10 September 2012

Manager Company Announcements
Australian Securities Exchange
Level 4
20 Bridge Street
SYDNEY NSW 2000

Market Information Services
New Zealand Exchange Limited
Level 2, NZX Centre
11 Cable Street
Wellington
New Zealand

Dear Sir/Madam

In accordance with the ASX Listing Rules, please find attached the Company's 2012 Annual Report which will be mailed to shareholders around 21 September 2012, at which time the Notice Of Meeting will also be sent to shareholders. The Annual Report will also be available on the Company's website at www.pacificbrands.com.au

Yours faithfully
Pacific Brands Limited

John Grover
Company Secretary


LONDON 2012
LONDON 2012
AUS 2012
AUS 2012
PACIFIC BRANDS
ANNUAL REPORT

CONTENTS

Non-IFRS financial information

Other than as indicated, the financial information contained in this document is directly extracted or calculated from audited Financial Statements.

Throughout this document some non-IFRS financial information is stated before other expenses that are individually significant as disclosed in Note 4 to the Financial Statements (significant items). Results excluding such expenses are considered by Directors to be a better basis for comparison from period to period as well as more comparable with future performance. They are also the primary measure of earnings considered by management in operating the business and by Directors in determining dividends.

There are also references to Underlying Sales which are defined as reported sales less sales from brand acquisitions, divested businesses, businesses held for sale and brands and labels subject to discontinuation. Directors consider that sales defined in this manner is a meaningful measure of sales as it is consistent with the Pacific Brands transformation strategy, representative of the recent movement or trajectory in sales and provides a better indication of the relevant base against which future sales can be compared.

Operating cash flow pre interest and tax (OCFPIT) as a measure of cash flow is considered by Directors to be meaningful as it is the cash equivalent of EBITDA and thus provides a measure of the rate at which operating earnings are converted to cash.

CHAIRMAN'S REVIEW

Dear shareholders

Thank you for your support and interest throughout the financial year. The last 12 months has been perhaps the most challenging period in the company's history. The tough retail environment has made trading conditions difficult and has been exacerbated by the impacts of the Kmart exit and unprecedented cotton price volatility.

Our decisions in connection with the Pacific Brands 2010 transformation program to focus on a tighter portfolio of brands, increase sourcing off-shore and manage with a leaner cost base have supported the 2012 operating result and, more importantly, have positioned the company for future growth. Through the transformation period we have improved the strength and position of our key brands and the business is leaner and more agile and able to respond to the continuing and new challenges we face. Your board and management will continue to take the necessary steps where appropriate to restructure and rationalise the business to improve shareholder value.

Financial results

Reported sales of $1,323 million were down 18.1%, the majority of which was attributable to the impact of business divestments, particularly the sale of the Sleepmaker, Dunlop Foams and Bikes businesses.

Underlying sales[1] (ie before the impact of brand acquisitions, business divestments and brand discontinuations) were down 8.0%, or 4.3% excluding sales to Kmart. For Bonds, sales ex-Kmart were up, online continued to exhibit strong growth and our direct retail pilot also started well. Sheridan grew with our new boutique stores and online performing strongly. Workwear, however, felt the effects late in the year of the general decline in business confidence.

Reported earnings outcomes were heavily impacted by a number of largely non-cash significant items not relating to ongoing operations. During the year, the company wrote down the value of the goodwill in the Underwear, Homewares and Workwear businesses by a total of $502.7 million. Reported earnings before interest and tax (EBIT) was a loss of $404.9 million or a profit of $129.1 million before significant items.

Gross margins were impacted by increased input costs due mainly to the impact of past cotton price increases and offshore labour inflation. Reported margins fell only 0.3 percentage points but, excluding net divested businesses (which had below average margins), gross margins declined by 2.1 percentage points[1].

The cost of doing business reduced by 15% or $85 million, with the majority attributable to restructuring and cost saving initiatives in continuing businesses. This reflects the benefits of the company's cost containment and efficiency initiatives, including the integration of Bonds and Omni to form the Underwear Group, the combination of the Homewares and Footwear, Outerwear and Sport businesses into a single operating unit and the consolidation of our distribution network.

The reported net profit after tax was a loss of $450.7 million or a profit of $72.8 million before significant items.

Operating cash flow remained strong through effective working capital management. There was also $18 million in proceeds from the sale of surplus properties at Coolaroo (Victoria) and Kingsgrove (New South Wales). This enabled us to reduce net debt by a further $53 million from $242 million at 31 December 2011 to $189 million at 30 June 2012.

Strategic priorities

Whilst the Pacific Brands 2010 transformation program announced in 2009 is essentially complete, the company continues to focus on the long term competitiveness of the business. It is clear that the vagaries of the retail trading environment will persist and our challenge in this environment is to get to a position of continued top line growth with a sustainable earnings platform. The company's key strategic priorities are:

- Focus on key brands - prioritise investment in Bonds, Workwear and Sheridan; leverage consumer insights and R&D in product development; build on category management and sales execution capability; market brands creatively and effectively to drive powerful consumer engagement
- Channel diversity - improve existing wholesale distribution base; expand business-to-business base (particularly in Workwear); invest in direct-to-consumer (online, retail and franchise)
- Cost reduction - capture operational restructuring opportunities; invest in sourcing & supply chain capability; reduce costs of doing business; where appropriate reshape the brand portfolio

Board and senior management changes

As part of the Board's succession plan, James MacKenzie stood down as Chairman from 30 June 2012, but we are pleased to retain James' experience and insight as a continuing board member. We thank James for his very significant contribution and leadership as Chairman.

In June 2012, Colette Garnsey left to accept a senior role at Premier Investments. The Board thanks Colette for her contribution to the business and wish her well in her future role. Anthony Heraghty, formerly head of the Homewares, Footwear and Outerwear Group (HFO), takes over as head of the Underwear Group and Martin Matthews, a general manager within the group, will step up to lead HFO.

1. Announced but not audited

In August 2012, Holly Kramer left to accept the role of CEO of Best & Less, one of the company's key customers. We thank Holly for her significant contribution and look forward to working with her in her new capacity. Matthew Claughton, previously Head of Strategy, Human Resources and International for Workwear, will take over from Holly.

I would like to pay tribute to our Chief Executive Officer, Sue Morphet, who we announced would be standing down at the full year results presentation on 22 August 2012. As many of you know, in the five years since her appointment Sue has driven a transformational restructuring of Pacific Brands. Sue has taken the business from having well over 300 brands and a significant debt load to being the consolidated, key brand-focused, comparatively low-debt company we are today. In transforming the company and making difficult but necessary changes, Sue has had to manage some of the toughest challenges a chief executive ever meets. She has the utmost respect of the Board and I know everyone in the company.

Remuneration Report

At last year's Annual General Meeting the 2011 Remuneration Report received a 'first strike' under the new executive remuneration laws. The Board reflected on shareholder feedback received last year and has taken special care to ensure that, where possible, it has addressed that feedback. Please refer to the 2012 Remuneration Report for further details.

Dividends and capital management

The dividend for the year was a fully franked 4.5 cents per share dividend, representing a payout ratio of approximately 56% of net profit after tax before significant items consistent with the prior year.

During the year, the company bought back 18.5 million shares for a total outlay of $12.3 million. The Board is currently prioritising balance sheet strength in the prevailing market environment, but will continue to consider capital management initiatives as and when appropriate.

Outlook

Market conditions are challenging and it is expected that this will continue throughout the current financial year. Gross margins are expected to be maintained broadly in line with last year, with import prices stabilising and currency exchange rates largely hedged at competitive rates. As one of our three strategic priorities we will continue efforts to control and reduce costs and look at restructuring and rationalisation opportunities where they make sense.

Earnings outcomes in the current year will be largely dependent upon market conditions and associated sales performance and may be impacted by ongoing restructuring and rationalisation.

However, the company is well placed to deal with the current trading environment and, most importantly, to benefit from any improvement in market conditions.

CEO appointment

In closing, I would like to make some comments on our incoming CEO, John Pollaers. In appointing John we are confident we have the right person to take the company forward. He brings a different set of skills and experience to the company as an experienced public company CEO, having had a distinguished 22 year track record in international consumer products.

John is well known for his leadership skills and his ability to motivate and galvanise a team. He sets clear strategic directions and focuses on delivering results, and so not surprisingly has a terrific record of managing and building great brands. The Board welcomes John to the team.

John's appointment signals that rigour and focus will be brought aggressively to our three strategic priorities – focus on key brands, channel diversity and cost reduction – and he will be working with our senior management team to continue to build our great brands. The Board has great confidence in the capacity of our brands to be resilient in this tough economic environment, we believe in and have great confidence in our people and we are excited about the future.

Feedback

Your feedback is always important to us and we want to ensure that you, our shareholders, have an avenue to ask any questions you have. We have a designated email address (agmquestions@pacbrands.com.au) for you to submit questions and we will endeavour to address these at our Annual General Meeting on 23 October 2012.

Once again, thank you for your support over the last 12 months.

Peter Bush
Chairman

22 August 2012

FINANCIAL SUMMARY

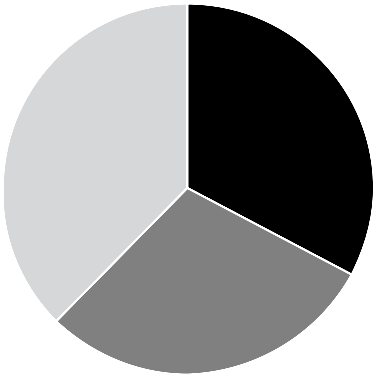
$ millions	Notes	2012	2011	2010	2009	2008
Income and Cash Flow						
Sales revenue	1	**1,322.7**	1,614.6	1,742.4	1,959.8	2,074.0
Gross margin	1	**618.6**	760.5	732.2	827.9	911.0
EBITDA (reported)		**(389.7)**	(41.2)	149.6	(150.5)	253.0
EBITDA (pre significant items)	2	**144.3**	207.2	201.0	230.0	253.0
EBIT (reported)		**(404.9)**	(62.3)	127.6	(178.3)	226.1
EBIT (pre significant items)	2	**129.1**	186.2	179.0	202.3	226.1
NPAT (reported)	7	**(450.7)**	(131.9)	52.7	(234.5)	116.6
NPAT (pre significant items)	2, 7	**72.8**	103.4	90.3	100.1	116.6
Reported net operating cash flow		**107.1**	94.7	135.3	103.7	182.5
OCFPIT	3	**197.0**	171.2	290.4	206.0	279.4
Statement of Financial Position						
Inventory		**244.3**	262.5	241.3	311.4	356.9
Trade debtors		**140.1**	179.1	194.3	231.5	246.4
Property, plant & equipment		**82.3**	80.4	117.0	144.4	204.9
Intangibles		**580.6**	1,081.0	1,307.6	1,321.3	1,507.5
Trade creditors		**(119.6)**	(115.8)	(119.5)	(117.4)	(150.5)
Other		**(49.8)**	(75.1)	(48.5)	(171.7)	(92.4)
Total capital employed		**877.8**	1,412.1	1,692.2	1,719.5	2,072.8
Net debt		**(189.1)**	(227.2)	(312.7)	(452.8)	(742.7)
Net assets / total equity		**688.7**	1,184.9	1,379.5	1,266.7	1,330.1
Ratios						
EBIT margin (pre significant items) (%)	1, 2	**9.8**	11.5	10.3	10.3	10.9
EPS (reported) (cents)	4	**(49.1)**	(14.2)	5.7	(39.9)	20.9
EPS (pre significant items) (cents)	2, 4	**7.9**	11.1	9.7	17.0	20.9
Dividends per share (cents)		**4.5**	6.2	0.0	0.0	17.0
Inventory turnover (times)		**2.8**	3.4	3.6	3.2	3.4
Cash conversion (%)	5	**136.5**	82.6	144.5	89.6	110.4
Net debt / equity (%)		**27.5**	19.2	22.7	35.7	55.8
Return on capital employed (%)	2, 6	**14.7**	13.2	10.6	11.8	10.9

1. 2008 and 2009 adjusted for the reclassification of certain amounts of sales and marketing expenses now netted against sales revenue
2. Before other expenses that are individually significant as disclosed in Note 4 to the Financial Statements (significant items)
3. Operating cash flow pre interest and tax
4. 2008 has been restated for the impact of the rights issue undertaken during F09 in accordance with AASB 133 Earnings per Share
5. Cash conversion is defined as OCFPIT / EBITDA pre significant items
6. Return on capital employed is defined as EBIT pre significant items/Total capital employed. 2008, 2009, 2010 and 2011 have been adjusted to use EBIT pre significant items as the numerator instead of EBITA pre significant items
7. After deducting non-controlling interest

OPERATIONAL HIGHLIGHTS

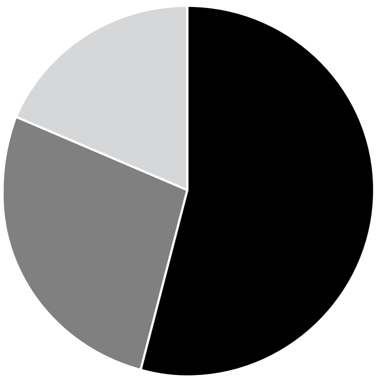
Reported sales declined by 18.1% due principally to business divestments. Underlying sales were down 8.0% or 4.3% excluding sales to Kmart. The underlying sales result was due primarily to low consumer sentiment and business confidence, and reduced sales reflecting the move away from second tier brands.

Sales by operating segment



- Underwear 32.7%
- Workwear 29.4%
- Homewares, Footwear & Outerwear 37.9%

EBIT by operating segment[1]



- Underwear 54.0%
- Workwear 27.4%
- Homewares, Footwear & Outerwear 18.6%

1. Before other expenses that are individually significant as disclosed in Note 4 to the Financial Statements (significant items)

Underwear

The Underwear group includes market-leading brands Berlei, Bonds, Holeproof, Jockey, Razzamatazz, Rio and Voodoo. Sales are derived from a broad range of underwear, intimate apparel, hosiery, socks and outerwear for women, men and children across Australia and New Zealand.

$ millions	F12	F11	Change %
Sales[1]	432.5	513.4	(15.8)%
EBIT (reported)[2]	(330.3)	109.7	n.m.
EBIT (pre significant items)	76.0	111.3	(31.7)%
EBIT margin (reported)	(76.4)%	21.4%	n.m.
EBIT margin (pre significant items)	17.6%	21.7%	(4.1)pts

1 Excluding other segment revenue and inter segment revenue
2 Reported loss due to 1H12 impairment of goodwill ($388.7 million)

Financial

- Reduced Kmart impact in 2H12, but still accounted for majority of full year sales decline
- Bonds (excluding Kmart) up despite weak market – strong outerwear sales and increased sales through online
- Hosiery (eg Razzamatazz) down, especially in Supermarkets due to reduced peg space and increased private label product
- Rio down in discount department stores (DDS) and Supermarkets
- Gross margins benefited from price increases but were lower overall due to input cost pressures
- EBIT margins up in 2H12 vs 1H12 due to the benefits of the Bonds and Omni integration, but down for the full year

Marketing and operations

- Nielsen research identified Bonds as a top ten ‘Superbrand’ in Australia, and the leading apparel brand
- The very successful ‘12 days of Christmas’ campaign boosted Bonds’ Christmas 2011 sales
- The Zip Wondersuit was launched in January 2012 and has already become the number one seller in the Bonds baby category
- Over 90,000 Australians uploaded their photo at wearebonds.com.au to join The Birthday Project. Over 400,000 people visited the site and the Bonds database grew by over 30%
- Bonds launched online in December 2011 and sales to date are ahead of expectations
- The first ever Bonds store in its 97 year history opened its doors in Doncaster in May 2012
- The ‘Berlei your Body’ outdoor campaign for leading intimates brand Berlei reconnected the brand with women and translated into an uplift in sales
- Berlei online was launched in April 2012
- Jockey’s ‘Advanced Underwear’ campaign has driven sales and increased brand engagement
- The projections, outdoor and bus campaign for Voodoo made a provocative invitation to ‘Use Your Voodoo’

Gross margins were down due to cotton price increases and offshore labour inflation. Despite significant reductions in the costs of doing business, EBIT Margins were also down.

Workwear

Pacific Brands keeps a nation comfortably clothed, offering industrial workwear and corporate uniforms to employees and businesses. Brands include Australia's best known workwear brands, Hard Yakka and KingGee, as well as Can't Tear 'Em, Dowd, NNT, Stylecorp and Stubbies.

$ millions	F12	F11	Change %
Sales[1]	388.7	396.8	(2.0)%
EBIT (reported)[2]	(16.9)	45.1	n.m.
EBIT (pre significant items)	38.6	48.7	(20.7)%
EBIT margin (reported)	(4.4)%	11.4%	n.m.
EBIT margin (pre significant items)	9.9%	12.3%	(2.4)pts

1 Excluding other segment revenue and inter segment revenue
2 Reported loss due to 2H12 impairment of goodwill ($51 million)

Financial

- B2B sales of corporate uniforms and industrial workwear were steady for much of the year but were impacted later in the year by lower business confidence, a slowdown in the resource sector and reduced government spending
  - Contract retention rates high and stable; continued contract wins
  - Indent sales up, but replenishment and retail sales declined (especially in the SME segment)
- Wholesale sales down
  - Similar influences as B2B channel (eg sales to customers servicing SMEs down)
  - Continued strength in resources sector, but slowed in the second half
- EBIT margins affected by higher input costs (especially in 2H12), tighter customer procurement practices, competitive intensity and increased allocation of shared costs

Marketing and operations

- Hard Yakka and KingGee created a new 'work denim' category returning denim to its origins as a Workwear product with the launch of Hard Yakka Legends and KingGee Tradies denim ranges
- KingGee kept Australian workers cool with the launch of WorkCool 2 shirting, 20% cooler and 60% stronger than the highly successful WorkCool 1 range launched in 2005
- Stubbies Workwear was re-launched with a broader range consolidating the Men At Work offer
- Launched "The Workwear Group" branding and supporting collateral to communicate our overall product and service offering to the market
- Successful implementation of the FRNSW fire ensemble, outfitting fire fighters in industry leading apparel technology and state of the art RFID whole of life garment track and trace system
- Re-designed Hard Yakka, KingGee, Stubbies Workwear and Can't Tear 'Em industrial hi visibility products to meet the new standard AS/NZS 4602.1:2011

Homewares, Footwear & Outerwear

These businesses are leading marketers of pillows, quilts, bedlinen, towels, carpet underlay, footwear, casual wear, youth fashion and sports equipment. Key brands include Sheridan, Tontine, Dunlopillo, Dunlop, Clarks, Hush Puppies, Volley, Everlast, Diesel, Mossimo, Superdry and Slazenger.

$ millions	F12	F11	Change %
Sales[1]	501.5	704.0	(28.8)%
EBIT (reported)[2]	(42.3)	(188.1)	n.m.
EBIT (pre significant items)	26.2	38.9	(32.6)%
EBIT margin (reported)	(8.4)%	(26.7)%	n.m.
EBIT margin (pre significant items)	5.2%	5.5%	(0.3)pts

1 Excluding other segment revenue and inter segment revenue
2 Reported loss due to 2H12 impairment of goodwill ($63 million)

Financial

- Decline in reported sales and EBIT loss due to divestments, goodwill impairment and continuing business performance
- Sheridan up: boutique, outlets and online up, offset by declines in wholesale and concessions
- Tontine impacted by increased private label competition
- Dunlop Flooring impacted significantly in 2H12 by increased competitive intensity and slowdown in the housing market
- Footwear & Sport down, due mainly to increased private label competition impacting sales for Dunlop, Grosby and Slazenger
- Clarks, Hush Puppies, Julius Marlow and Volley all up in 2H12
- Mossimo and Stussy sales up; Diesel and Superdry both lower in the second half
- EBIT margins were supported by reductions in cost of doing business (eg benefits from Footwear & Sport combination) but down overall due to input cost increases

Marketing and operations

- Sheridan opened three new boutique stores in major shopping centres: Carindale, Chadstone and Doncaster
- Tontine business continues to benefit from the success of the 'Fresh' campaign and its market leading date stamped pillows
- Hush Puppies commenced direct retail operations by opening three stores
- Clarks '10 Step Check' initiative helped drive strong back-to-school sales
- It was 2 years in the making, but in July 2012 the Australian Olympic team donned the Golden Volleys as they walked out into the Olympic stadium in London
- In the lead up to the Olympics, the green and gold 'Olympic Volley' was launched
- The Everlast licence will be expanded from January 2013 to include the sporting equipment category
- Mossimo launched online and also celebrated its 25th anniversary

BOARD OF DIRECTORS

Peter Bush

Chairman
Independent Non-Executive
BA
Age 60

Peter joined the board in August 2010 and assumed the role of Chairman at the end of June 2012. Peter had a long and successful career in fast moving consumer goods, holding senior roles with SC Johnson, Reckitt & Coleman, Ampol/Caltex and Arnotts and was CEO of AGB McNair and Schwarzkopf. He then ran his own strategic consultancy business for 6 years with clients including Qantas, Telstra, George Patterson Bates, John Singleton Advertising and McDonald's Australia. In 2003 he became the CEO of McDonald's Australia. He left McDonald's in April 2010 as its divisional president for Pacific, Middle East and Africa. Peter is Chairman of Nine Entertainment Co and a director of Insurance Australia Group Limited (since 2010).

