Pacific Brands Limited

ABN 64 106 773 059

ASX Appendix 4E
Preliminary Final Report
for the year ended 30 June 2008

(Previous Corresponding Period: Year ended 30 June 2007)

for the year ended 30 June 2008

Results for announcement to the market

	2008 $'000	2007 $'000	up/ down	% movement
Sales revenue	2,116,640	1,820,737	up	16.3
Profit for the year	117,126	106,136	up	10.4
Profit attributable to equity holders of the parent	116,558	105,959	up	10.0

Dividends

	Cents per share	Total amount $'000	Franked amount
Interim dividend (paid 1 April 2008)	8.5	42,709	100%
Final dividend	8.5	42,694	100%
Total dividends for the year	17.0	85,403	100%

Final dividend dates

The Company's dividend record date is 29 August 2008 and the dividend is payable on 1 October 2008.

Pacific Brands limited operates a Dividend Retirement Plan ("DRP") under which shareholders can reinvest the dividends payable in ordinary shares in Pacific Brands Limited acquired on market. The last date of receipt of an election notice for participation in the DRP is 30 August 2008.

Other information

	2008	2007
Net tangible asset backing per share	($0.35)	($0.37)

This report is based on the consolidated financial report which has been audited.

Income Statements

for the year ended 30 June 2008

		Consolidated		The Company	
	Note	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Sales revenue	2	**2,116,640**	1,820,737	**–**	–
Cost of sales		**(1,176,214)**	(1,062,103)	**–**	–
Gross profit		**940,426**	758,634	**–**	–
Other income	2	**13,193**	13,425	**70,000**	100,000
Freight and distribution expenses		**(143,763)**	(118,543)	**–**	–
Sales, marketing and advertising expenses		**(406,601)**	(332,762)	**–**	–
Information technology expenses		**(30,786)**	(24,954)	**–**	–
Administrative expenses		**(146,393)**	(103,544)	**(2,503)**	(4,791)
Results from operating activities		**226,076**	192,256	**67,497**	95,209
Financial income		**3,459**	3,378	**42**	44
Financial expenses		**(68,608)**	(50,016)	**–**	–
Net financing costs	3	**(65,149)**	(46,638)	**42**	44
Profit before income tax (expense)/benefit		**160,927**	145,618	**67,539**	95,253
Income tax (expense)/benefit	5	**(43,801)**	(39,482)	**579**	2,553
Profit for the year		**117,126**	106,136	**68,118**	97,806
Attributable to:					
Equity holders of the parent	20	**116,558**	105,959	**68,118**	97,806
Minority interest	22	**568**	177	**–**	–
Profit for the year		**117,126**	106,136	**68,118**	97,806

Basic and diluted earnings per share

Ordinary shares	6	**23.2 cents**	21.1 cents

The Income Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 8 to 43.

Balance Sheets

as at 30 June 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	The Company 2008 $'000	The Company 2007 $'000
Current assets					
Cash and cash equivalents	8	**104,822**	138,640	**538**	568
Trade and other receivables	9	**272,306**	302,966	**37,160**	48,624
Inventories	10	**356,970**	361,524	**–**	–
Other current assets	11	**14,266**	9,636	**–**	–
Total current assets		**748,364**	812,766	**37,698**	49,192
Non-current assets					
Trade and other receivables	9	**30**	50	**1,203,714**	1,203,714
Property, plant and equipment	12	**204,899**	206,849	**–**	–
Intangible assets	13	**1,507,516**	1,503,765	**–**	–
Deferred tax assets	14	**24,053**	30,357	**1,625**	3,321
Other non-current assets	11	**1,530**	1,731	**–**	–
Total non-current assets		**1,738,028**	1,742,752	**1,205,339**	1,207,035
Total assets		**2,486,392**	2,555,518	**1,243,037**	1,256,227
Current liabilities					
Trade and other payables	15	**199,732**	191,702	**394**	1,133
Interest-bearing loans and borrowings	16	**1,340**	2,689	**–**	–
Income tax payable		**12,917**	7,924	**16,135**	7,725
Provisions	17	**76,660**	70,681	**–**	–
Total current liabilities		**290,649**	272,996	**16,529**	8,858
Non-current liabilities					
Trade and other payables	15	**9,306**	14,599	**–**	–
Interest-bearing loans and borrowings	16	**846,194**	938,171	**–**	–
Provisions	17	**10,155**	10,378	**–**	–
Total non-current liabilities		**865,655**	963,148	**–**	–
Total liabilities		**1,156,304**	1,236,144	**16,529**	8,858
Net assets		**1,330,088**	1,319,374	**1,226,508**	1,247,369
Equity					
Contributed equity	18	**1,218,577**	1,218,577	**1,218,577**	1,218,577
Reserves	19	**(28,330)**	(12,109)	**4,591**	4,911
Retained earnings	20	**136,140**	108,241	**3,340**	23,881
Total equity attributable to equity holders of the parent		**1,326,387**	1,314,709	**1,226,508**	1,247,369
Minority interest	22	**3,701**	4,665	**–**	–
Total equity		**1,330,088**	1,319,374	**1,226,508**	1,247,369

The Balance Sheets are to be read in conjunction with the Notes to the Financial Statements set out on pages 8 to 43.

Cash Flow Statements

for the year ended 30 June 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	The Company 2008 $'000	The Company 2007 $'000
Cash flows from operating activities					
Cash receipts from customers		**2,208,032**	1,851,155	**–**	–
Cash paid to suppliers and employees		**(1,928,395)**	(1,641,491)	**(3,240)**	(2,002)
Dividends received		**–**	–	**70,000**	100,000
Income taxes paid		**(34,645)**	(30,830)	**(25,350)**	(22,610)
Reimbursements received from tax consolidated entities		**–**	–	**36,035**	26,946
Interest paid		**(65,941)**	(43,713)	**–**	–
Interest received		**3,459**	3,174	**42**	84
Net cash from operating activities	27(b)	**182,510**	138,295	**77,487**	102,418
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**838**	1,432	**–**	–
Acquisition of controlled entities (net of cash acquired)	26	**–**	(266,348)	**–**	–
Acquisition of businesses (net of cash acquired)	26	**(6,516)**	(42,304)	**–**	–
Disposal of businesses (net of cash disposed)		**6,116**	–	**–**	–
Acquisition of property, plant and equipment		**(25,276)**	(23,921)	**–**	–
Net cash used in investing activities		**(24,838)**	(331,141)	**–**	–
Cash flows from financing activities					
Lease payments		**(1,913)**	(4,059)	**–**	–
Repayment of borrowings		**(95,765)**	(10,846)	**–**	–
Loans to controlled entities		**–**	–	**7,907**	(22,548)
Dividends paid		**(85,424)**	(77,920)	**(85,424)**	(77,920)
Dividend paid to minority interest		**(533)**	(358)	**–**	–
Proceeds from borrowings		**–**	334,300	**–**	–
Share buy back		**–**	(1,869)	**–**	(1,869)
Net cash (used in)/from financing activities		**(183,635)**	239,248	**(77,517)**	(102,337)
Net (decrease)/increase in cash and cash equivalents		**(25,963)**	46,402	**(30)**	81
Cash and cash equivalents at the beginning of the year		**138,640**	94,025	**568**	487
Effect of exchange rate fluctuations on cash held		**(7,855)**	(1,787)	**–**	–
Cash and cash equivalents at the end of the year	27(a)	**104,822**	138,640	**538**	568

The Cash Flow Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 8 to 43.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2008

