acquired monthly at the end of each calendar month.

## 29 Non-director related parties

### (a) Non-director related parties

The classes of non-director related parties are:

- wholly-owned controlled entities; and
- directors of related parties and their director related entities.

### (b) Transactions

All transactions with non-director related parties are on normal terms and conditions.

*Directors of related parties (not being directors of the entity or their director related entities)*

From time to time, directors of related parties or their director related entities may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by consolidated entity employees or customers and are trivial or domestic in nature.

Included in Note 9 is an interest-free amount owed to the parent entity by a controlled entity (Pacific Brands (Australia) Pty Ltd) which was loaned to the controlled entity to enable it to acquire Pacific Brands Holdings Pty Ltd and its associated international operations on 6 April 2004.

Included in Note 15 is an interest-free amount owing by the parent entity to a controlled entity (Pacific Brands Holdings Pty Ltd) relating to trade accounts paid by the controlled entity on behalf of the parent entity.

## 30 Events subsequent to reporting date

### (a) Dividends

For dividends declared after 30 June 2004, see Note 21.

### (b) Tax consolidation

The Australian Government has announced that it plans to amend the tax consolidation legislation. Details of the proposed changes are not yet available. The effects of any change will be brought to account when the legislation is substantively enacted and the consolidated entity can assess the impact.

### (c) International Financial Reporting Standards

The consolidated entity will be required to prepare financial statements using Australian Accounting Standards that comply with International Financial Reporting Standards and their related pronouncements ("IFRS") commencing with the year ending 30 June 2006.

The consolidated entity will report for the first time in compliance with IFRS when the results for the half year ending 31 December 2005 are released. IFRS require that entities complying with IFRS for the first time also restate their comparative financial statements using all IFRS except for:

- IAS32 Financial Instruments: Disclosure and Presentation;
- IAS39 Financial Instruments: Recognition and Measurement; and
- IFRS4 Insurance Contracts.

## 30 Events subsequent to reporting date (continued)

### (c) International Financial Reporting Standards (continued)

Hence, the consolidated entity's opening IFRS statement of financial position, dated 1 July 2004, will be a restated comparative balance sheet. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained profits on 1 July 2004, however, transitional adjustments relating to those standards where comparatives are not required will only be made at 1 July 2005. Comparatives restated under IFRS will not be reported in financial statements until those for the half year ending 31 December 2005 being the first half year reported in compliance with IFRS.

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements ("Australian GAAP"). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position on the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of IFRS and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The following areas have been identified as significant for the consolidated entity:

| | |
|---|---|
| **Goodwill**<br>*Initial impact on retained profits at 1 July 2004*<br>*Lower expenses*<br>*Volatility in results in event of impairment* | Goodwill acquired in a business combination will not require amortisation, but instead be subject to impairment testing at least annually. If there is any impairment, it will be recognised immediately in the statement of financial performance. |
| **Hedging**<br>*Initial impact on retained profits at 1 July 2004*<br>*Volatility in future earnings*<br>*Recognition of new assets/liabilities* | All derivatives contracts, whether used as hedging instruments or otherwise, will be carried at fair value on the consolidated entity's statement of financial position. IFRS recognise fair value hedge accounting, cash flow hedge accounting, and hedges of investments in foreign operations. Fair value and cash flow hedge accounting can only be considered where effectiveness tests are met.<br>Ineffectiveness outside the prescribed range precludes the use of hedge accounting and can result in significant volatility in the statement of financial performance. The consolidated entity expects to predominantly use cash flow hedging in respect of its foreign currency and interest rate risk hedges, which will create volatility in equity reserve balances. |
| **Post employment benefits**<br>*Initial impact on retained profits at 1 July 2004*<br>*Volatility in future earnings* | The consolidated entity does not currently recognise an asset or liability for the net position of the defined benefit superannuation plan operated in Australia. On adoption of Australian Accounting Standards that comply with IFRS, the consolidated entity will recognise the net position of defined benefits component of the Plan on the statement of financial position, with a corresponding entry to the statement of financial performance. The initial adjustment will be made, retrospectively, against opening retained profits as at 1 July 2004, and will be based on valuations of each scheme made at that date in accordance with AASB119 Employee Benefits. After the transitional adjustment, further movements in the net position of each scheme will be recognised in the statement of financial performance. |
| **Share based payments**<br>*Initial impact on retained profits at 1 July 2004*<br>*Higher expenses* | On adoption of IFRS based standards, the consolidated entity will recognise an expense for all share based remuneration and will amortise those expenses over the relevant vesting periods. |
| **Taxation**<br>*Initial impact on retained profits at 1 July 2004*<br>*Recognition of new assets/liabilities* | A "statement of financial position" approach will be adopted, replacing the "statement of financial performance" approach currently used by Australian companies. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. It is expected that the AASB112 Income Taxes may require the consolidated entity to carry higher levels of deferred tax assets and liabilities. |

## 30 Events subsequent to reporting date (continued)

### (c) International Financial Reporting Standards (continued)

**Planning phase**
The planning phase aims to provide a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- assessment of new information requirements affecting management information systems and business processes;
- evaluation of the implications for staff; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business process' and staff training.

