

Pacific Brands 2006 Half Year Results

Stronger finish to challenging half

GROUP HIGHLIGHTS

- ◆ Total net sales \$834.3m up 4.5% on pcp and branded sales of \$772.1m, up 7.0% on pcp
- ◆ \$97.5m EBITDA, same as pcp
- ◆ \$88.1m EBITA, down 2.0% on record first half last year
- ◆ \$50.7m net profit after tax, down 4.8% on pcp (impacted by higher interest charges on acquisition funding)
- ◆ Earnings per share of 10.1 cents
- ◆ \$15.1m net operating cashflow, a \$50.5m improvement on same period last year
- ◆ Footwear sales growth of 4.8% and Home Comfort up 34.8% (includes acquisitions)
- ◆ Outerwear & Sport recovery continues
- ◆ Interim dividend of 7.5 cents

Half Year ended 31 December (A\$ million)	HY05 ¹	HY06	% Change
Branded net sales	721.7	772.1	7.0
Unbranded net sales	76.7	62.2	(18.9)
Total net sales	798.4	834.3	4.5
EBITDA	97.5	97.5	-
EBITA	89.9	88.1	(2.0)
EBITA margin	11.3%	10.6%	
NPAT (post minority interests)	53.3	50.7	(4.8)
EPS (cents) ²	10.6	10.1	(4.8)
DPS (cents) ³	7.5	7.5	-

1. Restated for the impact of Australian equivalents to International Financial Reporting Standards.

2. This has been calculated from an issued capital base of 503,000,003 ordinary shares.

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

Sales growth in a patchy retail environment

Pacific Brands Limited and its controlled entities 'Pacific Brands' today announced a record sales result of \$834.3 million for the half year ended 31 December 2005, which represents a 4.5% increase on the previous corresponding half year. Branded sales increased during the half by 7.0% to \$772.1 million. This number includes sales from the acquisitions of both Sheridan and the Arthur Ellis Bedwares and Everwarm businesses.

Pacific Brands generated earnings before interest, tax, depreciation and amortisation (EBITDA) of \$97.5 million, which was consistent with the previous corresponding half year period and earnings before interest, tax and amortisation (EBITA) of \$88.1 million, which was a 2.0% decrease over the previous half year. The slight decrease in EBITA was predominantly a result of a difficult trading environment for the Underwear & Hosiery division.

Net profit after tax was \$50.7 million, which was below the net profit for the same period last year by 4.8%. Net profit was impacted by the reduction in EBITA as well as an increase in interest expense as a result of funding the acquisitions. This has resulted in earnings per share of 10.1 cents.

Commenting on the result, Chief Executive Officer, Mr Paul Moore said it was a satisfactory interim result given the patchy start to the half and a challenging retail environment. "We have seen improved momentum in November and December, which continued in January. Unfortunately the first quarter was very slow, and despite the improvement, there was insufficient time to make up the July to September shortfall."

"Pacific Brands' achievement of an overall 4.5% increase in sales was supported by the Sheridan and Arthur Ellis business acquisitions. Acquisitions continue to be a significant driver of Pacific Brands' growth."

"One highlight of the half was the acquisition of the Sheridan business. Integration is going to plan and we have identified additional upside since acquisition."

"Retail market conditions were challenging in the first half. There continued to be an environment of heavy retailer discounting, a shift to greater replenishment ordering, the emergence of the value driven consumer and price deflation, with the women's underwear market particularly tough."

"The women's underwear market was affected by a number of one off impacts. These included additional imported stock in the market resulting in oversupply, high levels of discounting and the impact of rising oil prices on consumer confidence. The impact of price deflation of about 2% is still relevant in this market."

"In such an environment – the power of brands is even more important and we remain committed to building "Everyday Essential Brands" across all our categories. Our business fundamentals are in place to deliver on our branded strategy."

"Another highlight was the generation of \$15.1 million in net operating cash flow for the half, a \$50.5 million improvement over the same time last year. This was the result of the continued focus on working capital and inventory management, which is essential in a challenging market. It also reflects the elimination of last year's planned inventory build ahead of China's entry into the World Trade Organisation (WTO)."

"We will continue to invest in our icon brands and develop stronger positions in our core categories to enable profitable growth."

Sourcing

Pacific Brands opened an additional sourcing hub in Southern China during the half and now has 130 people in Asia dedicated to sourcing, allowing Pacific Brands to further expand its strong sourcing capability across the region. Throughout the half, it has continued to leverage its substantial scale and is working to rationalise its offshore suppliers by up to 50 percent.

There has been an increased use of off-shore “pick and pack” and delivery consolidation. The company is working closely with its major customers on collaborative forecasting programmes to reduce lead times. This is being supported by the roll out of a new web based purchasing system. Whilst improved forecasting procedures are necessary for the changing environment they have contributed to some short term supply problems.

These initiatives add increased flexibility and efficiencies throughout the supply chain.

Acquisitions

The integration of Sheridan and the Arthur Ellis businesses are moving according to plan.

