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Pacific Brands Full Year Profit Exceeds Prospectus Forecast

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HIGHLIGHTS

- ◆ Group NPAT (pre goodwill amortisation) of \$88.4 million exceeded Prospectus forecast by 8.7%
- ◆ EBITA increased 22.0% to \$155.2 million, exceeded Prospectus forecast by 2.8%
- ◆ Operating cash flow increased 32.9% to \$171.3 million, exceeded Prospectus forecast by 3.7%
- ◆ Greater than anticipated final dividend of 3.5 cps¹
- ◆ Bonds and Holeproof enjoy double-digit sales growth
- ◆ Significant margin improvement in Home Comfort
- ◆ Brand building strategy in Footwear yields double-digit EBITA growth

Year ended 30 June (A\$ million)	Adjusted Actual 2003	Prospectus 2004	Pro-forma Actual 2004	% change 03A-04A	% change Prospectus-04A
Sales revenue	1,489.1	1,563.1	1535.1	↑ 3.1%	↓ 1.8%
EBITDA	143.3	167.6	171.6	↑ 19.7%	↑ 2.4%
EBITA	127.2	151.0	155.2	↑ 22.0%	↑ 2.8%
EBITA margin	8.5%	9.7%	10.1%		
NPAT (pre goodwill amortisation)		81.3	88.4		↑ 8.7%
NPAT (post goodwill amortisation)		41.0	47.4		↑ 15.6%
EPS (pre goodwill amortisation) (cents)		16.2	17.6		↑ 8.6%
EPS (post goodwill amortisation) (cents)		8.2	9.4		↑ 14.6%
DPS (cents) ¹		3.0	3.5		↑ 16.7%

Strong earnings growth exceeded Prospectus forecast

The newly listed Pacific Brands Limited (PBG) today announced a pro-forma net profit after tax (pre goodwill amortisation) of \$88.4 million for the year ended 30 June 2004, which exceeded the Prospectus forecast by 8.7%². The pro-forma net profit after tax (post goodwill amortisation) was \$47.4 million, which exceeded the Prospectus forecast by 15.6%.

Chief Executive Officer, Mr Paul Moore said that the Group's full year EBITA of \$155.2 million, representing a 22% increase over the previous year and 2.8% improvement on the Prospectus forecast, was a strong maiden result following the Company's recent IPO. PBG's total sales also grew 3.1% over the previous year with the Group's Australian based sales growing at 4.7%.

¹ Represents dividend announced for the approximate three month period from listing to 30 June 2004

² PBG's full year pro-forma results have been prepared on the assumption that the Company was a listed entity with the same operating structure for the entire year. The calculation of pro-forma results has been necessary as PBG is a new company and its statutory accounts only report results from the date of incorporation of the Company on 12 December 2003, with trading commencing from 6 April 2004 through to 30 June 2004.



Occupational Health & Safety



“Our strategy of growing key brands through the use of creative advertising, continuous product development and innovation has provided the catalyst for strong earnings growth during the year. Together with the operational efficiencies extracted from our Brave New Way program, focussed on margin enhancement and complexity reduction, the Group is in a strong position to deliver future earnings growth”, said Mr Moore.

PBG’s performance was driven by margin improvement, resulting from increased advertising and marketing support in key brands, double-digit sales growth in “make-over” brands including Bonds and Holeproof, the successful integration of the Kolotex and Sachi acquisitions, and a continued focus on eliminating unprofitable and unbranded sales.

During the year, PBG continued to drive cost efficiencies through its supply chain by rationalising warehouses, reducing complexity across product ranges, and developing more collaborative relationships with its customers and suppliers. It is anticipated further efficiencies will be secured through the Brave New Way program.

Chairman, Mr Pat Handley commented, “Pacific Brands strong results are a credit to the management and expertise of our 7,000 dedicated employees across Australia and overseas.”

Each operating group contributed to the result

In *Underwear and Hosiery*, Bonds and Holeproof both enjoyed double-digit sales growth, driven by the strength of the brands.

