

# PACIFIC BRANDS LIMITED

ABN 64 106 773 059

## **ASX APPENDIX 4E PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2009**

(PREVIOUS CORRESPONDING PERIOD: YEAR ENDED 30 JUNE 2008)

**Preliminary Final Report****Preliminary Final Report**

for the year ended 30 June 2009

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

|  | 2009<br>\$'000 | 2008<br>\$'000 | UP/DOWN | % MOVEMENT |
|--|----------------|----------------|---------|------------|
| Sales revenue  | 2,000,035      | 2,116,640      | down    | 5.5        |
| (Loss)/profit for the year                                 | (234,291)      | 117,126        | down    | 300        |
| (Loss)/profit attributable to equity holders of the parent | (234,479)      | 116,558        | down    | 301        |

**DIVIDENDS**

|                                      | CENTS PER<br>SHARE | TOTAL AMOUNT<br>\$'000 | FRANKED<br>AMOUNT |
|--------------------------------------|--------------------|------------------------|-------------------|
| Final dividend (paid 1 October 2008) | 8.5                | 42,708                 | 100%              |
| Total dividends for the year         | 8.5                | 42,708                 | 100%              |

The Company's Directors have not recommended a dividend for the year ended 30 June 2009.

**OTHER INFORMATION**

|                                      | 2009     | 2008     |
|--------------------------------------|----------|----------|
| Net tangible asset backing per share | (\$0.06) | (\$0.35) |

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

## Income Statements

for the year ended 30 June 2009

|  | NOTE | CONSOLIDATED       |                | THE COMPANY     |                |
|--|------|--------------------|----------------|-----------------|----------------|
|  |      | 2009<br>\$'000     | 2008<br>\$'000 | 2009<br>\$'000  | 2008<br>\$'000 |
| Sales revenue  | 2    | <b>2,000,035</b>   | 2,116,640      | –               | –              |
| Cost of sales  |      | <b>(1,144,221)</b> | (1,176,214)    | –               | –              |
| <b>Gross profit</b>                                      |      | <b>855,814</b>     | 940,426        | –               | –              |
| Other income   | 2    | <b>12,341</b>      | 13,193         | <b>45,000</b>   | 70,000         |
| Freight and distribution expenses                        |      | <b>(140,846)</b>   | (150,329)      | –               | –              |
| Sales and marketing expenses                             |      | <b>(364,800)</b>   | (400,035)      | –               | –              |
| Administrative expenses                                  |      | <b>(160,227)</b>   | (177,179)      | <b>(2,513)</b>  | (2,503)        |
| Other expenses   | 4    | <b>(380,572)</b>   | –              | <b>(67,578)</b> | –              |
| <b>Result from operating activities</b>                  |      | <b>(178,290)</b>   | 226,076        | <b>(25,091)</b> | 67,497         |
| Financial income   |      | <b>2,443</b>       | 3,459          | <b>21</b>       | 42             |
| Financial expenses                                       |      | <b>(65,643)</b>    | (68,608)       | –               | –              |
| <b>Net financing (costs)/income</b>                      | 3    | <b>(63,200)</b>    | (65,149)       | <b>21</b>       | 42             |
| <b>(Loss)/profit before income tax benefit/(expense)</b> |      | <b>(241,490)</b>   | 160,927        | <b>(25,070)</b> | 67,539         |
| Income tax benefit/(expense)                             | 5    | <b>7,199</b>       | (43,801)       | <b>1,018</b>    | 579            |
| <b>(Loss)/profit for the period</b>                      |      | <b>(234,291)</b>   | 117,126        | <b>(24,052)</b> | 68,118         |
| <b>Attributable to:</b>                                  |      |                    |                |                 |                |
| Equity holders of the parent                             | 20   | <b>(234,479)</b>   | 116,558        | <b>(24,052)</b> | 68,118         |
| Minority interest  | 22   | <b>188</b>         | 568            | –               | –              |
| <b>(Loss)/profit for the period</b>                      |      | <b>(234,291)</b>   | 117,126        | <b>(24,052)</b> | 68,118         |

**Basic and diluted earnings per share**

Ordinary shares 6 **(39.9) cents** 20.9 cents

The Income Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 29.

## Balance Sheets

as at 30 June 2009

|   | NOTE | CONSOLIDATED     |                  | THE COMPANY      |                  |
|---|------|------------------|------------------|------------------|------------------|
|   |      | 2009<br>\$'000   | 2008<br>\$'000   | 2009<br>\$'000   | 2008<br>\$'000   |
| <b>Current assets</b>                                     |      |                  |                  |                  |                  |
| Cash and cash equivalents                                 | 8    | 126,475          | 104,822          | 557              | 538              |
| Trade and other receivables                               | 9    | 252,873          | 272,306          | 26,666           | 37,160           |
| Inventories   | 10   | 311,445          | 356,970          | –                | –                |
| Other current assets                                      | 11   | 8,322            | 14,266           | –                | –                |
| <b>Total current assets</b>                               |      | <b>699,115</b>   | <b>748,364</b>   | <b>27,223</b>    | <b>37,698</b>    |
| <b>Non-current assets</b>                                 |      |                  |                  |                  |                  |
| Trade and other receivables                               | 9    | 32               | 30               | 1,387,016        | 1,203,714        |
| Property, plant and equipment                             | 12   | 144,402          | 204,899          | –                | –                |
| Intangible assets   | 13   | 1,321,277        | 1,507,516        | –                | –                |
| Deferred tax assets                                       | 14   | 60,669           | 24,053           | 1,945            | 1,625            |
| Other non-current assets                                  | 11   | –                | 1,530            | –                | –                |
| <b>Total non-current assets</b>                           |      | <b>1,526,380</b> | <b>1,738,028</b> | <b>1,388,961</b> | <b>1,205,339</b> |
| <b>Total assets</b>                                       |      | <b>2,225,495</b> | <b>2,486,392</b> | <b>1,416,184</b> | <b>1,243,037</b> |
| <b>Current liabilities</b>                                |      |                  |                  |                  |                  |
| Trade and other payables                                  | 15   | 203,473          | 199,732          | 629              | 394              |
| Interest-bearing loans and borrowings                     | 16   | 816              | 1,340            | –                | –                |
| Income tax payable  |      | 7,175            | 12,917           | 3,572            | 16,135           |
| Provisions  | 17   | 149,963          | 76,660           | –                | –                |
| <b>Total current liabilities</b>                          |      | <b>361,427</b>   | <b>290,649</b>   | <b>4,201</b>     | <b>16,529</b>    |
| <b>Non-current liabilities</b>                            |      |                  |                  |                  |                  |
| Trade and other payables                                  | 15   | 5,900            | 9,306            | –                | –                |
| Interest-bearing loans and borrowings                     | 16   | 578,471          | 846,194          | –                | –                |
| Provisions  | 17   | 12,644           | 10,155           | –                | –                |
| <b>Total non-current liabilities</b>                      |      | <b>597,015</b>   | <b>865,655</b>   | <b>–</b>         | <b>–</b>         |
| <b>Total liabilities</b>                                  |      | <b>958,442</b>   | <b>1,156,304</b> | <b>4,201</b>     | <b>16,529</b>    |
| <b>Net assets</b>   |      | <b>1,267,053</b> | <b>1,330,088</b> | <b>1,411,983</b> | <b>1,226,508</b> |
| <b>Equity</b>   |      |                  |                  |                  |                  |
| Contributed equity  | 18   | 1,469,457        | 1,218,577        | 1,469,457        | 1,218,577        |
| Reserves  | 19   | (65,351)         | (28,330)         | 5,946            | 4,591            |
| (Accumulated losses)/retained earnings                    | 20   | (141,047)        | 136,140          | (63,420)         | 3,340            |
| Total equity attributable to equity holders of the parent |      | <b>1,263,059</b> | <b>1,326,387</b> | <b>1,411,983</b> | <b>1,226,508</b> |
| Minority interest   | 22   | 3,994            | 3,701            | –                | –                |
| <b>Total equity</b>                                       |      | <b>1,267,053</b> | <b>1,330,088</b> | <b>1,411,983</b> | <b>1,226,508</b> |

The Balance Sheets are to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 29.