The Sheridan acquisition provides a leading position in the bed linen category and together with Tontine and Sleepmaker further reinforces Pacific Brands' position in the bedroom category. To improve sourcing, quality and supply capability in bed linen, Pacific Brands have entered into a strategic partnership with leading international trading and sourcing group Li & Fung.

Acquisition of the Arthur Ellis bedwares and thermal wear businesses further enhances the existing positions in the New Zealand market.

Cashflow

Pacific Brands generated a strong \$15.1 million positive net operating cashflow¹ in the half year. This was an improvement of \$50.5 million over the previous corresponding period. The improvement was the result of a significant change in working capital compared to the same period last year. The strong cash flow generated by the company provides the foundation for Pacific Brands' acquisition strategy.

Acquisitions of \$76.5 million and repayment of borrowings of \$28.7 million (assumed as part of the acquisitions) during the period impacted net cash flow. These acquisitions included Sheridan announced on the 26 September 2005 and the Arthur Ellis businesses announced on 21 November 2005.

The increase in trade receivables reflects the impact of the Sheridan and Arthur Ellis acquisitions together with the continued trend for retailers buying closer to their actual requirements.

Trade creditors also increased as a result of the above acquisitions, the benefits of supply chain initiatives and renegotiated terms with overseas suppliers.

1. Net operating cash flow is defined as net cash from operating activities after interest, tax and capital expenditure.

Tax

The effective tax rate on earnings was 27.2%, which was consistent with the half year ended 31 December 2004.

Balance Sheet

There was no significant change in the net assets of Pacific Brands over the half. The debt to equity ratio at 31 December 2005 was 40.1%, up from 31.7% at 30 June 2005. It was 35.3% at 31 December 2004.

The increase in the debt to equity ratio was the result of the Sheridan and Arthur Ellis business acquisitions. Pacific Brands remains well placed to fund future acquisitions.

Interest cover (EBITA/Interest) at 5.0 times is slightly down from 5.1 times at 31 December 2004.

Net tangible assets decreased due to the impact of acquisitions where the Group acquired \$71 million of intangible assets.

AIFRS

From 1 July 2005, the consolidated entity was required to comply with Australian equivalents to International Financial Reporting Standards "AIFRS" issued by the Australian Accounting Standards Board.

Significant changes under these standards, which are applicable to Pacific Brands, include:

- Goodwill is no longer amortised but continues to be tested annually for impairment;
- The fair value of performance rights granted must be recognised and expensed as an employee benefit;
- Where leases have fixed rental increases, these increases must be expensed on a straight line basis over the term of the lease and;
- Software assets developed for internal use are capable of recognition as intangible assets (previously classified as plant and equipment).

All comparative financial information for the half year ended 31 December 2004 and the full year ended 30 June 2005 have been restated in the Appendix 4D notice to the ASX. These adjustments have not affected cash flows for the half year ended 31 December 2005.

Dividends

The achievement of solid profit numbers has allowed Pacific Brands to maintain an interim dividend of 7.5 cents, representing a payout of 74.4% of NPAT.

Pacific Brands' strong cashflow supports its strategy of maintaining a high dividend payout ratio. Dividends paid will be fully franked for Australian shareholders at a 30% tax rate.

Review of Operating Groups

Each of the four major operating groups has contributed to Pacific Brands' results.

Underwear & Hosiery

	HY05	HY06	Change %
Branded sales (\$m)	300.1	285.1	(5.0)
Total net sales	333.6	310.3	(7.0)
EBITA (\$m)	46.6	38.0	(18.5)
EBITA %	14.0%	12.2%	

Underwear & Hosiery had a tough first half, predominantly due to a difficult women's underwear market. Pacific Brands discussed the issues in this segment of the market at both the 30 June 2005 full year results in August 2005 and at the Annual General Meeting in October 2005.

A number of one off impacts affected this operating group over the half year including heavy discounting and oversupply in the women's underwear market. In this environment it has been difficult to achieve an optimum balance between sales and margin. Pacific Brands was also impacted as retailers rebalanced their inventories and the move to greater replenishment ordering continued. An increase in retailer own brands and the proliferation of smaller brands also added to the excess inventory levels in the category.

Bonds remains the operating group's strongest brand – the latest brand awareness study had unprompted awareness rising from 86% to 90%. Bonds experienced growth with the "Hoodie and Trackie" – up on the previous half year and the "Intimates" range for women was also launched in the first half.

Holeproof and Bonds both performed well in the men's underwear category. The launch of the Bonds "Seamfree Trunk" for men drove category growth.

The Berlei brand continues its success with innovative products such as the "Light as Air" range. Berlei remains the number one selling bra in department stores nationally. Hestia sales have increased on the back of the Nicolette Sheridan campaign.

The relaunch of the Rio brand was delayed to the second half, causing an impact on first half sales. A major campaign for Rio was launched earlier this month with the well known comedian, Jimeoin as the face of the advertising campaign.

In the second half, the operating group will focus on brand development of its icon brands and narrower, more targeted product ranges across all brands, leveraging our strong category and brand positions. Underwear & Hosiery will be the major beneficiary of a more leveraged supply base.