Sue Morphet[1]

Chief Executive Officer
Executive Director
BSc (Ed)
Age 57

Sue has driven the transformation of Pacific Brands from the time she was appointed Chief Executive Officer in January 2008. Prior to this, Sue was Group General Manager of Underwear & Hosiery at Pacific Brands, the largest operating group within the business. Sue joined Pacific Brands in 1996 as General Manager of Tontine, following which she became the General Manager of Bonds in 1999. Under her leadership, the Bonds team relaunched the iconic brand, more than doubling sales and taking the brand to women for the first time. Prior to joining Pacific Brands, Sue held senior marketing roles with Sheridan and Herbert Adams. Sue is a director of the L'Oréal Melbourne Fashion Festival, is a member of Chief Executive Women and has various other philanthropic interests.

James King

Director
Independent Non-Executive
BComm, FAICD
Age 60

Jim was appointed to the board of Pacific Brands Limited in September 2009. Jim has over 25 years experience in major multinational corporations in Australia and internationally. He was previously with Foster's Group Limited as Managing Director Carlton & United Breweries and Managing Director Foster's Asia. Prior to joining Foster's, he spent six years in Hong Kong as President of Kraft Foods (Asia Pacific). He is currently a non-executive director of JB Hi-Fi Limited (since 2003), Navitas Ltd (since 2004) and Trust Company Ltd (since 2007). Jim is on the Council of Xavier College and a past Chairman of Juvenile Diabetes Research Foundation (Victoria).

James MacKenzie

Director
Independent Non-Executive
BBus, FCA, FAICD
Age 59

James joined the board of Pacific Brands Limited in May 2008 and was Chairman of the Company from November 2008 until June 2012. A Chartered Accountant by profession, James was a partner in both the Melbourne and Hong Kong offices of a Deloitte antecedent firm. James led the transformation of the Victorian Government's personal injury schemes as Chairman of the Transport Accident Commission and the Victorian WorkCover Authority. James is Chairman of Mirvac Group (since 2005), Co-Vice Chairman Yancoal Australia Limited (appointed June 2012), and a director of Melco Crown Entertainment Limited (appointed April 2008). James has previously been a director of Gloucester Coal Limited (2009 to 2012).

1 S M Morphet will cease as Chief Executive Officer on 3 September 2012, at which time she will be succeeded by J C Pollaers

Nora Scheinkestel

Director
Independent Non-Executive
LLB (Hons), PhD, FAICD
Age 52

Nora joined the Board of Pacific Brands Limited in June 2009, having served as a non-executive Chairman and director of companies in a wide range of industry sectors and in the public, government and private spheres. Currently, Nora is a director of AMP Limited (since 2003), Orica Ltd (since 2006) and Telstra Corporation Limited (since 2010). Nora is an Associate Professor at the Melbourne Business School at Melbourne University as well as a member of the Takeovers Panel. Her executive background is as a senior banking executive in international and project financing, responsible for the development and financing of major projects in Australasia and South East Asia. She currently consults to government, corporate and institutional clients in areas such as corporate governance, strategy and finance. In 2003, she was awarded a centenary medal for services to Australian society in business leadership.

Arlene Tansey

Director
Independent Non-Executive
FAICD, MBA, JD, BBA
Age 54

Arlene was appointed to the board of Pacific Brands Limited in March 2010, bringing over 25 years experience as a senior executive in business and the financial services industry. Arlene is a Director of Primary Health Care Ltd (since 2012), Adelaide Brighton Ltd (since 2011) and two subsidiaries of ASX-listed Lend Lease Group, Lend Lease Real Estate Investments Limited and Lend Lease Funds Management Limited. She is also a member of the Serco Asia-Pacific Advisory Board.

SENIOR MANAGEMENT

David Bortolussi

Chief Financial & Operating Officer
BComm, FFin, FCA
Age 43

David joined Pacific Brands in June 2009 in the role of Chief Financial and Operating Officer. David has substantial industry experience in the consumer goods sector, and functional expertise in strategy, finance, mergers & acquisitions and operational performance improvement. Prior to Pacific Brands, David held senior management and consulting roles at Foster's Group Limited, McKinsey & Company and PricewaterhouseCoopers, and has worked in various international markets. At Pacific Brands, David is responsible for Corporate Development, Finance, Commercial, Tax, Treasury, Investor Relations, IT, Shared Services, Risk, Legal, Property, HR services, Sourcing and Supply Chain.

Colette Garnsey[1]

Group General Manager, Underwear
Age 52

Colette Garnsey joined Pacific Brands in May 2011 as Group General Manager, Underwear overseeing the Company's iconic underwear and hosiery brands. Colette has over 30 years of retail experience, including 16 years with Australian department store retailer David Jones, where she most recently held the position of Group General Manager for Apparel, Cosmetics, Footwear and Accessories. Colette was also a member of the David Jones Executive Management Committee. Colette is a director of the Melbourne Fashion Festival and a member of the TCF Innovation Council and Chief Executive Women.

Anthony Heraghty[2]

Group General Manager, Homewares, Footwear & Outerwear
BBus
Age 38

Anthony joined Pacific Brands in October 2009 from Foster's Group Limited, where he spent three years, first as Marketing Director for the Australian, Asia and Pacific business and subsequently as Global Marketing Director. Previously, Anthony was a Managing Director of advertising agencies George Patterson and McCann-Erickson for over ten years. Anthony has a proven track record as a senior executive and leader, and a wealth of knowledge and experience in advertising, marketing, brand development and brand management of consumer goods.

Holly Kramer[3]

Group General Manager, Workwear
BA (Hons), MBA
Age 47

Holly joined Pacific Brands as Group General Manager, Homewares in May 2010 following nine years with Telstra in roles such as Chief of Marketing for both consumer and retail divisions, and Group Managing Director – Product Management. Holly was appointed to her current role in March 2011. Prior to Telstra she was General Manager at ecorp Ltd which comprised divisions such as Ninemsn, eBay, Monster.com and Ticketek.com and also held a number of sales and marketing roles at Ford Motor Company in Australia and the US. Holly has over eighteen years' experience in all marketing disciplines, as well as strong commercial and operational management experience.

1 C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012
2 A M Heraghty was appointed Group General Manager, Underwear following the resignation of C M Garnsey effective 29 June 2012. As a consequence, A M Heraghty ceased in the role of Group General Manager, Homewares, Footwear & Outerwear on the same date
3 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012

John Grover

Company Secretary
LLB, BComm, FCIS, FCSA
Age 50

John was appointed to the position of General Counsel and Company Secretary in December 2003 having held the same role with the company's predecessor, Pacific Brands Holdings Pty Ltd, since December 2001. Prior to joining Pacific Brands, he held senior corporate legal roles with Ansell Limited (formerly Pacific Dunlop Limited) and Rio Tinto Limited. Prior to this John had an eight-year career with a major Australian law firm, which included two roles based in South East Asia.

CORPORATE SOCIAL RESPONSIBILITY

Pacific Brands is committed to attaining the highest standards in ethical, responsible and sustainable business practices. The company believes this is the most appropriate way of doing business and its consumers will have a stronger connection with its brands as a result.

Corporate social responsibility at Pacific Brands touches every part of the business and encourages all stakeholders to contribute to the vision of significantly reducing the impact on the environment and supporting the communities in which Pacific Brands operates.

The program focuses on four key areas where the company is seeking to make a difference:

- Our People
- Our Environment
- Our Community
- Our Marketplace

Our People

Pacific Brands has an ongoing commitment to providing a responsible working environment for all its employees. Pacific Brands recognises that it is important to ensure all employees have the best opportunities available to prepare them for the future.

Pacific Brands has well established corporate values that aim to reinforce positive behaviours and strengthen staff engagement across the business. These values are:

- Energy and commitment
- Collaboration
- Informed decisions
- Straight talk
- Ownership

Health and safety

The health and safety of employees is a top priority for Pacific Brands. Key initiatives include:

- The workplace integrated management system which encompasses safety, health, environment and quality and covers areas such as leadership, process approach and continuous improvement. Pacific Brands is externally accredited to AS/NZS 4801 and ISO 14001
- Open and consultative safety, health and environment programs
- Annual influenza vaccination programs
- Discounted private hospital insurance
- Site based safety advisors, supported by a national team
- Dedicated injury management and return to work resources
- Access to International SOS for all employees to ensure they are able to obtain appropriate medical assistance when travelling

In addition to programs for employees, the company's supplier evaluation processes require its suppliers to demonstrate they have formal management systems in place to identify and manage safety, environment and quality.

Our Environment

Pacific Brands is committed to reducing its environmental footprint. Its robust Environmental Management System is certified within ISO 14001.

Pacific Brands has a number of environmental initiatives in place, including:

- Working closely with environmental partners to reduce waste to landfill during the year
- Membership of the Australian Packaging Covenant (APC) - a voluntary initiative by Government and industry to help reduce the environmental effects of packaging in Australia. The majority of packaging materials are either reused or recycled and new opportunities are being explored across Pacific Brands on an ongoing basis
- Monthly data collection of water, energy, fuel and waste across all of the company's operations to identify improvement opportunities
- Encouraging the management and reduction of carbon emissions within its supply chain
- Setting all printers to double-sided printing to reduce printing outputs
- Trialling water recycling programs across its sites
- Site based recycling programs
- Minimising energy consumption and reducing energy demand to reduce the company's carbon footprint

Our Community

Looking after the communities in which the Company's employees and consumers live is the right thing to do and Pacific Brands values the deeper connections it is endeavouring to build with them.

The company's community investment program aims to enhance the social and economic wellbeing of the communities where its staff live and work.

Pacific Brands continues to support a number of charitable organisations including:

- Salvation Army
- Brotherhood of St Laurence
- Breast Cancer Network Australia

Many businesses also participated in a number of initiatives within their local communities.

Our Marketplace

Consideration of the impact a business makes on the environment and the communities in which they operate is becoming more important every day.

More and more, people are beginning to think about how a product is made rather than focussing solely on the product itself. This concern also extends to the environmental and social conduct of suppliers.

Ethical Trading

Pacific Brands is committed to ensuring it meets its social compliance responsibilities and has an ongoing program of auditing its supply chain for adherence to ethical practices spanning labour rights, safety, quality and the environment.

The company is dedicated to social compliance; however it recognises the difficulties in dealing with a large and complex supply chain. Pacific Brands has made a commitment to developing, over time, social compliance within its supplier base.

This year Pacific Brands implemented a new policy with respect to sandblasting. The Company now knows that sandblasting can be damaging to workers' health and as such we have formulated a policy banning the use of sandblasting in all of our brands. We are requiring our suppliers to provide us with assurance that this ban is being enforced and we will continue to monitor our suppliers to ensure ongoing compliance with our requirements.

FINANCIAL, STATUTORY AND OTHER INFORMATION

CORPORATE GOVERNANCE STATEMENT

Pacific Brands' directors and management are committed to conducting the Company's business ethically and in accordance with high standards of corporate governance. Good corporate governance structures encourage companies to create value for shareholders through sensible risk taking, but provide accountability and control systems commensurate with the risks involved.

This statement describes Pacific Brands' approach to corporate governance. The Board believes that the Company's policies and practices comply in all substantial respects with the Australian Securities Exchange ('ASX') Corporate Governance Council's Corporate Governance Principles and Recommendations. Unless indicated otherwise in the discussion below, these practices have been in place for the entire year. A checklist summarising this is found in section 14 of this statement.

Copies of the main corporate governance policies adopted by the Company can be found in the corporate governance section of the Company's website at www.pacificbrands.com.au.

1. ROLE AND RESPONSIBILITIES OF THE BOARD

The Board is committed to investing in the Company's brands and people, maximising operational performance and financial returns and generating shareholder value.

In conducting business in line with these objectives, the Board is responsible for ensuring that the Company is properly managed to protect and enhance shareholder interests, and that the Company, its directors, officers and employees operate in an appropriate environment of corporate governance. The Board's charter can be found on the Company's website at www.pacificbrands.com.au. The Board has ultimate responsibility for establishing policies regarding the business and affairs of the Company for the benefit of its shareholders and other stakeholders. The Board's key responsibilities include:

- appointing and reviewing the performance of the Chief Executive Officer
- ensuring executive and Board succession planning
- approving the Company's strategic direction
- approving annual budgets
- evaluating the performance of the Company against strategies and budgets
- determining the Company's capital structure
- ensuring the establishment of a risk management and compliance framework and monitoring and reviewing its effectiveness
- approving significant acquisitions or divestments
- overseeing relations with shareholders
- approving accounting policies and annual financial statements

The Board delegates management of the Company's resources to senior management, under the leadership of the Chief Executive Officer, to deliver the strategic direction and operational goals agreed between senior management and the Board. A key function of the Board is to monitor the performance of senior management in this function. Annual performance evaluations of senior management occur in accordance with the process outlined below and further described in the Remuneration Report.

The Chief Executive Officer provides reports on the Company's strategic initiatives, organisational matters, employee safety and operational performance to each Board meeting. The Chief Financial & Operating Officer also provides reports on the Company's financial and operational performance and other relevant matters such as the Company's net debt position, foreign exchange hedging, risk management issues, sourcing and supply chain matters and corporate development opportunities.

The Board monitors the decisions and actions of the Chief Executive Officer and the performance of the Company to gain assurance that progress is being made towards attainment of approved strategies and plans.

2. BOARD APPOINTMENT AND COMPOSITION

It is the Board's policy that the Board should be comprised of a majority of independent, non-executive directors. That is, the majority of directors should be free from any business or other relationship that could materially compromise their independent judgement. As an additional safeguard in preserving independence, the policy requires that the office of Chairman be held by an independent, non-executive director.

Specifically, the Board considers a director to be independent where he or she is not, and was not within the last three years, a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the director's ability to act in the best interests of the Company. The Board will consider the materiality of any given relationship on a case by case basis and has adopted materiality guidelines to assist it in this regard. Under the Board's materiality guidelines, the following interests are regarded as, prima facie, material:

- a holding of 5% or more of the Company's shares
- an affiliation with a business which accounts for 5% or more of the revenue or expenses of the Company

However, ultimately the Board will make a qualitative assessment of any factors or considerations which may, or might reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company. Directors are required to promptly disclose to the Board interests in contracts, other directorships or offices held, possible related party transactions and sales or purchases of the Company's shares. The Board reviews the independence of each director in light of interests disclosed to the Board from time to time and at least once a year.

The Board has determined that each of the five non-executive directors satisfy the Board's criteria for independence. It is also the Company's view that all of its directors have exercised judgement and discharged their responsibilities in an unrestricted and independent manner throughout the 2012 financial year.

The Board is currently made up of six directors, being the Company's one executive director and five independent non-executive directors.

Details of the directors as at the date of this Annual Report, including their terms of office, qualifications and experience and independence status, are set out on pages 7 and 8 of the Annual Report.

The Board considers that a diverse range of skills, experience, knowledge and backgrounds is required to effectively govern the Company's business. With the assistance of the Nomination Committee, the Board works to ensure that the Board's membership is optimal to meet the Company's needs. The Board is satisfied that the Board currently comprises directors with a broad range of experience having a proper understanding of the current and emerging issues facing the Company who can effectively review and challenge management's decisions. The Board has always had a strong level of female representation, and since 2009 at least half of the Company's directors have been female.

In making recommendations to the Board regarding the appointment of directors, the Nomination Committee will assess the appropriate mix of skills, experience and expertise required by the Board and assesses the extent to which the required skills and experience are represented on the Board. The committee also takes account of succession plans for the directors generally and qualitative factors such as diversity and cultural fit. Where a potential 'gap' is identified in the backgrounds, experiences or skill-sets that are considered desirable or necessary for the Board's continued effectiveness, this information is used to inform the selection of new director candidates.

Nominations for appointment are approved by the Board as a whole. The identification of potential director candidates may be assisted by the use of external search organisations as appropriate. Detailed background information in relation to a potential candidate is provided to all directors, prior to any decision being made.

New directors are provided with a letter of appointment, setting out the terms of their appointment, including their powers, rights and obligations. An induction program is provided for new members of the Board. This includes meetings with senior executives, site visits, independent meetings with both the Company's internal and external auditors, provision of relevant corporate governance materials and policies and discussions with the Chairman and other directors.

Under the Company's Constitution and the ASX Listing Rules, all directors other than the Chief Executive Officer are subject to shareholder re-election every three years. It is the Board's current policy that, in general, directors do not hold office beyond a maximum term of nine years. Details regarding the Board performance assessment process is outlined in section 6 of this statement.

The period of office held by each current director is as follows:

	APPOINTED	LAST ELECTED AT AN ANNUAL GENERAL MEETING
J A C MacKenzie (Chairman until 30 June 2012)	May 2008	25 October 2011
P H Bush (Chairman from 30 June 2012)	August 2010	25 October 2010
J S King	September 2009	20 October 2009
S M Morphet (Chief Executive Officer)	January 2008	Not applicable
M A Plavsic	May 2004	Retired 25 October 2011
N L Scheinkestel	June 2009	20 October 2009
A M Tansey	March 2010	25 October 2010

As announced to the ASX on 31 May 2012, J A C MacKenzie stepped down from the role of Chairman of the Board effective 30 June 2012 and P H Bush was appointed Chairman of the Board effective 30 June 2012.

Directors' shareholdings are shown on page 26 of the Annual Report.

3. BOARD PROCESSES

The Board currently schedules 10 meetings per year. In addition, the Board meets whenever necessary to deal with specific matters requiring attention between the scheduled meetings. During the 2012 financial year, the Board met 19 times.

The table on page 16 of the Annual Report shows the number of Board meetings held in the 2012 financial year and the attendance of each director.

The agenda for meetings is prepared by the Company Secretary, in conjunction with the Chairman, Chief Executive Officer and Chief Financial & Operating Officer, with periodic input from the Board. Comprehensive Board papers are distributed to directors in advance of scheduled meetings. Board meetings take place both at the Company's head office and at key operating sites to assist the Board in its understanding of operational issues.

The directors also spend (both individually and as a Board) time visiting representative retail operations of both the Company and its customers to assist the Board in better understanding the strategies of its customers and competitors and the relative strength and positioning of the Company's key brands and own retail operations. Continuing education is also provided through presentations and materials provided by management and external experts on matters relevant to the role and responsibilities of directors.

4. BOARD COMMITTEES

There are presently three standing committees which assist the Board in the execution of its responsibilities, being the:

- Audit, Business Risk and Compliance Committee
- Nomination Committee
- Remuneration Committee

Any issues of corporate governance which are not dealt with specifically by one of these committees are the responsibility of the full Board.

Each committee operates under a specific charter, which can be found on the Company's website at www.pacificbrands.com.au. The charter of each committee requires each committee to be comprised of a minimum of three non-executive directors, a majority of whom must be independent. All Board committees are chaired by an independent non-executive director.

Details of the committee members' qualifications are set out on pages 7 and 8 of the Annual Report. Further details regarding the three committees are set out in the table below:

	AUDIT, BUSINESS RISK AND COMPLIANCE COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE
Roles and responsibilities	The committee's role is to assist the Board in the effective discharge of its responsibilities for financial reporting, the maintenance of a risk management framework and the relationship with the external and internal auditors.	The committee is responsible for matters relating to succession planning, recruitment and the appointment and remuneration of directors.	The committee is responsible for matters relating to succession planning, recruitment and the appointment and remuneration of the Chief Executive Officer and other senior executives and for the remuneration policy framework for all employees of the Company.
Functions	▪ ensuring that processes are in place so that financial information provided to shareholders is accurate, complete and reliable in all material aspects ▪ evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements ▪ overseeing the relationship with the external auditor, auditor independence and the external audit function ▪ overseeing the adequacy of processes and controls established by senior management to identify and manage areas of potential risk and to safeguard the assets of the Company ▪ reviewing the scope of the internal audit program and the performance of internal audit ▪ reviewing the reports of the internal auditor and overseeing management's implementation of internal audit recommendations	▪ assessing Board composition, function and size (taking into consideration the skills and experience required and the extent to which they are represented on the Board and the requirements of the Company's diversity policy) ▪ establishing processes for reviewing the performance of individual non-executive directors, the Board as a whole and the operation of Board committees ▪ overseeing the selection and appointment practices for non-executive directors ▪ developing succession plans for the Board including the likely order of retirement by rotation of non-executive directors ▪ making recommendations to the Board on non-executive director remuneration, including that of the Chairman	▪ assisting the Board in determining an appropriate remuneration framework and policies for all employees ▪ overseeing the selection and appointment practices for senior executives of the Company ▪ overseeing the development of succession planning in relation to the Chief Executive Officer and other senior executives ▪ making recommendations to the Board on the Chief Executive Officer's remuneration (including short and long term incentive plans) ▪ reviewing and approving recommendations from the Chief Executive Officer on total levels of remuneration for senior executives reporting to the Chief Executive Officer (including short and long term incentive plans) ▪ reviewing human resources and remuneration policies and practices for the Company as a whole, as brought forward by management ▪ reviewing and reporting to the Board, on an annual basis, the relative proportion of women and men in the workforce at all levels of the Company ▪ reviewing and reporting to the Board, on an annual basis, on the effectiveness of the Company's diversity policy ▪ engaging remuneration consultants and receiving any advice and/or recommendations from them with respect to the setting of executive remuneration
Members	▪ Nora Scheinkestel (Chair) ▪ Peter Bush ▪ James King ▪ James MacKenzie	▪ Peter Bush (Chair) ▪ James MacKenzie ▪ Nora Scheinkestel	▪ James King (Chair) ▪ James MacKenzie ▪ Arlene Tansey

Composition	The committee is chaired by an independent non-executive director and must comprise at least three non-executive directors, all of whom must be independent and financially literate. The Chairman of the Board is not permitted to chair the committee.	The committee is chaired by an independent non-executive director and must comprise at least three non-executive directors, a majority of whom must be independent.	The committee is chaired by an independent non-executive director and must comprise at least three non-executive directors, a majority of whom must be independent.
Consultation	The Chief Executive Officer, Chief Financial & Operating Officer, General Manager, Risk & HR Services, head of internal audit and the external auditor have standing invitations to attend committee meetings. Other members of management may also attend by invitation. The committee has access to financial and legal advisers as it considers appropriate. The committee also meets with the external auditor and internal auditor in the absence of management whenever deemed appropriate, but no less than semi-annually to ensure the committee can be satisfied that the auditors have had the full cooperation of management in conducting audit functions, and to give each auditor the opportunity to raise any matters of concern.	The committee may obtain information from, and consult with, management and external advisers, as it considers appropriate.	The Chief Executive Officer and the General Manager, Risk & HR Services have standing invitations to attend committee meetings. The committee may obtain information from, and consult with, management and external advisers, as it considers appropriate.