The Company considers the planning phase will be complete in most respects by 30 September 2004.

**Design phase**
The design phase aims to formulate the changes required to existing accounting policies, procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The Company has commenced its design phase, with work progressing in each of the areas described above. The design phase is expected to be completed during the upcoming financial year.

**Implementation phase**
The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Company to generate the required disclosures of AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards as it progresses through its transition of IFRS.

The Company has not yet commenced the implementation phase. However, the Company expects this phase to be completed by 30 June 2005.

# Pacific Brands Limited
# Directors' Declaration

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

(a) the financial statements and notes, set out on pages 22 to 55, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the period ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) 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 31st day of August 2004.

Signed in accordance with a resolution of the directors:

**Paul Moore**
Director

# Independent Audit Report
# to the Members of Pacific Brands Limited

## Scope

### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements (notes 1 to 30), and the directors' declaration set out on pages 22 to 56 for Pacific Brands Limited ("the Company") and Pacific Brands Limited and its controlled entities ("the consolidated entity"), for the financial period from 12 December 2003 to 30 June 2004. The consolidated entity comprises both the Company and the entities it controlled during the financial period.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

## Audit opinion

In our opinion, the financial report of Pacific Brands Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the financial period from 12 December 2003 to 30 June 2004; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

William J Stevens
Partner

Melbourne
31st August 2004

# Shareholders' Statistics

as at 31 August 2004

## Distribution of ordinary shareholders and shareholdings

| Size of holding | | | Number of holders | | Number of shares | |
|---|---|---|---|---|---|---|
| 1 | to | 1,000 | 13,825 | 32.3% | 10,933,379 | 2.2% |
| 1,001 | to | 5,000 | 22,525 | 52.6% | 57,518,187 | 11.4% |
| 5,001 | to | 10,000 | 4,517 | 10.6% | 35,338,331 | 7.0% |
| 10,001 | to | 100,000 | 1,795 | 4.2% | 39,519,646 | 7.9% |
| 100,001 and over | | | 139 | 0.3% | 359,690,460 | 71.5% |
| Total | | | 42,801 | 100.0% | 503,000,003 | 100.0% |

Included in the above total are 49 shareholders holding less than a marketable parcel of 180 shares.

## Twenty largest ordinary fully paid shareholders

| | Shares | % of total |
|---|---|---|
| J P Morgan Nominees Australia Limited | 69,301,836 | 13.8% |
| Westpac Custodian Nominees Limited | 53,136,447 | 10.6% |
| National Nominees Limited | 43,802,121 | 8.7% |
| ANZ Nominees Limited | 23,516,324 | 4.7% |
| Citicorp Nominees Pty Limited | 21,365,782 | 4.2% |
| Cogent Nominees Pty Limited | 12,623,323 | 2.5% |
| Citicorp Nominees Pty Limited <Cfs Wsle Imputation Fnd A/C> | 12,046,179 | 2.4% |
| IOOF Investment Management Limited | 9,373,447 | 1.9% |
| RBC Global Services Australia Nominees Pty Limited <Pipooled A/C> | 9,122,039 | 1.8% |
| UBS Private Clients Australia Nominees Pty Ltd | 8,168,822 | 1.6% |
| Citicorp Nominees Pty Limited <Cfs Imputation Fund A/C> | 7,517,123 | 1.5% |
| Citicorp Nominees Pty Limited <Cfs Wsle Aust Share Fnd A/C> | 7,285,216 | 1.4% |
| Citicorp Nominees Pty Limited <Cfs Wsle Geared Shr Fnd A/C> | 7,215,000 | 1.4% |
| Westpac Financial Services Limited | 6,141,432 | 1.2% |
| Citicorp Nominees Pty Limited <Cfs Wsle Industrial Shr A/C> | 5,387,887 | 1.1% |
| Queensland Investment Corporation | 4,772,664 | 0.9% |
| HSBC Custody Nominees (Australia) Limited | 3,811,611 | 0.8% |
| Citicorp Nominees Pty Limited <Cfs Wsle 452 Aust Share A/C> | 3,143,137 | 0.6% |
| Suncorp Custodian Services Pty Limited <AET> | 3,124,193 | 0.6% |
| Westpac Life Insurance Services Limited | 2,782,350 | 0.6% |
| Total | 313,636,933 | 62.3% |

## Substantial shareholders

The names of substantial shareholders in the Company, and the number of fully paid ordinary shares in which each has an interest, as disclosed in substantial shareholder notices to the Company on the respective dates, are as follows:

| | | | |
|---|---|---|---|
| 8 June 2004 | Commonwealth Bank of Australia | 48,252,728 | 9.59% |
| 14 May 2004 | JP Morgan Chase and Co | 31,560,059 | 6.27% |
| 2 July 2004 | ING Australia Holdings Limited | 26,254,529 | 5.22% |
| 5 May 2004 | Perennial Value Management Limited | 25,437,336 | 5.06% |

# Shareholder Information

## Annual General Meeting

10.00am Tuesday 26 October 2004.
Grand Hyatt Hotel, 123 Collins Street, Melbourne Victoria Australia.