	Issued capital $'000	Retained earnings $'000	Equity compensation reserve $'000	Foreign currency translation reserve $'000	Hedge reserve $'000	Total equity attributable to equity holders of the parent $'000	Minority interest $'000	Total equity $'000
Balance at 1 July 2006	1,220,446	80,202	3,075	(10,217)	336	1,293,842	4,764	1,298,606
Effective portion of changes in fair value of cash flow hedges[1]	–	–	–	–	(7,341)	(7,341)	(325)	(7,666)
Foreign exchange translation differences	–	–	–	202	–	202	–	202
Total income/(expense) for the period recognised directly in equity	–	–	–	202	(7,341)	(7,139)	(325)	(7,464)
Profit for the year	–	105,959	–	–	–	105,959	177	106,136
Total recognised income/(expense)	–	105,959	–	202	(7,341)	98,820	(148)	98,672
Minority interest acquired	–	–	–	–	–	–	407	407
Share buy back	(1,869)	–	–	–	–	(1,869)	–	(1,869)
Dividends recognised	–	(77,920)	–	–	–	(77,920)	(358)	(78,278)
Cost of share based payments	–	–	1,836	–	–	1,836	–	1,836
Balance at 30 June 2007	1,218,577	108,241	4,911	(10,015)	(7,005)	1,314,709	4,665	1,319,374
Balance at 1 July 2007	1,218,577	108,241	4,911	(10,015)	(7,005)	1,314,709	4,665	1,319,374
Effective portion of changes in fair value of cash flow hedges[1]	–	–	–	–	5,918	5,918	–	5,918
Foreign exchange translation differences	–	–	–	(21,819)	–	(21,819)	(266)	(22,085)
Total (expense)/income recognised directly in equity	–	–	–	(21,819)	5,918	(15,901)	(266)	(16,167)
Profit for the year	–	116,558	–	–	–	116,558	568	117,126
Total recognised income/(expense)	–	116,558	–	(21,819)	5,918	100,657	302	100,959
On-market purchase of performance rights	–	(3,235)	(2,750)	–	–	(5,985)	–	(5,985)
Minority interest disposed	–	–	–	–	–	–	(733)	(733)
Dividends recognised	–	(85,424)	–	–	–	(85,424)	(533)	(85,957)
Cost of share based payments	–	–	2,430	–	–	2,430	–	2,430
Balance at 30 June 2008	**1,218,577**	**136,140**	**4,591**	**(31,834)**	**(1,087)**	**1,326,387**	**3,701**	**1,330,088**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 8 to 43.

[1] Net of any related income tax.

Company Statement of Changes in Equity

for the year ended 30 June 2008

	Issued capital $'000	Retained earnings $'000	Equity compensation reserve $'000	Total equity $'000
Balance at 1 July 2006	1,220,446	3,995	3,075	1,227,516
Profit for the year	–	97,806	–	97,806
Total recognised income	–	97,806	–	97,806
Share buy back	(1,869)	–	–	(1,869)
Dividends recognised	–	(77,920)	–	(77,920)
Cost of share based payments	–	–	1,836	1,836
Balance at 30 June 2007	1,218,577	23,881	4,911	1,247,369
Balance at 1 July 2007	1,218,577	23,881	4,911	1,247,369
Profit for the year	–	68,118	–	68,118
Total recognised income	–	68,118	–	68,118
Dividends recognised	–	(85,424)	–	(85,424)
Cost of share based payments	–	–	2,430	2,430
On-market purchase of performance rights	–	(3,235)	(2,750)	(5,985)
Balance at 30 June 2008	**1,218,577**	**3,340**	**4,591**	**1,226,508**

The Company Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 8 to 43.

Notes to the Financial Statements

for the year ended 30 June 2008

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Notes to the Financial Statements

1 Significant accounting policies

Pacific Brands Limited ('Company') is a company domiciled in Australia. The consolidated Financial Report of the Company as at and for the year ended 30 June 2008 comprises the Company and its controlled entities (together referred to as the 'Consolidated Entity').

This Financial Report was authorised for issue by the directors on 20 August 2008.

(a) Statement of compliance

The Financial Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

The consolidated Financial Report of the Consolidated Entity and the Financial Report of the Company comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

This Financial Report is presented in Australian dollars.

This Financial Report is prepared on the historical cost basis except for derivative financial instruments that are stated at their fair value.

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 this Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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. These accounting policies have been consistently applied by each entity in the Consolidated Entity.

In the current year, the Consolidated Entity adopted all of the new and revised AASBs issued by the AASB that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of the new AASBs are set out in the individual accounting policy notes below. The Consolidated Entity has also adopted the following AASBs as listed below that only impacted on the Consolidated Entity's financial statements with respect to disclosures:

- AASB 101 *Presentation of Financial Statements* (revised October 2006);
- AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED151 and Other Amendments;*
- AASB 2007-7 *Amendments to Australian Accounting Standards;*
- AASB 7 *Financial Instruments: Disclosures*; and
- AASB 2005-10 *Amendments to Australian Accounting Standards.*

The following AASBs, amendments and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption but have not been applied by the Company and Consolidated Entity in these financial statements:

- AASB 101 *Presentation of Financial Statements* (revised September 2007) introduces as a financial statement the "Statement of Comprehensive Income". The revised standard does not change the recognition, measurement or disclosure of transactions or events that are required by other AASBs. The revised standard will become mandatory for the Consolidated Entity's 30 June 2010 financial statements. The Consolidated Entity has not determined the potential effect of the revised standard on the Consolidated Entity's disclosures;
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Consolidated Entity as the standard is only concerned with disclosures;
- revised AASB 123 *Borrowing Costs* removes the option of expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The revised AASB 123 will become mandatory for the Consolidated Entity's 30 June 2010 financial statements. The Consolidated Entity has not yet determined the potential effect of the revised standard on the Financial Report;
- revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority interests) interests and is applicable for annual reporting periods beginning on or after 1 July 2009. The Consolidated Entity has not yet determined the potential effect of this revised standard on the Financial Report;
- revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries and is applicable for annual reporting periods beginning on or after 1 July 2009. The potential impact on initial adoption of this revised standard has not been determined; and
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* will become mandatory for the Consolidated Entity's 30 June 2010 financial report. The Consolidated Entity has not yet determined the potential impact of amending the standard on the Consolidated Entity's Financial Report.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(c) Principles of consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in this Financial Report from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or revenues and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) 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 the sale of goods (net of returns, discounts and allowances) is recognised in the Income Statement when the significant risks and rewards of ownership have been transferred to the buyer. Transfers of risks and rewards vary depending on the individual terms of the contract of sale. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Dividends

Dividend revenue is recognised net of any franking credits. Revenue from distributions from controlled entities is recognised by the Company 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.

Other income

Government grants

Revenue from government grants is recognised when the Consolidated Entity has complied with the conditions attaching to the grant and has reasonable assurance that the grant will be received.

Sale of non-current assets

The profit on disposal of non-current assets is included in other income of the Consolidated Entity and is 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.

(e) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in the Income Statement (refer Note 1(v)). Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the Income Statement as it accrues, using the effective interest rate method.

(f) 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 Balance Sheet.

Cash flows are included in the Cash Flow Statements 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.

(g) Income tax

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the tax balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities from a transaction that is not a business combination that affect neither accounting nor taxable profit, and differences relating to investments in controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively

Notes to the Financial Statements

1 Significant accounting policies (continued)

enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from April 2004 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Pacific Brands Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'stand-alone tax payer' method consistent with UIG 1052 *Tax Consolidation Accounting*.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable to/(receivable from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amount (refer below).

Nature of tax funding arrangements and tax sharing agreements

The members of the tax consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangement requires payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

The members of the tax consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(h) Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the parent 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.

(i) Receivables

Trade and other receivables are stated at their amortised cost less impairment losses (refer Note 1(n)).

(j) 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.

The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

Manufacturing activities

The costs 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.

(k) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at cost less any impairment losses (refer Note 1(n)).

(l) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment (refer Note 1(n)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

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 are recognised equal to the fair value of the leased property or if lower the present value of the minimum lease payments determined 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

Notes to the Financial Statements

1 Significant accounting policies (continued)

be derived from the leased property.

Depreciation and amortisation

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

Depreciation and amortisation are 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, in the current and comparative periods, are as follows:

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

The residual value of, the useful life of and the depreciation method applied to an asset are reassessed at least annually.

(m) Intangible assets

Brandnames

The carrying value of brandnames is reviewed at least at each reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower amount, through a charge to the Income Statement.

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 that are likely to become commercially or technically obsolete.

Software

Software that is acquired by the Consolidated Entity is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life.

Other intangible assets

Other intangibles assets that are acquired by the Consolidated Entity are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of the asset.