**Cash Flow Statements**

for the year ended 30 June 2009

|   | NOTE  | CONSOLIDATED    |                | THE COMPANY     |                |
|---|-------|-----------------|----------------|-----------------|----------------|
|   |       | 2009<br>\$'000  | 2008<br>\$'000 | 2009<br>\$'000  | 2008<br>\$'000 |
| <b>Cash flows from operating activities</b>                   |       |                 |                |                 |                |
| Cash receipts from customers                                  |       | 2,227,205       | 2,356,684      | –               | –              |
| Cash paid to suppliers and employees                          |       | (2,042,770)     | (2,077,047)    | (2,290)         | (3,240)        |
| Dividends received  |       | –               | –              | 45,000          | 70,000         |
| Income taxes paid   |       | (13,461)        | (34,645)       | (14,990)        | (25,350)       |
| Reimbursements received from tax consolidated entities        |       | –               | –              | 5,418           | 36,035         |
| Interest paid   |       | (69,710)        | (65,941)       | –               | –              |
| Interest received   |       | 2,443           | 3,459          | 21              | 42             |
| <b>Net cash from operating activities</b>                     | 25(b) | <b>103,707</b>  | 182,510        | <b>33,159</b>   | 77,487         |
| <b>Cash flows from investing activities</b>                   |       |                 |                |                 |                |
| Proceeds from sale of property, plant and equipment           |       | 451             | 838            | –               | –              |
| Acquisition of businesses (net of cash acquired)              |       | –               | (6,516)        | –               | –              |
| Disposal of businesses (net of cash disposed)                 |       | –               | 6,116          | –               | –              |
| Acquisition of property, plant and equipment                  |       | (22,473)        | (25,276)       | –               | –              |
| <b>Net cash used in investing activities</b>                  |       | <b>(22,022)</b> | (24,838)       | –               | –              |
| <b>Cash flows from financing activities</b>                   |       |                 |                |                 |                |
| Finance lease payments  |       | (1,540)         | (1,913)        | –               | –              |
| Repayment of borrowings                                       |       | (268,509)       | (95,765)       | –               | –              |
| Loans (to)/from controlled entities                           |       | –               | –              | (239,029)       | 7,907          |
| Dividends paid  |       | (42,708)        | (85,424)       | (42,708)        | (85,424)       |
| Dividend paid to minority interest                            |       | (281)           | (533)          | –               | –              |
| Proceeds from share issue                                     |       | 248,597         | –              | 248,597         | –              |
| <b>Net cash used in financing activities</b>                  |       | <b>(64,441)</b> | (183,635)      | <b>(33,140)</b> | (77,517)       |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   |       | <b>17,244</b>   | (25,963)       | <b>19</b>       | (30)           |
| <b>Cash and cash equivalents at the beginning of the year</b> |       | <b>104,822</b>  | 138,640        | <b>538</b>      | 568            |
| Effect of exchange rate fluctuations on cash held             |       | 4,409           | (7,855)        | –               | –              |
| <b>Cash and cash equivalents at the end of the year</b>       | 25(a) | <b>126,475</b>  | 104,822        | <b>557</b>      | 538            |

The Cash Flow Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 29.

### Consolidated Statement of Changes in Equity

for the year ended 30 June 2009

|  | ISSUED<br>CAPITAL<br>\$'000 | EQUITY<br>COMP-<br>ENSATION<br>RESERVE<br>\$'000 | FOREIGN<br>CURRENCY<br>TRANS-<br>LATION<br>RESERVE<br>\$'000 | HEDGE<br>RESERVE<br>\$'000 | (ACCUMULATED<br>LOSSES)/<br>RETAINED<br>EARNINGS<br>\$'000 | TOTAL<br>EQUITY<br>ATTRIBUT-<br>ABLE TO<br>EQUITY<br>HOLDERS<br>OF THE<br>PARENT<br>\$'000 | MINORITY<br>INTEREST<br>\$'000 | TOTAL EQUITY<br>\$'000 |
|--|-----------------------------|--|--|----------------------------|--|--|--------------------------------|------------------------|
| Balance at 1 July 2007   | 1,218,577                   | 4,911  | (10,015)   | (7,005)                    | 108,241  | 1,314,709  | 4,665                          | 1,319,374              |
| Effective portion of changes in fair value<br>of cash flow hedges <sup>1</sup> | -                           | -  | -  | 5,918                      | -  | 5,918  | -                              | 5,918                  |
| Foreign exchange translation differences                                       | -                           | -  | (21,819)   | -                          | -  | (21,819)   | (266)                          | (22,085)               |
| Total (expense)/income for the period<br>recognised directly in equity         | -                           | -  | (21,819)   | 5,918                      | -  | (15,901)   | (266)                          | (16,167)               |
| Profit for the period  | -                           | -  | -  | -                          | 116,558  | 116,558  | 568                            | 117,126                |
| Total recognised income/(expense)  | -                           | -  | (21,819)   | 5,918                      | 116,558  | 100,657  | 302                            | 100,959                |
| On-market purchase of performance rights                                       | -                           | (2,750)  | -  | -                          | (3,235)  | (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                  |
| <b>Balance at 30 June 2008</b>   | <b>1,218,577</b>            | <b>4,591</b>                                     | <b>(31,834)</b>  | <b>(1,087)</b>             | <b>136,140</b>   | <b>1,326,387</b>   | <b>3,701</b>                   | <b>1,330,088</b>       |
| Balance at 1 July 2008   | 1,218,577                   | 4,591  | (31,834)   | (1,087)                    | 136,140  | 1,326,387  | 3,701                          | 1,330,088              |
| Effective portion of changes in fair value<br>of cash flow hedges <sup>1</sup> | -                           | -  | -  | (45,297)                   | -  | (45,297)   | -                              | (45,297)               |
| Foreign exchange translation differences                                       | -                           | -  | 6,921  | -                          | -  | 6,921  | 386                            | 7,307                  |
| Total (expense)/income recognised<br>directly in equity                        | -                           | -  | 6,921  | (45,297)                   | -  | (38,376)   | 386                            | (37,990)               |
| (Loss)/profit for the period   | -                           | -  | -  | -                          | (234,479)  | (234,479)  | 188                            | (234,291)              |
| Total recognised (expense)/income  | -                           | -  | 6,921  | (45,297)                   | (234,479)  | (272,855)  | 574                            | (272,281)              |
| Issue of ordinary shares   | 250,880                     | -  | -  | -                          | -  | 250,880  | -                              | 250,880                |
| Movement of treasury shares  | -                           | -  | -  | -                          | -  | -  | -                              | -                      |
| Dividends recognised   | -                           | -  | -  | -                          | (42,708)   | (42,708)   | (281)                          | (42,989)               |
| Cost of share based payments   | -                           | 1,355  | -  | -                          | -  | 1,355  | -                              | 1,355                  |
| <b>Balance at 30 June 2009</b>   | <b>1,469,457</b>            | <b>5,946</b>                                     | <b>(24,913)</b>  | <b>(46,384)</b>            | <b>(141,047)</b>   | <b>1,263,059</b>   | <b>3,994</b>                   | <b>1,267,053</b>       |

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 29.

<sup>1</sup> Net of any related income tax.

### Company Statement of Changes in Equity

for the year ended 30 June 2009

|  | ISSUED CAPITAL<br>\$'000 | EQUITY<br>COMPENSATION<br>RESERVE<br>\$'000 | (ACCUMMULATED<br>LOSSES)/<br>RETAINED<br>EARNINGS<br>\$'000 | TOTAL EQUITY<br>\$'000 |
|--|--------------------------|---|---|------------------------|
| Balance at 1 July 2007                   | 1,218,577                | 4,911                                       | 23,881  | 1,247,369              |
| Profit for the period                    | –                        | –   | 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 | –                        | (2,750)                                     | (3,235)   | (5,985)                |
| <b>Balance at 30 June 2008</b>           | <b>1,218,577</b>         | <b>4,591</b>                                | <b>3,340</b>  | <b>1,226,508</b>       |
| Balance at 1 July 2008                   | 1,218,577                | 4,591                                       | 3,340   | 1,226,508              |
| (Loss)/profit for the period             | –                        | –   | (24,052)  | (24,052)               |
| Total recognised expense                 | –                        | –   | (24,052)  | (24,052)               |
| Issue of ordinary shares                 | 250,880                  | –   | –   | 250,880                |
| Dividends recognised                     | –                        | –   | (42,708)  | (42,708)               |
| Cost of share based payments             | –                        | 1,355                                       | –   | 1,355                  |
| <b>Balance at 30 June 2009</b>           | <b>1,469,457</b>         | <b>5,946</b>                                | <b>(63,420)</b>   | <b>1,411,983</b>       |

The Company Statement of Changes in Equity are to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 29.

**Notes to the Financial Statements**

for the year ended 30 June 2009

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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 2009 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 26 August 2009.