“Bonds not only realised growth in traditional products – such as Chesty, which is now selling more units than ever before – it also moved into non-traditional categories, such as outerwear, and achieved immediate success with its “Hoodie” product release. The year at Holeproof was marked by record sales in the re-invigorated Antz Pantz, solid gains in traditional brands such as Rio, Explorer socks and Underdaks, and significant growth for Love Kylie,” Mr Moore said.

It was a year of continued rationalisation in *Outerwear and Sport*, as it re-focused its efforts towards profitable branded product sales, particularly in casual outerwear.

“The sustained focus on branded outerwear places the Group in a stronger position for the future,” Mr Moore said.

“In *Home Comfort*, the product offering for Sleepmaker was overhauled as all bedding brands were reviewed, delivering improved margins” he said. “Tontine also continues to grow on the back of product innovation and customer relationships.”

The *Footwear* strategy has been to continue to invest in brands, and the range was complemented by the addition of Sachi, and the continued advertising and marketing support behind icon brands such as Hush Puppies and Grosby.

Robust cash flows enable a high dividend payout

Pacific Brands' strong cash flow generation continued during the year with pro-forma operating cash flow increasing 32.9% to \$171.3 million, which exceeded the Prospectus forecast by 3.7%. This strong result was further evidence of the inherent low capital intensity of the business.

Pro-forma net operating cash flow (post borrowing costs and income taxes) for the year was \$110.3 million, which exceeded the Prospectus forecast by 6.9%. Combined with the seasonal nature of working capital, this resulted in a significant reduction in net debt from \$466.5 million at 31 December 2003 (pro-forma) to \$394.3 million at 30 June 2004, reducing gearing (net debt/equity) from 39.4% to 32.0%.

Reflecting the strong earnings and cash flow performance of Pacific Brands, the Board has announced a final fully franked dividend for the approximate three month period since listing, of 3.5 cents per share. This represents a 0.5 cent per share increase over the expected dividend of 3.0 cents per share indicated in the Prospectus. Record date for the dividend is 10 September 2004, and the dividend is payable on 30 September 2004.

In line with its focus on increasing shareholder returns, the Board remains committed to retaining the financial flexibility to support well-targeted acquisitions and capital expenditure programs which satisfy strict financial criteria while optimising the company's balance sheet.

Base created for a positive outlook

The Board is comfortable that in the absence of unforeseen events, Pacific Brands will at least meet its prospectus earnings forecasts for the year ending 30 June 2005.

REVIEW OF OPERATIONS

Underwear and Hosiery

	2004	2003	Change
Sales (\$m)	\$667.2	\$612.0	9.0%
EBITA (\$m)	\$90.3	\$66.9	35.0%

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

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

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

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

Outerwear and Sport

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

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

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

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

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

Home Comfort

	2004	2003	Change
Sales (\$m)	\$294.7	\$295.5	-
EBITA (\$m)	\$27.7	\$24.4	13.5%

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

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

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

Footwear

	2004	2003	Change
Sales (\$m)	\$228.9	\$224.7	1.9%
EBITA (\$m)	\$20.4	\$17.0	20.0%

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

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

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

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Pacific Brands listed on the Australian and New Zealand Stock Exchanges on April 2 2004, with a market capitalisation of approximately \$1.25 billion, in an initial public offering to retail and institutional investors.

Pacific Brands is a leading manager of consumer brands in Australia and New Zealand, marketing some of the most recognised brands including Berlei, Bonds, Clarks (childrens), Dunlop, Everlast, Grosby, Holeproof, Hush Puppies, KingGee, Slazenger, Sleepmaker and Tontine. Pacific Brands' commitment to market leadership has provided it with number one or two positions across its major product categories in Australia and New Zealand which include underwear, socks, intimate apparel, hosiery and footwear.

These category leading positions have been achieved through a focus on being at the forefront of brand development, product innovation, marketing and an efficient and effective supply and distribution network. Pacific Brands believes that it is one of Australia and New Zealand's most informed companies on the "what, where, when and why" of a consumer's branded everyday essentials.

Pacific Brands employs around 7,000 people and is listed on the Australian Stock Exchange (ASX:PBG).