(n) Impairment

The carrying amounts of the Consolidated Entity's assets, other than deferred tax assets (refer Note 1(g)) and inventories (refer Note 1(j)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Income Statement.

Impairment losses recognised in respect of a cash generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the Income Statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the Income Statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement.

Calculation of recoverable amount

The recoverable amount of the Consolidated Entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of a held-to-maturity security or

Notes to the Financial Statements

1 Significant accounting policies (continued)

receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the Income Statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the Income Statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company and Consolidated Entity retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party; or
- the Company and Consolidated Entity have transferred their rights to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

(o) Payables

Trade and other payables are stated at their amortised cost.

(p) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the loans or borrowings on an effective interest rate basis.

(q) 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.

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.

Defined benefit plans

The Consolidated Entity's net obligation in respect of defined benefit superannuation plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets deducted.

The discount rate is the yield at the balance sheet date on national government bonds that have maturity dates approximating to the terms of the Consolidated Entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When employee benefits under the plan are improved, the proportion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Income Statement.

Where the calculation results in a net benefit to the Consolidated Entity, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

For actuarial gains and losses that arise in calculating the Consolidated Entity's obligation in respect of a plan, to the extent

Notes to the Financial Statements

1 Significant accounting policies (continued)

that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the Income Statement over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(r) Share based payments

The Company has introduced a number of share plans pursuant to which senior executives and directors may acquire shares. The fair value of performance rights granted is recognised as a personnel expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the performance rights. The fair value of the performance rights granted is measured using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the performance rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The expense related to share based payments is accounted for in the entity which employs the individual.

(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

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the Consolidated Entity has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Costs related to ongoing activities are not provided for.

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

Business combinations

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is allocated to cash generating units and is tested annually for impairment (refer Note 1(n)).

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(u) Foreign currency

Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement on a net basis. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Translation of controlled foreign operations

The assets and liabilities of controlled foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses

Notes to the Financial Statements

1 Significant accounting policies (continued)

of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are taken to the foreign currency translation reserve. They are released into the Income Statement upon disposal. In respect of all foreign operations, any differences are presented as a separate component of equity.

(v) Derivative financial instruments

The Consolidated Entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Consolidated Entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Hedging

On entering into a hedging relationship, the Consolidated Entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects the Income Statement. The ineffective part of any gain or loss is recognised immediately in the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

Hedges of monetary assets and liabilities

When derivative financial instruments are used to hedge economically the foreign exchange exposure of recognised monetary assets or liabilities, hedge accounting is not applied and any gains or losses on the hedging instruments are recognised in the Income Statement.

Hedges of net investment in foreign operation

The portions of the gains or losses on instruments used to hedge net investments in foreign operations that are determined to be effective hedges are recognised directly in equity. The ineffective portions are recognised immediately in the Income Statement.

(w) Accounting estimates and judgements

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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

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.

The estimates and judgements that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Defined benefit superannuation plan assumptions

The Consolidated Entity has decided on a rate of return on assets of 6.9% per annum because this is the average return achieved over the last three years. If this were to reduce, then the Consolidated Entity's unrecognised actuarial gains would increase with the risk that they would fall outside the corridor and would be recognised in the Income Statement and Balance Sheet in future years.

Impairment of goodwill and intangible assets with indefinite useful lives

The Consolidated Entity assesses, at least annually, whether goodwill and intangible assets with indefinite useful lives are impaired (refer Note 13). These calculations involve an estimation of the recoverable amount of the cash generating units to which the goodwill and intangible assets with indefinite useful lives are allocated.

Notes to the Financial Statements

2 Revenue and other income

	Consolidated		The Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Sales revenue	**2,116,640**	1,820,737	**–**	–
Other income				
Royalties – other parties	**2,619**	919	**–**	–
Dividends – controlled entities	**–**	–	**70,000**	100,000
Net gain on disposal of businesses	**564**	–	**–**	–
Sundry income	**10,010**	12,506	**–**	–
Total other income	**13,193**	13,425	**70,000**	100,000
Total revenue and other income	**2,129,833**	1,834,162	**70,000**	100,000

3 Other expenses

Depreciation of:				
Freehold buildings and leasehold improvements	**4,788**	3,962	**–**	–
Plant and equipment	**15,712**	14,232	**–**	–
	20,500	18,194	**–**	–
Amortisation of:				
Software	**2,379**	2,692	**–**	–
Other intangible assets	**3,052**	1,781	**–**	–
Leased plant and equipment	**1,029**	1,440	**–**	–
	6,460	5,913	**–**	–
Total depreciation and amortisation	**26,960**	24,107	**–**	–
Net financing costs:				
Financial income	**(3,459)**	(3,378)	**(42)**	(44)
Interest on bank loans and overdraft	**68,328**	49,688	**–**	–
Finance charges on capitalised leases	**280**	328	**–**	–
	65,149	46,638	**(42)**	(44)
Amounts set aside to allow for:				
Doubtful debts	**709**	1,255	**–**	–
Rebates, trade allowances, claims and settlement discounts	**147,943**	125,759	**–**	–
	148,652	127,014		
Personnel expenses:				
Wages and salaries	**371,804**	322,146	**–**	–
Contributions to defined contribution superannuation plans	**25,538**	21,606	**–**	–
Defined benefit superannuation expense	**(474)**	1,050	**–**	–
Leave entitlements	**53,664**	33,405	**–**	–
Other employee costs	**27,749**	17,136	**–**	–
Share based payments	**2,430**	1,836	**–**	1,836
	480,711	397,179	**–**	1,836
Net foreign exchange loss	**516**	1,327	**–**	–

Notes to the Financial Statements

4 Auditors' remuneration

	Consolidated		The Company	
	2008 $	2007 $	2008 $	2007 $
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	**1,259,600**	1,128,000	**62,000**	60,000
Overseas KPMG firms:				
Audit of financial reports	**377,400**	291,000	**–**	–
	1,637,000	1,419,000	**62,000**	60,000
Other services				
Auditors of the Company				
KPMG Australia:				
Taxation services	**171,294**	209,800	**–**	–
Other assurance services	**85,641**	13,240	**–**	–
Overseas KPMG firms:				
Taxation services	**14,461**	9,357	**–**	–
Other assurance services	**26,873**	38,167	**–**	–
	298,269	270,564	**–**	–

It is the Company's policy to employ KPMG on assignments additional to its statutory audit duties where KPMG's expertise with the Company is important. Approval for these assignments is required from the Audit, Business Risk and Compliance Committee; the assignments are principally related to tax advice and assurance services relating to debt covenants and regulatory requirements.

Notes to the Financial Statements

5 Income tax expense/(benefit)

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	The Company 2008 $'000	The Company 2007 $'000
Current income tax expense/(benefit)					
Current year		**44,435**	42,103	**(3,615)**	(5,193)
(Over)/under provided in prior year		**(2,134)**	(4,713)	**159**	–
Deferred income tax expense					
Origination and reversal of temporary differences		**1,500**	2,092	**2,877**	2,640
Total income tax expense/(benefit) in the Income Statements		**43,801**	39,482	**(579)**	(2,553)
Numerical reconciliation between income tax expense/(benefit) and profit before income tax					
Profit before income tax expense/(benefit)		**160,927**	145,618	**67,539**	95,253
Income tax using the domestic corporation tax rate of 30%		**48,278**	43,685	**20,262**	28,575
Increase in income tax expense due to:					
Share based payments		**729**	550	**–**	550
Decrease in income tax expense due to:					
Non-assessable dividend income		**–**	–	**(21,000)**	(30,000)
Sundry items		**(3,072)**	(40)	**–**	(1,678)
(Over)/under provided in prior year		**(2,134)**	(4,713)	**159**	–
Total income tax expense/(benefit) on profit before income tax		**43,801**	39,482	**(579)**	(2,553)
Deferred tax recognised directly in equity					
Relating to derivative financial instruments	1(v)	**2,535**	(3,146)	**–**	–

Current income tax liability

The current tax liability for the Consolidated Entity of $12.9 million (2007: $7.9 million) and for the Company of $16.1 million (2007: $7.7 million) represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidated group.