## Stock exchange listing

Pacific Brands shares are listed on the Australian Stock Exchange ("ASX") and New Zealand Stock Market and are traded under the code "PBG".

## Pacific Brands Share Registry

**Australia**

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Australia

GPO Box 2975
Melbourne Victoria 3001
Australia

**New Zealand**

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
New Zealand

**Telephone:**

| | |
|---|---|
| Australia: | 1300 132 632 |
| New Zealand: | (09) 488 8777 |
| International: | +61 3 9415 4184 |
| Facsimile: | +61 3 9473 2500 |

Email:
web.queries@computershare.com.au

## Tax and dividend payments

For Australian registered shareholders who have not quoted their Tax File Number ("TFN"), exemption or Australian Business Number ("ABN"), the Company is obliged to deduct tax at the top marginal tax rate plus Medicare levy from unfranked and/or partially franked dividends. If you have not already provided your TFN/ABN, you may do so by contacting the Share Registry or by registering your TFN/ABN at the Share Registry's website at www.computershare.com.au

## Dividend payments

Your dividends will be paid in Australian currency credited directly into your nominated bank account. If you have not nominated a bank account, a dividend cheque will be mailed to the address recorded on the share register less an administration fee of $1.00. If you wish to elect to receive your dividends by way of direct credit but have not done so, you should complete an application form available by contacting the Share Registrar or enter the details at the Share Registrar's website at www.computershare.com.au.

## Dividend Reinvestment Plan

The Dividend Reinvestment Plan enables Pacific Brands fully paid ordinary shareholders having a registered address or being resident in Australia or New Zealand to reinvest all or part of their dividends in additional Pacific Brands fully paid ordinary shares. Applications are available from the Share Registrar.

## Consolidation of multiple holdings

If you have multiple issuer-sponsored holdings that you wish to consolidate into a single account, please notify the Share Registrar in writing, quoting your fully registered names and SRNs for these accounts and nominating the account to which the holdings are to be consolidated.

## Change of name and/or address

For issuer-sponsored holdings, please notify the Share Registry in writing if you change your name and/or address. When advising the Share Registry of a change of name, please supply details of your new/previous name, your new/previous address, your SRN and supporting documentation evidencing your change of name. You can also change your address details online at the Share Registry's website at www.computershare.com.au. Changes of address relating to shareholdings in a single name can be made over the phone by calling 1300 132 632 (Australia only). Please note that this does not apply to shareholdings held jointly or in a company name.

For CHESS/broker-sponsored holdings, please notify your broker in writing if you change your name and/or address.

## Share enquiries

Shareholders seeking information about their shareholding or dividends should contact the Share Registrar. Contact details are above.

## Pacific Brands' communications

Pacific Brands internet site, www.pacificbrands.com.au offers information about the Company, news releases, announcements to ASX and NZX and addresses by the Chairman and CEO. The website provides essential information about the Company and an insight into Pacific Brands' businesses.

## Registered office

ABN 64 106 773 059

Pacific Brands Limited
Level 3, 290 Burwood Road
Hawthorn Victoria 3122
Telephone: (03) 9947 4900
Fascimile: (03) 9947 4951

Email: enquiries@pacbrands.com.au
Website: www.pacificbrands.com.au

## Investor relations

Telephone: +61 3 9947 4900

Email:
investorrelations@pacbrands.com.au

## Auditors

KPMG

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# part of our daily life

| | | | | |
|---|---|---|---|---|
| AMCO | Holeproof Antz Pantz. | Berlei | BONDS | Candy |
| CHESTY BOND | Clarks CHILDRENS | DOONA | DUNLOP | DUNLOP enduro |
| DUNLOP VOLLEY | Dunlopillo Feel the Dunlopillo Difference! | EVERLAST | Holeproof Explorer. | formfit |
| Grosby | Hanes | HANG TEN | hestia | Holeproof. |
| Hush Puppies | JOCKEY | Julius Marlow | KAYSER | King Gee Established 1926 |
| KOLOTEX Australia | LIGHTNING BOLT | LoveKylie | The Authentic Malvern Star Since 1903 | MAXFLI |
| NIBLICK | Holeproof No Knickers. | PIERRE FONTAINE | Every body feels good in Playtex | oh! oh! Razzamatazz |
| red robin | Repco | Rio | ROSEBANK | RUGGERS |
| sachi | Serta | Simmons Better Sleep Through Science | Slazenger SHEER INSTINCT | Sleepmaker |
| Stubbies CLOTHING COMPANY | TONTINE | voodoo | THE ONE AND ONLY Wonderbra | Wondersuit TM |

PACIFIC BRANDS