The table below shows the number of meetings of Board and committee meetings held in the 2012 financial year and the attendance of each member:

	BOARD		AUDIT, BUSINESS RISK AND COMPLIANCE COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	ATTENDED[1]	HELD[2]	ATTENDED[1]	HELD[2]	ATTENDED[1]	HELD[2]	ATTENDED[1]	HELD[2]
P H Bush	18	19	5	5			3	3
J S King	19	19	5	5	4	4		
J A C MacKenzie	19	19	5	5	3	4	8	8
S M Morphet	19	19						
M A Plavsic	3	4			1	1	2	2
N L Scheinkestel	19	19	5	5			8	8
A M Tansey	18	19			4	4		

1 This column shows the number of meetings attended
2 This column shows the number of meetings held during the period the director was a member of the Board or committee

5. ACCESS TO INFORMATION AND INDEPENDENT ADVICE

Each director has the right of access to all relevant Company information and to the Company's senior management, external advisers and auditors. Directors may also seek independent professional advice at the Company's expense. Any director seeking such advice is required to make a formal request to the Chairman or the Board. Where the Chairman wishes to seek independent advice, he must make a formal request to the Chair of the Audit, Business Risk and Compliance Committee. Any advice so received must be made available to all other directors unless otherwise agreed. Pursuant to a deed executed by the Company and each director, a director also has the right to have access to all documents which have been presented to meetings of the Board or to any committee of the Board or otherwise made available to the director whilst in office. This right continues for a term of seven years after ceasing to be a director or such longer period as is necessary to determine relevant legal proceedings that commenced during that term.

6. REVIEW OF BOARD AND SENIOR EXECUTIVE PERFORMANCE

The performance of the Board is reviewed bi-annually by the Board with the assistance of the Nomination Committee and an external adviser. A formal review of the performance of the Board (including Board committees) commenced in August 2012 and is anticipated to conclude in October 2012.

The evaluation process will include a review of:

- individual performance of the Chairman and each other director
- the Board's composition
- Board processes and its committees' effectiveness in supporting the Board
- the performance of the Board and its committees

In addition, a review of each director's performance is also undertaken prior to a director standing for re-election. In the case of directors, other than the Chairman, the review is undertaken by the Chairman after consultation with the other directors. In the case of the Chairman, a non-executive director is delegated the task of reviewing the Chairman's performance.

A review of the performance of the Chief Executive Officer is led by the Chairman in consultation with the Board. The performance of all other senior executives is reviewed by the Chief Executive Officer and reported to, and discussed by, the Board. Performance reviews take place shortly before or just after the end of the financial year. During the 2012 financial year, performance evaluations for senior executives were carried out in accordance with the process outlined above. Further details about the senior executive performance review process are contained in the Remuneration Report on page 32.

7. NON-EXECUTIVE AND EXECUTIVE REMUNERATION

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced non-executive and executive directors and senior management. Performance, duties and responsibilities, market comparison and independent advice are all considered as part of the remuneration process.

In accordance with principles of good corporate governance, non-executive directors do not receive any remuneration that is linked to the Company's performance, nor do they receive any retirement or termination benefits other than superannuation.

Full details of the remuneration paid to non-executive and executive directors and the Company's other senior executives in relation to the 2012 financial year, as well as the Board policy for determining the nature and amount of remuneration and the relationship between such policy and performance, are discussed in detail in the Remuneration Report.

8. DISCUSSION OF GOVERNANCE POLICIES

The Board has adopted corporate governance policies and practices designed to promote responsible management and conduct at Pacific Brands. The Board (together with management) regularly reviews these policies and practices to ensure the Company maintains or improves its corporate governance standards in a changing environment. A discussion of the Company's key governance policies is set out below.

8.1 Risk management

ASX Corporate Governance Principle 7 requires that listed companies should establish a sound system of risk oversight, management and control. In meeting this principle, the Board and senior executives of the Company have implemented an enterprise wide risk management framework that enables the management, monitoring, oversight and reporting of business risks in a timely and efficient manner.

The enterprise risk management framework serves to:

- provide a formal framework and methodology for determining the Company's risk profile
- facilitate enterprise wide awareness and general adoption of a risk management culture when making business decisions
- ensure risks (strategic and operational) are formally and regularly assessed in the context of the Company's strategy
- provide the infrastructure and a management process to support ongoing review and monitoring of the status of risks, controls and management initiatives for improving risk management
- ensure clear accountabilities for risk management

The Company has a structured and systematic enterprise wide risk assessment process in place which comprises an annual risk identification and assessment of material business risks. These material business risks are documented in a risk control plan along with appropriate mitigation priorities and planned management actions. The Board and Audit, Business Risk and Compliance Committee oversee this plan. The Company continues to enhance consistency in and improve the effectiveness of its risk management practices across all the operating groups.

Risk management oversight

The key functional responsibility for the risk management framework resides with the General Manager, Risk & HR Services, who reports to the Chief Financial & Operating Officer. The General Manager, Risk & HR Services is responsible for assisting corporate functions and operating groups to develop risk management processes and methodologies and advising and monitoring in relation to their ongoing implementation.

The Audit, Business Risk and Compliance Committee is charged with oversight of these processes. The committee monitors and reviews the Company's risk profile and the progress and performance of risk management strategies. The committee has adopted a written policy in relation to the Company's risk oversight and management practices and a copy of this policy is available through the Company's website at www.pacificbrands.com.au.

Risk reporting

The Audit, Business Risk and Compliance Committee receives regular reports about business risks facing the Company and the strategies employed by management to mitigate these risks. In connection with the Company's full year and half year financial statements, the Board receives a declaration from the Chief Financial & Operating Officer and the Chief Executive Officer that, in their opinion the Company has in place a sound system of risk management and internal compliance and control and that system is operating effectively in all material respects in relation to financial reporting risks. In addition, the Chief Financial & Operating Officer and the Chief Executive Officer provide a declaration that the Company's financial statements and notes present a true and fair view of the Company's financial position and performance and comply with relevant accounting standards. These declarations are based on attestations that cascade down through management and include sign off by the Group General Manager and General Manager, Commercial Finance of each operating group.

Internal control framework

Internal controls refer to processes that are designed to address risks and to provide reasonable assurance that in pursuing its objectives Pacific Brands is complying with applicable laws and regulations and safeguarding company resources against loss, misuse and damage.

There is a broad platform of internal controls in place within Pacific Brands which underpin the integrity of the Company's financial reporting and risk management processes. These internal controls include people, policies and processes across the operating structure of the Company. Within the internal control environment, Pacific Brands has established comprehensive policies and practices designed to ensure:

- business transactions are properly authorised and executed in accordance with delegated authorities and limits
- financial exposures are controlled, including the use of hedging arrangements
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- the quality and integrity of personnel
- the ethical practices of its suppliers (see section 9 of this statement)
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see above)
- environmental regulation compliance (see section 11 of this statement)

The Company has also adopted a Code of Conduct which sets out the Company's commitment to maintaining a high level of integrity and ethical standards in all business practices. The code of conduct sets out for all directors, management, employees and contractors, the standards of behaviour expected of them, and the steps that should be taken in the event of uncertainty or a suspected breach by any party.

The code of conduct is discussed in more detail in section 8.4 of this statement.

Internal audit

Internal audit's role is to assess risks and controls, enhance processes and monitor controls to provide assurance to the Audit, Business Risk and Compliance Committee and the Board that there is an effective system of internal controls designed to ensure that material risks and compliance obligations are being effectively managed. The internal audit function is provided with external assistance from a major accounting firm. The General Manager, Risk & HR Services and the lead internal audit partner have access to the Audit, Business Risk and Compliance Committee and its Chairman at all times.

The Company has a three year internal audit plan covering the 2012 to 2014 financial years. The plan, which is reviewed on an annual basis, is specifically directed at reviewing controls in key risk areas that may have a material impact on the Company's operations, and at ensuring that appropriate management action is taken with respect to each identified risk.

External audit

The external auditor is appointed by the Board and approved by shareholders in accordance with the requirements of the Corporations Act 2001. The Audit, Business Risk and Compliance Committee is responsible for reviewing the terms of appointment of the external auditor and for making a recommendation to the Board regarding the appointment of the external auditor. The Audit, Business Risk and Compliance Committee has also adopted a policy on the provision of non-audit services and the rotation of external audit personnel. The auditor is prohibited from providing services which may compromise independence. This includes valuation and fairness opinions, internal audit services, advice on deal structuring, tax advisory services, IT systems services, executive recruitment services, corporate strategy advice, legal services or acting as a broker, promoter or underwriter. The policy recognises that there may be circumstances where the auditor may perform non-audit services without prejudicing the auditor's independence. Such circumstances may include small or minor tasks of an assurance or compliance nature or cases where the auditor is uniquely positioned to provide the services. A regime of approval limits is set out in the policy for the approval of non-audit services provided by the auditor. The policy also requires the partner managing the Company's audit to be rotated within five years from the date of appointment. A copy of this policy is also available on the Company's website at www.pacificbrands.com.au.

8.2 Continuous disclosure and keeping shareholders informed

The Company aims to ensure that shareholders are well informed of all major developments affecting the state of affairs of the Company.

To achieve this, the Company has implemented the following procedures:

- shareholders can gain access to information about the Company, including media releases, key policies, annual reports and financial statements, and the terms of reference of the Company's committees through the Company's website at www.pacificbrands.com.au or by writing to the Company Secretary at the Company's registered office address
- all relevant announcements made to the market and any related information are posted on the Company's website as soon as they have been released to the ASX and New Zealand Stock Exchange ('NZX')
- the Company encourages full participation of shareholders at its Annual General Meeting to ensure a high level of accountability and discussion of the Company's strategy and performance. Shareholders are also invited, within the Company's Notice of Annual General Meeting, to submit written questions to either the Company or the Company's external auditor in relation to the external audit
- the Company also invites the external auditor to attend its Annual General Meeting and be available to answer shareholder questions about the conduct of the audit, and the preparation and content of the auditor's report

The Company's commitment to keeping shareholders fully informed is embodied in the Company's Shareholder Communications Policy, a copy of which can be found in the corporate governance section of the Company's website at www.pacificbrands.com.au.

The Company has adopted a policy which establishes procedures to ensure that directors and management are aware of, and fulfil, their obligations, in relation to the timely disclosure of material price-sensitive information. Information must not be selectively disclosed prior to being announced to the ASX and NZX. Directors and senior management must notify the Company Secretary as soon as they become aware of information that should be considered for release to the market. The Company Secretary is the person responsible for communication with the ASX and NZX. A copy of the Company's Continuous Disclosure Policy may be found on the Company's website at www.pacificbrands.com.au.

8.3 Trading in shares by directors and employees

The Company has adopted guidelines for directors' and employees' dealings in the Company's shares.

Subject to the overriding restriction that persons may not deal in shares while they are in possession of material price-sensitive information, directors and employees may deal in shares without the need for approval during certain 'trading windows', being within 31 days of the day following release of the Company's half and full year financial results and the holding of the Company's Annual General Meeting.

Directors and employees are prohibited from dealing in the Company's shares during the period from close of business on 31 December each year until the day following the announcement of the Company's half year results and during the period from the close of business on 30 June each year until the day following the release of the Company's full year results (so called 'blackout periods').

Outside of these blackout periods, if not within a trading window, directors and employees must receive clearance from the person stated in the guidelines for any proposed dealing in shares. For New Zealand employees, any dealing in the Company's shares outside the blackout periods must receive clearance from the Company Secretary.

Except in circumstances of special hardship, with the Chairman's approval, neither directors or employees may buy and sell the Company's shares within a three month period.

The Company's guidelines for dealing in securities prohibit any employee who has been granted performance rights or deferred shares in the Company pursuant to the terms of any of the Company's employee share plans from entering into a transaction to limit the economic risk of such performance rights or deferred shares, whether through a derivative, hedge or other similar arrangement. In addition, non-executive directors and senior executives are required to inform the Board of the existence of any margin lending arrangements in respect of shares in the Company which a non-executive director or senior executive has a relevant interest in, where those shares are offered as security for the lending arrangement. Further details regarding the Company's policy on hedging is set out in the Remuneration Report on page 38.

A copy of the Company's Guidelines for Dealing in Securities is available in the corporate governance section of the Company's website at www.pacificbrands.com.au and has been lodged with the ASX.

8.4 Ethical standards and code of conduct

The Board believes it is important to provide employees with a clear set of values that emphasise a culture of strong corporate governance, sound business practices and good ethical conduct.

Code of conduct

The Company's code of conduct outlines the Company's expectations for acting responsibly and ethically in relation to the business conduct of directors, employees and contractors. In particular, the code of conduct requires employees and directors:

- to behave with integrity in all dealings with customers, shareholders, supplier and all others with whom the Company deals
- to conduct business in line with Company's values and behaviours and all relevant laws and regulations
- to be aware of, and comply with, relevant fair trading and trade practices laws in the jurisdictions in which the Company operates

- to act in the best interests of the Company when undertaking Company business and avoid conflicts of interest (whether perceived or real) including the receipt of improper personal benefits such as gifts or hospitality
- to protect any Company assets under their control and not use Company assets for personal purposes, without prior Company approval. This obligation includes ensuring that money is appropriately spent, financial records are complete and accurate and internal controls are complied with
- to be aware of, and comply with, the Company's delegated authorities and limits policy which outlines general principles as to how the Company expects its employees to behave when exercising their financial authority as well as specific limits at which level a financial activity can be approved
- to respect the privacy of others and comply with the Company's privacy policy
- not to disclose or use in any improper manner confidential Company information, including information about customers, agents or other business affairs
- to be aware of, and comply with, the Company's continuous disclosure policy to ensure that the market is kept fully informed of information which may have a material effect on the price or value of the Company's shares
- not to act in any way that could cause harm to the reputation or market position of the Company, either during or after their employment; this includes complying with the Company's safety, health and environment policies, and equal opportunity and harassment policies

The code of conduct contains procedures for reporting and investigating improper conduct and unethical practices, and the protection of whistleblowers. A copy of the code of conduct is available in the corporate governance section of the Company's website at www.pacificbrands.com.au.

Donations

The Company does not make donations to political parties.

Fraud and corruption

Implementing effective fraud and corruption controls is part of good governance and management practices. Such controls seek to minimise the risk, not only of financial loss, but also of damage to the Company's reputation and that of its Board, senior management and employees. Accordingly, as a reinforcement of the Company's code of conduct, the Company has developed a separate policy outlining the Company's approach to fraud and corruption. A key objective of this policy is to support and enable the right organisational culture to proactively prevent fraud and corruption. This policy is aligned to the Company's risk management framework and is supported by a detailed fraud risk assessment undertaken in respect of the Company's operations.

This policy aims to protect the Company's assets and reputation by:

- reinforcing senior management and Board commitment and responsibility for identifying fraudulent and corrupt activities and for establishing policies, controls and procedures for prevention and detection of these activities
- reinforcing the requirement for all staff and others to refrain from corrupt or fraudulent conduct and encourage the reporting of any instance of fraud or corrupt conduct
- providing a framework for the conduct of investigations to ensure all suspected fraudulent and corrupt activity is dealt with appropriately
- assigning responsibility for the development of controls to prevent and detect fraud

A copy of the Company's Fraud and Corruption Policy is available in the corporate governance section of the Company's website at www.pacificbrands.com.au.

Whistleblowing

Employees are encouraged to bring to the attention of their manager, their human resources manager or members of senior management any behaviour or activity occurring in the business which they believe to be unlawful, inappropriate or inconsistent with the Company's code of conduct. In addition, the Company has established a freecall whistleblower telephone line to enable employees to report matters of concern on a confidential basis. The service, known as 'FairCall', is operated by an independent third party to ensure that calls can be made in total confidence. The FairCall service operates in key jurisdictions in which the Company operates and is staffed by contractors fluent in the native language of the relevant workforce. Callers may also elect to remain anonymous. Any reported improper conduct will be investigated while protecting the confidentiality of the identity of the whistleblower and, depending on the nature of the issue, the matter will be reported to either the Remuneration Committee or the Audit, Business Risk & Compliance Committee.

9. CODE OF CONDUCT FOR SUPPLIERS

The Company is committed to ethical and responsible conduct in all of its operations and expects this commitment to be shared by all suppliers of its products. The Company's supplier code of conduct requires that suppliers:

- not use under age labour
- not use any forced or involuntary labour
- provide employees with a safe and healthy workplace in compliance with all applicable laws and regulations

The Company regularly conducts audits of its suppliers to determine compliance with its supplier code of conduct. Where a supplier is unable or unwilling to achieve compliance, the Company may impose a range of sanctions, including terminating the relevant supply contract. The Company has a strong commitment to social compliance and has adopted a process of continuous improvement with respect to its sourcing of products.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

10. HEALTH AND SAFETY

The Company values a healthy and safe workplace, which stimulates and positively supports people to achieve outcomes in a safe manner, thereby contributing to operational effectiveness and business sustainability. The Company has an occupational health and safety policy and management system in place. The management system is certified compliant with AS/NZS 4801: 2001 Occupational health and safety management systems.

The Company's safety performance is reported regularly to the Board as well as to the Audit, Business Risk and Compliance Committee to assist the Board in monitoring compliance with the Company's policy and the relevant regulatory requirements.

11. ENVIRONMENT

The Company is committed to doing business in an environmentally responsible manner and identifying environmental risks that may arise out of its operations.

The Company's operations are subject to various environmental laws and regulations. These environmental laws and regulations control the use of land, the erection of buildings and structures on land, the emission of substances to water, land and atmosphere, the emission of noise and odours, the treatment and disposal of waste, and the investigation and remediation of soil and groundwater contamination.

The Company has policies and procedures in place to address its obligations under various environmental regulations. In particular, it has developed a management system to enable identification and assessment of environmental hazards which arise from its activities. The management system is certified compliant with ISO 14001: 2004 Environmental Management systems.

There were no environmental prosecutions in relation to the Company's operations during the financial year.

Key programs in place to help reduce the environmental impact of the Company's operations are discussed on page 11 of the Annual Report.

The Company will further assess the impact of a carbon tax and assess carbon abatement opportunities to reduce the carbon footprint of its activities. At this stage, the Company does not expect the direct impact of the carbon tax will have a material adverse impact on the Company. The indirect impact on the Company, including the potential impact on consumer and business demand, is inherently difficult to predict.

12. DIVERSITY

The Company recognises the value of attracting and retaining employees with different knowledge, abilities and experience and is committed to creating a working environment that is fair and flexible, promotes personal and professional growth, and benefits from the capabilities of its diverse workforce. The Company recognises that diversity in the workforce contributes to business success and benefits the Company's employees, customers, consumers and shareholders. The Company's aim is to ensure that its business policies, procedures and behaviours promote diversity and create an environment where individual differences are valued.