Notes to the Financial Statements

6 Earnings per share

	Consolidated	
	2008 $'000	2007 $'000
Earnings reconciliation		
Profit for the year	**117,126**	106,136
Less minority interest	**(568)**	(177)
Basic and diluted earnings	**116,558**	105,959

	Consolidated	
	2008 Number	2007 Number
Weighted average number of shares used as the denominator		
Number for basic and diluted earnings per share		
Ordinary shares at 1 July	**502,277,852**	503,000,003
Effect of shares bought back	**–**	(514,859)
Ordinary shares at 30 June	**502,277,852**	502,485,144

7 Segment reporting

Segment information is presented in respect of the Consolidated Entity's business and geographical segments. The primary format, business segments, is based on the Consolidated Entity's management and internal reporting structure.

It is the Consolidated Entity's policy that intersegment 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 year to acquire segment assets that are expected to be used for more than one year.

Primary reporting: business segments

The Consolidated Entity comprises the following main business segments, based on the Consolidated Entity's management reporting system:

Underwear & Hosiery	Marketer, distributor, importer and manufacturer of underwear, intimate apparel, socks and hosiery;
Outerwear & Sport	Marketer, distributor, importer and manufacturer of casual outerwear, workwear, sports clothing, sports footwear and sporting equipment;
Home Comfort	Marketer, distributor, importer and manufacturer of mattresses, pillows, bed linen, bedding accessory products and foam;
Footwear	Marketer, distributor and importer of women's, men's and children's footwear; and
Other	Retail clearance outlets, administration functions and amortisation of other tangible assets.

Notes to the Financial Statements

7 Segment reporting (continued)

Primary reporting: business segments (continued)

	Underwear & Hosiery $'000	Outerwear & Sport $'000	Home Comfort $'000	Footwear $'000	Other $'000	Eliminations[1] $'000	Consolidated $'000
2008							
Revenue							
External segment revenue	**638,231**	**661,230**	**525,877**	**274,582**	**29,913**	**–**	**2,129,833**
Intersegment revenue	**–**	**250**	**7**	**30**	**117**	**(404)**	**–**
Total segment revenue	**638,231**	**661,480**	**525,884**	**274,612**	**30,030**	**(404)**	**2,129,833**
Result							
Segment result	**101,414**	**58,191**	**49,685**	**36,422**	**(19,636)**	**–**	**226,076**
Net financing costs							**(65,149)**
Income tax expense							**(43,801)**
Profit for the year							**117,126**
Depreciation and amortisation	**6,444**	**4,754**	**7,654**	**1,635**	**6,473**	**–**	**26,960**
Segment assets	**398,907**	**448,839**	**260,285**	**148,060**	**1,405,537**	**(175,236)**	**2,486,392**
Segment liabilities	**80,227**	**156,715**	**149,965**	**34,421**	**910,212**	**(175,236)**	**1,156,304**
Acquisition of non-current assets	**3,555**	**11,124**	**11,703**	**3,262**	**930**	**–**	**30,574**
2007							
Revenue							
External segment revenue	633,580	362,706	518,530	284,435	34,911	–	1,834,162
Intersegment revenue	122	79	–	–	468	(669)	–
Total segment revenue	633,702	362,785	518,530	284,435	35,379	(669)	1,834,162
Result							
Segment result	93,701	26,959	45,544	37,251	(11,199)	–	192,256
Net financing costs							(46,638)
Income tax expense							(39,482)
Profit for the year							106,136
Depreciation and amortisation	6,633	3,479	7,042	1,493	5,460	–	24,107
Segment assets	366,121	480,134	290,292	129,875	1,499,162	(210,066)	2,555,518
Segment liabilities	67,595	173,990	191,657	35,029	977,939	(210,066)	1,236,144
Acquisition of non-current assets	5,252	245,770	15,993	1,404	2,636	–	271,055

[1] Segment revenue, results, assets and liabilities are determined before the effects of consolidation eliminations, except where transactions are between entities in a single segment.

Notes to the Financial Statements

7 Segment reporting (continued)

Secondary reporting: 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; and
Rest of world	Manufacturing facilities, distribution facilities and sales offices.

	Australia $'000	New Zealand $'000	Rest of world $'000	Consolidated $'000
2008				
External segment revenue by location of customers	**1,819,295**	**213,170**	**97,368**	**2,129,833**
Segment assets by location of assets	**2,300,300**	**111,074**	**75,018**	**2,486,392**
Acquisition of non-current assets	**26,646**	**1,002**	**2,926**	**30,574**
2007				
External segment revenue by location of customers	1,561,625	167,196	105,341	1,834,162
Segment assets by location of assets	2,357,101	117,215	81,202	2,555,518
Acquisition of non-current assets	260,083	8,413	2,559	271,055

8 Cash and cash equivalents

		Consolidated		The Company	
	Note	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash on hand		**196**	326	**–**	–
Cash at bank		**92,144**	128,631	**538**	568
Bank short term deposits		**12,482**	9,683	**–**	–
	27(a)	**104,822**	138,640	**538**	568

The bank short term deposits mature within 19 days (2007: 45 days) and interest is received at a weighted average interest rate of 6.8% per annum (2007: 6.3% per annum).

Notes to the Financial Statements

9 Trade and other receivables

		Consolidated		The Company	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Current					
Trade debtors		**285,021**	315,686	**–**	–
Less allowance for doubtful trade debtors		**(3,128)**	(4,467)	**–**	–
Less allowance for rebates, trade allowances, claims and settlement discounts		**(35,471)**	(30,552)	**–**	–
		246,422	280,667	**–**	–
Amounts owing by controlled entity	30	**–**	–	**37,156**	48,618
Other debtors		**25,884**	22,299	**4**	6
		272,306	302,966	**37,160**	48,624
Non-current					
Amounts owing by controlled entity	30	**–**	–	**1,203,714**	1,203,714
Other debtors		**30**	50	**–**	–
		30	50	**1,203,714**	1,203,714

Other debtor amounts generally arise from transactions outside the usual operating activities of the Consolidated Entity.

10 Inventories

Raw materials and stores	**50,835**	56,642	**–**	–
Work in progress	**17,898**	22,670	**–**	–
Finished goods	**288,237**	282,212	**–**	–
	356,970	361,524	**–**	–

11 Other assets

Current				
Prepayments	**14,266**	9,636	–	–
Non-current				
Other investments	**1,530**	1,731	–	–

Notes to the Financial Statements

12 Property, plant and equipment

	Consolidated		The Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Freehold land				
At cost	**41,620**	34,134	**–**	–
Freehold buildings				
At cost	**36,544**	52,009	**–**	–
Accumulated depreciation	**(4,151)**	(8,859)	**–**	–
	32,393	43,150	**–**	–
Leasehold improvements				
At cost	**27,738**	23,749	**–**	–
Accumulated amortisation	**(9,526)**	(6,483)	**–**	–
	18,212	17,266	**–**	–
Plant and equipment				
At cost	**145,150**	155,655	**–**	–
Accumulated depreciation	**(49,781)**	(61,286)	**–**	–
	95,369	94,369	**–**	–
Leased plant and equipment				
At capitalised cost	**5,784**	7,409	**–**	–
Accumulated amortisation	**(1,920)**	(2,063)	**–**	–
	3,864	5,346	**–**	–
Capital works in progress	**13,441**	12,584	**–**	–
Total property, plant and equipment at net book value	**204,899**	206,849	**–**	–

Reconciliation

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

Consolidated	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
2008							
Carrying amount at the beginning of the year	**34,134**	**43,150**	**17,266**	**94,369**	**5,346**	**12,584**	**206,849**
Acquisitions through business combinations	**3,196**	**–**	**–**	**–**	**–**	**–**	**3,196**
Disposed businesses	**–**	**–**	**(70)**	**(2,945)**	**–**	**(25)**	**(3,040)**
Fair value adjustments	**4,660**	**(9,613)**	**(310)**	**1,813**	**(62)**	**–**	**(3,512)**
Additions	**–**	**16**	**2,952**	**2,651**	**866**	**19,774**	**26,259**
Transfer from/(to) capital works in progress	**–**	**–**	**3,076**	**16,935**	**(1,197)**	**(18,814)**	**–**
Disposals	**–**	**(53)**	**(203)**	**(1,132)**	**–**	**–**	**(1,388)**
Depreciation and amortisation	**–**	**(837)**	**(3,951)**	**(15,712)**	**(1,029)**	**–**	**(21,529)**
Effects of movements in foreign exchange	**(370)**	**(270)**	**(548)**	**(610)**	**(60)**	**(78)**	**(1,936)**
Carrying amount at the end of the year	**41,620**	**32,393**	**18,212**	**95,369**	**3,864**	**13,441**	**204,899**