**(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 AASB requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and 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 and Interpretations issued by the AASB that are relevant to the company and their operations and effective for the current annual reporting period. These included:

- Australian Interpretation 12 *Service Concession Arrangements*;
- Australian Interpretation 13 *Customer Loyalty Programmes*;
- Australian Interpretation 14 AASB 119 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*; and
- AASB 2008 - 10 *Amendments to Australian Accounting Standards - Reclassification of Financial Assets*

These new and revised Standards and Interpretations resulted in changes to the Company's and the Consolidated Entity's accounting policies however did not affect the reported amounts in the current or prior year.

The following Standards, amendments to Standards and Interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied preparing this financial report:

- revised AASB 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Consolidated Entity's operations:

- the definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations;
- contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss;
- transaction costs, other than share and debt issue costs, will be expensed as incurred;
- any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss; and
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised AASB 3, which becomes mandatory for the Consolidated Entity's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Consolidated Entity's 2010 consolidated financial statement;

- amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Consolidated Entity in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Consolidated Entity loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Consolidated Entity's 30 June 2010 financial statements, are not expected to have a significant impact on the financial statements;
- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Consolidated Entity's 30 June 2010 financial statements, will require a change in the presentation of and disclosure of segment information based on the internal reports regularly reviewed by the Consolidated Entity's chief operating decision maker in order to assess each segment's performance and to allocate resources to them. Currently the Consolidated Entity presents segment information in respect of its business and geographical segments (see note 7); the Consolidated Entity has not yet determined the potential effect of the standard.
- revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Consolidated Entity's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the financial statements;
- revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Consolidated Entity's 30 June 2010

## Notes to the Financial Statements

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

financial statements and will constitute a change in accounting policy for the Consolidated Entity. In accordance with the transitional provisions the Consolidated Entity will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Consolidated Entity's 30 June 2010 financial statements;

- *AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the Consolidated Entity's 30 June 2010 financial statements, with retrospective application. The Consolidated Entity has not yet determined the potential effect of the amendments;
- *AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and *AASB 2008-6 Further Amendments to Australian Accounting Standards arising from The Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Consolidated Entity's 30 June 2010 financial statements, are not expected to have any impact on the financial statements;
- *AASB 2008-7 Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Consolidated Entity's 30 June 2010 financial statements. The Consolidated Entity has not yet determined the potential effect of the amendments;
- *AASB 2008-8 Amendments to Australian Accounting Standard - Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Consolidated Entity's 30 June 2010 financial statements, with retrospective application. The Consolidated Entity has not yet determined the potential effect of the amendment;
- *AI 16 Hedges of a Net Investment in a Foreign Operation* clarifies that net investment hedging can only be applied when the net assets of the foreign operation are recognised in the entity's consolidated financial statements. AI 16 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 Interpretation; and
- *AI 17 Distributions of Non-Cash Assets to Owners* provides guidance in respect of measuring the value of distributions of non-cash assets to owners. AI 17 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 Interpretation.

**(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.

In the Company's financial statements, investments in subsidiaries are carried at cost.

**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, rebates 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.

## Notes to the Financial Statements

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Net financing costs/(income)**

Net financing costs/(income) 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 Statement 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 taxation authority are classified as operating cash flows.

**(g) Income tax**

Income tax on the loss or profit comprises current and deferred tax. Income tax expense 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 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 enacted at the balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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 taxpayer' method consistent with UIG 1052 *Tax Consolidation Accounting*.

**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 arrangement and tax sharing agreement**

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 loss or profit attributable to equity holders of the Company for the reporting period, after excluding any costs of servicing, by the weighted average number of ordinary shares of the Company.

**(i) Receivables**

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

**(j) Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost includes direct materials, direct labour, other direct variable costs and allocated production and supply overheads necessary to bring inventories to their present location and condition, and where relevant 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.

## Notes to the Financial Statements

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Net realisable value**

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expense.

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

**(k) 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 asset 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 be derived from the leased property.

**(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)). Cost includes expenditure that is directly attributable to the acquisition of the asset. 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.

**Depreciation**

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

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each item of property, plant and equipment. Land is not depreciated.

The estimated 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, the useful life and the depreciation method applied to an asset are reviewed at least annually.

**(m) Intangible assets****Goodwill**

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and jointly controlled entities.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is measured at cost less accumulated impairment losses.

**Brandnames**

Brandnames are considered indefinite life assets, as they are not currently associated with products that are likely to become commercially or technically obsolete. Brandnames are measured at cost less accumulated impairment losses.

**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 intangible 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.

The estimated useful lives, in the current and comparative periods, are as follows:

- licences: 5-15 years

**(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.

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.

## Notes to the Financial Statements

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 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 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 to maturity of the related liabilities.

**Superannuation plans**

The Consolidated Entity contributes to various defined benefit and defined contribution superannuation plans.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personal expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. 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 is deducted.

The discount rate is the yield at the balance sheet date on national government bonds that have maturity dates approximating 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

## Notes to the Financial Statements

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 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 or to be granted performance rights. 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 expensed 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 relevant 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.

**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 their 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) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular

economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

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

**(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 operation**

The assets and liabilities of controlled foreign operation, 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 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 of investments. 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.

**Notes to the Financial Statements****1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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 operations**

The portions of the gains or losses on instruments used to hedge net investment 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) Share capital****Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

**Treasury shares**

The Company operates the Pacific Brands Share Trust (Trust). The main purpose of the Trust is to hold unvested performance shares as part of the Pacific Brands Performance Rights Share Plan. Under IFRS, the Trust qualifies as an equity compensation plan special purpose entity and its results are included in those for the Company and the Consolidated Entity.

Any shares held by the Trust are accounted for as treasury shares and treated as a reduction in the share capital of the Company and the Consolidated Entity.

**(x) 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.

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 noted below:

- defined benefit superannuation plan assumptions;
- impairment of goodwill and intangible assets with indefinite useful lives;
- impairment of property, plant and equipment;
- utilisation of tax losses;
- measurement of share based payments;
- valuation of financial instruments;
- provisions and contingencies including restructuring provisions;
- measurement of defined benefit obligation.

## Notes to the Financial Statements

## 2 REVENUE AND OTHER INCOME

|                                       | CONSOLIDATED     |                | THE COMPANY    |                |
|---------------------------------------|------------------|----------------|----------------|----------------|
|                                       | 2009<br>\$'000   | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| Sales revenue                         | <b>2,000,035</b> | 2,116,640      | –              | –              |
| <b>Other income</b>                   |                  |                |                |                |
| Royalties – other parties             | <b>2,635</b>     | 2,619          | –              | –              |
| Dividends – controlled entity         | –                | –              | <b>45,000</b>  | 70,000         |
| Net gain on disposal of businesses    | –                | 564            | –              | –              |
| Sundry income                         | <b>9,706</b>     | 10,010         | –              | –              |
| <b>Total other income</b>             | <b>12,341</b>    | 13,193         | <b>45,000</b>  | 70,000         |
| <b>Total revenue and other income</b> | <b>2,012,376</b> | 2,129,833      | <b>45,000</b>  | 70,000         |

## 3 OTHER EXPENSES

|  |                |         |               |      |
|--|----------------|---------|---------------|------|
| Depreciation of:   |                |         |               |      |
| Freehold buildings and leasehold improvements              | <b>5,233</b>   | 4,788   | –             | –    |
| Plant and equipment  | <b>16,073</b>  | 15,712  | –             | –    |
|  | <b>21,306</b>  | 20,500  | –             | –    |
| Amortisation of:   |                |         |               |      |
| Software   | <b>2,380</b>   | 2,379   | –             | –    |
| Other intangible assets                                    | <b>3,050</b>   | 3,052   | –             | –    |
| Leased plant and equipment                                 | <b>1,048</b>   | 1,029   | –             | –    |
|  | <b>6,478</b>   | 6,460   | –             | –    |
| Total depreciation and amortisation                        | <b>27,784</b>  | 26,960  | –             | –    |
| Net financing costs/(income):                              |                |         |               |      |
| Financial income   | <b>(2,443)</b> | (3,459) | <b>(21)</b>   | (42) |
| Interest on bank loans and overdraft                       | <b>65,323</b>  | 68,328  | –             | –    |
| Finance charges on capitalised leases                      | <b>320</b>     | 280     | –             | –    |
|  | <b>63,200</b>  | 65,149  | <b>(21)</b>   | (42) |
| Amounts set aside to allow for:                            |                |         |               |      |
| Doubtful debts   | <b>5,097</b>   | 709     | –             | –    |
| Rebates, trade allowances, claims and settlement discounts | <b>149,385</b> | 147,943 | –             | –    |
| Impairment of amounts owing by controlled entity           | –              | –       | <b>67,578</b> | –    |
|  | <b>154,482</b> | 148,652 | <b>67,578</b> | –    |
| Personnel expenses:  |                |         |               |      |
| Wages and salaries   | <b>360,971</b> | 371,804 | –             | –    |
| Contributions to defined contribution superannuation plans | <b>28,089</b>  | 25,538  | –             | –    |
| Defined benefit superannuation expense                     | <b>1,516</b>   | (474)   | –             | –    |
| Curtailment and settlement loss                            | <b>2,404</b>   | –       | –             | –    |
| Leave entitlements   | <b>43,593</b>  | 53,664  | –             | –    |
| Other employee costs                                       | <b>23,599</b>  | 27,749  | –             | –    |
| Equity settled share based payments                        | <b>1,355</b>   | 2,430   | –             | –    |
|  | <b>461,527</b> | 480,711 | –             | –    |
| Net foreign exchange (gain)/loss                           | <b>(131)</b>   | 516     | –             | –    |