Diversity recognises and values the contribution of people with differences in capabilities and perspectives. The Company has developed a formal Diversity Policy, a copy of which is available on the Company's website at www.pacificbrands.com.au. The policy recognises that diversity encompasses gender, age, experience, education, ethnicity, religious and cultural backgrounds as well as other dimensions such as lifestyle and family responsibilities. At Pacific Brands, employees from different cultures and religions are welcomed and valued. Consistent with the Company's Diversity Policy, the Company is committed to:

- a workplace which is free from discrimination, harassment bullying, victimisation and vilification
- treating employees fairly and with respect
- a workplace culture that is inclusive and embraces individual differences
- equal employment opportunities based on ability, performance and potential
- awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity
- flexible work practices and policies to support employees and their changing needs
- attraction, retention and development of a diverse range of talented, energetic and committed people

Pursuant to the Company's Diversity Policy, management has developed initial measurable objectives in relation to gender diversity, with the aim of maintaining the relatively high level of participation of women throughout the organisation. The objectives have been approved by the Board and are designed to encourage and enable diversity rather than forcing it by setting quotas, which are viewed by the Board as unproductive given the Company's existing high levels of gender diversity. Although these measurable objectives, along with the Company's Diversity Policy, have applied for the whole year, they were formally approved by the Board on 31 May 2012. The measurable objectives, and the Company's progress towards achieving those objectives, are outlined in the following table:

NO.	BUSINESS ACTIVITY	OBJECTIVE	STRATEGIES	TARGET DELIVERY DATE	PROGRESS IN MEETING OBJECTIVES
1	Recruitment, selection and promotion	▪ Improve gender diversity in areas that are traditionally under-represented	▪ Ensure appropriate gender representation in all selection processes for areas with low levels of gender diversity	F12	▪ Objective met ▪ Selection processes for areas with low levels of female representation have included at least 50% women at all times
2	Remuneration	▪ Gender remuneration equity	▪ Within the annual remuneration cycle, review the gender remuneration parity across all key roles within the business and implement action plans to address any areas of concern	F12	▪ Objective met ▪ The F12 remuneration processes included an assessment of any gender parity issues. A small number of parity issues were identified and rectification plans are in place
3	Career development and performance	▪ Gender diversity in career development programs	▪ Review career development programs to ensure participation is gender diverse and that the programs are structured to encourage participation by both men and women	F13	▪ Objective met ▪ Group career development programs have 48% participation by women
4	Talent and succession planning	▪ Gender diversity within talent management processes	▪ Expand the scope of existing talent management processes to identify high potential female managers and develop specific strategies to enhance the skills and experience of these managers to prepare them to take on senior manager/executive management roles	F12	▪ Objective met ▪ Talent management processes indicate an even number of men and women rated as high potential or high performing
5	Diversity and equal opportunity training	▪ Gender diversity is well understood in the workplace	▪ Develop and implement mandatory online training for all band 1-6 managers and ensure this training is refreshed annually ▪ Include diversity questions in future employee surveys	F13	▪ Development of an online training module has commenced. The Company is on track to meet this objective in F13
6	Flexible working arrangements	▪ Workplace policies encourage and enable gender diversity	▪ Refresh the flexible working arrangements policy and seek Remuneration Committee approval ▪ Publish the policy and provide information sessions for employees	F12	▪ Objective met ▪ Revised flexible working arrangements policy was approved by the Remuneration Committee in May 2012 and published on the Company's intranet

Senior management measures and reviews diversity across the organisation and reports to the Remuneration Committee on progress in achieving diversity within the Company.

To achieve a diverse and inclusive environment, the Company has in place various programs, policies and practices, including the following:

- a recruitment and selection process which identifies candidates with the most suitable knowledge, skills, experience and personal values for the relevant role and which recognises the value of recruiting, selecting and promoting employees with different backgrounds, knowledge, experiences, perspectives and beliefs
- a role grading and remuneration review process which actively considers equity in both grading and remuneration
- annual talent and succession planning reviews which have the objective of identifying high performing and high potential individuals across the organisation. Talented individuals are identified based on their performance and potential and operating group reviews ensure that talent and succession decisions are equitable, consistent and aligned with the Company's diversity principles
- all new employees are required to attend equal employment opportunity training and this is followed by a refresher session every two years. This training raises awareness and encourages behaviour that supports a work environment free from discrimination and harassment

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- a flexible working arrangements policy which recognises the needs of individuals to balance family and personal lives with work. The Company will consider applications for flexible working arrangements on a case by case basis, considering the merit of the proposed arrangement, personal circumstances of the employee, the nature of the employment and the impact on the respective business area
- policies covering paid parental leave and flexible working arrangements

Gender equality at all levels of the organisation is a key component of the Company's diversity strategy. Maintaining the representation of women at senior levels of management will remain one of the Company's strategic priorities on an ongoing basis. The following table discloses the gender diversity of the Company as at 30 June 2012:

CATEGORY	% FEMALE	% MALE
Board	50	50
Senior executive	60	40
Company	71	29

13. NZX CORPORATE GOVERNANCE RULES

As an overseas listed issuer, the Company is deemed to satisfy and comply with the NZX Listing Rules, so long as it remains listed on the ASX. The only NZX requirements applicable to the Company are to give the NZX the same information and notices the Company is required to give to the ASX and to include the statement appearing below in the Company's Annual Report.

In compliance with NZX Listing Rule 5.1.8(d), the Company notes that the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASX Corporate Governance Rules') may materially differ from NZX's corporate governance rules and principles in the NZX Corporate Governance Best Practice Code. Details of the ASX Corporate Governance Rules are available on the ASX website at www.asx.com.au.

14. ASX CORPORATE GOVERNANCE COUNCIL'S CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

	ASX PRINCIPLE	REFERENCE[1]	COMPLIANCE
Principle 1	**Lay solid foundations for management and oversight**		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	1, Remuneration Report	Comply
1.2	Companies should disclose the process for evaluating the performance of senior executives.	1, Remuneration Report	Comply
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	1, Remuneration Report	Comply
Principle 2	**Structure the board to add value**		
2.1	A majority of the board should be independent directors.	2	Comply
2.2	The chair should be an independent director.	2	Comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	2	Comply
2.4	The board should establish a nomination committee.	4	Comply
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	6	Comply
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	1, 2, 4, 6, 12, Board members (pages 7 and 8), Directors' Report (page 26)	Comply
Principle 3	**Promote ethical and responsible decision making**		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: ▪ The practices necessary to maintain confidence in the company's integrity ▪ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders ▪ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices	8.4	Comply

	ASX PRINCIPLE	REFERENCE[1]	COMPLIANCE
3.2	Companies should establish a policy concerning diversity and disclose the policy or summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	2, 12	Comply
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	12	Comply
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	12	Comply
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	12	Comply
Principle 4	**Safeguard integrity in financial reporting**		
4.1	The board should establish an audit committee.	4	Comply
4.2	The audit committee should be structured so that it: ▪ consists only of non-executive directors ▪ consists of a majority of independent directors ▪ is chaired by an independent chair, who is not chair of the board ▪ has at least three members	4	Comply
4.3	The audit committee should have a formal charter.	4	Comply
4.4	Companies should provide the information indicated in Guide to reporting on Principle 4.	4	Comply
Principle 5	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	8.2	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	8.2	Comply
Principle 6	**Respect the rights of shareholders**		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	8.2	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	8.2	Comply
Principle 7	**Recognise and manage risk**	8.1	Comply
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	8.1	Comply
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	8.1	Comply
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	8.1	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	4, 8.1	Comply

	ASX PRINCIPLE	REFERENCE[1]	COMPLIANCE
Principle 8	**Remunerate fairly and responsibly**		
8.1	The board should establish a remuneration committee.	4	Comply
8.2	The remuneration committee should be structured so that it: ▪ consists of a majority of independent directors ▪ is chaired by an independent chair ▪ has at least three members	4	Comply
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Remuneration Report	Comply
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	4, Remuneration Report	Comply

1 All references are to sections of this Corporate Governance Statement unless otherwise stated

DIRECTORS' REPORT

The directors of Pacific Brands Limited ('Company') present their report together with the financial report of the Company and its controlled entities (collectively the 'Consolidated Entity') for the year ended 30 June 2012 and the auditor's report thereon. The information set out below is to be read in conjunction with the Remuneration Report set out on pages 29 to 46 which forms part of this Directors' Report.

1. DIRECTORS

The directors of the Company during the financial year and up to the date of this report are:

J A C MacKenzie (Chairman until 30 June 2012)
P H Bush (Chairman from 30 June 2012)
J S King
S M Morphet, Chief Executive Officer
M A Plavsic (retired 25 October 2011)
N L Scheinkestel
A M Tansey

Particulars of directors' age, qualifications, other listed company directorships, experience and special responsibilities are detailed on pages 7 and 8 of the Annual Report. Particulars of the qualifications and experience of the Company Secretary are detailed on page 10 of the Annual Report.

2. DIRECTORS' INTERESTS IN SHARE CAPITAL

The relevant interest of each director in the share capital of the Company as at the date of this report is as follows:

	FULLY PAID ORDINARY SHARES	PERFORMANCE RIGHTS[1]
P H Bush	10,000	
J S King	25,000	
J A C MacKenzie	202,162	
S M Morphet	1,081,600	4,479,800
N L Scheinkestel	54,600	
A M Tansey	550	

1 Details of the terms and conditions of issue of the performance rights granted to S M Morphet are set out on pages 36 to 44 in this Directors' Report

3. DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the 2012 financial year are shown in the table on page 16 of the Annual Report.

4. STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the Consolidated Entity other than those noted in principal activities below.

5. PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the course of the 2012 financial year were the sourcing, manufacturing, marketing, wholesaling and retailing of predominantly consumer products in the underwear, socks, hosiery, intimate apparel, corporate uniforms, workwear, footwear, bed linen, bedding accessories, carpet underlay, apparel and sporting goods markets. All products are sold predominantly throughout the Asia-Pacific region. The Consolidated Entity also marketed and distributed certain corporate uniforms, bed linen, bedding accessories and footwear in the United Kingdom, Europe, the Middle East and the United States.

There has been no significant change in the nature of principal activities during the year other than the divestment of the bikes business effective 31 August 2011.

Disclosure of financial information relating to developments in the business strategies and prospects for the Consolidated Entity for future financial years which would not, in the opinion of the directors, be unreasonably prejudicial to the Consolidated Entity is contained in the Chairman's Review and Operational Highlights in the Annual Report. These sections of the Annual Report are incorporated by reference into and form part of this Directors' Report.

6. REVIEW AND RESULTS OF OPERATIONS

A review of the operations of the Consolidated Entity during the 2012 financial year and of the results of those operations and financial position of the Consolidated Entity is contained in the Chairman's Review and Operational Highlights and elsewhere in the Annual Report. These sections of the Annual Report are incorporated by reference into and form part of this Directors' Report.

DIRECTORS’ REPORT (CONTINUED)

7. DIVIDENDS

An interim dividend of 2.0 cents per share, amounting to $18.3 million was paid on 2 April 2012. On 22 August 2012, The directors have declared a dividend of $22.8 million to be paid at the rate of 2.5 cents per share on 912,915,695 ordinary shares. The dividend is expected to be paid on 1 October 2012 to shareholders on the register at the record date of 3 September 2012. This dividend will be fully franked at the 30% corporate tax rate in Australia.

The financial effect of dividends declared subsequent to the reporting date has not been brought to account in the financial statements for the year ended 30 June 2012.

8. EVENTS SUBSEQUENT TO REPORTING DATE

On 13 August 2012, the Company entered into a binding agreement to sell the Wentworthville property. The sale is expected to generate net proceeds of $27 million, giving rise to an estimated profit on sale of $11 million (no tax effect) which will be brought to account in the 2014 financial year in line with expected completion in December 2013.

As disclosed in Note 14, the Consolidated Entity recognised further impairment of its intangible assets amounting to $114 million at 30 June 2012. This has resulted in a corresponding impairment of the Company’s equity loan to Pacific Brands Australia Pty Ltd. On 21 August 2012, as a consequence of the impairment of the equity loan, the Company decided to forgive the impaired amount of $114 million as set out in parent entity subsequent event (Note 31). The Company also made the decision to reduce its share capital by $114 million for the amount that is lost or not represented by available assets. This will have the effect of reducing the share capital account and eliminating accumulated losses at the Company and Consolidated Entity level. The equity transaction has been made in accordance with Section 258F of the Corporations Act 2001, does not impact the number of shares on issue, and will not result in any gains or losses being recognised in future reporting periods. The financial effect of this transaction is not included in the financial statements for the year ended 30 June 2012.

On 22 August 2012, the Company declared a dividend (refer Note 7 above).

9. LIKELY DEVELOPMENTS

Likely developments in the operations of the Consolidated Entity and the expected results of those operations are covered generally in the Chairman’s Review and Operational Highlights in the Annual Report. The Chairman’s Review and Operational Highlights are incorporated by reference into and form part of this Directors’ Report.

Further information as to likely developments in the operations of the Consolidated Entity and the expected results of those operations in subsequent financial periods has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Consolidated Entity.

10. NON-AUDIT SERVICES

During the 2012 financial year, KPMG, the Company’s auditor, performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the financial year by the auditor and in accordance with written advice provided by resolution of the Audit, Business Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the financial year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit, Business Risk and Compliance Committee to ensure they did not impact the integrity and objectivity of the auditor
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor’s own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is included on page 47 in this report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the financial year are set out below:

	CONSOLIDATED 2012 $	2011 $
Audit services		
Auditors of the Company – KPMG Australia		
Audit and review of financial statements	**973,800**	782,400
Overseas KPMG firms:		
Audit of financial statements	**134,200**	239,100
	1,108,000	1,021,500
Other services		
Auditors of the Company – KPMG Australia		
Other assurance services[1]	**49,700**	42,600
Overseas KPMG firms:		
Taxation compliance services	**47,543**	34,096
Other assurance services[1]	**2,686**	13,048
	99,929	89,744

1 Other assurance services include review procedures in relation to covenant compliance certificates provided to the Consolidated Entity's banking syndicate and monitoring of the whistleblower hotline

It is the Company's policy not to engage the Company's auditor to provide non audit services, unless the provision of those services will not prejudice the auditor's independence. Approval to provide these services must be obtained in accordance with the Audit, Business Risk and Compliance Committee's policy on non-audit services.

11. INDEMNIFICATION AND INSURANCE OF OFFICERS

In accordance with the Company's Constitution, the Company has agreed to indemnify every person who is, or has been, an officer of the Company or its controlled entities against any liability (including reasonable legal costs) incurred by the person as such an officer of the Company or its controlled entities, to the extent permitted by law and subject to the restrictions in section 199A of the Corporations Act 2001. Indemnified officers are the directors and secretaries of the Company or its controlled entities. During the financial year, there were no claims made against any officer of the Company that would invoke the above indemnity.

The Company has entered into standard form deeds of indemnity with all of its current directors against all liabilities which they may incur in the performance of their duties as directors of the Company, except liability to the Company or a related body corporate, liability for a pecuniary penalty or compensation under the Corporations Act 2001, and liability arising from conduct involving a lack of good faith.

The Company holds a directors' and officers' liability insurance policy on behalf of current and former directors and officers of the Company and its controlled entities. The period of the policy extends from 1 December 2011 to 30 November 2012 and the premium was paid on 6 February 2012. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the policy or premium can be disclosed.

12. ENVIRONMENTAL REGULATION

The Consolidated Entity's operations are subject to environmental laws and regulations, the details of which vary depending upon the jurisdiction in which the operation is located. These environmental laws and regulations control the use of land, the erection of buildings and structures on land, the emission of substances to water, land and atmosphere, the emission of noise and odours, the treatment and disposal of waste, and the investigation and remediation of soil and groundwater contamination.

The Consolidated Entity has procedures in place designed to ensure compliance with environmental regulatory requirements. The directors are not aware of any material breaches of environmental regulations during the financial year.

13. ROUNDING OFF

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 (as in force on 30 June 2012) and in accordance with that Class Order, amounts in the Financial Statements and this Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

REMUNERATION REPORT – UNAUDITED

Dear shareholders,

At the Company's 2011 Annual General Meeting ('AGM'), more than 25% of votes cast were against the resolution to adopt the 2011 Remuneration Report. This resulted in a 'first strike' under the new executive remuneration laws. As the Company's 2011 AGM was held in late October, the Company's remuneration strategy and the structure and quantum of senior executive remuneration for the 2012 financial year had already been set at the time the Company received its first strike vote. However, in preparing the 2012 Remuneration Report and in approving the remuneration arrangements for the Company's senior executives for the 2013 financial year, the Board reflected on shareholder feedback received last year and has taken special care to ensure that, where possible, it has addressed that feedback.

In this year's Remuneration Report we have:

- included an explanation of the Board's response to this first strike
- provided a more user friendly overview of our remuneration practices and endeavoured to simplify the structure and content of the Remuneration Report
- added a section on remuneration governance which outlines how remuneration decisions are made and what processes are in place to manage conflicts of interest

I would briefly like to draw your attention to decisions that your Board has taken in respect of remuneration outcomes for the 2012 financial year and remuneration structures for the 2013 financial year. The former is more fully explained in the audited section of the Remuneration Report which follows.

Firstly, in keeping with current market best practice, a substantial proportion of remuneration of the Company's senior executives is 'at risk', through participation in the STI and LTI programs. In the 2012 financial year, despite a number of major strategic and operational objectives being met, the Board determined that it would not approve payment of the business performance component of the STI to any employee of the Company, as key pre-determined financial criteria, particularly sales and earnings, were materially less than the targets set for the 2012 financial year. The Board also determined that this year it was not appropriate to approve payment of the personal STI component to senior executives.

In framing the remuneration structure for the 2013 financial year, the Board has also assessed the Company's remuneration arrangements in the context of the Company's reduced size and market capitalisation and in recognition of the ongoing difficult trading conditions in the markets in which the Company operates. Taking these factors and shareholder feedback into account, the Board has determined that the following changes will be made to the Company's remuneration structure in the 2013 financial year:

- the base and committee fees payable to the Company's non-executive directors will be reduced by 25% effective 1 July 2012
- a salary freeze has been imposed on the Chief Executive Officer and the Company's other senior executives, except where the senior executive has moved into a new and / or more complex role
- the STI opportunity for the Chief Executive Officer and the Company's other senior executives has been reduced by 50% at target

The Company operates in a very competitive and challenging segment of the Australian economy. We have a proud history, some wonderful brands and a workforce that has delivered against the challenging objective of transforming the Company into a smaller, more focused and nimble organisation able to compete in a global market. The Board is determined to ensure we have a management team properly led, rewarded and incentivised to deliver against this vision.

Peter Bush
Chairman

The Board is committed to clear and transparent disclosure of the Company's remuneration arrangements. This overview (which does not form part of the audited Remuneration Report) is intended to provide stakeholders with additional information to that provided in the Remuneration Report, which must be prepared in accordance with statutory obligations and accounting standards.

1. KEY DEVELOPMENTS IN THE 2012 FINANCIAL YEAR

Financial performance and the STI outcome

Financial performance is measured based on earnings before interest, tax and significant items (EBIT before significant items). Significant items are other expenses that are individually significant, as disclosed in Note 4 to the financial statements, hereinafter referred to as 'significant items'.

Conditions in the markets in which the Company operates continued to be difficult throughout the 2012 financial year. While the sales performance in all of our businesses was lower than target, margins, cost of doing business, working capital, cash flow and net debt were managed effectively. There was also some further important restructuring work undertaken, most notably the integration of Bonds and Omni Apparel to form the Underwear Group, the combination of the Homewares and Footwear, Outerwear and Sport segments into a single operating group and the consolidation of the Company's distribution network. However, as the Company did not meet its sales and EBIT before significant items target, no STIs (either the business component or the personal component) were paid to senior executives in respect of the 2012 financial year.

LTI outcome

In addition, no performance rights vested under the Company's LTI plan following the end of the financial year as neither the earnings per share nor total shareholder return hurdles were met. The alignment of the Company's LTI plan with the generation of shareholder wealth is demonstrated by the fact that performance rights under the Company's LTI plan have not (with the exception of performance rights granted as part of 'sign on' arrangements) vested in any of the past five financial years.

STI review

During the year the Board undertook a review of the Company's STI plan and subsequently amended the performance management system to enable a greater personal component reward for those individuals that consistently exceed expectations, and conversely a lesser personal component reward for those individuals that meet or are below expectations. This greater performance differentiation on the personal component of STI reward will come into effect for the 2013 financial year. Also, the STI opportunity for the Chief Executive Officer, other senior executives and all other employees eligible to participate in the Company's STI plan will be reduced by 50% at target (before STI) for the 2013 financial year. STI may be increased to the extent that targeted performance criteria are exceeded, up to plan limits.

Legislative changes to executive remuneration arrangements

The Federal Government recently introduced legislation to improve the governance processes with respect to executive remuneration arrangements. As a consequence, the Board has adopted a protocol governing the appointment of remuneration consultants in relation to key management personnel remuneration. The key objectives of the protocol are to:

- create a process for the approval of remuneration consultants
- establish a process for the engagement of a remuneration consultant
- establish guidelines to ensure that any remuneration recommendations made by a remuneration consultant are free from undue influence

Updated Remuneration Committee Charter

The Remuneration Committee reviewed and updated its charter during the 2013 financial year. Key changes reflected in the revised charter include:

- changes to the ASX Listing Rules regarding composition of remuneration committees
- amendments to the Corporations Act 2001 relating to the engagement of remuneration consultants
- amendments to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations regarding diversity and the role and composition of the remuneration committee

2. ACTUAL REMUNERATION OUTCOMES

The table on page 44 in the Remuneration Report provides a breakdown of the Company's senior executive remuneration in accordance with statutory obligations and accounting standards. However, the Board is aware that the format in which the Company is required to present this information may make it difficult for shareholders to form an understanding of the cash and other benefits actually earned by senior executives from the various components of their remuneration in respect of the 2012 financial year.

The following table represents non-IFRS information and sets out the cash and the value of other benefits actually earned (excluding annual leave and long service leave entitlements accrued but not paid) by the Company's senior executives in respect of the 2012 financial year for service during that financial year. References to the relevant section of the Remuneration Report are provided by way of footnotes, where the value of the relevant benefit calculated in accordance with accounting standards differs from the value disclosed below. Among other things, the table below illustrates that no value was derived by senior executives in the 2012 financial year from the Company's STI or LTI plans.