Notes to the Financial Statements

12 Property, plant and equipment (continued)

Consolidated	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
2007							
Carrying amount at the beginning of the year	31,413	28,884	11,178	83,341	4,024	8,246	167,086
Acquisitions through business combinations	2,400	15,074	4,189	10,860	367	88	32,978
Additions	–	–	235	1,380	3,606	22,919	28,140
Transfer from/(to) capital works in progress	384	50	4,871	14,515	(1,079)	(18,741)	–
Disposals	(197)	–	–	(1,791)	(29)	–	(2,017)
Depreciation and amortisation	–	(1,084)	(2,878)	(14,232)	(1,440)	–	(19,634)
Effects of movements in foreign exchange	134	226	(329)	296	(103)	72	296
Carrying amount at the end of the year	34,134	43,150	17,266	94,369	5,346	12,584	206,849

13 Intangible assets

	Consolidated				
	Goodwill $'000	Brandnames $'000	Software $'000	Other intangible assets[1] $'000	Total $'000
Balance at 1 July 2006	873,895	404,565	18,870	–	1,297,330
Acquisitions through business combinations	109,265	80,000	–	20,672	209,937
Amortisation	–	–	(2,692)	(1,781)	(4,473)
Effects of movements in foreign exchange	299	672	–	–	971
Balance at 30 June 2007	983,459	485,237	16,178	18,891	1,503,765
Additions	**–**	**–**	**–**	**1,119**	**1,119**
Disposals	**–**	**–**	**(41)**	**–**	**(41)**
Amortisation	**–**	**–**	**(2,379)**	**(3,052)**	**(5,431)**
Fair value adjustments	**9,988**	**–**	**–**	**–**	**9,988**
Effects of movements in foreign exchange	**(999)**	**(885)**	**–**	**–**	**(1,884)**
Balance at 30 June 2008	**992,448**	**484,352**	**13,758**	**16,958**	**1,507,516**

[1] Other intangible assets include licences, customer contracts and other customer related intangible assets.

Impairment tests for cash generating units containing goodwill

The following cash generating units have significant carrying amounts of indefinite life intangible assets:

	Consolidated			
	Goodwill		Brandnames	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Pacific Brands Group	**832,088**	832,468	**381,352**	382,237
Sheridan	**41,107**	41,726	**23,000**	23,000
Brand Collective	**19,645**	18,728	**–**	–
Yakka Group	**99,608**	90,537	**80,000**	80,000
	992,448	983,459	**484,352**	485,237

Notes to the Financial Statements

13 Intangible assets (continued)

The recoverable amount of the Pacific Brands Group excluding the cash generating units below is based on value in use calculations. Separate value in use calculations are prepared for each of the business segments that make-up the Pacific Brands Group (refer Note 7 for a listing of business segments). Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets and industries in which the Pacific Brands Group operates.
A pre-tax discount rate of 11.6% per annum has been used in discounting the projected cash flows.

The recoverable amount of the Sheridan cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets in which Sheridan operates. A pre-tax discount rate of 11.6% per annum has been used in discounting the projected cash flows.

The recoverable amount of the Brand Collective cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets in which Brand Collective operates. A pre-tax discount rate of 11.6% per annum has been used in discounting the projected cash flows.

The recoverable amount of the Yakka Group cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets and industries in which Yakka Group operates. A pre-tax discount rate of 11.6% per annum has been used in discounting the projected cash flows.

14 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated						
Trade and other receivables	**2,092**	2,695	**–**	–	**2,092**	2,695
Inventories	**1,232**	3,751	**–**	–	**1,232**	3,751
Property, plant and equipment	**–**	–	**(3,129)**	(3,705)	**(3,129)**	(3,705)
Provisions for employee benefits	**22,976**	19,062	**–**	–	**22,976**	19,062
Other provisions	**1,870**	3,466	**–**	–	**1,870**	3,466
Transaction costs	**–**	2,981	**–**	–	**–**	2,981
Other items[1]	**–**	2,107	**(988)**	–	**(988)**	2,107
Tax assets/(liabilities)	**28,170**	34,062	**(4,117)**	(3,705)	**24,053**	30,357
Set off of tax	**(4,117)**	(3,705)	**4,117**	3,705	**–**	–
Net tax assets	**24,053**	30,357	**–**	–	**24,053**	30,357
The Company						
Provisions for employee benefits	**105**	340	**–**	–	**105**	340
Other items	**1,520**	–	**–**	–	**1,520**	–
Transaction costs	**–**	2,981	**–**	–	**–**	2,981
Tax assets	**1,625**	3,321	**–**	–	**1,625**	3,321
Set off of tax	**–**	–	**–**	–	**–**	–
Net tax assets	**1,625**	3,321	**–**	–	**1,625**	3,321

[1] Includes a deferred tax asset of $0.5 million (2007: $3.0 million) relating to derivative financial instruments recognised directly in equity.

Notes to the Financial Statements

15 Trade and other payables

	Consolidated		The Company	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Trade creditors	**150,581**	138,753	**394**	1,133
Other creditors and accruals	**49,151**	52,949	**–**	–
	199,732	191,702	**394**	1,133
Non-current				
Other creditors	**9,306**	14,599	**–**	–

16 Interest-bearing loans and borrowings

Current				
Lease liabilities	**1,340**	2,689	–	–
Non-current				
Bank loans	**844,427**	936,708	–	–
Lease liabilities	**1,767**	1,463	–	–
	846,194	938,171	–	–

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates.

Finance lease liability

The Consolidated Entity's lease liabilities are secured by the leased assets of $3.9 million (2007: $5.3 million) as in the event of default, the assets revert to the lessor.

Finance lease liabilities of the Consolidated Entity are payable as follows:

	Minimum lease payments 2008 $'000	Interest 2008 $'000	Principal 2008 $'000	Minimum lease payments 2007 $'000	Interest 2007 $'000	Principal 2007 $'000
Within one year	**1,545**	**205**	**1,340**	2,907	218	2,689
One year or later and no later than five years	**1,885**	**118**	**1,767**	1,562	99	1,463
	3,430	**323**	**3,107**	4,469	317	4,152

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 vehicles at the agreed residual value.

Bank loans

All bank loans are denominated in Australian dollars.

The Consolidated Entity is required to comply with various financial covenants which it has met. Additionally, 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 a 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 2008, this arrangement was drawn to $171 million (2007: $172 million). The gross trade debtors which have been securitised have been presented as trade debtors (refer Note 9) with the secured borrowing included as a component of bank loans.

Notes to the Financial Statements

17 Provisions

	Consolidated		The Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Current				
Employee benefits	**72,711**	65,666	**–**	–
Leased premises	**3,949**	5,015	**–**	–
	76,660	70,681	**–**	–
Non-current				
Employee benefits	**4,330**	6,343	**–**	–
Leased premises	**5,825**	4,035	**–**	–
	10,155	10,378	**–**	–

Reconciliation

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

	Leased premises	
	2008	2007
Consolidated	$'000	$'000
Carrying amount at the beginning of the year	**9,050**	6,341
Recognised in the Income Statement	**949**	1,709
Increase through business combinations	**–**	1,686
Fair value adjustments	**3,456**	–
Payments	**(3,681)**	(686)
Carrying amount at the end of the year	**9,774**	9,050

18 Contributed equity

	Consolidated		The Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Share capital				
502,277,852 (2007: 503,000,003) fully paid ordinary shares at the beginning of the year	**1,218,577**	1,220,446	**1,218,577**	1,220,446
No shares were bought back during the financial year (2007: 722,151)	**–**	(1,869)	**–**	(1,869)
502,277,852 fully paid ordinary shares at the end of the year	**1,218,577**	1,218,577	**1,218,577**	1,218,577

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

Notes to the Financial Statements

19 Nature of reserves

The nature and purpose of reserves included in the Statements of Changes in Equity for the Company and Consolidated Entity are:

Equity compensation reserve

The equity compensation reserve arises on the grant of performance rights to executives under the Performance Rights Plan. Amounts are transferred out of the reserve and into issued capital when the rights are exercised.

Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in foreign operations or the translation of foreign currency monetary items forming part of the net investment in foreign operations (refer Note 1(u)).

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

20 Retained earnings

	Consolidated		The Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Balance at the beginning of the year	**108,241**	80,202	**23,881**	3,995
Net profit attributable to equity holders of the parent	**116,558**	105,959	**68,118**	97,806
On-market purchase of performance rights	**(3,235)**	–	**(3,235)**	–
Dividends recognised	**(85,424)**	(77,920)	**(85,424)**	(77,920)
Balance at the end of the year	**136,140**	108,241	**3,340**	23,881

21 Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
2008				
Interim 2008 ordinary	**8.5**	**42,709**	franked	1 April 2008
Final 2007 ordinary	**8.5**	**42,715**	franked	1 October 2007
		85,424		
2007				
Interim 2007 ordinary	8.0	40,182	franked	2 April 2007
Final 2006 ordinary	7.5	37,738	franked	2 October 2006
		77,920		

Franked dividends declared or paid were franked at the tax rate of 30%.

Subsequent events

Since the end of the financial year, the directors declared the following dividends:

Final 2008 ordinary	8.5	42,694	franked	1 October 2008

Notes to the Financial Statements

21 Dividends (continued)

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2008 and will be recognised in subsequent financial reports.

	The Company	
	2008	2007
	$'000	$'000
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years	**46,073**	40,156

The above available amounts are based on the balance of the dividend franking account at the end of the year adjusted for:

- franking credits that will arise from the payment of the current tax liabilities;
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the year;
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the end of the year; and
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it to $27.8 million (2007: $22.9 million).

22 Minority interest

The minority interest at 30 June 2008 relates to a 50% interest in Restonic (M) Sdn Bhd which is not held by the Company nor by one of its controlled entities. The minority interest at 30 June 2007 also included a 50.1% interest in World Brands Pty Ltd that was disposed of during the year.

	Consolidated	
	2008	2007
	$'000	$'000
Minority interest in controlled entities comprise:		
Interest in retained earnings at the beginning of the year	**355**	129
Net profit attributable to minority interest	**568**	177
Minority interest acquired	**–**	407
Minority interest disposed	**(733)**	–
Dividend paid to minority interest	**(533)**	(358)
Interest in (accumulated losses)/retained earnings at the end of the year	**(343)**	355
Interest in share capital	**4,293**	4,293
Interest in reserves	**(249)**	17
Total minority interest	**3,701**	4,665

Notes to the Financial Statements

23 Additional financial instruments disclosure

Overview

The Company and Consolidated Entity have exposure to the following risks from their use of financial instruments:

- market risk;
- credit risk; and
- liquidity risk.

This Note presents information about the Company's and Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this Financial Report.

The Board has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Consolidated Entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Consolidated Entity's activities. The Company and Consolidated Entity, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit, Business Risk and Compliance Committee oversees how management monitors compliance with the Company's and Consolidated Entity's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Consolidated Entity.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Consolidated Entity defines capital as total shareholders' equity in the Balance Sheet plus net debt. Net debt is calculated as total interest-bearing loans and borrowings less cash and cash equivalents. Total capital amounted to $2,072,800,000 (2007:$2,121,594,000). In order to adjust the capital structure, the Consolidated Entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or reduce debt. The Board monitors the level of dividends to ordinary shareholders. The Company aims to return approximately 70% of net profit after tax to shareholders in the form of dividends.

From time to time, the Consolidated Entity purchases its own shares on market; the timing of these purchases depends on-market prices. Primarily, the shares are intended to be used for issuing shares under the Consolidated Entity's Performance Rights Plan or Dividend Reinvestment Plan. Buy and sell decisions are made on a specific transaction basis by the management.

There were no changes in the Consolidated Entity's approach to capital management during the year.

(a) Fair values of financial assets and liabilities

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(a) Fair values of financial assets and liabilities (continued)

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Balance Sheets, are as follows:

Consolidated	30 June 2008		30 June 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Financial assets				
Cash and cash equivalents	**104,822**	**104,822**	138,640	138,640
Trade and other receivables	**267,307**	**267,307**	297,048	297,048
Derivative instruments designated in hedge relationship:				
Interest rate swaps	**4,438**	**4,438**	5,153	5,153
Forward exchange contracts receivable	**591**	**591**	39	39
Foreign exchange options	**–**	**–**	776	776
Financial liabilities				
Measured at amortised cost:				
Trade and other payables	**202,455**	**202,455**	191,102	191,102
Bank loans	**844,427**	**844,427**	936,708	936,708
Finance lease liabilities	**3,107**	**3,107**	4,152	4,152
Derivative instruments designated in hedge relationship:				
Forward exchange contracts payable	**6,583**	**6,583**	15,199	15,199

The Company	30 June 2008		30 June 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Financial assets				
Cash and cash equivalents	**538**	**538**	568	568
Trade and other receivables	**1,240,874**	**1,240,874**	1,252,338	1,252,338
Financial liabilities				
Measured at amortised cost:				
Trade and other payables	**394**	**394**	1,133	1,133

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Consolidated Entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Consolidated Entity enters into derivatives, and also incurs financial liabilities, in order to manage market risk. All such transactions are carried out within the guidelines set by the Board. The Consolidated Entity applies hedge accounting in order to manage volatility in profit or loss.

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(b) Market risk (continued)

The market risk associated with the Consolidated Entity's and Company's financial instruments is detailed below.

(i) Interest rate risk

The Consolidated Entity adopts a policy of ensuring that between 40% and 60% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

At the reporting date the interest rate profile of the Company's and the Consolidated Entity's interest-bearing financial instruments was:

	Consolidated		The Company	
	2008	2007	2008	2007
	Weighted average interest rate p.a.	Weighted average interest rate p.a.	Weighted average interest rate p.a.	Weighted average interest rate p.a.
Instruments with interest rate risk exposure:				
Cash and cash equivalents	**6.8%**	6.3%	**6.8%**	6.3%
Finance lease liabilities	**9.2%**	6.6%	**–**	–
Bank loans[1]	**7.9%**	7.1%	**–**	–

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

Refer '(d) Liquidity risk' for maturity profile of the above financial liabilities.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure of interest-bearing loans and borrowings, interest rate swaps and cash and cash equivalents to interest rates at the reporting date. The increase/decrease of 100 basis points is assumed to have taken place at the beginning of the financial year and held constant throughout the entire reporting period, and is applied against the net balance of interest-bearing loans and borrowings (excluding the portion fixed through interest rate swaps) and cash and cash equivalents held at reporting date. The analysis assumes the net balance at reporting date was held constantly throughout the financial year.

A change of 100 basis points in interest rates at the reporting date would increase/(decrease) profit before tax and increase/(decrease) equity by the amounts shown below for the Consolidated Entity. The analysis also assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as at 30 June 2007.

The impact to profit before tax reflects the additional interest that would have been expensed had the change in basis points occurred at the beginning of the financial year. The impact to equity reflects the change in basis points on the valuation of interest swaps at the reporting date on the portion of debt fixed through effective cash flow hedges.

	Profit before tax		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
	$'000	$'000	$'000	$'000
30 June 2008	**(4,428)**	**4,428**	**3,817**	**(3,817)**
30 June 2007	(4,539)	4,539	6,344	(6,344)

(ii) Currency risk

The Consolidated Entity is exposed to currency risk on purchases that are denominated in a currency other than the respective functional currencies of entities within the Consolidated Entity, primarily the Australian dollar ('AUD'), but also the US dollar ('USD'), the New Zealand dollar ('NZD') and UK pound ('GBP'). The currencies in which these transactions primarily are denominated are AUD, USD, GBP and Hong Kong dollar.