## Notes to the Financial Statements

**4 SIGNIFICANT ITEMS**

The Other expenses are reconciled as follows:

|   | CONSOLIDATED   |                | THE COMPANY    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| <b>Asset impairment and writedowns</b>      |                |                |                |                |
| Goodwill impairment <sup>1</sup>            | <b>128,813</b> | –              | –              | –              |
| Brandnames impairment <sup>1</sup>          | <b>52,529</b>  | –              | –              | –              |
| Plant and Equipment impairment <sup>2</sup> | <b>40,081</b>  | –              | –              | –              |
| Land and Buildings impairment <sup>2</sup>  | <b>19,130</b>  | –              | –              | –              |
| Inventory writedowns                        | <b>14,187</b>  | –              | –              | –              |
| Other asset writedowns                      | <b>19,133</b>  | –              | <b>67,578</b>  | –              |
|   | <b>273,873</b> | –              | <b>67,578</b>  | –              |
| <b>Restructuring expenses<sup>3</sup></b>   |                |                |                |                |
| Redundancies                                | <b>81,958</b>  | –              | –              | –              |
| Decommissioning and other costs             | <b>24,741</b>  | –              | –              | –              |
|   | <b>106,699</b> | –              | –              | –              |
|   | <b>380,572</b> | –              | <b>67,578</b>  | –              |

The related income tax benefit/(expense) on significant items, where applicable, is \$46.0 million for the Consolidated Entity and nil for the Company.

1 For further information relating to impairment refer to note 13.

2 For further information relating to impairment refer to note 12.

3 For further information relating to restructuring expenses refer to note 17.

## Notes to the Financial Statements

## 5 INCOME TAX (BENEFIT)/EXPENSE

|  | NOTE | CONSOLIDATED     |                | THE COMPANY     |                |
|--|------|------------------|----------------|-----------------|----------------|
|  |      | 2009<br>\$'000   | 2008<br>\$'000 | 2009<br>\$'000  | 2008<br>\$'000 |
| <b>Current income tax (benefit)/expense</b>  |      |                  |                |                 |                |
| Current year   |      | <b>11,689</b>    | 44,435         | <b>(1,087)</b>  | (3,615)        |
| (Over)/under provided in prior year  |      | <b>(5,251)</b>   | (2,134)        | <b>(276)</b>    | 159            |
| <b>Deferred income tax (benefit)/expense</b>   |      |                  |                |                 |                |
| Origination and reversal of temporary differences  |      | <b>(13,637)</b>  | 1,500          | <b>339</b>      | 2,877          |
| <b>Total income tax (benefit)/expense in the Income Statements</b>                                       |      | <b>(7,199)</b>   | 43,801         | <b>(1,024)</b>  | (579)          |
| <b>Numerical reconciliation between income tax (benefit)/expense and (loss)/profit before income tax</b> |      |                  |                |                 |                |
| <b>(Loss)/profit before income tax (benefit)/expense</b>   |      | <b>(241,490)</b> | 160,927        | <b>(25,070)</b> | 67,539         |
| Income tax using domestic corporation tax rate of 30%  |      | <b>(72,447)</b>  | 48,278         | <b>(7,521)</b>  | 20,262         |
| Increase in income tax expense due to:   |      |                  |                |                 |                |
| Share based payments   |      | <b>406</b>       | 729            | –               | –              |
| Increase/(decrease) in income tax expense due to:  |      |                  |                |                 |                |
| Non-deductible asset impairment  |      | <b>66,063</b>    | –              | <b>20,279</b>   | –              |
| Non-assessable dividend income   |      | –                | –              | <b>(13,500)</b> | (21,000)       |
| Sundry items   |      | <b>4,030</b>     | (3,072)        | –               | –              |
| (Over)/under provided in prior year  |      | <b>(5,251)</b>   | (2,134)        | <b>(276)</b>    | 159            |
| <b>Total income tax (benefit)/expense on (loss)/profit before income tax</b>                             |      | <b>(7,199)</b>   | 43,801         | <b>(1,018)</b>  | (579)          |
| <b>Deferred tax recognised directly in equity</b>  |      |                  |                |                 |                |
| Relating to derivative financial instruments   | 1(v) | <b>(19,413)</b>  | 2,535          | –               | –              |

## Current income tax liability

The current tax liability for the Consolidated Entity of \$7.1 million (2008: \$12.9 million) and for the Company of \$3.6 million (2008: \$16.1 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.

## 6 EARNINGS PER SHARE

|  | CONSOLIDATED       |                |
|--|--------------------|----------------|
|  | 2009<br>\$'000     | 2008<br>\$'000 |
| <b>Earnings reconciliation</b>                                   |                    |                |
| (Loss)/profit for the period                                     | <b>(234,291)</b>   | 117,126        |
| (Less)/add minority interest                                     | <b>(188)</b>       | (568)          |
| Basic and diluted earnings                                       | <b>(234,479)</b>   | 116,558        |
|  |                    |                |
|  | 2009<br>NUMBER     | 2008<br>NUMBER |
| <b>Weighted average number of shares used as the denominator</b> |                    |                |
| Number for basic and diluted earnings per share:                 |                    |                |
| Ordinary shares at 1 July  | <b>502,277,852</b> | 502,277,852    |
| Effect of discount on rights issue                               | <b>1,575,921</b>   | 56,708,856     |
| Effect of shares issued in May 2009                              | <b>76,526,103</b>  | –              |
| Effect of shares issued in June 2009                             | <b>7,565,150</b>   | –              |
| Ordinary shares at 30 June                                       | <b>587,945,026</b> | 558,986,708    |

2008 has been restated as a result of the placement and rights issue in 2009.

## Notes to the Financial Statements

## 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's and carpet underlay; |
| Footwear            | Marketer, distributor and importer of footwear; and  |
| Other               | Retail clearance outlets, administration functions and amortisation of other intangible assets.  |

|   | UNDERWEAR<br>& HOSEIERY<br>\$'000 | OUTERWEAR<br>& SPORT<br>\$'000 | HOME<br>COMFORT<br>\$'000 | FOOTWEAR<br>\$'000 | OTHER<br>\$'000 | ELIMINATIONS <sup>1</sup><br>\$'000 | CONSOLIDATED<br>\$'000 |
|---|-----------------------------------|--------------------------------|---------------------------|--------------------|-----------------|-------------------------------------|------------------------|
| <b>2009</b>                             |                                   |                                |                           |                    |                 |                                     |                        |
| <b>Revenue</b>                          |                                   |                                |                           |                    |                 |                                     |                        |
| External segment revenue                | 625,861                           | 646,201                        | 456,517                   | 256,107            | 27,690          | –                                   | 2,012,376              |
| Intersegment revenue                    | –                                 | 32                             | 9                         | 138                | –               | (179)                               | –                      |
| Total segment revenue                   | 625,861                           | 646,233                        | 456,526                   | 256,245            | 27,690          | (179)                               | 2,012,376              |
| <b>Result</b>                           |                                   |                                |                           |                    |                 |                                     |                        |
| Segment result before significant items | 93,412                            | 55,994                         | 40,560                    | 27,955             | (15,639)        | –                                   | 202,282                |
| Significant items                       | (128,624)                         | (52,274)                       | (123,862)                 | (47,595)           | (28,217)        | –                                   | (380,572)              |
| Segment result after significant items  | (35,212)                          | 3,720                          | (83,302)                  | (19,640)           | (43,856)        | –                                   | (178,290)              |
| Net financing costs                     |                                   |                                |                           |                    |                 |                                     | (63,200)               |
| Income tax benefit                      |                                   |                                |                           |                    |                 |                                     | 7,199                  |
| Loss for the period                     |                                   |                                |                           |                    |                 |                                     | (234,291)              |
| Depreciation and amortisation           | 6,272                             | 4,837                          | 7,952                     | 2,032              | 6,691           | –                                   | 27,784                 |
| Segment assets                          | 1,033,940                         | 623,170                        | 356,865                   | 312,260            | 90,339          | (251,748)                           | 2,164,826              |
| Unallocated assets <sup>2</sup>         | –                                 | –                              | –                         | –                  | –               | –                                   | 60,669                 |
| Segment liabilities                     | 110,996                           | 152,997                        | 121,990                   | 23,699             | 800,508         | (251,748)                           | 958,442                |
| Acquisition of non-current assets       | 5,778                             | 5,454                          | 4,654                     | 700                | 6,526           | –                                   | 23,112                 |
| <b>2008</b>                             |                                   |                                |                           |                    |                 |                                     |                        |
| <b>Revenue</b>                          |                                   |                                |                           |                    |                 |                                     |                        |
| 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              |
| <b>Result</b>                           |                                   |                                |                           |                    |                 |                                     |                        |
| 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 period                   |                                   |                                |                           |                    |                 |                                     | 117,126                |
| Depreciation and amortisation           | 6,444                             | 4,754                          | 7,654                     | 1,635              | 6,473           | –                                   | 26,960                 |
| Segment assets                          | 1,068,138                         | 663,669                        | 484,571                   | 339,331            | 81,866          | (175,236)                           | 2,462,339              |
| Unallocated assets                      | –                                 | –                              | –                         | –                  | –               | –                                   | 24,053                 |
| 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                 |

