

Pacific Brands 2007 Half Year Results

Return to growth in the half - Key acquisition cements strategic platform for the future.

GROUP HIGHLIGHTS

- ◆ Total net sales \$868.6m up 4.1% on previous corresponding half year
- ◆ Key financial indicators above previous corresponding half year:
 - EBITDA up 6.8% to \$104.1m
 - EBIT up 6.2% to \$93.5m
 - NPAT up 6.1% to \$53.8m
 - Net operating cash flow, up 36.4% to \$20.6m
 - Earnings per share up 6.1% to 10.7 cents per share
- ◆ Stronger performance by Underwear & Hosiery, EBIT up 7.1%
- ◆ Home Comfort EBIT up 19.3%, strong contribution from Sheridan acquisition
- ◆ Footwear EBIT growth of 7.5%
- ◆ Interim dividend of 8.0 cents
- ◆ Yakka announcement – significant strategic acquisition

Half Year ended 31 December (A\$ million)	HY06	HY07	% Change
Total net sales	834.3	868.6	4.1
EBITDA	97.5	104.1	6.8
EBIT	88.1	93.5	6.2
EBIT margin %	10.6	10.8	
NPAT (post minority interests)	50.7	53.8	6.1
EPS (cents) ¹	10.1	10.7	6.1
DPS (cents) ²	7.5	8.0	6.7

1. This has been calculated from a weighted issued capital base of 502,690,170 ordinary shares.

2. Represents interim dividend announced for the half year – franked to 100% for Australian residents on tax paid at 30%.

Return to growth in the half.

Pacific Brands Limited today announced its results for the half year ended 31 December 2006. Net sales increased by 4.1% over the previous corresponding period to \$868.6 million and earnings before interest and tax (EBIT) increased by 6.2% to \$93.5 million.

A focus on key ranges in core brands and categories together with the ongoing achievement of efficiencies across the business drove the improved performance. The Underwear & Hosiery group delivered a stronger performance and further improvements are expected in the future. The integration of the acquisitions completed in the 2006 financial year are progressing to plan and have contributed positively to sales and earnings in the half. They should add further momentum over the next twelve months.

Net profit after tax was \$53.8 million, which represents a 6.1% increase over the previous period. This translates to improved earnings per share of 10.7 cents up from 10.1 cents per share in the previous corresponding period.

Commenting on the result, Chief Executive Officer, Mr Paul Moore said:

“We have achieved a solid performance in what continues to be a patchy retail environment. The latest interest rate rise impacted December trading. Combined with the two previous rate rises there is little doubt that consumers were more cautious and adjusted their spending patterns, particularly at the value end of the market. The second half has started well and we expect this momentum to continue.

“A continued focus on developing new and innovative products for our consumers in conjunction with getting those products faster to market is improving performance across the Company.

“It has been pleasing to see that the changes we have implemented in the Underwear & Hosiery group are taking effect and have driven a solid improvement in earnings. We believe that the fundamentals of the Underwear and Hosiery business are sound and we will realise further improvements over time.

“Continued investment and improvements in the supply chain are generating better processes and systems delivering a range of tailored solutions for product delivery and inventory management across our customer base.

“Acquisitions remain an important part of our long term growth strategy and we continue to review and evaluate opportunities. The acquisition of Sheridan has delivered strong earnings and has also greatly improved our management of “the bedroom” category.

“We were excited to be able to announce this morning that we have entered into an agreement to acquire Yakka. Yakka will be a significant acquisition and the largest we have made for many years. The acquisition cements our strategic platform for future growth and category management.

“The company has assiduously focused on developing its competency as a branded category manager. Taking strong positions in large categories has always strengthened the Pacific Brands portfolio, its positioning and its growth prospects.

“We remain committed to developing great brands, finding further efficiencies by leveraging our scale and supporting our product launches with effective brand advertising campaigns. All of these will continue to drive the business forward and we expect continuing growth in the second half of this financial year and beyond.”

Acquisitions

Yakka Group

This morning Pacific Brands announced that it has reached an agreement to purchase the Yakka Group of companies. Yakka is the largest supplier and marketer of industrial and corporate workwear in Australia and New Zealand. The acquisition of Yakka will be transformational for Pacific Brands, reinforcing its position as the premier branded textiles and footwear group in Australasia.

Yakka is an iconic Australian brand that will further complement our market leading portfolio alongside other great Australian brands such as Bonds and Sheridan. It is the market leader in corporate and defence apparel and provides Pacific Brands with a meaningful presence in these categories for the first time.

Yakka has annual sales around \$300 million.

Yakka provides a strong strategic fit complementing the existing King Gee business and importantly creates another significant category, sharing many similarities with our existing core businesses; including strong consumer recognition, market leadership and innovative product development.