As a result of the large purchases of inventories denominated in USD, the Balance Sheet of the Consolidated Entity can be significantly impacted by movements in the USD.

However, at any point in time the Consolidated Entity hedges 75% to 85% of its estimated foreign currency exposure in respect of forecast purchases over the following six months. The Consolidated Entity uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

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

	Consolidated					
	2008			2007		
	Weighted average exchange rate	Australian dollar equivalent $'000	Fair value $'000	Weighted average exchange rate	Australian dollar equivalent $'000	Fair value $'000
Maturing within one year						
Buy US dollars	**0.92**	**202,454**	**(5,716)**	0.80	252,372	(12,560)
Buy Hong Kong dollars	**7.26**	**25,026**	**(556)**	6.25	39,429	(2,140)
Buy UK pounds	**0.4888**	**1,203**	**19**	0.4164	1,854	(32)
Buy euros	**0.6130**	**388**	**3**	0.6198	1,805	(28)
Buy Japanese yen	**100.83**	**2,086**	**(1)**	96.08	2,157	(151)
Buy New Zealand dollars	**1.2132**	**6,766**	**259**	1.1138	701	(249)

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales recognised in other creditors in Note 15 and the timing of their anticipated recognition as part of purchases and sales are:

	Consolidated Net gains/(losses)	
	2008 $'000	2007 $'000
Within six months	**(5,992)**	(15,160)

In respect of other monetary assets and liabilities denominated in foreign currencies, the Consolidated Entity ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

The Consolidated Entity's exposure to the USD at balance date was as follows:

	30 June 2008 $'000	30 June 2007 $'000
Cash and cash equivalents	**14,946**	15,743
Trade debtors	**11,282**	7,790
Trade creditors	**(37,911)**	(30,368)
Forward exchange contracts	**(5,716)**	(12,560)
Net Exposure	**(17,399)**	(19,395)

Sensitivity analysis

A 10% strengthening of the AUD against the USD at 30 June 2008 would have increased/(decreased) profit before income tax and (decreased)/increased equity by the amounts shown below for the Consolidated Entity. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as at 30 June 2007.

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(b) Market risk (continued)

(ii) Currency risk (continued)

	Consolidated	
	Equity $'000	Net Profit $'000
30 June 2008	**(18,512)**	**78**
30 June 2007	(20,998)	155

A 10% weakening of the AUD against the USD at 30 June 2008 would effectively have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant and any foreign exchange exposures deemed to be translation risk exposures have been excluded from the analysis.

(c) Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Entity's receivables from customers. For the Company it arises from receivables due from subsidiaries.

Exposure to credit risk

The carrying amount of the Consolidated Entity's and Company's financial assets represents the maximum credit exposure.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Consolidated Entity's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. The Company has established a credit policy under which each new customer is analysed individually for creditworthiness before the Consolidated Entity's standard payment and delivery terms and conditions are offered. The Consolidated Entity's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from senior management.

The Consolidated Entity's trade and other receivables relate primarily to the Consolidated Entity's wholesale customers. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Consolidated Entity may have a secured claim. The Consolidated Entity does not require collateral in respect of trade and other receivables.

The Company and Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Impairment losses

The ageing of the Consolidated Entity's trade debtors past due at the reporting date was:

	Gross 2008 $'000	Impairment 2008 $'000	Gross 2007 $'000	Impairment 2007 $'000
Past due 0-30 days	**16,792**	**–**	18,707	–
Past due 30 days	**15,009**	**3,128**	11,133	4,467

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(c) Credit risk (continued)

The movement in the allowance for doubtful debts in respect of the Consolidated Entity's trade debtors during the year was as follows:

	Carrying amount	
	2008	**2007**
	$'000	**$'000**
Balance at 1 July	**4,467**	1,999
Impairment loss recognised	**(1,912)**	(628)
Increase in allowance recognised in profit or loss	**709**	1,255
Increase due to business combinations	**–**	1,875
Effects of movements in foreign exchange	**(136)**	(34)
Balance at 30 June	**3,128**	4,467

Based on historic default rates, the Consolidated Entity believes that no impairment allowance is necessary in respect of trade debtors not past due or past due by up to 30 days. The allowance accounts in respect of trade debtors are used to record impairment losses unless the Consolidated Entity is satisfied that no recovery of the amount owing is possible; at that point, the amount is considered irrecoverable and is written off against the financial asset directly.

Other receivables includes the carrying value of derivative assets representing the Consolidated Entity's interest rate swaps. The counterparties to these interest rate swaps are 'AA' rated Australian financial institutions. The Consolidated Entity believes no impairment is necessary in respect of these receivables.

(d) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity uses various methodologies, which assist it in monitoring cash flow requirements and optimising its cash return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Consolidated Entity maintains the following lines of credit:

- AUD40 million overdraft facility that is unsecured. Interest would be payable at the annual rate of BBSY plus 275 basis points; and
- NZD5 million overdraft facility that is unsecured. Interest would be payable at the annual rate of BBSY plus 275 basis points.

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(d) Liquidity Risk (continued)

Financing facilities

	Consolidated		The Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Unsecured bank overdraft facility, reviewed annually and payable at call:				
Amount used	–	–	–	–
Amount unused	43,965	44,531	–	–
	43,965	44,531	–	–
Secured bank loan facilities with various maturity dates through to 2013 which may be extended by mutual agreements:				
Amount used	845,700	936,500	–	–
Amount unused	204,300	113,500	–	–
	1,050,000	1,050,000	–	–

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount $'000	Less than 1 year $'000	1-5 year(s) $'000
2008			
Non-derivative financial liabilities			
Trade and other payables	202,455	202,455	–
Bank loans	844,427	–	844,427
Finance lease liabilities	3,107	1,340	1,767
Derivative financial liabilities			
Forward exchange contracts	6,583	6,583	–
2007			
Non-derivative financial liabilities			
Trade and other payables	191,102	191,102	–
Bank loans	936,708	–	936,708
Finance lease liabilities	4,152	2,689	1,463
Derivative financial liabilities			
Forward exchange contracts	15,199	15,199	–

Notes to the Financial Statements

24 Commitments

	Consolidated	
	2008	2007
	$'000	$'000
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	**49,030**	51,324
One year or later and no later than five years	**134,549**	135,105
Later than five years	**35,316**	34,378
	218,895	220,807

The Consolidated Entity leases property under non-cancellable operating leases expiring in one to five year(s). 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. Where the incremental rentals are fixed, they are incurred evenly over the term of the lease. The Consolidated Entity has provided for these fixed increments (refer Note 17).

Notes to the Financial Statements

25 Controlled entities

The Consolidated Entity has a 100% ownership interest in the following entities in the current and prior years except where noted:

Controlled entity	Place of incorporation/ formation	Controlled entity	Place of incorporation/ formation
Pacific Brands (Australia) Pty Ltd	Australia	Yakka Pty Ltd	Australia
Pacific Brands Holdings Pty Ltd	Australia	CTE Pty Ltd	Australia
Pacific Brands Footwear Pty Ltd	Australia	Shared Apparel Services Pty Ltd	Australia
Sachi Australia Pty Ltd	Australia	Wrights Workwear Pty Ltd	Australia
Pacific Brands Sport & Leisure Pty Ltd	Australia	Neat n Trim Uniforms Pty Ltd	Australia
Pacific Brands Clothing Pty Ltd	Australia	Dowd Corporation Pty Ltd	Australia
Pacific Brands Household Products Pty Ltd	Australia	Icon Clothing Pty Ltd	Australia
Bonds Industries Pty Ltd	Australia	Icon Clothing (NZ) Pty Ltd	Australia
Sheridan Australia Pty Ltd	Australia	Yakka (Kingsgrove) Pty Ltd	Australia
Pacific Brands Services Group Pty Ltd	Australia	Yakka (QLD) Pty Ltd	Australia
PT Berlei Indonesia	Indonesia	Yakka (Wodonga) Pty Ltd	Australia
Pacific Brands Holdings (NZ) Ltd	New Zealand	Cushen Clothing Company Pty Ltd	Australia[2,3]
Sheridan NZ Limited	New Zealand	Cushen Clothing (Distributors) Pty Ltd	Australia[2,3]
Pacific Brands Holdings (Hong Kong) Ltd	Hong Kong[1]	Cushen Unit Trust	Australia[2,3]
Grosby (China) Ltd	Hong Kong	FW Fleming Pty Ltd	Australia[2]
Pacific Brands (Asia) Ltd	Hong Kong	Industrial Workwear Centre Pty Ltd	Australia[2]
Pacific Brands (UK) Ltd	UK	Yakka (WA) Pty Ltd	Australia[2]
Sheridan UK Limited	UK	Yakka (SA) Pty Ltd	Australia[2]
PacBrands USA Inc	USA	Yalee Pty Ltd	Australia[2]
Pacific Brands (Fiji) Limited	Fiji[2]	West End Clothing Pty Ltd	Australia[2]
Yakka (Aust) Pty Ltd	Australia		

[1] 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.