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.

2 Relates to deferred tax assets.

## 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 & admin offices;     |
| New Zealand   | Manufacturing facilities, distribution facilities and sales & admin offices; and |
| Rest of World | Manufacturing facilities, distribution facilities and sales & admin offices.     |

|   | AUSTRALIA<br>\$'000 | NEW ZEALAND<br>\$'000 | REST OF WORLD<br>\$'000 | CONSOLIDATED<br>\$'000 |
|---|---------------------|-----------------------|-------------------------|------------------------|
| <b>2009</b>                                       |                     |                       |                         |                        |
| External segment revenue by location of customers | <b>1,763,494</b>    | <b>145,704</b>        | <b>103,178</b>          | <b>2,012,376</b>       |
| Segment assets by location of assets              | <b>2,044,531</b>    | <b>98,318</b>         | <b>82,646</b>           | <b>2,225,495</b>       |
| Acquisition of non-current assets                 | <b>21,800</b>       | <b>509</b>            | <b>803</b>              | <b>23,112</b>          |
| <b>2008</b>                                       |                     |                       |                         |                        |
| 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                 |

**8 CASH AND CASH EQUIVALENTS**

|                          | NOTE  | CONSOLIDATED   |                | THE COMPANY    |                |
|--------------------------|-------|----------------|----------------|----------------|----------------|
|                          |       | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| Cash on hand             |       | <b>713</b>     | 196            | –              | –              |
| Cash at bank             |       | <b>104,383</b> | 92,144         | <b>557</b>     | 538            |
| Bank short term deposits |       | <b>21,379</b>  | 12,482         | –              | –              |
|                          | 25(a) | <b>126,475</b> | 104,822        | <b>557</b>     | 538            |

The bank short term deposits mature within 44 days (2008: 19 days) and interest is received at a weighted average interest rate of 2.4% pa (2008: 6.8% pa).

**9 TRADE AND OTHER RECEIVABLES**

|   | NOTE | CONSOLIDATED    |                | THE COMPANY      |                |
|---|------|-----------------|----------------|------------------|----------------|
|   |      | 2009<br>\$'000  | 2008<br>\$'000 | 2009<br>\$'000   | 2008<br>\$'000 |
| <b>Current</b>  |      |                 |                |                  |                |
| Trade debtors   |      | <b>274,422</b>  | 285,021        | –                | –              |
| Less allowance for doubtful trade debtors                                     |      | <b>(7,081)</b>  | (3,128)        | –                | –              |
| Less allowance for rebates, trade allowances, claims and settlement discounts |      | <b>(35,816)</b> | (35,471)       | –                | –              |
|   |      | <b>231,525</b>  | 246,422        | –                | –              |
| Amounts owing by controlled entity  | 26   | –               | –              | <b>26,660</b>    | 37,156         |
| Other debtors   |      | <b>21,348</b>   | 25,884         | <b>6</b>         | 4              |
|   |      | <b>252,873</b>  | 272,306        | <b>26,666</b>    | 37,160         |
| <b>Non-current</b>  |      |                 |                |                  |                |
| Amounts owing by controlled entity  | 26   | –               | –              | <b>1,387,016</b> | 1,203,714      |
| Other debtors   |      | <b>32</b>       | 30             | –                | –              |
|   |      | <b>32</b>       | 30             | <b>1,387,016</b> | 1,203,714      |

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

## Notes to the Financial Statements

## 10 INVENTORIES

|                          | CONSOLIDATED   |                | THE COMPANY    |                |
|--------------------------|----------------|----------------|----------------|----------------|
|                          | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| Raw materials and stores | <b>50,026</b>  | 50,835         | –              | –              |
| Work in progress         | <b>15,880</b>  | 17,898         | –              | –              |
| Finished goods           | <b>245,539</b> | 288,237        | –              | –              |
|                          | <b>311,445</b> | 356,970        | –              | –              |

## 11 OTHER ASSETS

## Current

|             |              |        |   |   |
|-------------|--------------|--------|---|---|
| Prepayments | <b>8,322</b> | 14,266 | – | – |
|-------------|--------------|--------|---|---|

## Non-current

|                   |   |       |   |   |
|-------------------|---|-------|---|---|
| Other investments | – | 1,530 | – | – |
|-------------------|---|-------|---|---|

## 12 PROPERTY, PLANT AND EQUIPMENT

## Freehold land

|                               |                |        |   |   |
|-------------------------------|----------------|--------|---|---|
| At cost                       | <b>41,745</b>  | 41,620 | – | – |
| Accumulated impairment losses | <b>(2,000)</b> | –      | – | – |
|                               | <b>39,745</b>  | 41,620 | – | – |

## Freehold buildings

|  |                 |         |   |   |
|--|-----------------|---------|---|---|
| At cost  | <b>37,141</b>   | 36,544  | – | – |
| Accumulated depreciation and impairment losses | <b>(19,218)</b> | (4,151) | – | – |
|  | <b>17,923</b>   | 32,393  | – | – |

## Leasehold improvements

|  |                 |         |   |   |
|--|-----------------|---------|---|---|
| At cost  | <b>22,537</b>   | 27,738  | – | – |
| Accumulated amortisation and impairment losses | <b>(11,437)</b> | (9,526) | – | – |
|  | <b>11,100</b>   | 18,212  | – | – |

## Plant and equipment

|  |                 |          |   |   |
|--|-----------------|----------|---|---|
| At cost  | <b>162,768</b>  | 145,150  | – | – |
| Accumulated depreciation and impairment losses | <b>(95,307)</b> | (49,781) | – | – |
|  | <b>67,461</b>   | 95,369   | – | – |

## Leased plant and equipment

|  |                |         |   |   |
|--|----------------|---------|---|---|
| At capitalised cost                            | <b>4,517</b>   | 5,784   | – | – |
| Accumulated amortisation and impairment losses | <b>(2,044)</b> | (1,920) | – | – |
|  | <b>2,473</b>   | 3,864   | – | – |

## Capital works in progress

|                               |                |        |   |   |
|-------------------------------|----------------|--------|---|---|
| At cost                       | <b>7,457</b>   | 13,441 | – | – |
| Accumulated impairment losses | <b>(1,757)</b> | –      | – | – |
|                               | <b>5,700</b>   | 13,441 | – | – |

Total property, plant and equipment at net book value

|  |                |         |   |   |
|--|----------------|---------|---|---|
|  | <b>144,402</b> | 204,899 | – | – |
|--|----------------|---------|---|---|