REMUNERATION REPORT – UNAUDITED (CONTINUED)

		FIXED SALARY[1]	SUPER-ANNUATION BENEFITS[2]	SHORT TERM INCENTIVES[3]	LONG TERM INCENTIVES[4]	TERMINATION	OTHER[5]	TOTAL
		$	$	$	$	$	$	$
Senior executives								
S M Morphet	**2012**	1,234,470	240,722	0	0	0	32,083	1,507,275
Chief Executive Officer	2011	1,141,479	222,741	910,000	0	0	35,000	2,309,220
D L Bortolussi	**2012**	718,958	25,000	0	0	0	54,162	798,120
Chief Financial & Operating Officer	2011	672,671	21,385	505,845	0	0	55,093	1,254,994
C M Garnsey[6]	**2012**	758,269	40,828	0	0	0	963	800,060
Group General Manager, Underwear	2011	122,333	11,010	450,004	0	0	0	583,347
A M Heraghty[7]	**2012**	497,040	25,000	0	0	0	77,959	599,999
Group General Manager, Homewares, Footwear & Outerwear	2011	399,493	25,000	183,993	0	0	46,099	654,585
H S Kramer[8]	**2012**	651,879	25,000	0	0	0	27,641	704,520
Group General Manager, Workwear	2011	601,174	29,319	344,736	0	0	27,096	1,002,325
Total	**2012**	3,860,616	356,550	0	0	0	192,808	4,409,974
	2011	2,937,150	309,455	2,394,578	0	0	163,288	5,804,471

1 Comprising base salary as set out in the table on page 44 in the Remuneration Report, but does not include movements in annual leave and long service leave provisions unless leave was actually taken in the 2012 financial year
2 Comprising superannuation as set out in the table on page 44 in the Remuneration Report
3 This figure represents the value (if any) of STI paid to the executive following the conclusion of the 2012 financial year, but relating to the achievement of the relevant performance hurdles in respect of the 2012 financial year, as set out in the table on page 44 in the Remuneration Report. For further details of the Company's STI program, see pages 35 and 41 in the Remuneration Report
4 This figure represents the value (if any) of any LTI which vested in the 2012 financial year, irrespective of when the LTI was granted. For the value of share based payments calculated in accordance with the accounting standards see the table on page 44 in the Remuneration Report
5 Principally includes motor vehicle allowances and payments made on the employee's behalf under a novated motor vehicle lease arrangement, as set out in the table on page 44 in the Remuneration Report
6 C M Garnsey commenced employment with the Company on 2 May 2011 and ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012
7 On 20 June 2012, A M Heraghty was appointed as acting Group General Manager, Underwear following the resignation of C M Garnsey on that date. The Board resolved to formally appoint A M Heraghty to this role on 29 June 2012 and, as a consequence, A M Heraghty ceased in the role of Group General Manager, Homewares, Footwear & Outerwear on the same date
8 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012

As mentioned previously, remuneration details calculated in accordance with statutory obligations and accounting standards are provided on pages 32 to 46 in the Remuneration Report.

Fixed remuneration (comprising salary, superannuation and other benefits) for 2012 were determined early in the financial year in advance of the Annual General Meeting. As part of that process, the Company benchmarked the proposed senior executive remuneration against the market, taking account of advice from an independent remuneration consultant and recognising the need to attract and retain appropriate talent in a competitive market.

The increase in Anthony Heraghty's fixed remuneration in 2012 was due to him taking on the additional responsibility of overseeing the Homewares group. This followed the creation of the Homewares, Footwear & Outerwear operating group from 1 July 2011 (which combined the previous Homewares and Footwear, Outerwear & Sport operating groups) enabling a significant reduction in the cost of doing business.

REMUNERATION REPORT – AUDITED

1. INTRODUCTION

The directors of Pacific Brands Limited present the Remuneration Report for the Company and its controlled entities for the year ended 30 June 2012. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the Corporations Act 2001.

The Remuneration Report includes details of the remuneration strategies for key management personnel (KMP) of the Consolidated Entity. The KMP comprises the executive director (Chief Executive Officer) and those persons with authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity during the financial year and under Australian Accounting Standard AASB 124 *Related Party Disclosures* is deemed to include non-executive directors. The KMP, other than the non-executive directors, are referred to throughout this Remuneration Report as 'senior executives'.

The names and positions of the KMP during the 2012 financial year are listed in the following table:

Current senior executives	
S M Morphet	Chief Executive Officer, Executive Director
D L Bortolussi	Chief Financial & Operating Officer
C M Garnsey[1]	Group General Manager, Underwear
A M Heraghty[2]	Group General Manager, Homewares, Footwear & Outerwear
H S Kramer[3]	Group General Manager, Workwear
Former senior executives	
M J Allibon[4]	Group General Manager, Human Resources
K J Hann[5]	Group General Manager, Bonds
R A Taylor[6]	Group General Manager, Omni Apparel
Non-executive directors	
J A C MacKenzie	Chairman (until 30 June 2012)
P H Bush	Chairman (from 30 June 2012)
J S King	Director
M A Plavsic	Director (retired 25 October 2011)
N L Scheinkestel	Director
A M Tansey	Director

1 C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012
2 On 20 June 2012, A M Heraghty was appointed as acting Group General Manager, Underwear following the resignation of C M Garnsey. The Board resolved to formally appoint A M Heraghty to this role on 29 June 2012 and, as a consequence, A M Heraghty ceased in the role of Group General Manager, Homewares, Footwear and Outerwear on the same date
3 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012
4 M J Allibon's role was made redundant on 31 May 2011 and she ceased employment with the Company on 30 September 2011
5 K J Hann ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel. She remains in employment with the Company, but no longer meets the definition of KMP
6 R A Taylor ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel and he ceased employment with the Company on 15 November 2011

2. REMUNERATION STRATEGY AND GOVERNANCE

A. Remuneration strategy

The Board believes that a transparent and appropriately structured remuneration strategy underpins a strong performance based culture and assists in driving shareholder returns. The Company's remuneration strategy has been developed over time with specialist advice from external remuneration consultants where appropriate, and is designed to attract, motivate and retain appropriately qualified and experienced non-executive directors and senior executives.

In keeping with current market best practice, a substantial proportion of the remuneration of the Company's senior executives is at risk, which means that it is not paid to the executive if pre-determined performance measurement criteria are not met. The Remuneration Committee and the Board work with management to identify key financial and non-financial value drivers to set appropriate internal (short term) and market based (long term) performance hurdles to achieve alignment of executive remuneration with the Company's business strategy. The remuneration of non-executive directors, on the other hand, is not linked to company performance and is comprised solely of directors fees (plus superannuation) in order to maintain director independence.

The diagram below outlines the Company's remuneration strategy with respect to senior executives:

Attract and retain high calibre employees	**Fixed annual remuneration**, benchmarked to industry standards and comprising cash salary, superannuation and motor vehicle (or allowance)
Motivate employees to achieve outstanding performance	At risk incentives, comprising: **Short term incentives,** a cash based reward opportunity paid annually upon achieving stretch targets and based on both a business performance component (75%) and a personal component (25%)
Align remuneration with shareholder interests	**Long term incentives,** an equity based reward (currently performance rights) linked to the medium to long term performance of the Company and made up of a relative total shareholder return ('TSR') hurdle and an absolute earnings per share ('EPS') measure of performance

REMUNERATION REPORT – AUDITED (CONTINUED)

An overview of the elements of remuneration is set out in the following table. A more detailed discussion of each element is contained later in the Remuneration Report.

	ELEMENTS OF REMUNERATION	DIRECTORS NON-EXECUTIVE	DIRECTORS CHIEF EXECUTIVE OFFICER	OTHER SENIOR EXECUTIVES	DISCUSSION IN REMUNERATION REPORT
Fixed remuneration	Fees	✓			Page 44
	Salary		✓	✓	Page 35
	Superannuation[1]	✓	✓	✓	Page 35
	Other benefits		✓	✓	Page 35
At risk remuneration	Short term incentive		✓	✓	Page 35
	Long term incentive		✓	✓	Page 36
Post employment	Notice periods and termination payments		✓	✓	Page 39

1 Non-executive directors' fees are set inclusive of statutory superannuation contributions

B. Remuneration governance mechanisms

The diagram below outlines the governance processes in place in relation to executive remuneration:

Board of Directors	Responsible for approving: ▪ remuneration policies and overall strategy ▪ CEO remuneration ▪ other senior executive remuneration ▪ short and long term incentives
Remuneration Committee	Responsible for reviewing and making recommendations to the Board in relation to: ▪ group remuneration policies and strategy ▪ CEO and other senior executive remuneration ▪ incentive schemes
CEO	Responsible for reviewing the performance of other senior executives and making recommendations in relation to other senior executive remuneration

Remuneration consultants: Engaged on a case by case basis to provide support and independent advice to the Board and Remuneration Committee with respect to CEO and other executive remuneration, including incentive schemes

As part of the Board's commitment to align remuneration with Company performance, employee performance is reviewed annually against agreed performance objectives set for the relevant financial year. The Company's performance review system involves employees completing a self assessment template, as well as their manager completing an assessment document. These written assessments form the basis of a performance review discussion between the employee and their manager. The Board (through its Remuneration Committee) agrees objectives for the evaluation of the Chief Executive Officer and reviews the objectives of the other senior executives. A review of the performance of the Chief Executive Officer against the agreed objectives is led by the Chairman in consultation with the Board. The performance of all other senior executives is reviewed by the Chief Executive Officer and reported to, and discussed by, the Board. Performance reviews take place close to the end of the financial year.

Maintaining independence

It is important that the Board maintains independence from management when making decisions affecting employee remuneration, particularly in respect of the Chief Executive Officer and other senior executives. Accordingly, the Company's Remuneration Committee is comprised solely of non-executive directors and has an independent Chair.

Further details regarding the role, responsibilities and composition of the Remuneration Committee are set out on page 15 of the Annual Report.

Remuneration consultants and external advisers

In order to ensure that it has all relevant information at its disposal (including in respect of market practice and legal parameters), the Board engages independent external advisers where appropriate. Whilst the advice and recommendations of external advisers are used as a guide, they do not serve as a substitute for thorough consideration of the issues by the Board. All decisions relating to remuneration strategy and approach are made by the Board itself, following careful consideration of the Remuneration Committee's recommendations, the Company's financial position, strategic objectives and current requirements.

Following amendments to the Corporations Act 2001 which came into force on 1 July 2011, the Company adopted the following guidelines to ensure that remuneration consultants are free from undue influence by any member of the KMP to whom a remuneration recommendation relates:

- where the Company's management, the Board or the Remuneration Committee identifies the need for external advice on a matter which will or may involve the remuneration of any KMP ('Remuneration Advice') the matter is to be referred to the Remuneration Committee Chairman before obtaining the advice
- the Remuneration Committee Chairman seeks approval from all members of the Remuneration Committee for the engagement of a particular remuneration consultant to provide Remuneration Advice
- in engaging a remuneration consultant, the Remuneration Committee must consider all factors relevant to the engagement of the remuneration consultant, including any potential conflicts of interest, the scope of the engagement and the desired outputs. The remuneration consultant is required to agree to terms of engagement that regulate its level of access to, and require its independence from, management
- to minimise the risk of undue influence when communicating with a remuneration consultant directors and management must not: apply unreasonable pressure or coerce the consultant to adopt an approach favoured by the relevant KMP; provide information that is selective or unbalanced; imply or threaten that future work is contingent on the consultant giving a particular recommendation; or offer an incentive for the consultant to deliver a preferred outcome
- any Remuneration Advice from a remuneration consultant that includes a remuneration recommendation (in draft or final form) must be provided directly to the members of the Remuneration Committee and must be accompanied by a declaration from the remuneration consultant as to whether the consultant's advice is free from undue influence by relevant KMP

In the 2012 financial year the Company engaged Sheldon Harris to provide a 'remuneration recommendation' to assess whether proposed increases to the remuneration packages of the Company's KMP were comparable to those in other listed entities and the general executive population. In providing this advice, Sheldon Harris confirmed that its recommendations were made free from undue influence from any member of the KMP to whom its advice related. Fees totalling $20,790 were paid to Sheldon Harris in respect of this advice. The Company made no other use of remuneration consultants on issues of KMP remuneration during the 2012 financial year.

The implementation of the guidelines outlined above and the receipt of a declaration of no undue influence from Sheldon Harris satisfy the Board that the recommendations of Sheldon Harris were made free from undue influence. Sheldon Harris did not provide any other services to the Company in the 2012 financial year.

C. Response in relation to concerns raised at the 2011 AGM

At the Company's 2011 AGM, 53% of votes cast in respect of the resolution to adopt the 2011 Remuneration Report were voted 'against' that resolution. As the votes against exceeded 25% of the votes cast, the Company recorded what is known as a first strike under the new executive remuneration laws, which came into effect under amendments to the Corporations Act for the first time last year.

A first strike gives rise to the following consequences:

- in this year's Remuneration Report, we have, as required, included an explanation of the Board's response to shareholder comments made in relation to the 2011 Remuneration Report at the 2011 AGM
- at this year's AGM, the Notice of Meeting will include, as required, a contingent 'Board spill' resolution. The resolution will only need to be voted on by shareholders if the Company receives a 'second strike' (ie another 'against' vote of 25% or more in respect of this year's Remuneration Report)

As the Company's 2011 AGM was held in late October, the Company's remuneration strategy and the structure and quantum of senior executive remuneration for the 2012 financial year were largely set at the time the Company received its first strike vote. However, the Board has taken account of shareholder feedback, including comments received at last year's AGM in addressing such issues for the 2013 financial year. The Board has also assessed the Company's remuneration arrangements in the context of the Company's reduced size and market capitalisation and in recognition of the ongoing difficult trading conditions in the markets in which the Company operates. As the Company's performance in the 2012 financial year fell short of internal targets, no STIs were paid to senior executives in relation to this year. The Board also determined that it was not appropriate to approve payment of the personal STI component to senior executives in the circumstances. In addition, no performance rights vested under the Company's LTI plan following the end of the financial year.

The Board also determined that the following key changes will be made to the Company's remuneration arrangements in the 2013 financial year:

- the fees including committee fees payable to the Company's non-executive directors will be reduced by 25% effective 1 July 2012
- a salary freeze has been imposed on the Chief Executive Officer and all of the Company's other senior executives, except where the senior executive moved into a new and / or complex role
- the STI opportunity for the Chief Executive Officer and the Company's other senior executives has been reduced by 50% at target (before STI), but may be increased to the extent that pre-determined performance measurement criteria are exceeded, up to plan limits

3. STRUCTURE OF SENIOR EXECUTIVE REMUNERATION

The disclosures in this section relate to the remuneration for KMP other than the non-executive directors (ie to 'senior executives').

A. Remuneration mix

The Company's executive remuneration is structured as a mix of fixed annual remuneration and variable remuneration through 'at risk' short term and long term components. The mix of these components varies for different management levels.

REMUNERATION REPORT – AUDITED (CONTINUED)

The table below sets out the relative proportion and components of the senior executives' total remuneration packages for the 2012 financial year:

	% OF TOTAL TARGET REMUNERATION (ANNUALISED)[1]			
	FIXED REMUNERATION	PERFORMANCE BASED REMUNERATION		
	FIXED	SHORT TERM INCENTIVES[3]	LONG TERM INCENTIVES	TOTAL PERFORMANCE BASED REMUNERATION
Chief Executive Officer (CEO)	29%	29%	42%	71%
Chief Financial & Operating Officer (CF&OO)	37%	34%	29%	63%
Other senior executives[2]	48%	31%	21%	52%

1 Percentages based on target remuneration for the relevant senior executives assuming 100% of STI and LTI fully vest
2 Based on the average remuneration for current senior executives assuming the executives were employed for the full period
3 Excludes sign on incentives and assumes vesting of 100% of business and personal performance components

While fixed remuneration is designed to provide a predictable 'base' level of remuneration, the STI and LTI plans reward executives when pre-determined performance hurdles are met or exceeded.

B. Fixed remuneration

The terms of employment for all senior executives contain a fixed annual remuneration component comprising:

- base salary
- superannuation
- motor vehicle (or motor vehicle allowance)

Remuneration levels are reviewed annually, with effect from 1 July each year, by the Remuneration Committee and the Board through a process that ensures an executive's fixed remuneration remains competitive with the market in which the Company competes for talent and reflects an employee's skills, experience, accountability and general performance. For senior executives, external advice is sought to provide an independent determination of market positioning and relevant trends. In addition the Company also subscribes to published survey data and participates in industry forums. Through these multiple channels the Company maintains an ongoing understanding of trends and developments within both broad and specific markets.

C. Short term incentives

Overview of short term incentive ('STI') plan

What is the STI plan?	The STI plan is the cash based component of the senior executive's at risk reward opportunity, based on achieving pre-determined performance measurement criteria.
Why does the Board consider an STI is appropriate?	STIs are an at risk component of remuneration that strengthens the relationship between performance and reward. The at risk component is used to motivate the Company's employees to achieve outcomes above expectations on the understanding that they will share in the Company's success.
What is the value of the STI opportunity?	In respect of the 2012 financial year: ▪ the CEO had the opportunity to earn a bonus equivalent to 100% of her fixed annual remuneration at target ▪ the CF&OO had the opportunity to earn a bonus equivalent to 90% of his fixed annual remuneration at target ▪ the remaining members of the senior executive team had the opportunity to earn a bonus equivalent to 60 to 75% of their fixed annual remuneration at target
What are the performance conditions?	The Company's STI plan has the following components: ▪ Individual performance (25%): Employees are incentivised to achieve superior personal performance which is expected to directly or indirectly impact business performance. Personal performance requirements vary with the individual executive and his/her responsibilities and may include objectives relating to strategy development, operational execution, financial performance, safety, people, values and/or culture. By way of example, the performance hurdles for the CEO for the 2012 financial year included the following: – improving underlying sales performance – achieving targeted earnings – enhancing employee engagement – continuing to develop and implement corporate and operating group strategies Achievement of the highest level of personal performance rating results in payment of 125% of an employee's individual performance component of his/her STI entitlement

	▪ Business performance (75%): The CEO and CF&OO are assessed on overall Company performance. In the case of the operating group General Managers, business performance is split 50:50 between the Company's performance and the performance of the relevant operating group. All other operating group employees participating in the STI plan are assessed on relevant operating group performance, while head office, shared services and sourcing and supply chain employees are assessed on overall Company performance ▪ Business performance is assessed on the achievement of pre-determined measurement criteria comprising financial and non-financial key performance indicators ('KPIs'). The primary financial KPI is earnings before interest, tax and other expenses that are individually significant, as disclosed in the notes to the financial statements (EBIT before significant items). Earnings excluding such expenses are considered by the Board to be a better basis for comparison from period to period as well as more comparable with future performance. They are also the primary measure of earnings considered by management in operating the business and by the Board in determining dividends. In addition to EBIT before significant items, other relevant financial KPIs considered include sales growth, gross profit margins, cost of doing business, cash conversion and net debt.
Why were the performance conditions chosen?	The performance conditions were chosen to ensure that the STI plan is linked to the achievement of key financial and non-financial objectives.
How is STI assessed?	The Board has ultimate responsibility for the award of both the business performance and the personal components of all STI payments. In exercising its responsibilities the Board takes into account factors which are both objective and subjective, and internal and external, including the appropriateness of awarding STI payments in light of the overall business environment. The actual amount of any STI award is determined primarily based on achievement of pre-determined performance measurement criteria which are reviewed at the end of each financial year. If the Board determines that an amount is available for payment of STI awards to the Company's employees, then the Board assesses the performance of the CEO against agreed performance measurement criteria and decides the level of STI that is appropriate. The CEO similarly assesses the performance of the other senior executives and makes recommendations to the Remuneration Committee and Board in relation to payment of any STI.

D. Long term incentives

Overview of long term incentive ('LTI') plan

What is the LTI?	The LTI is the equity component of a senior executive's at risk reward opportunity and is linked to the Company's medium to long term performance.
Who participates in the LTI?	Participation in the LTI arrangements is only offered to senior executives who are able to influence generation of shareholder wealth and have a direct impact on the Company's performance.
Why does the Board consider an LTI is appropriate?	The LTI is structured to ensure there is an appropriate balance between the achievement of short term objectives under the STI arrangements and longer term goals so that senior executives continue to be motivated by long term growth in shareholder value.
How is the LTI structured?	The Company's senior executive LTI plan is a performance rights plan (PRP), first introduced in 2004 as part of the Company's initial public offering. Each performance right converts to one ordinary share in the Company on satisfaction of the relevant performance conditions. Grants are made annually, with effect from 1 July in each financial year. For example, the 2012 financial year performance rights grant ('F12 grant') was granted effective 1 July 2011. The rules of the PRP provide that the Board may, at the time of making a grant of performance rights, determine an amount that is payable by the relevant senior executive upon allocation of a share following vesting of a performance right. In respect of all performance rights granted to date, the Board has on each occasion determined that no amount is payable by the relevant executive on vesting of their grant of rights. Following changes to the relevant taxation legislation first announced by the Federal Government in May 2009, shares allocated on the vesting of performance rights are not subject to any restriction on the senior executives' rights to trade in those shares, other than any restrictions imposed by the Company's Guidelines for Dealing in Securities. Any grant of performance rights to an executive director must be approved by shareholders at the Company's Annual General Meeting.