We expect to achieve further efficiencies within Yakka by leveraging our scale and capabilities across sourcing, logistics and technology. The acquisition is expected to be earnings per share (EPS) accretive in year one. It will be debt funded and gearing and interest levels will remain within existing banking covenants. Given the size and importance of this acquisition to Pacific Brands, a further update will be provided following completion.

Streetwear

The acquisition of the Streetwear division of Globe International was completed on 2nd January 2007. Streetwear is an excellent addition to the Company's portfolio and strengthens our position in the casual apparel and lifestyle sector of the market. Pacific Brands now has positions at both ends of the value spectrum in this category. Streetwear will be integrated into the Outerwear & Sport group where we expect it to provide a platform for further bolt-on acquisitions in the lifestyle apparel category.

Michael Sonand, former CEO of the Streetwear business has been appointed as Group General Manager, Outerwear & Sport. We are pleased to welcome Michael to Pacific Brands and feel that his experience will be key to driving the performance of the overall Outerwear & Sport group.

Supply Chain

Pacific Brands continues to build greater efficiencies and speed into its supply chain from materials and product sourcing through to product storage, handling, logistics, planning, ordering and delivery.

A major success in the first half was the opening of our first consolidation warehouse located in Shanghai. The initial focus and trial has been for the Sheridan product range and the warehouse will be consolidating product handling and shipping across a greater number of brands and products in the near future. The facility has enabled better management of inventory and orders during the peak load period around Christmas, with more direct to store deliveries.

Direct shipments continue to be driven through our supplier base as well – with another thirty suppliers now having direct shipment capability. This will enable a greater number of deliveries to bypass the traditional consolidation processes, improving efficiencies and speed to market.

Our Asian supplier base remains critically important to our ongoing business success and in December 2006 we created a new role - General Manager Asia, based in Hong Kong. This role has the responsibility for managing our four Asian offices encompassing sourcing, quality and compliance.

Cash Flow

Pacific Brands generated \$20.6 million in net operating cashflow¹ during the first half. This was an improvement of \$5.5 million over the previous corresponding period. Cash flow was stronger and consistent with improvements in the operating results. Our ability to deliver strong sustainable cashflows remains a key feature of Pacific Brands, generating strong dividends and giving us the financial strength to make value-adding acquisitions such as Yakka.

1. Net operating cash flow is calculated after interest, tax and capital expenditure.

Capital Management

The improved financial performance in the current period supports the payment of an increased interim dividend of 8.0 cents per share, a 6.7% increase over the prior period. This represents a payout of 74.7 % of NPAT for the half year.

Dividends will be fully franked for Australian shareholders at a 30% tax rate.

In August 2006, the Company announced that it would undertake an on market share buy back of up to \$75 million of ordinary shares. In the light of the Yakka acquisition, the programme will be suspended until further notice.

Review of Operating Groups

Underwear & Hosiery

	HY06	HY07	Change %
Total net sales	310.3	309.4	(0.3%)
EBIT (\$m)	38.0	40.7	7.1%
EBIT %	12.2%	13.1%	

The Underwear & Hosiery group finished the first half in a stronger position than in the previous corresponding period. The benefits from the adoption of more consistent processes, the restructuring of the group and the focus on core brands and categories led the turn around through improved margins. Improvements were realised across the core categories – women’s and men’s underwear, intimates and socks.

Exiting some ranges and a reduction in stock keeping units (SKU's) has allowed the group to focus on cost control, margin management and sourcing efficiencies. This has resulted in a solid 7.1% improvement in EBIT. The women’s underwear category performed strongly as new products and new fabrics broadened and reinvigorated the basics ranges of women’s underwear with “no lines” and seamfree underwear notably successful.

Men's underwear remains a strong performer for the group with Bonds up significantly for the half. Bonds success was driven by innovation in styling and fabrics with the "Summer Undie" a stand out performer. A refreshed offering in Holeproof Underdaks and strong, targeted campaigns around Father's Day and Christmas resulted in positive sales growth.

The group continues to invest in research & development in all categories. A new innovation in the sock category has been the launch of the "Grow sock" with innovative elastic and fibres that expand as feet grow.

The New Zealand business performed strongly in all categories and the Hosiery business with its Razzamatazz, Voodoo and Kayser brands performed very strongly for the half, its footless tights successfully leading the trend back to hosiery and leg wear. Hosiery is expecting a strong winter season.

Key product successes have included Jockey shapewear for women, Holeproof Nothings and the Bonds T-shirt bra (now the largest selling bra in the mid range market). Berlei Barely There and the Berlei Sweater-Girl bra are the number one and two best selling bras in department stores.

Outerwear & Sport

	HY06	HY07	Change %
Total net sales (\$m)	141.6	134.1	(5.3)%
EBIT (\$m)	14.6	12.5	(14.4)%
EBIT %	10.3%	9.3%	

The outerwear and sport group had a difficult half with its two core areas performing quite differently.