## Notes to the Financial Statements

**12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****Reconciliation**

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

| CONSOLIDATED                                 | FREEHOLD<br>LAND<br>\$'000 | FREEHOLD<br>BUILDINGS<br>\$'000 | LEASEHOLD<br>IMPROVE-<br>MENTS<br>\$'000 | PLANT AND<br>EQUIPMENT<br>\$'000 | LEASED<br>PLANT AND<br>EQUIPMENT<br>\$'000 | CAPITAL<br>WORKS IN<br>PROGRESS<br>\$'000 | TOTAL<br>\$'000 |
|--|----------------------------|---------------------------------|--|----------------------------------|--|---|-----------------|
| <b>2009</b>                                  |                            |                                 |  |                                  |  |   |                 |
| Carrying amount at the beginning of the year | <b>41,620</b>              | <b>32,393</b>                   | <b>18,212</b>                            | <b>95,369</b>                    | <b>3,864</b>                               | <b>13,441</b>                             | <b>204,899</b>  |
| Additions                                    | –                          | <b>28</b>                       | <b>961</b>                               | <b>1,763</b>                     | <b>599</b>                                 | <b>19,718</b>                             | <b>23,069</b>   |
| Transfer from/(to) capital works in progress | –                          | <b>407</b>                      | <b>430</b>                               | <b>25,983</b>                    | <b>(1,111)</b>                             | <b>(25,709)</b>                           | –               |
| Disposals                                    | –                          | –                               | <b>(2,457)</b>                           | <b>(1,532)</b>                   | <b>(34)</b>                                | –   | <b>(4,023)</b>  |
| Depreciation and amortisation                | –                          | <b>(730)</b>                    | <b>(4,503)</b>                           | <b>(16,073)</b>                  | <b>(1,048)</b>                             | –   | <b>(22,354)</b> |
| Impairment losses                            | <b>(2,000)</b>             | <b>(14,342)</b>                 | <b>(2,788)</b>                           | <b>(38,317)</b>                  | <b>(7)</b>                                 | <b>(1,757)</b>                            | <b>(59,211)</b> |
| Effects of movements in foreign exchange     | <b>125</b>                 | <b>167</b>                      | <b>1,245</b>                             | <b>268</b>                       | <b>210</b>                                 | <b>7</b>                                  | <b>2,022</b>    |
| Carrying amount at the end of the year       | <b>39,745</b>              | <b>17,923</b>                   | <b>11,100</b>                            | <b>67,461</b>                    | <b>2,473</b>                               | <b>5,700</b>                              | <b>144,402</b>  |
| <b>2008</b>                                  |                            |                                 |  |                                  |  |   |                 |
| 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         |

During the year the Company announced its intention to exit local manufacturing, as a result, impairment losses have been recognised with respect to redundant plant and equipment utilised in the manufacturing process and freehold and leasehold land and building where these sites are located which were carried in excess of their recoverable amount.

## Notes to the Financial Statements

## 13 INTANGIBLE ASSETS

|  | CONSOLIDATED |            |          |  |           |
|--|--------------|------------|----------|--|-----------|
|  | GOODWILL     | BRANDNAMES | SOFTWARE | OTHER<br>INTANGIBLE<br>ASSETS <sup>1</sup> | TOTAL     |
|  | \$'000       | \$'000     | \$'000   | \$'000                                     | \$'000    |
| Balance at 1 July 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 |
| Additions                                | -            | -          | 28       | 15   | 43        |
| Disposals                                | -            | -          | (9)      | -  | (9)       |
| Amortisation                             | -            | -          | (2,380)  | (3,050)                                    | (5,430)   |
| Impairment losses                        | (128,813)    | (52,529)   | -        | -  | (181,342) |
| Effects of movements in foreign exchange | 167          | 332        | -        | -  | 499       |
| Balance at 30 June 2009                  | 863,802      | 432,155    | 11,397   | 13,923                                     | 1,321,277 |

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     |                             |
|                     | 2009<br>\$'000 | 2008 <sup>1</sup><br>\$'000 | 2009<br>\$'000 | 2008 <sup>1</sup><br>\$'000 |
| Underwear & Hosiery | 386,739        | 409,479                     | 273,041        | 273,441                     |
| Outerwear & Sport   | 177,763        | 178,528                     | 112,945        | 134,345                     |
| Home Comfort        | 153,443        | 236,517                     | 27,244         | 51,741                      |
| Footwear            | 145,857        | 167,924                     | 18,925         | 24,825                      |
|                     | 863,802        | 992,448                     | 432,155        | 484,352                     |

1 The Goodwill and Brandnames of the Sheridan CGU have been allocated to the Home Comfort CGU. The Goodwill, Brandnames and other intangibles of the Yakka and Brand Collective CGU's have been allocated to the Outerwear and Sport CGU. This is reflective of the change in the Company's strategy. The former CGU's were tested for impairment at the date of transition, with no impairment required.

The recoverable amount of the cash generating units (CGU) above was determined using value in use or fair value calculations as appropriate. Separate value in use calculations are prepared for each of the CGUs that make up the Consolidated Entity. The CGU's are consistent with the business segments of the Consolidated Entity. (Refer to Note 7 for a listing of business segments). Those calculations use cashflow projections based on actual operating results, and cashflows for a further five year period which are extrapolated using a growth rate appropriate for markets and categories in which each of the cash generating units operates, generally 2-2.5%.

A pre-tax discount rate of 13.7% (2008:11.6%) per annum has been used in discounting the projected cash flows.

During the year, the Consolidated Entity recognised impairment losses with respect to the above cash generating units. The impairment losses were triggered by a down turn in economic conditions both in the Australian and International markets in which the CGU's operate.

The recoverable amount of the CGUs was determined using the value in use or fair value calculations as appropriate. The carrying amount of the units was determined to be higher than their recoverable amount and an impairment loss was recognised against Goodwill in the following units; Underwear and Hosiery \$22.7m, Home Comfort \$83.2m, Outerwear and Sport \$0.8m and Footwear \$22.1m.

**Recoverability of Brandnames**

The carrying amount of intangible assets representing Brandnames was impaired during the year. The impairment test was triggered by the Consolidated Entity's brand rationalisation strategy and certain Brandnames have become redundant, been discontinued or identified for retirement. The recoverable amount was calculated using value in use calculations. The carrying amount of the Brandnames was determined to be higher than their recoverable amount and an impairment loss was recognised against Brandnames in the following units; Underwear and Hosiery \$0.4m, Home Comfort \$24.9m, Outerwear and Sport \$21.4m and Footwear \$5.9m.

## Notes to the Financial Statements

**14 RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES**

Deferred tax assets and liabilities are attributable to the following:

|   | ASSETS         |                | LIABILITIES    |                | NET            |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
|   | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| <b>Consolidated</b>                           |                |                |                |                |                |                |
| Trade and other receivables                   | <b>1,422</b>   | 2,092          | –              | –              | <b>1,422</b>   | 2,092          |
| Inventories                                   | <b>2,308</b>   | 1,232          | –              | –              | <b>2,308</b>   | 1,232          |
| Property, plant and equipment                 | <b>8,296</b>   | –              | –              | (3,129)        | <b>8,296</b>   | (3,129)        |
| Provisions for employee benefits              | <b>19,654</b>  | 22,976         | –              | –              | <b>19,654</b>  | 22,976         |
| Other provisions                              | <b>8,883</b>   | 1,870          | –              | –              | <b>8,883</b>   | 1,870          |
| Share issue costs <sup>1</sup>                | <b>1,827</b>   | –              | –              | –              | <b>1,827</b>   | –              |
| Derivative financial instruments <sup>2</sup> | <b>19,878</b>  | 466            | –              | –              | <b>19,878</b>  | 466            |
| Other items                                   | –              | –              | <b>(1,599)</b> | (1,454)        | <b>(1,599)</b> | (1,454)        |
| Tax assets/(liabilities)                      | <b>62,268</b>  | 28,636         | <b>(1,599)</b> | (4,583)        | <b>60,669</b>  | 24,053         |
| Set off of tax                                | <b>(1,599)</b> | (4,583)        | <b>1,599</b>   | 4,583          | –              | –              |
| Net tax assets                                | <b>60,669</b>  | 24,053         | –              | –              | <b>60,669</b>  | 24,053         |
| <b>The Company</b>                            |                |                |                |                |                |                |
| Provisions for employee benefits              | <b>118</b>     | 105            | –              | –              | <b>118</b>     | 105            |
| Share issue costs <sup>1</sup>                | <b>1,827</b>   | –              | –              | –              | <b>1,827</b>   | –              |
| Other items                                   | –              | 1,520          | –              | –              | –              | 1,520          |
| Tax assets                                    | <b>1,945</b>   | 1,625          | –              | –              | <b>1,945</b>   | 1,625          |

1 Included in equity.

2 Includes derivative financial instruments recognised directly in equity.

**15 TRADE AND OTHER PAYABLES**

|   | CONSOLIDATED   |                | THE COMPANY    |                |
|---|----------------|----------------|----------------|----------------|
|   | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| <b>Current</b>                            |                |                |                |                |
| Trade creditors                           | <b>117,422</b> | 150,581        | <b>629</b>     | 394            |
| Other creditors and accruals <sup>1</sup> | <b>86,051</b>  | 49,151         | –              | –              |
|   | <b>203,473</b> | 199,732        | <b>629</b>     | 394            |
| <b>Non-current</b>                        |                |                |                |                |
| Other creditors                           | <b>5,900</b>   | 9,306          | –              | –              |