[2] These entities were placed into voluntary liquidation during the year and will be liquidated following year end.

[3] Cushen Clothing (Distributors) Pty Ltd is the trustee for Cushen Unit Trust.

The Consolidated Entity had a 100% ownership interest in the following entities at 30 June 2007 but not at 30 June 2008:

Controlled entity	Place of incorporation/ formation	Controlled entity	Place of incorporation/ formation
Yakka Apparel Solutions Limited	New Zealand[4]	Neat n Trim Uniforms Ltd	New Zealand[4]
Yakka New Zealand Limited	New Zealand[4]	Yakobi Pty Ltd	Australia[5]
Dowd Corporation (NZ) Limited	New Zealand[4]		

[4] These entities were amalgamated into Pacific Brands Holdings (NZ) Ltd during the year.

[5] This entity was de-registered on 26 November 2007.

Notes to the Financial Statements

25 Controlled entities (continued)

The Consolidated Entity has a controlling interest in the ordinary shares of the following entities that are not 100% owned:

Controlled entity	Place of incorporation	Consolidated Entity interest 2008	Consolidated Entity interest 2007
Restonic (M) Sdn Bhd	Malaysia	**50%**	50%
Dream Crafts Sdn Bhd	Malaysia	**50%**	50%
Dream Products Sdn Bhd	Malaysia	**50%**	50%
Dreamland Corporation (M) Sdn Bhd	Malaysia	**50%**	50%
Dreamland (Singapore) Pte Ltd	Singapore	**50%**	50%
Dreamland Spring Manufacturing Sdn Bhd	Malaysia	**50%**	50%
Eurocoir Products Sdn Bhd	Malaysia	**50%**	50%
Sleepmaker Sdn Bhd	Malaysia	**50%**	50%
World Brands Pty Ltd	Australia	**–**	50.1%

Notes to the Financial Statements

26 Acquisitions and disposals

Effect of prior year acquisitions

On 2 April 2007, the Consolidated Entity acquired all of the equity of Yakka (Aust) Pty Ltd for $270.0 million in cash (net of cash acquired). The company manufactures, imports, distributes and retails industrial, corporate and casual wear in Australia and New Zealand.

On 2 January 2007, the Consolidated Entity acquired the Australasian streetwear business and a 50.1% controlling interest in World Brands Pty Ltd from Globe International Limited for $42.3 million cash. The streetwear and World Brands businesses design, develop and distribute youth apparel under both proprietary brands and other licensed and distributed brands.

During the year the Consolidated Entity finalised the fair values assigned to the net assets acquired and the consideration paid. These acquisitions had the following effect on the Consolidated Entity's assets and liabilities on acquisition date:

	Book value	Adjusted for accounting policies	Fair value adjustments	Fair value
	$'000	$'000	$'000	$'000
Cash and cash equivalents	16,650	–	–	16,650
Trade and other receivables	63,335	–	(612)	62,723
Inventories	88,139	(810)	(13,663)	73,666
Property, plant and equipment	36,834	–	(4,172)	32,662
Brandnames	–	–	80,000	80,000
Other intangible assets	–	–	20,672	20,672
Other assets	2,710	–	–	2,710
Deferred tax assets	3,702	1,088	(2,412)	2,378
Trade and other payables	(13,662)	–	(215)	(13,877)
Other liabilities	(30,437)	–	(2,017)	(32,454)
Income tax payable	(930)	63	958	91
Current provisions	(9,340)	(313)	(559)	(10,212)
Non-current provisions	(578)	(84)	(8,703)	(9,365)
Lease liabilities	(668)	–	–	(668)
External debt	(14,810)	–	–	(14,810)
Minority interest	(382)	–	(26)	(408)
Net assets acquired	**140,563**	**(56)**	**69,251**	**209,758**
Goodwill				119,252
Consideration				329,010
Less: cash and cash equivalents acquired				(16,650)
Consideration (net of cash acquired)				**312,360**

Disposals

On 27 June 2008 the Consolidated Entity disposed of its New Zealand Flooring, Foam and Bedding businesses for $7.2 million in cash. The Consolidated Entity recorded a profit on disposal of $0.1 million.

On 30 June 2008 the Consolidated Entity disposed of its 50.1% interest in World Brands Pty Ltd for $1.3 million. The Consolidated Entity recorded a profit on disposal of $0.5 million.

Notes to the Financial Statements

27 Notes to the Cash Flow Statements

(a) Reconciliation of cash

For the purposes of the Cash Flow Statements, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the year as shown in the Cash Flow Statements is reconciled to the related items in the Balance Sheets as follows:

		Consolidated		The Company	
		2008	2007	2008	2007
	Note	$'000	$'000	$'000	$'000
Cash and cash equivalents	8	**104,822**	138,640	**538**	568
(b) Reconciliation of profit for the year to net cash from operating activities					
Profit for the year		**117,126**	106,136	**68,118**	97,806
Add/(less) non-cash items:					
Share based payments		**2,430**	1,836	**–**	1,836
Net gain on disposal of businesses		**(564)**	–	**–**	–
Loss on disposal of non-current assets		**553**	–	**–**	–
Amounts set aside to allow for doubtful debts, rebates, claims and settlement discounts	3	**148,652**	127,014	**–**	–
Amounts set aside to allow for employee benefits		**45,269**	29,297	**–**	–
Depreciation and amortisation	3	**26,960**	24,107	**–**	–
Increase/(decrease) in income tax payable		**5,950**	3,191	**8,410**	(861)
Decrease in current and deferred tax assets		**3,252**	5,559	**1,696**	2,643
Net cash provided by operating activities before change in assets and liabilities		**349,628**	297,140	**78,224**	101,424
Change in assets and liabilities:					
Increase in trade and other receivables		**(122,531)**	(151,633)	**–**	–
(Increase)/decrease in inventories		**(12,791)**	10,733	**–**	–
Increase in prepayments		**(4,477)**	(2,572)	**2**	2
Increase/(decrease) in trade and other payables		**20,843**	11,364	**(739)**	992
Decrease in provisions		**(48,162)**	(26,737)	**–**	–
Net cash from operating activities		**182,510**	138,295	**77,487**	102,418

Notes to the Financial Statements

28 Non-key management personnel disclosures

All transactions with non-key management personnel are on normal terms and conditions, except for the interest-free loan of $1,204 million shown below. This loan was made from Pacific Brands Limited to Pacific Brands (Australia) Pty Ltd on 6 April 2004 to enable it to acquire Pacific Brands Holdings Pty Ltd and its associated international operations.

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 immaterial or domestic in nature.

	The Company	
	2008 $'000	2007 $'000
The aggregate amounts included in the before income tax expense/(benefit) that resulted from transactions with controlled entities are:		
Dividend revenue		
Wholly-owned controlled entity	70,000	100,000
Aggregate amounts receivable from controlled entities are:		
Amounts receivable other than trade receivables		
Current		
Wholly-owned controlled entity	37,156	48,618
Non-current		
Wholly-owned controlled entity (interest-free)	1,203,714	1,203,714

29 Events subsequent to reporting date

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

Dividends

For dividends declared after 30 June 2008, refer Note 21.