What is the value of the LTI opportunity?

Since the 2009 financial year the LTI entitlement of a senior executive is calculated as a percentage of fixed annual remuneration as follows:

- CEO 85%
- CF&OO and other senior executives 40%

The number of performance rights granted to a senior executive is then calculated by taking the relevant executive's fixed annual remuneration and multiplying it by the relevant LTI entitlement percentage, and dividing this by the Company's five day volume weighted average share price ('VWAP') as at the effective date of the grant.

What are the performance conditions?

Under all current grants of performance rights:

- 50% is subject to a relative total shareholder return ('TSR') hurdle which provides an external measure in respect of share price growth and dividend income
- 50% is subject to an absolute earnings per share ('EPS') measure of performance

TSR performance condition

The Company's performance is given a percentile ranking having regard to its TSR performance compared with the TSR performance of other companies in the relevant comparator group (described below). The TSR performance conditions in relation to all grants of performance rights are:

TSR TARGET	PERCENTAGE OF PERFORMANCE RIGHTS IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS
The Company's TSR is less than the median TSR of the comparator companies	0%
The Company's TSR equals or exceeds performance of the median TSR of the comparator companies	50%
The Company's TSR ranks in third quartile of the comparator companies	Pro rata between 50% and 100% (2% increase for each higher percentile ranking)
The Company's TSR ranks in fourth quartile of the comparator companies	100%

EPS performance conditions

EPS performance requirements are reviewed prior to each year's allocation of performance rights. The range of EPS growth reflects the Company's view of what is a reasonable long term target taking into account the structure of the markets in which the Company competes, category growth rates, prevailing market shares, operational performance upside and the expected level of reinvestment of earnings in the business.

EPS in respect of the 2010, 2011 and 2012 financial year grants is calculated using earnings on a pre-significant items basis (adjusted for the related income tax (benefit)/expense), and using the number of ordinary shares on issue at 30 June 2009, 30 June 2010 and 30 June 2011 and the number of ordinary shares on issue at the end of the relevant period to calculate compound EPS growth, respectively.

EPS performance requirements for each grant are shown in the table below:

F10, F11 AND F12 PERFORMANCE RIGHTS EPS TARGET	PERCENTAGE OF PERFORMANCE RIGHTS IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS
The Company's compound EPS growth is less than 5.0%	0%
The Company's compound EPS growth equals 5.0%	50%
The Company's compound EPS growth is between 5.0% and 8.0%	Pro rata between 50% and 100%
The Company's compound EPS growth is equal to or exceeds 8.0%	100%

What is the TSR comparator group?

The comparator companies for unvested performance rights are the ASX 200, excluding financial services and resources companies. This is determined in respect of each grant of performance rights. The comparator companies selected are considered to be alternative investments for local and global investors, and represent companies likely to be impacted by structural and cyclical factors in a similar way to the Company. Any companies that are merged, de-listed or taken over during the vesting period will be removed from the comparator group and not replaced.

Why were these performance conditions chosen?

TSR

The Board considers that TSR is an appropriate performance hurdle because it links a proportion of each executive's remuneration to shareholder value and ensures that a benefit is only paid when there is a corresponding benefit to shareholders. The Board believes it appropriate to have half the performance rights in the TSR tranche vest if the Company's TSR performance equals the median TSR of the comparator companies as it provides motivation for the relevant senior executives to drive a competitive financial outcome which aligns with shareholder interests.

EPS

The Board believes that an EPS performance requirement:

- as an absolute measure, provides senior executives with a performance goal over which they can exert some control

- provides a good 'line of sight' between the actions of senior executives and the Company's results
- is directly correlated with shareholder returns, so it complements the relative TSR performance requirement

The current EPS hurdle range (5% to 8%) is seen by the Board as a realistic view of what is attainable, given the Company generally has relatively high market shares in relatively low growth categories, whilst still remaining a stretch target to maximise performance and meet capital market expectations. The range is also viewed by the Board as reflective of the level of sustainable long term earnings growth which may lead to a re-rating of the Company's share price.

The Board is of the opinion that, collectively, TSR and EPS performance is better correlated with senior executive performance over time and creates a better alignment between the senior executive's reward and shareholder interests.

When is the LTI assessed?

The 2010, 2011 and 2012 financial year grants will be tested at the end of a three year performance period, being at the end of the 2012, 2013 and 2014 financial years, respectively. Each grant is tested again one year later should the performance rights fail to vest in whole or part at the first testing date. The primary reason for a second testing date is to allow for the potential short term impacts that foreign exchange, sourcing costs and other variables can have on the Company's TSR and EPS as highlighted by the Company's past experience.

How is the LTI assessed?

For the purpose of testing the achievement of the EPS hurdle, financial results are extracted by reference to the Company's audited accounts. The use of audited accounts ensures the integrity of the measure and alignment with the true financial performance of the Company.

Relative TSR performance is verified by external consultants. This ensures that TSR is measured consistently and objectively across the comparator companies.

When may the LTI vest?

Based on the financial performance of the Company in the 2012 financial year, no performance rights vested in the CEO or other senior executives effective 30 June 2012. The maximum percentage of performance rights that may vest, subject to performance, in any one year is set out in the table below:

VESTING DATE	MAXIMUM % 0F F10 GRANT[1]	MAXIMUM % 0F F11 GRANT	MAXIMUM % 0F F12 GRANT
30 June 2012	0%	N/A	N/A
30 June 2013	100%	100%	N/A
30 June 2014	N/A	100%	100%
30 June 2015	N/A	N/A	100%

1 No shares vested under the 2010 financial year grant in respect of the Company's performance over the 2010 to 2012 financial years. However, the 2010 financial year grant will be retested at the end of the 2013 financial year

Does the Company pay any dividends on unvested LTIs?

As each performance right only gives the holder a contractual entitlement to one ordinary share in the Company, subject to the future satisfaction of certain financial hurdles, it is not regarded by the Board as appropriate for those rights to have an entitlement to receive dividends prior to vesting.

When does an LTI vest or lapse?

Performance rights will lapse in accordance with the terms of the grant if performance hurdles are not achieved or if participants resign prior to the completion of required vesting periods.

Where a participant leaves the Company as a result of death, disability, retrenchment, or other reason with the approval of the Board, subject to performance hurdles being met, the Board may determine the extent to which performance rights granted to the participant vest.

In the event of a takeover for the Company, performance rights may, at the discretion of the Board, vest in accordance with an assessment of performance on the same performance criteria, but with the performance period pro rated to the date of the takeover offer.

A discussion of the Company's performance, specifically against the Company's earnings and the consequences of the Company's performance on shareholder wealth in the period from 1 July 2007 to 30 June 2012 is set out in section 4 of this report. The Company's performance is linked to vesting of LTI (and hence executive reward). The 2010 financial year grant of performance rights (tested on 1 July 2012) did not vest on the test date because the Company's performance was such that the required hurdles were not satisfied – a more detailed discussion is set out in section 4C of this report.

Details of the number of performance rights which have been granted and the extent (if any) to which they have vested are also set out in section 4C of this report. The Company values all performance rights granted under the PRP in accordance with relevant Australian Accounting Standards.

Does the Company have a policy in relation to hedging and margin lending arrangements?

The Company's guidelines for dealing in securities prohibit any employee who has been granted performance rights from entering into a transaction to limit the economic risk of such performance rights, whether through a derivative, hedge or other similar arrangement.

In addition, non-executive directors and senior executives are required to inform the Board of the existence of any margin lending arrangements in respect of shares in the Company which a non-executive director or senior executive has a relevant interest in, where those shares are offered as security for the lending arrangement. No margin lending arrangements are currently in place to which a non-executive director or senior executive is a party.

The Company treats compliance with this policy as a serious issue and takes appropriate measures to ensure the policy is adhered to, requiring non-executive directors and senior executives to confirm in writing their compliance with these policies on an annual basis. Any employee found to have breached these policies will be subject to appropriate sanctions, which could include termination of employment.

E. Service agreements

The remuneration and other terms of employment for the CEO and other senior executives are formalised in service agreements. Each of these agreements provides for the payment of a fixed annual remuneration component comprising of a base salary, motor vehicle/or allowance and superannuation contributions, the provision of performance related cash bonuses (STI) (as disclosed on page 35 in this report), and participation in the Company's employee LTI plan (as disclosed on page 36 in this report).

General information regarding the duration of each agreement, the periods of notice required to terminate the agreement and the termination payments provided for under the service agreements are summarised below.

Duration of service agreements

The service agreements with senior executives are ongoing until terminated by either party.

Notice periods and payments on termination

The service agreements provide for termination payments to be made in certain circumstances. In particular, the Company may terminate the employment of the Chief Executive Officer or any of the other senior executives, other than for cause, on giving a minimum of three months' notice. In respect of service agreements entered into prior to 24 November 2009, the Company may terminate a senior executive's employment upon payment (including any payment in lieu of notice) not exceeding one year's fixed annual remuneration plus a pro rata part of the current STI (cash bonus), based on the performance of the relevant executive against the annual target applicable at that time.

In accordance with sections 200A to 200J of the Corporations Act 2001, which took effect on 24 November 2009, the maximum termination payment payable by the Company without shareholder approval to any senior executive whose service agreement was entered into or varied after that date is capped at 12 months' average fixed annual remuneration ('FAR').

In the event that the Chief Executive Officer ceases to be the most senior executive or the Company ceases to be listed on the ASX, the Chief Executive Officer may elect to terminate her employment with the Company whereupon the Company will be liable to pay the Chief Executive Officer one year's FAR and up to one year's STI.

Upon termination of employment for any reason, the Chief Executive Officer is prohibited from engaging in any activity that would compete with the Company for a period of one year, in order to protect the Company's business interests.

Relevant terms of the service agreements of the Chief Executive Officer and the other senior executives are set out in the table below:

	DATE OF CONTRACT	NOTICE PERIOD – COMPANY	TERMINATION PAYMENT ENTITLEMENT	NOTICE PERIOD – EMPLOYEE
Current senior executives				
S M Morphet Chief Executive Officer	30 November 2007	3 months	12 months FAR plus pro rata STI	3 months
D L Bortolussi Chief Financial & Operating Officer	21 April 2009	3 months	12 months FAR	3 months
C M Garnsey[1] Group General Manager, Underwear	26 October 2010	3 months	12 months FAR	3 months
A M Heraghty Group General Manager, Homewares, Footwear & Outerwear	14 August 2009	3 months	12 months FAR plus pro rata STI	3 months
H S Kramer[2] Group General Manager, Workwear	3 May 2010	3 months	12 months FAR	3 months
Former senior executives				
M J Allibon Group General Manager, Human Resources	23 February 2009	3 months	12 months FAR plus pro rata STI	3 months
K J Hann Group General Manager, Bonds	23 February 2009	3 months	12 months FAR plus pro rata STI	3 months
R A Taylor Group General Manager, Omni Apparel	23 February 2009	3 months	12 months FAR plus pro rata STI	3 months

1 C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012

2 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012

4. COMPANY PERFORMANCE AND OUTCOMES FOR SENIOR EXECUTIVE REMUNERATION

A. Company performance

A review of the Company's operations during the 2012 financial year and of the results of those operations and financial position of the Company is contained in the Chairman's Review and Operational Highlights and elsewhere in the Annual Report. These sections of the Annual Report are incorporated by reference below into the Remuneration Report.

The table below sets out the Company's financial performance over the past five years:

	2012	2011	2010	2009	2008
Net sales revenue ($m)[1]	**1,322.7**	1,614.6	1,742.4	1,959.8	2,074.0
EBIT ($m)[2]					
- Reported	**(404.9)**	(62.3)	127.6	(178.3)	226.1
- Before significant items[3]	**129.1**	186.2	179.0	202.3	226.1
NPAT ($m)[4]					
- Reported	**(450.7)**	(131.9)	52.7	(234.5)	116.6
- Before significant items[3]	**72.8**	103.4	90.3	100.1	116.6
EPS (cents)[5]					
- Reported	**(49.1)**	(14.2)	5.7	(39.9)	20.9
- Before significant items[3]	**7.9**	11.1	9.7	17.0	20.9
Dividends per share (cents)	**4.5**	6.2	0	0	17.0
Year end share price ($)	**0.50**	0.69	0.89	0.86	1.78
TSR (%)[6]	**(22.3)**	(18.0)	3.5	(5.8)	(44.9)

1 Prior periods adjusted for certain sales and marketing allowances, now netted against sales revenue in accordance with accounting policies outlined in Note 1(F) to the financial statements
2 Earnings before interest and tax
3 Before the impact of other expenses that are individually significant as disclosed in Note 4 to the financial statements. Earnings excluding such expenses are considered by the Board to be a better basis for comparison from period to period as well as more comparable with future performance. They are also the primary measure of earnings considered by management in operating the business and by the Board in determining dividends
4 Net profit/(loss) after tax after deducting non-controlling interest
5 Earnings per share have been calculated based on the weighted average number of shares outstanding for the period. 2008 has been restated in accordance with AASB 133 Earnings per Share, for their impact of the rights issue undertaken in F09
6 TSR is a measure of the return to shareholders provided by movements in the Company's share price plus any dividends paid during the relevant financial period and reinvested in Company shares, expressed as a percentage of investment

Over the last five years, the Company's reported sales have declined materially as a result of increasingly challenging retail conditions and necessary structural changes, including business divestments and exits, and by brands being discontinued as part of the Pacific Brands Transformation Program. Sales in the 2012 financial year were also heavily impacted by a change in strategy at one of the Company's major customers.

Despite the sales decline, EBIT before significant items margins over this period have been relatively steady, declining from 10.9% to 9.8%, due to the significant cost savings resulting from the Pacific Brands Transformation Program. Margins in the 2012 financial year were also negatively impacted by the effects of the increase in input costs, most notably due to cotton.

The reduction in both sales and earnings also contributed to the decline in the share price over the course of the year, resulting in a total shareholder return for the 2012 financial year of (22.3)%.

B. Short term performance and STI payments for the 2012 financial year

As the Company failed to achieve its pre-determined performance measurement criteria, no STIs were paid to senior executives.

REMUNERATION REPORT – AUDITED (CONTINUED)

The 2012 financial year STI program relevant to the Chief Executive Officer and other senior executives can be summarised as follows:

	EFFECTIVE DATE OF GRANT	PERCENTAGE OF STI PAYABLE (%)	PERCENTAGE OF STI NOT AWARDED (%)	MINIMUM TOTAL VALUE OF STI ($)	MAXIMUM TOTAL VALUE OF STI ($)
Current senior executives					
S M Morphet Chief Executive Officer	1 July 2011	0	100	Nil	1,644,301
D L Bortolussi Chief Financial & Operating Officer	1 July 2011	0	100	Nil	718,308
C M Garnsey[1] Group General Manager, Underwear	1 July 2011	0	100	Nil	600,045
A M Heraghty Group General Manager, Homewares, Footwear & Outerwear	1 July 2011	0	100	Nil	360,000
H S Kramer[2] Group General Manager, Workwear	1 July 2011	0	100	Nil	422,712
Former senior executives					
M J Allibon[3] Group General Manager, Human Resources	N/A	N/A	N/A	N/A	N/A
K J Hann[4] Group General Manager, Bonds	1 July 2011	0	100	Nil	292,680
R A Taylor[5] Group General Manager, Omni Apparel	N/A	N/A	N/A	N/A	N/A

1 C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012
2 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012
3 M J Allibon's role was made redundant on 31 May 2011 and she ceased employment with the Company on 30 September 2011
4 K J Hann ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel. She remains in employment with the Company, but no longer meets the definition of KMP
5 R A Taylor ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel and he ceased employment with the Company on 15 November 2011

C. Long term performance and LTI awards for 2012 financial year

None of the 2010 financial year grant of performance rights vested under the Company's LTI plan following the end of the 2012 financial year as neither the EPS nor TSR hurdles were met. The alignment of the Company's LTI plan with the generation of shareholder wealth is demonstrated by the fact that performance rights under the Company's LTI plan have not vested in any of the past five financial years (with the exception of performance rights granted as part of sign on arrangements).

Details of the number of performance rights which have been granted and the extent (if any) to which they have vested are set out in the table following. The Company values and discloses all performance rights granted under the PRP in accordance with relevant Australian Accounting Standards.

Long term incentives on issue

The following equity grants were made to the CEO and other senior executives[1]:

	NUMBER & NATURE OF COMPENSATION / INSTRUMENT GRANTED	FINANCIAL YEAR	COMMENCEMENT DATE OF PERFORMANCE MEASUREMENT PERIOD	GRANT DATE OF PERFORMANCE RIGHT	PERCENTAGE OF GRANT VESTED (%)	PERCENTAGE OF GRANT FORFEITED (%)	FUTURE FINANCIAL YEARS THAT GRANT WILL BE PAYABLE	MINIMUM TOTAL VALUE OF GRANT ($)	MAXIMUM TOTAL VALUE OF GRANT[2] ($)
Current senior executives									
S M Morphet	1,228,915 performance rights	2010	01/07/2009	29/06/2010	Nil	Nil	2013	Nil	785,506
	1,377,078 performance rights	2011	01/07/2010	24/08/2010	Nil	Nil	2013/14	Nil	881,330
	1,873,807 performance rights	2012	01/07/2011	14/12/2011	Nil	Nil	2014/15	Nil	792,620
D L Bortolussi[3]	329,639 performance rights	2010	01/07/2009	29/06/2010	Nil	Nil	2013	Nil	210,969
	1,742,160 fully paid shares	2010	01/07/2009	21/04/2009	100%	N/A	N/A	Nil	500,000
	336,809 performance rights	2011	01/07/2010	24/08/2010	Nil	Nil	2013/14	Nil	215,558
	476,490 performance rights	2012	01/07/2011	14/12/2011	Nil	Nil	2014/15	Nil	201,555
C M Garnsey[4,5]	1,981,818 performance rights	2011	01/07/2010	26/10/2010	Nil	100%	N/A	Nil	2,180,000
	477,648 performance rights	2012	01/07/2011	14/12/2011	Nil	100%	N/A	Nil	202,045
A M Heraghty	212,035 performance rights	2011	01/07/2010	24/08/2010	Nil	Nil	2013/14	Nil	135,702
	358,209 performance rights	2012	01/07/2011	14/12/2011	Nil	Nil	2014/15	Nil	151,522
H S Kramer[6,7]	100,000 performance rights	2011	01/07/2010	03/05/2010	100%	N/A	N/A	Nil	107,000
	307,416 performance rights	2011	01/07/2010	24/08/2010	Nil	Nil	2013/14	Nil	196,746
	420,609 performance rights	2012	01/07/2011	14/12/2011	Nil	Nil	2014/15	Nil	177,918
Former senior executives									
M J Allibon[8]	193,060 performance rights	2010	01/07/2009	29/06/2010	Nil	100%	N/A	Nil	Nil
	190,039 performance rights	2011	01/07/2010	24/08/2010	Nil	100%	N/A	Nil	Nil
K J Hann	219,325 performance rights	2010	01/07/2009	29/06/2010	Nil	Nil	2013	Nil	140,368
	210,271 performance rights	2011	01/07/2010	24/08/2010	Nil	Nil	2013/14	Nil	134,573
R A Taylor[9]	237,866 performance rights	2010	01/07/2009	29/06/2010	Nil	100%	N/A	Nil	Nil
	243,890 performance rights	2011	01/07/2010	24/08/2010	Nil	100%	N/A	Nil	Nil

1 The terms and conditions attached to the F09, F10, F11 and F12 performance rights grants are set out on pages 36 to 38 in this report

2 The fair value of performance rights as at the date of their grant has been determined in accordance with AASB 2 *Share-based Payment*. The fair value in respect of the grant having an effective date of 1 July 2009 is $0.64 per share (TSR: $0.51, EPS: $0.77). The fair value in respect of the grant having an effective date of 1 July 2010 is $0.64 per share (TSR: $0.50, EPS: $0.78). The fair value in respect of the grant having an effective date of 1 July 2011 is $0.42 per share (TSR: $0.37, EPS: $0.48).The fair value in relation to sign on payments for D L Bortolussi is $0.29 per share, H S Kramer $1.07 per share and C M Garnsey $1.10 per share

3 The Company agreed on 21 April 2009 to issue to D L Bortolussi, the Chief Financial & Operating Officer, $500,000 worth of fully paid ordinary shares in the Company as a sign on bonus. The shares were issued on 1 July 2009, at no cost to D L Bortolussi, and were held on trust for D L Bortolussi, subject to satisfaction of a service condition that he was still employed by the Company on the relevant vesting dates. Under the relevant performance condition, 50% of the shares would vest on 1 July 2010 and the balance would vest on 1 July 2011, if D L Bortolussi was still in the employ of the Company on those dates. The number of shares acquired was calculated based on the volume weighted average price ('VWAP') during the period discussions were held between D L Bortolussi and the Company regarding his possible employment, specifically 23 February 2009 to 20 April 2009. The VWAP for the period was 28.7 cents per share. Accordingly, on 1 July 2009 the Company issued 1,742,160 shares to the Pacific Brands Employee Share Trust to be held on D L Bortolussi's behalf. As D L Bortolussi was still employed by the Company on 1 July 2011, 50% of the shares (871,080 shares) vested in D L Bortolussi on 1 July 2010 and the balance (a further 871,080 shares) vested in D L Bortolussi on 1 July 2011

4 As disclosed in last year's Annual Report, on 26 October 2010, the Company agreed to grant to C M Garnsey 1,981,818 performance rights as part of the sign on bonus arrangements provided to her, in recognition of the value of the likely benefits under the David Jones Limited LTI plans which C M Garnsey forwent upon resigning from the employ of that company. Each performance right was an entitlement to one fully paid ordinary share in the Company and were issued at no cost to C M Garnsey effective 1 July 2011. The performance rights were to vest on 1 July 2013, subject to C M Garnsey satisfying the performance condition that she still be in the employ of the Company on that date. The number of performance rights was calculated by dividing the sum of $2,180,000 by the VWAP of the Company's shares during the five day period immediately prior to the announcement of C M Garnsey's employment with the Company on the ASX, which occurred on 3 November 2010. These performance rights were forfeited upon C M Garnsey's resignation from the Company on 20 June 2012

5 C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012 and as a consequence the relevant performance conditions are incapable of being satisfied and accordingly all unvested performance rights issued to C M Garnsey have been forfeited
6 On 3 May 2010, the Company agreed to grant to H S Kramer a sign on bonus of 100,000 performance rights. The performance rights were issued at no cost to H S Kramer effective 1 July 2010 and were subject to H S Kramer satisfying the performance condition that she remain in the employ of the Company until at least 1 July 2011. As H S Kramer was still employed by the Company on that date these rights vested on 1 July 2011 and accordingly 100,000 fully paid ordinary shares were issued to H S Kramer
7 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012
8 All unvested performance rights issued to M J Allibon were forfeited upon cessation of her employment on 30 September 2011
9 All unvested performance rights issued to R A Taylor were forfeited upon cessation of his employment on 15 November 2011

During the financial year, the Company has not granted any options or rights in addition to the performance rights summarised in the previous table.