1 Includes the fair value of foreign currency contracts.

**16 INTEREST-BEARING LOANS AND BORROWINGS**

|                    | CONSOLIDATED   |                | THE COMPANY    |                |
|--------------------|----------------|----------------|----------------|----------------|
|                    | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| <b>Current</b>     |                |                |                |                |
| Lease liabilities  | <b>816</b>     | 1,340          | –              | –              |
| <b>Non-current</b> |                |                |                |                |
| Bank loans         | <b>577,123</b> | 844,427        | –              | –              |
| Lease liabilities  | <b>1,348</b>   | 1,767          | –              | –              |
|                    | <b>578,471</b> | 846,194        | –              | –              |

## Notes to the Financial Statements

**16 INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)****Finance lease liabilities**

The Consolidated Entity's finance lease liabilities are secured by the leased assets of \$2.5 million (2008: \$3.9 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 |                            |                             | MINIMUM LEASE PAYMENTS |                            |                             |
|--|------------------------|----------------------------|-----------------------------|------------------------|----------------------------|-----------------------------|
|  | 2009<br>\$'000         | INTEREST<br>2009<br>\$'000 | PRINCIPAL<br>2009<br>\$'000 | 2008<br>\$'000         | INTEREST<br>2008<br>\$'000 | PRINCIPAL<br>2008<br>\$'000 |
| Within one year                                | <b>926</b>             | <b>110</b>                 | <b>816</b>                  | 1,545                  | 205                        | 1,340                       |
| One year or later and no later than five years | <b>1,501</b>           | <b>153</b>                 | <b>1,348</b>                | 1,885                  | 118                        | 1,767                       |
|  | <b>2,427</b>           | <b>263</b>                 | <b>2,164</b>                | 3,430                  | 323                        | 3,107                       |

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.

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 2009, this arrangement was drawn to \$170 million (2008: \$171 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.

**Bank overdrafts**

Interest on bank overdrafts is charged at prevailing market rates.

**17 PROVISIONS**

|                    | CONSOLIDATED   |                | THE COMPANY    |                |
|--------------------|----------------|----------------|----------------|----------------|
|                    | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| <b>Current</b>     |                |                |                |                |
| Employee benefits  | <b>64,011</b>  | 72,711         | -              | -              |
| Leased premises    | <b>3,366</b>   | 3,949          | -              | -              |
| Restructuring      | <b>82,586</b>  | -              | -              | -              |
|                    | <b>149,963</b> | 76,660         | -              | -              |
| <b>Non-current</b> |                |                |                |                |
| Employee benefits  | <b>6,778</b>   | 4,330          | -              | -              |
| Leased premises    | <b>5,866</b>   | 5,825          | -              | -              |
|                    | <b>12,644</b>  | 10,155         | -              | -              |

**Reconciliation**

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

| RESTRUCTURING                                | RESTRUCTURING   |                | LEASED PREMISES |                |
|--|-----------------|----------------|-----------------|----------------|
|  | 2009<br>\$'000  | 2008<br>\$'000 | 2009<br>\$'000  | 2008<br>\$'000 |
| Carrying amount at the beginning of the year | -               | -              | <b>9,774</b>    | 9,050          |
| Recognised in the Income Statement           | <b>104,187</b>  | -              | <b>1,962</b>    | 949            |
| Fair value adjustments                       | -               | -              | -               | 3,456          |
| Payments                                     | <b>(21,601)</b> | -              | <b>(2,504)</b>  | (3,681)        |
| Carrying amount at the end of the year       | <b>82,586</b>   | -              | <b>9,232</b>    | 9,774          |

## Notes to the Financial Statements

**17 PROVISIONS (CONTINUED)****Restructuring**

During the year ended 30 June 2009 the Consolidated Entity committed to a plan to discontinue non core activities and some smaller brands as part of its "Pacific Brands 2010" plan to reduce complexity and cost of doing business. Following the announcement of the plan, the Consolidated Entity recognised a provision of \$104 million for expected restructuring costs including employee termination benefits. Estimated cost was based on the terms of relevant contracts. The restructuring activities are expected to be substantially completed by 30 June 2010.

**18 CONTRIBUTED EQUITY**

|   | CONSOLIDATED     |                | THE COMPANY      |                |
|---|------------------|----------------|------------------|----------------|
|   | 2009<br>\$'000   | 2008<br>\$'000 | 2009<br>\$'000   | 2008<br>\$'000 |
| <b>Share capital</b>  |                  |                |                  |                |
| <i>Publicly held</i>  |                  |                |                  |                |
| 502,277,852 fully paid ordinary shares (2008: 502,277,852) at the beginning of the year               | <b>1,218,577</b> | 1,218,577      | <b>1,218,577</b> | 1,218,577      |
| 427,016,236 fully paid ordinary shares were issued during the financial year (2008: nil) <sup>1</sup> | <b>250,880</b>   | –              | <b>250,880</b>   | –              |
| <i>Treasury shares</i>  |                  |                |                  |                |
| 2,092,160 fully paid ordinary treasury shares were issued during the year (2008: nil)                 | –                | –              | –                | –              |
| 931,386,248 fully paid ordinary shares at the end of the year (2008: 502,277,852)                     | <b>1,469,457</b> | 1,218,577      | <b>1,469,457</b> | 1,218,577      |

<sup>1</sup> Net of capital raising costs.

**Treasury shares**

Treasury shares represent the ordinary shares held by the trustee of the Consolidated Entity's equity compensation plan. As at 30 June 2009 the trust held 2,092,160 of the Company's shares (2008: nil). These were issued by the Company during the year for no consideration.

**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.

**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 (ACCUMULATED LOSSES)/RETAINED EARNINGS**

|  | CONSOLIDATED     |                | THE COMPANY     |                |
|--|------------------|----------------|-----------------|----------------|
|  | 2009<br>\$'000   | 2008<br>\$'000 | 2009<br>\$'000  | 2008<br>\$'000 |
| Balance at the beginning of the year                           | <b>136,140</b>   | 108,241        | <b>3,340</b>    | 23,881         |
| Net (loss)/profit attributable to equity holders of the parent | <b>(234,479)</b> | 116,558        | <b>(24,052)</b> | 68,118         |
| On-market purchase of performance rights                       | –                | (3,235)        | –               | (3,235)        |
| Dividends recognised   | <b>(42,708)</b>  | (85,424)       | <b>(42,708)</b> | (85,424)       |
| Balance at the end of the year                                 | <b>(141,047)</b> | 136,140        | <b>(63,420)</b> | 3,340          |

## Notes to the Financial Statements

**21 DIVIDENDS**

Dividends recognised in the current year by the Company are:

|                       | CENTS PER SHARE | TOTAL AMOUNT \$'000 | FRANKED/ UNFRANKED | DATE OF PAYMENT |
|-----------------------|-----------------|---------------------|--------------------|-----------------|
| <b>2009</b>           |                 |                     |                    |                 |
| Final 2008 ordinary   | 8.5             | 42,708              | Franked            | 1 October 2008  |
|                       |                 | 42,708              |                    |                 |
| <b>2008</b>           |                 |                     |                    |                 |
| Interim 2008 ordinary | 8.5             | 42,709              | Franked            | 1 April 2008    |
| Final 2007 ordinary   | 8.5             | 42,715              | Franked            | 1 October 2007  |
|                       |                 | 85,424              |                    |                 |

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

**Subsequent events**

Since the end of the financial year, the directors have not declared any dividends for 2009.

|  | THE COMPANY   |             |
|--|---------------|-------------|
|  | 2009 \$'000   | 2008 \$'000 |
| <b>Dividend franking account</b>   |               |             |
| 30% franking credits available to shareholders of the Company for subsequent financial years | <b>38,148</b> | 46,073      |

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 Company has not declared a final dividend for the financial year.