Outerwear & Sport

	HY05	HY06	Change %
Branded sales (\$m)	132.7	132.3	(0.3)
Total net sales (\$m)	144.3	141.6	(1.9)
EBITA (\$m)	12.9	14.6	13.2
EBITA %	8.9%	10.3%	

1. Financial information restated from 1 July 2004 to show transfer of Dunlop Footwear from Outerwear & Sport to Footwear.

The positive earnings turnaround generated an EBITA of \$14.6 million, up 13.2% on the previous corresponding half year. This is consistent with the operating group's strategy to focus on profitable, branded sales. The casual outerwear market remains competitive.

The Everlast brand has continued to show growth, with sales up strongly from the previous half year. This has been the result of successful ranges and the continued support for the advertising campaign "Nothing Soft comes out of the Bronx".

The sporting equipment market remains tight although there was a strong improvement in both bike and helmet sales, particularly through the discount department store channel.

KingGee performed well and has several product initiatives in the pipeline for the second half including work cool clothing and new steel capped work boots.

This operating group is reviewing its supplier base and has several sourcing and warehousing initiatives underway.

Continuation of the brand development strategy focusing and supporting core brands in the categories of workwear, surfwear and sporting apparel will drive future growth.

Home Comfort

	HY05	HY06	Change %
Branded sales (\$m)	148.1	201.7	36.2
Total net sales (\$m)	155.8	210.0	34.8
EBITA (\$m)	17.5	18.1	3.4
EBITA %	11.2%	8.6%	

The sales increase in Home Comfort has been predominantly driven by the acquisition of Sheridan.

Sheridan's two iconic brands, Sheridan and Actil are the number one and two consumer brands in the premium bed linen category. The initial focus has been on its rapid consolidation into the existing Pacific Brands' infrastructure with the integration of the back office, distribution and sourcing plans well into the execution phase. The focus for the second half will be improving range and channel management. Some benefits from the acquisition will flow through by the end of the year with major uplifts in earnings expected in the FY07 and FY08 financial years.

The bedding market has been difficult with lower volumes during the half and is expected to remain tight for the remainder of the year. Pacific Brands has a strong position in the premium bedding segment and is working on reinforcing relationships with customers to maintain volume and margin.

There has also been positive growth and brand recognition with Sleepmaker securing the supply of 6,000 beds to the Melbourne 2006 Commonwealth Games.

Tontine continues to perform well. The Esprit range has been well supported through department stores. A new quilter was installed in Victoria and provides the opportunity for the development of a broader range of quilts.

The foam business was impacted by rising oil prices and experienced significant cost increases. There has also been increased competition from imported furniture. The business is focused on managing competitive pressures and manufacturing efficiencies, particularly material yield and labour costs.

The Flooring division had a positive half as the market sees a shift to a preference for foam rather than rubber underlay. Positive growth was experienced in both Australia and New Zealand.

The acquisition of the Arthur Ellis businesses provides Tontine with an opportunity to expand into the New Zealand market leveraging the leading bedding accessories position of Fairydown in the New Zealand market.

Footwear

	HY05	HY06	Change %
Branded sales (\$m)	121.1	132.8	9.7
Total net sales (\$m)	145.1	152.1	4.8
EBITA (\$m)	18.2	20.8	14.3
EBITA %	12.5%	13.7%	

1. Financial information restated from 1 July 2004 to show transfer of Dunlop Footwear from Outerwear & Sport to Footwear.

The Footwear group had another strong half with the branded strategy continuing to deliver improved results. Sales were up 4.8% and EBITA up 14.3%. All categories experienced growth over the period. Sales improvements were recorded by the Hush Puppies, Clarks, Grosby, Dunlop, Pierre Fontaine, Naturalizer and Merrell brands.

Sales across department and speciality stores were strong over the six month period. Concept stores have continued to be developed in these channels, with more expected to be opened over the remainder of the financial year.

Strong sales for Dunlop Volley led canvas category growth.

The operating group will continue its branded product strategy and has launched its Spring/Summer ranges in January and February. The Clarks "back to school" campaign was launched with a television commercial (TVC) in January. It builds on the Clarks brand heritage of the best fit and highlights the durability of the school shoe range.

Continuing the success of the Grosby "fluffy boot" from Winter 05, Grosby will launch the "faux fur" boot next month.

Outlook

The impact of steeply increased petrol prices in the first quarter of FY 2006 appears to have impacted sales across many consumer categories and Pacific Brands' offering was not immune. Pacific Brands' sales in the first half of FY 2006, particularly in the Underwear & Hosiery operating group were also impacted by a number of one off factors, as outlined in this release.

However sales performance regained some momentum during November and December 2005 and this has continued into January. Sales and margin performance in recent months provides Pacific Brands with confidence as to the remainder of the financial year, albeit in a subdued retail environment.

The business will continue to focus on Everyday Essential Brands to drive growth – through targeted advertising, product development and relevant acquisitions.

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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 7,500 people and is listed on the Australian and New Zealand Stock Exchanges (ASX/NZX:PBG).