Long term incentives – movements during the 2012 financial year

The following table sets out details of any movement in performance rights currently on issue to the Chief Executive Officer and other senior executives and the number of rights held by such persons during the reporting period:

	BALANCE AT 01/07/2011	GRANTED	EXERCISED	LAPSED / FORFEITED	BALANCE AT 30/06/2012
Current senior executives					
S M Morphet					
Number	2,605,993	1,873,807	Nil	Nil	4,479,800
Value	$1,666,836	$792,620			$2,459,456
D L Bortolussi					
Number	666,448	476,490	Nil	Nil	1,142,938
Value	$426,527	$201,555			$628,082
C M Garnsey[1]					
Number	1,981,818	477,648	Nil	2,459,466	Nil
Value	$2,180,000	$202,045		2,382,045	Nil
A M Heraghty					
Number	212,035	358,209	Nil	Nil	570,244
Value	$135,702	$151,522			$287,224
H S Kramer[2]					
Number	407,416	420,609	100,000	Nil	728,025
Value	$303,746	$177,918	$107,000		$374,664
Former senior executives					
M J Allibon[3]					
Number	383,099	Nil	Nil	383,099	Nil
Value	$245,183			$245,183	Nil
K J Hann					
Number	429,596	Nil	Nil	Nil	429,596
Value	$274,941				$274,941
R A Taylor[4]					
Number	481,756	Nil	Nil	481,756	Nil
Value	$308,324			$308,324	Nil
Total senior executives					
Number	7,168,161	3,606,763	100,000	3,324,321	7,350,603
Value	$5,541,259	$1,525,660	$107,000	$2,935,552	$4,024,367

1 C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012. These performance rights were forfeited upon C M Garnsey's resignation from the Company on 20 June 2012
2 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012. All remaining performance rights will be forfeited upon H S Kramer's resignation from the Company on 23 July 2012
3 All unvested performance rights issued to M J Allibon were forfeited upon cessation of her employment on 30 September 2011
4 All unvested performance rights issued to R A Taylor were forfeited upon cessation of his employment on 15 November 2011

D. Total senior executive remuneration

Details of the remuneration paid to the Chief Executive Officer and the other senior executives for the 2012 financial year (and prior financial year) are set out in the following table, calculated in accordance with the relevant accounting standards. All values are in Australian dollars unless otherwise stated:

		SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS			SHARE BASED PAYMENTS	TERMINATION BENEFITS	TOTAL	VALUE OF PERFORMANCE RIGHTS AS % OF TOTAL
		FIXED SALARY[1]	INCENTIVE PAYMENTS	NON-MONETARY BENEFITS[2]	SUPER-ANNUATION BENEFITS	RETIRE-MENT PAYMENTS	OTHER	PERFOR-MANCE RIGHTS[3]			
		$	$	$	$	$	$	$	$	$	%
Current senior executives											
S M Morphet	2012	1,362,526	0	32,083	240,722			(11,365)		1,623,966	(0.1)
Chief Executive Officer	2011	1,169,378	910,000	35,000	222,741			409,769		2,746,888	14.9
D L Bortolussi	2012	754,960	0	54,162	25,000			(5,213)		828,909	(0.1)
Chief Financial & Operating Officer	2011	636,369	505,845	55,093	21,385			368,914		1,587,606	23.2
C M Garnsey[4,5,6]	2012	786,442	0	963	40,828			(167,692)		660,541	(25.4)
Group General Manager, Underwear	2011	132,009	450,004	0	11,010			167,692		760,715	22.0
A M Heraghty	2012	521,561	0	77,959	25,000			40,613		665,133	6.1
Group General Manager, Footwear, Outerwear & Sport	2011	412,647	183,993	46,099	25,000			121,743		789,482	15.4
H S Kramer[7]	2012	682,440	0	27,641	25,000			44,960		780,041	5.8
Group General Manager, Workwear	2011	623,865	344,736	27,096	29,319			170,323		1,195,339	14.2
Total remuneration – current senior executives											
	2012	**4,107,929**	**0**	**192,808**	**356,550**	**0**	**0**	**(98,697)**	**0**	**4,558,590**	**(2.2)**
	2011	2,974,268	2,394,578	163,288	309,455	0	0	1,238,441	0	7,080,030	17.5
Former senior executives											
M J Allibon[8]	2012	90,099	0	6,881	8,728			(122,914)		(17,206)	N/A
Group General Manager, Human Resources	2011	363,284	126,851	27,523	34,913			75,371	455,003	1,082,945	6.9
K J Hann[9]	2012	82,740	0	6,463	6,300			(47,525)		47,978	(99.1)
Group General Manager, Bonds	2011	401,559	140,356	38,779	36,153			63,625		680,472	9.4
R A Taylor[10]	2012	78,320	0	4,587	13,942			(152,234)		(55,385)	N/A
Group General Manager, Omni Apparel	2011	451,666	226,875	27,523	83,655			68,863		858,582	8.0
Total remuneration – executive director and other senior executives											
	2012	**4,359,088**	**0**	**210,739**	**385,520**	**0**	**0**	**(421,370)**	**0**	**4,533,977**	**(9.3)**
	2011	4,190,777	2,888,660	257,113	464,176	0	0	1,446,300	455,003	9,702,029	14.9

1 Includes movements in annual leave and long service leave provisions and excludes fringe benefits tax paid or payable relating to fringe benefits granted by the Company
2 Amounts disclosed for remuneration of senior executives exclude insurance premiums paid by the Consolidated Entity in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers, including, among others, the named senior executives. Due to confidentiality obligations and undertakings of the policy, the premium paid cannot be disclosed. No amount has been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists
3 To the extent required by the Australian Accounting Standards, remuneration includes a proportion of the fair value of equity compensation granted or outstanding during the financial year. The fair value of equity instruments which do not vest during the reporting period is required to be determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of performance rights as at the date of their grant has been determined in accordance with AASB 2 *Share Based Payment*. The fair value in respect of the grant having an effective date of 1 July 2009 is $0.64 per share. The fair value in respect of the grant having an effective date of 1 July 2010 is $0.64 per share. The fair value in respect of the grant having an effective date of 1 July 2011 is $0.42 per share. The fair value of these equity investments is calculated for the Company by an independent expert
4 C M Garnsey was employed for only part of the 2011 financial year, having commenced employment on 2 May 2011
5 C M Garnsey was granted a sign on bonus effective 1 July 2011. Refer to page 42 in this report for further details of this sign on bonus
6 C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. She will cease employment with the Company on 19 September 2012
7 H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012
8 M J Allibon's role was made redundant on 31 May 2011 and she ceased employment with the Company on 30 September 2011
9 K J Hann ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel. She remains in employment with the Company, but no longer meets the definition of KMP
10 R A Taylor ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel and he ceased employment with the Company on 15 November 2011

5. NON-EXECUTIVE DIRECTORS' REMUNERATION

A. Board policy on Non-Executive Directors' remuneration

Non-executive directors are provided with formal letters of appointment prior to commencing their directorship. Their tenure with the Company is also governed by the Company's Constitution and the Australian Securities Exchange ('ASX') Listing Rules, which provide that all non-executive directors are subject to shareholder re-election every three years.

Non-executive directors' fees, including committee fees, are set by the Board within the aggregate amount approved by shareholders. Currently, this amount is $2,000,000 per annum, which was approved by shareholders at the Company's 2010 AGM. The fees paid to non-executive directors are set at levels which reflect the responsibilities and time commitment required from each director to discharge their duties. Fee levels are set having regard to independent advice and the fees paid by comparable companies. The Nomination Committee makes recommendations to the Board on the total level of remuneration of the Chairman and other non-executive directors, including any additional fees payable to directors for membership of Board committees.

The Board, through the auspices of the Nomination Committee, reviews periodically its approach to non-executive director remuneration to ensure it remains in line with general industry practice and reflects proper compensation for duties undertaken. In setting fee levels, the Nomination Committee takes into account:

REMUNERATION REPORT – AUDITED (CONTINUED)

- the Company's existing remuneration policies
- independent remuneration consultants' advice
- fees paid by comparable companies
- the level of remuneration necessary to attract and retain directors of appropriate experience, qualifications and time commitment

The fees paid to non-executive directors were last adjusted with effect from 1 January 2010.

The fees payable in the 2012 financial year were as follows:

	CHAIRMAN	OTHER NON-EXECUTIVE DIRECTORS
Base remuneration	$425,000	$150,000
Committee fees	▪ $30,000 for the Chairman of the Audit, Business Risk and Compliance Committee ▪ $20,000 for the Chairman of the Remuneration Committee ▪ $10,000 for the Chairman of the Nomination Committee	▪ $15,000 for other members of the Audit, Business Risk and Compliance Committee (other than the Board Chairman) ▪ no additional fee for other members of the Remuneration Committee or the Nomination Committee
Post-employment benefits	▪ Superannuation contributions are made on behalf of the non-executive directors in accordance with the Company's statutory superannuation obligations and any election of a director to sacrifice part of his/her fee in favour of increased superannuation contributions ▪ It has always been the policy of the Board that retirement benefits are not payable to non-executive directors upon their retirement	

The aggregate fees paid to the non-executive directors, including the Chairman, during the 2012 financial year decreased from $1,346,308 to $1,155,871 (inclusive of superannuation contributions) due to a reduction in the number of non-executive directors.

Directors are also entitled to be reimbursed for all business related expenses, including travel on Company business, as may be incurred in the discharge of their duties in accordance with rule 8.3(e) of the Company's Constitution.

B. Remuneration paid

Details of non-executive directors' remuneration for the 2012 financial year are set out in the following table:

		SHORT TERM PAYMENTS		POST EMPLOYEE BENEFITS	
		CASH $	SHARES[1] $	SUPERANNUATION CONTRIBUTIONS $	TOTAL[2] $
J A C MacKenzie (Chairman until 30 June 2012)	2012	389,908	N/A	35,092	425,000
	2011	389,908	N/A	35,092	425,000
P H Bush (Chairman from 30 June 2012)	2012	151,376	N/A	13,624	165,000
	2011	129,640	N/A	11,668	141,308
J S King	2012	169,725	N/A	15,275	185,000
	2011	169,725	N/A	15,275	185,000
M A Plavsic[3]	2012	40,351	N/A	10,520	50,871
	2011	127,829	N/A	32,171	160,000
N L Scheinkestel	2012	165,138	N/A	14,862	180,000
	2011	165,138	N/A	14,862	180,000
A M Tansey	2012	126,147	N/A	23,853	150,000
	2011	126,147	N/A	23,853	150,000
Total	**2012**	**1,042,645**	N/A	**113,226**	**1,155,871**
	2011	1,204,718	N/A	141,590	1,346,308

1 Prior to the 2010 financial year, non-executive directors participated in the Company's Non-Executive Director Share Plan. Under the plan, non-executive directors could elect to apply up to 100% of their fees in acquiring shares in the Company. Following changes announced in the Federal Budget on 12 May 2009, participation in the Non-Executive Director Share Plan was suspended. Shares acquired under the plan on or prior to 30 June 2009 remain subject to the terms of the plan

2 Amounts disclosed for remuneration of directors exclude insurance premiums paid by the Consolidated Entity in respect of directors' and officers' liability insurance contracts which cover, among others, current and former directors of the Company. Due to confidentiality obligations and undertakings of the policy, the premium paid cannot be disclosed. No amount has been allocated to the individuals covered by the insurance policy as, based on all available information, the directors believe that no reasonable basis for such allocation exists

3 M A Plavsic retired as a director of the Company on 25 October 2011

C. 2013 financial year fees

The Board has determined that all Board fees including committee fees will be reduced by 25% for the 2013 financial year as against the level of Board fees in the 2012 financial year.

The 2013 financial year fees are as follows:

	CHAIRMAN	OTHER NON-EXECUTIVE DIRECTORS
Base remuneration	$318,750 (no committee fees payable)	$112,500
Committee fees	▪ $22,500 for the Chairman of the Audit, Business Risk and Compliance Committee ▪ $15,000 for the Chairman of the Remuneration Committee	▪ $11,250 for other members of the Audit, Business Risk and Compliance Committee ▪ $7,500 for other members of the Remuneration Committee

DIRECTORS’ REPORT

This Directors’ Report is signed in accordance with a resolution of the directors.

Dated at Melbourne this 22nd day of August 2012.

Peter Bush
Chairman

Sue Morphet
Chief Executive Officer

LEAD AUDITOR’S INDEPENDENCE DECLARATION

Under section 307C of the Corporations Act 2001

To: the Directors of Pacific Brands Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen
Partner

Melbourne
22 August 2012

FINANCIAL STATEMENTS TO SHAREHOLDERS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

		CONSOLIDATED	
	NOTE	2012 $'000	2011 $'000
Sales revenue	2	**1,322,670**	1,614,598
Cost of sales	11	**(709,602)**	(861,510)
Gross profit		**613,068**	753,088
Other income	2	**5,576**	7,442
Freight and distribution expenses		**(114,175)**	(127,509)
Sales, marketing and advertising expenses		**(260,563)**	(294,281)
Administrative expenses		**(114,842)**	(152,527)
Other expenses	4	**(533,928)**	(248,467)
Results from operating activities		**(404,864)**	(62,254)
Financial income	3	**5,227**	5,731
Financial expenses	3	**(31,280)**	(41,363)
Net financing costs		**(26,053)**	(35,632)
Profit/(loss) before income tax (expense)/benefit		**(430,917)**	(97,886)
Income tax (expense)/benefit	6	**(19,930)**	(33,599)
Profit/(loss)		**(450,847)**	(131,485)
Profit/(loss) attributable to:			
Owners of the Company	22	**(450,650)**	(131,895)
Non-controlling interest	24	**(197)**	410
Profit/(loss)		**(450,847)**	(131,485)
Other comprehensive income/(loss)			
Foreign currency translation differences		**1,297**	(9,990)
Changes in fair value of cash flow hedges (net of tax)		**13,380**	(24,411)
Other comprehensive income/(loss) (net of tax)		**14,677**	(34,401)
Total comprehensive income/(loss)		**(436,170)**	(165,886)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**(436,007)**	(165,818)
Non-controlling interest		**(163)**	(68)
Total comprehensive income/(loss)		**(436,170)**	(165,886)
Earnings/(loss) per share			
Ordinary shares	7	(49.1) cents	(14.2) cents
Diluted shares	7	(49.1) cents	(14.2) cents

The Statement of Comprehensive Income is to be read in conjunction with the notes to the Financial Statements set out on pages 53 to 91.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		CONSOLIDATED	
	NOTE	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	9	**155,421**	155,479
Trade and other receivables	10	**152,288**	192,909
Inventories	11	**244,263**	262,479
Other assets	12	**6,807**	9,996
Assets held for sale	16	**7,247**	14,278
Total current assets		**566,026**	635,141
Non-current assets			
Trade and other receivables	10	**51**	28
Property, plant and equipment	13	**82,348**	80,364
Intangible assets	14	**580,553**	1,080,998
Deferred tax assets	15	**27,678**	25,544
Total non-current assets		**690,630**	1,186,934
Total assets		**1,256,656**	1,822,075
Current liabilities			
Trade and other payables	17	**130,210**	144,470
Interest-bearing loans and borrowings	18	**-**	177
Income tax payable	6	**18,562**	26,923
Provisions	19	**54,809**	68,778
Liabilities directly associated with assets held for sale	16	**2,665**	355
Total current liabilities		**206,246**	240,703
Non-current liabilities			
Trade and other payables	17	**5,218**	4,250
Interest-bearing loans and borrowings	18	**344,541**	382,503
Provisions	19	**11,970**	9,720
Total non-current liabilities		**361,729**	396,473
Total liabilities		**567,975**	637,176
Net assets		**688,681**	1,184,899
Equity			
Share capital	20	**809,000**	1,469,094
Reserves	21	**(25,557)**	(39,820)
Retained profits/(accumulated losses)	22	**(97,060)**	(247,149)
Total equity attributable to equity holders of the Company		**686,383**	1,182,125
Non-controlling interest	24	**2,298**	2,774
Total equity		**688,681**	1,184,899

The Statement of Financial Position is to be read in conjunction with the notes to the Financial Statements set out on pages 53 to 91.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	NOTE	CONSOLIDATED 2012 $'000	2011 $'000
Cash flows from operating activities			
Cash receipts from customers		**1,501,449**	1,780,237
Cash paid to suppliers and employees		**(1,333,906)**	(1,646,263)
Income taxes paid		**(34,896)**	(7,923)
Interest paid		**(30,775)**	(37,091)
Interest received	3	**5,227**	5,731
Net cash from operating activities	28	**107,099**	94,691
Cash flows from investing activities			
Proceeds from disposal of businesses (net of cash disposed)		**2,142**	56,439
Proceeds from disposal of property, plant and equipment		**18,691**	9,488
Acquisition of property, plant and equipment		**(22,143)**	(21,580)
Acquisition of business (net of cash acquired)		**(5,909)**	(13,176)
Net cash from/(used in) investing activities		**(7,219)**	31,171
Cash flows from financing activities			
Finance lease payments		**(177)**	(873)
Repayment of loans and borrowings		**(39,000)**	(83,559)
Payments for shares bought to allocate to employees		**(17)**	(427)
Dividends paid	23	**(47,018)**	(28,864)
Dividend paid to non-controlling interest	24	**(313)**	(423)
Share buy back		**(12,337)**	-
Net cash used in financing activities		**(98,862)**	(114,146)
Net increase in cash and cash equivalents		**1,018**	11,716
Cash and cash equivalents at the beginning of the period		**155,479**	149,974
Effect of exchange rate fluctuations on cash held		**846**	(6,211)
Transfer of cash to assets held for sale	16	**(1,922)**	-
Cash and cash equivalents at the end of the period	9	**155,421**	155,479

The Statement of Cash Flows is to be read in conjunction with the notes to the Financial Statements set out on pages 53 to 91.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	CONSOLIDATED							
	SHARE CAPITAL	EQUITY COMPENSATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVE	RETAINED PROFITS/ (ACCUMULATED LOSSES)	TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	NON-CONTROLL-ING INTEREST	TOTAL EQUITY
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2010	1,469,094	7,029	(23,409)	11,803	(88,325)	1,376,192	3,265	1,379,457
Profit/(loss)	-	-	-	-	(131,895)	(131,895)	410	(131,485)
Other comprehensive income/(loss)								
Foreign currency translation differences	-	-	(9,512)	-	-	(9,512)	(478)	(9,990)
Effective portion of net changes in fair value of cash flow hedges[1]	-	-	-	(52,733)	-	(52,733)	-	(52,733)
Net change in fair value of cash flow hedges transferred to inventories or profit and loss[1]	-	-	-	28,322	-	28,322	-	28,322
Total other comprehensive income/(loss)	-	-	(9,512)	(24,411)	-	(33,923)	(478)	(34,401)
Total comprehensive income/(loss)	-	-	(9,512)	(24,411)	(131,895)	(165,818)	(68)	(165,886)
Transactions with owners, recorded directly in equity								
On market purchase of performance rights	-	(2,352)	-	-	1,935	(417)	-	(417)
Dividends recognised	-	-	-	-	(28,864)	(28,864)	(423)	(29,287)
Cost of share based payments	-	1,032	-	-	-	1,032	-	1,032
Balance at 30 June 2011	1,469,094	5,709	(32,921)	(12,608)	(247,149)	1,182,125	2,774	1,184,899
Balance at 1 July 2011	**1,469,094**	**5,709**	**(32,921)**	**(12,608)**	**(247,149)**	**1,182,125**	**2,774**	**1,184,899**
Profit/(loss)	**-**	**-**	**-**	**-**	**(450,650)**	**(450,650)**	**(197)**	**(450,847)**
Other comprehensive income/(loss)								
Foreign currency translation differences	**-**	**-**	**1,263**	**-**	**-**	**1,263**	**34**	**1,297**
Effective portion of net changes in fair value of cash flow hedges[1]	**-**	**-**	**-**	**493**	**-**	**493**	**-**	**493**
Net change in fair value of cash flow hedges transferred to inventories or profit and loss[1]	**-**	**-**	**-**	**12,887**	**-**	**12,887**	**-**	**12,887**
Total other comprehensive income/(loss)	**-**	**-**	**1,263**	**13,380**	**-**	**14,643**	**34**	**14,677**
Total comprehensive income/(loss)	**-**	**-**	**1,263**	**13,380**	**(450,650)**	**(436,007)**	**(163)**	**(436,170)**
Transactions with owners, recorded directly in equity								
On market buy back of shares[2]	**(12,337)**	**-**	**-**	**-**	**-**	**(12,337)**	**-**	**(12,337)**
Share capital reduction[3]	**(647,757)**	**-**	**-**	**-**	**647,757**	**-**	**-**	**-**
Dividends recognised	**-**	**-**	**-**	**-**	**(47,018)**	**(47,018)**	**(313)**	**(47,331)**
Cost of share based payments	**-**	**(380)**	**-**	**-**	**-**	**(380)**	**-**	**(380)**
Balance at 30 June 2012	**809,000**	**5,329**	**(31,658)**	**772**	**(97,060)**	**686,383**	**2,298**	**688,681**

1 Amounts are stated net of tax
2 In accordance with the on market buy back program, the Company has the ability to repurchase up to 10% of total shares on issue over the period from 7 September 2011 to 6 September 2012. The Company repurchased 18,470,553 shares amounting to $12.3 million over the period from 7 September 2011 to 15 November 2011
3 On 23 August 2011 and 16 February 2012, the Company reduced its share capital by $309.6 million and $338.2 million respectively for the amounts that are not represented by available assets, reflecting impairment charges incurred by the Company during the year ended 30 June 2011 and half year ended 31 December 2011. This had the effect of eliminating accumulated losses at the Company and Consolidated Entity level. There was no impact on the number of issued shares or on the Statement of Comprehensive Income or Statement of Cash Flows

The Statement of Changes in Equity is to be read in conjunction with the notes to the Financial Statements set out on pages 53 to 91.