**22 MINORITY INTEREST**

The minority interest at 30 June 2009 relates to a 50% interest in Restonic (M) Sdn Bhd which is not held by the Company nor by one of its controlled entities. During the prior year, the 50.1% controlling interest in World Brands Pty Ltd was also disposed.

|  | CONSOLIDATED |             |
|--|--------------|-------------|
|  | 2009 \$'000  | 2008 \$'000 |
| <b>Minority interest in controlled entities comprise:</b>  |              |             |
| Interest in retained earnings at the beginning of the year | <b>(343)</b> | 355         |
| Net profit attributable to minority interest               | <b>188</b>   | 568         |
| Minority interest disposed                                 | <b>-</b>     | (733)       |
| Dividend paid to minority interest                         | <b>(281)</b> | (533)       |
| Interest in (accumulated losses) at the end of the year    | <b>(436)</b> | (343)       |
| Interest in share capital                                  | <b>4,293</b> | 4,293       |
| Interest in reserves                                       | <b>137</b>   | (249)       |
| Total minority interest                                    | <b>3,994</b> | 3,701       |

## Notes to the Financial Statements

## 23 COMMITMENTS

|  | CONSOLIDATED   |                |
|--|----------------|----------------|
|  | 2009<br>\$'000 | 2008<br>\$'000 |
| <b>Non-cancellable operating lease expense commitments</b>                                   |                |                |
| Future operating lease commitments not provided for in the financial statements and payable: |                |                |
| Within one year  | <b>47,281</b>  | 49,030         |
| One year or later and no later than five years   | <b>106,343</b> | 134,549        |
| Later than five years  | <b>26,633</b>  | 35,316         |
|  | <b>180,257</b> | 218,895        |

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).

## 24 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 | CONTROLLED ENTITY                  | PLACE OF INCORPORATION |
|---|------------------------|------------------------------------|------------------------|
| Pacific Brands (Australia) Pty Ltd        | Australia              | Yakka (Aust) Pty Ltd               | Australia              |
| Pacific Brands Holdings Pty Ltd           | Australia              | Yakka Pty Ltd                      | Australia              |
| Pacific Brands Footwear Pty Ltd           | Australia              | CTE Pty Ltd                        | Australia              |
| Sachi Australia Pty Ltd                   | Australia              | Shared Apparel Services Pty Ltd    | Australia              |
| Pacific Brands Sport & Leisure Pty Ltd    | Australia              | Sthgirw Workwear Pty Ltd           | Australia              |
| Pacific Brands Clothing Pty Ltd           | Australia              | Neat n Trim Uniforms Pty Ltd       | Australia              |
| Pacific Brands Household Products Pty Ltd | Australia              | Dowd Corporation Pty Ltd           | Australia              |
| Bonds Industries Pty Ltd                  | Australia              | Yakka (Kingsgrove) Pty Ltd         | Australia <sup>2</sup> |
| Sheridan Australia Pty Ltd                | Australia              | Yakka (QLD) Pty Ltd                | Australia <sup>2</sup> |
| Pacific Brands Services Group Pty Ltd     | Australia              | Yakka (Wodonga) Pty Ltd            | Australia              |
| PT Berlei Indonesia                       | Indonesia              | Pacific Brands (Singapore) Pte Ltd | Singapore              |
| Sheridan NZ Limited                       | New Zealand            | PacBrands USA Inc                  | USA                    |
| Pacific Brands Holdings (NZ) Ltd          | New Zealand            | Pacific Brands (UK) Ltd            | UK                     |
| Pacific Brands Holdings (Hong Kong) Ltd   | Hong Kong <sup>1</sup> | Sheridan UK Limited                | UK                     |
| Grosby (China) Ltd                        | Hong Kong              | Pacific Brands (Fiji) Limited      | Fiji <sup>2</sup>      |
| Pacific Brands (Asia) Ltd                 | Hong Kong              | Icon Clothing Pty Ltd              | Australia              |

1 Pacific Brands Holdings (Hong Kong) Ltd has a 36% interest in Dunlop Slazenger Philippines Inc but does not have control of this entity.

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

The Consolidated Entity had a 100% ownership interest in the following entities at 30 June 2008 but none at 30 June 2009:

| CONTROLLED ENTITY                      | PLACE OF INCORPORATION/FORMATION | CONTROLLED ENTITY                  | PLACE OF INCORPORATION/FORMATION |
|--|----------------------------------|------------------------------------|----------------------------------|
| Cushen Clothing Company Pty Ltd        | Australia                        | Industrial Workwear Centre Pty Ltd | Australia                        |
| Cushen Clothing (Distributors) Pty Ltd | Australia                        | Yakka (WA) Pty Ltd                 | Australia                        |
| Cushen Unit Trust                      | Australia                        | Yakka (SA) Pty Ltd                 | Australia                        |
| FW Fleming Pty Ltd                     | Australia                        | Yalee Pty Ltd                      | Australia                        |
| Icon Clothing (NZ) Pty Ltd             | Australia                        |                                    |                                  |
| West End Clothing Pty Ltd              | Australia                        |                                    |                                  |

## Notes to the Financial Statements

**24 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 | CONTROLLED ENTITY INTEREST 2009 | CONSOLIDATED ENTITY INTEREST 2008 |
|--|------------------------|---------------------------------|-----------------------------------|
| 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%                               |

**25 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:

|   | NOTE | CONSOLIDATED   |                | THE COMPANY    |                |
|---|------|----------------|----------------|----------------|----------------|
|   |      | 2009<br>\$'000 | 2008<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 |
| Cash and cash equivalents   | 8    | 126,475        | 104,822        | 557            | 538            |
| <b>(b) Reconciliation of (loss)/profit for the period to net cash from operating activities</b> |      |                |                |                |                |
| (Loss)/profit for the period  |      | (234,291)      | 117,126        | (24,052)       | 68,118         |
| Add/(less) non-cash items:  |      |                |                |                |                |
| Share based payments  |      | 1,355          | 2,430          | –              | –              |
| Net gain on disposal of businesses  |      | –              | (564)          | –              | –              |
| Loss on disposal of non-current assets  |      | 490            | 553            | –              | –              |
| Amounts set aside to allow for doubtful debts, rebates, claims and settlement discounts         | 3    | 154,482        | 148,652        | –              | –              |
| Amounts set aside to allow for employee benefits  |      | 40,649         | 45,269         | –              | –              |
| Amounts set aside for restructuring   |      | 85,098         | –              | –              | –              |
| Depreciation and amortisation   | 3    | 27,784         | 26,960         | –              | –              |
| Asset impairment and writedowns   |      | 273,873        | –              | 67,578         | –              |
| (Decrease)/increase in income tax payable   |      | (5,741)        | 5,950          | (12,563)       | 8,410          |
| (Decrease)/increase in current and deferred tax assets  |      | (15,029)       | 3,252          | 1,964          | 1,696          |
| <b>Net cash provided by operating activities before change in assets and liabilities</b>        |      | <b>328,670</b> | <b>349,628</b> | <b>32,927</b>  | <b>78,224</b>  |
| Change in assets and liabilities:   |      |                |                |                |                |
| (Decrease)/increase in trade and other receivables  |      | (140,900)      | (122,531)      | –              | –              |
| Decrease/(increase) in inventories  |      | 16,784         | (12,791)       | –              | –              |
| Decrease/(increase) in prepayments  |      | 5,944          | (4,477)        | –              | 2              |
| (Decrease)/increase in trade and other payables   |      | (56,960)       | 20,843         | 232            | (739)          |
| Decrease in provisions  |      | (49,831)       | (48,162)       | –              | –              |
| <b>Net cash from operating activities</b>   |      | <b>103,707</b> | <b>182,510</b> | <b>33,159</b>  | <b>77,487</b>  |

## Notes to the Financial Statements

**26 RELATED PARTIES**

It is the Consolidated Entity's policy that all transactions with related parties are on normal terms and conditions, except for the loan of \$1,387 million shown below. \$1,204 million of this loan was made from the Company 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. An additional loan of \$250 million was made by the Company to Pacific Brands (Australia) Pty Ltd after the capital raising conducted in June 2009. An impairment loss of \$67 million was also recognised on the loan.

|  | THE COMPANY      |                |
|--|------------------|----------------|
|  | 2009<br>\$'000   | 2008<br>\$'000 |
| <b>The aggregate amounts included in the (loss)/profit before income tax (benefit)/expense that resulted from transactions with controlled entities are:</b> |                  |                |
| Dividend revenue   |                  |                |
| Wholly-owned controlled entity   | <b>45,000</b>    | 70,000         |
| <b>The aggregate amounts receivable from controlled entities are:</b>  |                  |                |
| Amounts receivable other than trade receivables  |                  |                |
| Current  |                  |                |
| Wholly-owned controlled entity   | <b>26,660</b>    | 37,156         |
| Non-current  |                  |                |
| Wholly-owned controlled entity   | <b>1,387,016</b> | 1,203,714      |

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

As set out in the Directors' Report a number of the Directors of Pacific Brands are also Directors of other companies. On occasions the Consolidated Entity may purchase goods and services or lease properties from or supply goods and services to these entities. These transactions are undertaken on normal commercial terms and conditions and the Director and KMP do not directly influence these transactions.

**27 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.