Sporting Equipment

Bicycles and sporting equipment had a disappointing result with sales falling short of expectations particularly in the discount department store channel. With margin pressure on the value end, the bike business is developing a stronger position at the premium end of the market with the Diamond Back, Haro and Masi brands. This will be strengthened with the addition of the recently acquired Ridley bike licence together with a continued roll out of the independent chain of Bike Hub stores. There are currently eight stores with further expansion plans underway.

Outerwear

King Gee performed solidly with its sales supported by the "Jack of All Trades" promotion and the ongoing development of innovative fabrics and products. The acquisition of Yakka will strengthen the workwear category and will introduce a much stronger presence in the corporate and defence apparel sectors.

The casual apparel business is being repositioned to encompass all aspects of the value spectrum.

Everlast had a strong six months consolidating its position in the youth sporting and casual market – supported by strong sales in branded footwear.

The acquisition of the Streetwear division of Globe International is an important addition to this operating group. It upgrades the casual wear business with its range of strong consumer-relevant brands including Mossimo, Mooks, Stussy and Paul Frank. It provides a platform for further business

and licence acquisitions in the lifestyle category and strengthens the Company's position in department and speciality stores. This business was acquired on 2 January 2007 and integration into the Outerwear & Sport group is progressing as planned. Yakka's lifestyle apparel business will complement Streetwear and will also lead to further growth.

Home Comfort

	HY06	HY07	Change %
Total net sales (\$m)	210.0	252.0	20.0
EBIT (\$m)	18.1	21.6	19.3
EBIT %	8.6%	8.6%	

Home Comfort delivered a strong performance realising the benefits of acquisitions made in the last financial year. These helped the group achieve a 19.3% increase in EBIT over the previous corresponding period. The integration of each acquired business is progressing well, the most important being Sheridan – with performance and integration on track.

The Sheridan integration will be completed on time by the end of this financial year. It will be a strong contributor to future growth. During the half we restructured our Sheridan UK operations and incurred a one-off restructuring cost of \$1.3m.

Sheridan has relocated to new premises with excellent design and showroom facilities and has completed the clearing of old inventory. Retailers had strong Christmas and post Christmas trading periods. Bed linen remains the core product group and towels continue to generate good results with the 'Ultra Soft' and Egyptian cotton ranges.

Foams performed well although the market remains competitive with raw material prices continuing to rise and increased competition from offshore furniture imports. The addition of Foam Products Australia (FPA) has strengthened the group and provided an improved manufacturing facility in Queensland.

Sleepmaker continues to rebuild with increasing resources allocated to research and development. It introduced a number of new product ranges including the patented "Sleepmaker Select" airbed and latex mattress range, representing innovations in customised bedding technology aimed at improving sleep comfort.

Flooring gained market share and grew earnings as the shift from rubber to foam underlay continues.

The Home Comfort group has embraced the implementation of a lean manufacturing programme that should result in efficiency gains and improvements in the areas of inventory management, quality and safety.

Footwear

	HY06	HY07	Change %
Total net sales (\$m)	152.1	154.5	1.5%
EBIT (\$m)	20.8	22.3	7.5%
EBIT %	13.7%	14.4%	

Footwear had another strong half, continuing to achieve growth through its focus on brand development, product innovation and category management. The business has maintained its market share in a very competitive market.

Men's footwear was strong with product innovation in the Hush Puppies and Julius Marlow ranges driving growth. The lifestyle category has delivered an excellent half with Merrell growing distribution. Sales continue to grow with Dunlop Volley doing well in the sporting category with strong support from the "Legends in the Backyard" marketing campaign.

The group will continue to work closely with international partners, key suppliers and on strengthening consumer relationships through brand advertising. Sourcing efficiencies, increased speed to market and a focus on replenishment programmes should lead to improved product development cycles, tighter inventory management and continuing growth in the second half.

Outlook

Pacific Brands has returned to growth in the first half of FY2007 and we expect this momentum to continue for the remainder of the financial year. The second half has started well and we anticipate that the rate of growth will continue to increase. New ranges and product development in the core business, combined with Yakka and the inclusion of the Streetwear business should set the business up for a sustained period of future growth.

In an ever changing market, the fundamentals of brand development, sourcing, speed to market and growth through acquisitions remain the essential strategic drivers of our future success.

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Pacific Brands manages 'Everyday Essential Brands', marketing some of the most recognised brands across Australia and New Zealand including Actil, Berlei, Bonds, Clarks (childrens), Dunlop, Everlast, Grosby, Holeproof, Hush Puppies, KingGee, Sheridan, 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 which include underwear, socks, intimate apparel, hosiery, footwear, bedding, bedding accessories and foam.

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 employs over 8,000 people and is listed on the Australian and New Zealand Stock Exchanges (ASX/NZX:PBG).