The nature and purpose of the reserves are explained in Note 21.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Pacific Brands Limited ('Company') is a company domiciled in Australia. The consolidated Financial Statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its controlled entities (together referred to as the 'Consolidated Entity').

A. Statement of compliance

The Financial Statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Accounting Interpretations ('AIs')) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The Company is a for-profit entity for the purpose of preparing the financial statements.

The Financial Statements of the Consolidated Entity comply with International Financial Reporting Standards ('IFRS') and interpretations adopted by the International Accounting Standards Board ('IASB').

These Financial Statements were authorised for issue by the directors on 22 August 2012.

B. Basis of preparation

These Financial Statements are presented in Australian dollars ('AUD'), which is the Company's functional currency.

The Company is of a kind referred to in Australian Securities and Investments Commission ('ASIC') Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Statements and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

These Financial Statements are prepared on the historical cost basis except for loans and receivables that are measured at amortised cost, derivative financial instruments that are stated at their fair value, assets held for sale remeasured to fair value and the defined benefit asset/liability that is measured as the net total of the plan assets plus unrecognised past service costs and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

The accounting policies set out below have been consistently applied by each entity in the Consolidated Entity, for all periods presented.

Changes in accounting policies and new standards

In the current year, the Consolidated Entity adopted all of the new and revised AASBs and AIs issued by the Australian Accounting Standards Board that are relevant to the Consolidated Entity and its operations and effective for the current annual reporting period.

Those applicable to the Consolidated Entity included the amendments to the following AASBs arising from the third Annual Improvements Project and other new accounting pronouncements:

- AASB 7 *Financial Instruments: Disclosures*
- AASB Interpretation 13 *Customer Loyalty Programmes*
- AASB 101 *Presentation of Financial Statements*
- AASB 2009-14 *Amendments to Australian Interpretation: Prepayments of a Minimum Funding Requirement*
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*
- AASB 134 *Interim Financial Reporting*
- AASB 124 *Related Party Disclosures*
- AASB 1054 *Australian Additional Disclosures*

The new and revised AASBs and AIs resulted in changes to the Consolidated Entity's accounting policies and disclosures but did not affect the reported amounts in the current or prior year.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012. They have been identified as those which may be relevant to the entity in future reporting periods. The Consolidated Entity's assessment of these new accounting standards and interpretations is set out below:

- AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) (effective from 1 January 2013). AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013. However in December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The Australian Accounting Standards Board are yet to issue an equivalent amendment to AASB 9. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. There are also new requirements for liabilities designated at fair value through profit or loss. The amendments will not impact on the Consolidated Entity's accounting for financial assets or financial liabilities. The Consolidated Entity has not yet decided when to adopt AASB 9
- AASB 10 *Consolidated Financial Statements* (effective 1 January 2013). AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The standard introduces a single definition of control that applies to all entities. While the Consolidated Entity does not expect the new standard to have a significant impact on its composition, it will be required to perform a detailed analysis of the new guidance in the context of future investees that may or may not be controlled under the new rules. The new standard would be first applied in the financial statements for the annual reporting period ending 30 June 2014

- AASB 12 *Disclosure of Interests in Other Entities* (effective 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11 *Joint Arrangements*, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Consolidated Entity will not affect any of the amounts recognised in the financial statements, but may impact future disclosures of the Consolidated Entity's investments. The new standard would be first applied in the financial statements for the annual reporting period ending 30 June 2014
- AASB 13 *Fair Value Measurement and* AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013). AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Consolidated Entity has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The new standard would be first applied in the annual reporting period ending 30 June 2014
- revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011) and AASB 2011-11 *Amendments to AASB 119* (September 2011) *arising from Reduced Disclosure Requirements* (effective 1 January 2013). The new standard requires the recognition of all remeasurements of defined benefit liabilities or assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in the profit or loss pension expense. The standard also introduces a number of additional disclosures for defined benefit liabilities or assets. The amendments will have to be implemented retrospectively. The impact on the Consolidated Entity's profit or loss is yet to be quantified. The new standard would be first applied in the financial statements for the annual reporting period ending 30 June 2014
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Key management Personnel Disclosure Requirements* (1 July 2013). This amendment removes the requirements to include key management personnel disclosures in the notes to the financial statements. Companies will still need to provide these disclosures in the Remuneration Report under Section 300A of the Corporations Act 2001. The Consolidated Entity can not adopt this standard before its operative date. It would therefore be first applied in the financial statements for annual reporting period ending 30 June 2014

There are no other standards that are issued but not yet effective, that are expected to have a material impact on the Consolidated Entity in the current or future reporting periods and on foreseeable future transactions.

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 these Financial Statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or revenues and expenses arising from intra-group transactions, are eliminated in preparing the 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. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Consolidated Entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, consideration is given to the potential voting rights that are currently exercisable.

Acquisitions on or after 1 July 2009

For acquisitions on or after 1 July 2009, the Consolidated Entity measures goodwill at the acquisition date as:

- the fair value of the consideration transferred plus
- the recognised amount of any non-controlling interests in the acquiree
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

When the excess is negative, a bargain purchase gain is recognised immediately in profit and loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit and loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Consolidated Entity incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit and loss.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

When share based payment awards 'replacement awards' are required to be exchanged for awards held by the acquiree's employees ('acquiree's awards') and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market based value of the replacement awards compared with market based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

E. Loss of control

Upon the loss of control, the Consolidated Entity derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit and loss. If the Consolidated Entity retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

F. 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 Statement of Comprehensive Income 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. In particular for online sales, revenue is recognised only upon shipment of the goods. Revenue from the sale of gift cards is recognised when the gift card is redeemed. The Consolidated Entity has an unfulfilled performance obligation at the time it sells the gift card to the customer and therefore defers the revenue at the initial point of sale of the gift card. 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.

Other income

Sale of non-current assets

The profit or loss on disposal of non-current assets is included in other income or other expenses 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 profit 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.

G. Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in the Statement of Comprehensive Income (refer Note 1(X)). Borrowing costs are expensed as incurred and included in net financing costs, except to the extent they are capitalised in relation to the construction of a qualifying asset.

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

H. 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 authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense of an item.

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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

I. Income tax

Income tax on the profit or loss comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income 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 balance 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 balance 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 an Australian 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 Interpretation 1052 *Tax Consolidation Accounting*.

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

Nature of tax funding 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 relevant financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

J. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company for the reporting period; by the weighted average number of ordinary shares of the Company. Diluted earnings per share is determined by adjusting the profit or loss attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares which comprise performance rights granted to employees.

K. Receivables

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

L. 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 inventories also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Manufacturing activities

The costs of manufacturing inventories and work in progress are assigned on a first-in, first-out basis. Costs arising from exceptional wastage are expensed as incurred.

Net realisable value

Net realisable value is 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.

M. 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.

N. Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (refer Note 1(P)). 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 and 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 Statement of Comprehensive Income 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
- owned and leased plant and equipment: 3 - 10 years

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

Borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 July 2009, the Consolidated Entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Sale of property, plant and equipment

The profit or loss on disposal of property, plant and equipment is included in other income or other expenses of the Consolidated Entity and is brought to account at the date control of the asset passes to the buyer.

The profit 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.

O. Intangible assets

Goodwill

Goodwill arises on the acquisition of businesses. Goodwill represents the excess of the cost of the acquisition over the Consolidated Entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is measured at cost less accumulated impairment losses.

Brand names

Brand names are considered indefinite life assets, as they are not currently associated with products that are likely to become commercially or technically obsolete. Brand names 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 administrative expenses in the Statement of Comprehensive Income on a straight line basis over the estimated useful life of the software.

Other intangible assets

Other intangible assets include licences, customer contracts and other customer related 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 administrative expenses in the Statement of Comprehensive Income 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
- software: 5 - 10 years

P. Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Consolidated Entity on terms that the Consolidated Entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Consolidated Entity considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Consolidated Entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in administrative expenses in the Statement of Comprehensive Income and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

Non-financial assets

The carrying amounts of the Consolidated Entity's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets ('CGU'). The recoverable amount of an asset or CGU is the greater of its value in use, and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. The pre-tax discount rate is based on the Company's weighted average cost of capital which is determined with regard to various market indices. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in other expenses in the Statement of Comprehensive Income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale when they meet the criteria set out in AASB 5, including completion of the sale within 12 months. Immediately before classification as held for sale, the assets, or components of disposal groups, are remeasured in accordance with the Consolidated Entity's accounting policies. Thereafter, generally the assets, or disposal groups, are measured at the lower of their carrying amount, and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification of assets as held for sale and subsequent gains or losses on remeasurement are recognised in comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

Q. Payables

Trade and other payables are stated at their amortised cost.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

R. Cash, cash equivalents and interest-bearing loans and borrowings

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

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 Statement of Comprehensive Income over the period of the loans or borrowings on an effective interest rate basis.

S. 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 balance 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 balance 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 balance date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on employee turnover history and is discounted using the rates attaching to national government bonds at balance 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 personnel expense in the Statement of Comprehensive Income 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 balance 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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

For actuarial gains and losses that arise in calculating the Consolidated Entity's obligation in respect of a plan, to the extent 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 Statement of Comprehensive Income over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

T. Share based payments

The Company has introduced a number of share plans pursuant to which executive directors and other senior executives may acquire shares or 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. Under all current grants of performance rights, 50% is subject to a relative total shareholder return hurdle and 50% is subject to an absolute earnings per share measure of performance. Total shareholder return is a market based vesting condition included in the fair value of each performance right granted and expensed over the vesting period. Market based conditions are not adjusted to reflect for expected issue. The Earnings Per Share hurdle is a non market vesting condition expensed over the vesting period. As a result, the expense is adjusted to reflect the number of shares forfeited or expected to be forfeited due to the relevant thresholds not being achieved. The expense related to share based payments is accounted for in the entity which employs the relevant individual.

U. 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.

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.

Leased premises

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.

At the inception of a lease, a best estimate is made of the cost to return the leased premise to its original condition. This amount is included in the cost of the leasehold improvement asset and a corresponding provision is recognised.

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.

V. Segment reporting

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the Consolidated Entity's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Performance is measured based on segment earnings before interest, tax and significant items (EBIT before significant items) as included in the internal management reports that are reviewed by the Consolidated Entity's Chief Executive Officer. Segment EBIT before significant items is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within similar industries. Significant items are other expenses that are individually significant as disclosed in Note 4 to the Financial Statements.

Segment results that are reported to the Chief Executive Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total costs incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

It is the Consolidated Entity's policy that inter-segment pricing is determined on an arm's length basis.

W. 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 balance date are translated to AUD at the foreign exchange rate ruling at that date. 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 AUD at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange gains and losses arising on translation are recognised in the Statement of Comprehensive Income on a net basis.

Translation of controlled foreign operations

The assets and liabilities of controlled foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to AUD at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations are translated to AUD 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 Statement of Comprehensive Income upon disposal of investments. In respect of all foreign operations, any differences are presented as a separate component of equity.

X. Derivative financial instruments

The Consolidated Entity uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange 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 Statement of Comprehensive Income. 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 date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts and options is their quoted market price at the balance date.

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, 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 Statement of Comprehensive Income in the same period or periods during which the asset acquired or liability assumed affects the Statement of Comprehensive Income (ie when interest income or expense is recognised).

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

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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

Hedges of net investment in foreign operations

The portions of the gains or losses on instruments used to hedge the 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 Statement of Comprehensive Income.

Y. 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 Plan. Under AASBs, the Trust qualifies as an equity compensation plan special purpose entity and its results are included in those for the Consolidated Entity.

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

Z. Accounting estimates and judgements

The preparation of these Financial Statements requires the making of estimates and judgements 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 including reasonable expectations of future events. 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:

Recoverability of goodwill, other intangible assets and property, plant and equipment

Management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU. The recoverable amount of those assets, or CGUs, is measured as the higher of their fair value less costs to sell, and value in use. The fair value less costs to sell is determined with the assistance of management analysis and external valuation input, using a combination of internal and external sources of information that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates. The determination of value in use requires the estimation and discounting of future cash flows. The estimation of the cash flows considers information available at balance date which may result in cash flows deviating from estimated cash flows. Estimated future earnings and cash flows are sensitive to key assumptions and may vary materially due to differences in, amongst other things, actual market growth, distribution, pricing, trading terms, volumes, product costs, foreign exchange currency movements, freight, distribution and other costs of doing business. Subsequent changes to the CGU allocation or to the timing and quantum of cash flows may also impact the carrying value of the respective assets.

Recoverability of current assets

In the course of normal trading activities, management uses its judgement in establishing the recoverability of various elements of working capital – principally trade and other receivables. Allowances are established for bad or doubtful receivables. Actual expenses in future periods may be different from the allowances established and any such differences would affect future earnings of the Consolidated Entity.

Net realisable value of inventories

Management uses its judgement in establishing the net realisable value of inventories. Allowances are established for obsolete or slow moving inventories taking into consideration the ageing profile of the inventory, the nature of the inventory, discontinued lines, sell through history, margins achieved and forecast sales. Actual expenses in future periods may be different from the allowances established and any such differences would affect future earnings of the Consolidated Entity.

Provisions and contingencies

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Restructuring and redundancy provisions are estimated based on activities and employees that are likely to be affected. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Litigation and administrative proceedings are evaluated on a case by case basis considering the available information, including that from legal counsel, to assess potential outcomes. Where it is considered probable that a future obligation will result in an outflow of resources, a provision is recorded in the amount of the present value of the expected cash outflows if these are deemed to be reliably measurable.

Make good provisions for leased premises are estimated at the inception of the lease. A best estimate is made of the cost to return the leased premise to its original condition, taking into consideration the nature and size of the premise. Actual expenses in future periods may be different from the provisions established and any differences would affect future earnings of the Consolidated Entity.

Where the likelihood of an outflow of resources is determined to be not probable, disclosure is made for the contingent liability. If the likelihood of an outflow of resources is remote, then no disclosure is made.

Measurement of assets held for sale

The Consolidated Entity measures a non-current asset (or disposal group) classified as held for sale at the lower of carrying amount and fair value less costs to sell. The fair value of a disposal group may be determined with the assistance of external valuation advice using a combination of internal and external sources of information that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Measurement of defined benefit superannuation obligations

The defined benefit superannuation obligations are assessed in accordance with the advice of independent qualified actuaries but require the exercise of significant judgement in relation to assumptions for future salary and superannuation increases, long term price inflation and investment returns. While management believes the assumptions used are appropriate, a change in the assumptions used may impact the earnings and equity of the Consolidated Entity.

Valuation of derivative financial instruments

The Consolidated Entity measures derivative financial instruments at fair value on initial recognition and subsequently at balance date. The fair value of forward exchange contracts is based on quoted market prices and in the case of interest rate swaps, the fair values are based on estimated amounts that the Consolidated Entity would receive or pay to terminate the swap at balance date. While management believes the assumptions used in the estimates are appropriate, a change in the assumptions used may impact the fair value calculations.

Measurement of share based payments

The Consolidated Entity recognises an expense for all share based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of the equity instruments is calculated using a valuation technique that simulates the Monte Carlo model. While management believes the assumptions used in the estimates are appropriate, a change in the assumptions used may impact the fair value calculations.

Taxation

The Consolidated Entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the consolidated provision for income taxes. The Consolidated Entity recognises liabilities for tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the relevant tax legislation associated with their recoupment.

Assumptions are also made about the application of tax legislation covering income and other indirect taxes. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities recorded on the Statement of Financial Position or the availability of franking credits. In these circumstances, the carrying amount of deferred tax assets and liabilities may change, resulting in an impact on the earnings of the Consolidated Entity.

AA. Parent entity financial information

The financial information for the parent entity disclosed in Note 31 has been prepared on the same basis as the consolidated Financial Statements.

NOTE 2 – REVENUE AND OTHER INCOME

		CONSOLIDATED	
	NOTE	2012 $'000	2011 $'000
Sales revenue		**1,322,670**	1,614,598
Other income			
Royalties		**1,913**	2,344
Sundry income		**3,663**	5,098
Total other income		**5,576**	7,442
Total revenue and other income		**1,328,246**	1,622,040

NOTE 3 – EXPENSES

	NOTE	CONSOLIDATED 2012 $'000	2011 $'000
Depreciation of:			
Freehold buildings and leasehold improvements	13	**2,151**	3,127
Plant and equipment	13	**11,812**	12,315
		13,963	15,442
Amortisation of:			
Software	14	**983**	1,828
Other intangible assets	14	**261**	3,493
Leased plant and equipment	13	**-**	266
		1,244	5,587
Total depreciation and amortisation		**15,207**	21,029
Net financing costs:			
Interest income		**(5,227)**	(5,731)
Interest on bank loans and overdrafts		**31,280**	41,363
		26,053	35,632
Personnel expenses:			
Wages, salaries and employee benefits		**267,573**	338,065
Contributions to defined contribution superannuation plans		**18,351**	21,822
Curtailment and settlement loss		**747**	1,134
Defined benefit superannuation expense		**864**	1,112
Share based payments – equity settled		**(380)**	1,032
		287,155	363,165

NOTE 4 – OTHER EXPENSES

Other expenses and gains in the Statement of Comprehensive Income are comprised of the following individually significant items:

		CONSOLIDATED					
		2012			2011		
	NOTE	GROSS $'000	TAX $'000	NET $'000	GROSS $'000	TAX $'000	NET $'000
Asset impairment							
Impairment of goodwill, brand names and other intangibles	14	**502,709**	**-**	**502,709**	214,700	2,663	212,037
Other asset impairments		**555**	**167**	**388**	6,019	2,604	3,415
		503,264	**167**	**503,097**	220,719	5,267	215,452
Other (gains)/losses							
Loss on sale of businesses and other assets[1]	16	**2,760**	**913**	**1,847**	2,269	309	1,960
Gain on disposal of properties	16	**(3,490)**	**-**	**(3,490)**	-	-	-
Restructuring expenses							
Redundancies, decommissioning and other costs	19	**31,394**	**9,418**	**21,976**	25,479	7,644	17,835
		533,928	**10,498**	**523,430**	248,467	13,220	235,247

1 Balance includes $2.3m loss on sale of Bikes (refer Note 16)

Impairment of goodwill, brand names and other intangibles relates to the Underwear CGU recognised in the first half of the year and the Homewares and Workwear CGUs recognised in the second half of the year ended 30 June 2012.

The restructuring expenses incurred relate to further operational restructuring and rationalisation announced before 30 June 2012. For further details, refer Note 19.

Other asset impairments relate to write downs of various assets as a result of the consolidation of distribution centres and other restructuring activities.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

NOTE 5 – AUDITORS' REMUNERATION

	NOTE	CONSOLIDATED 2012 $	2011 $
Audit services			
Auditors of the Company KPMG Australia			
Audit and review of financial statements		**973,800**	782,400
Overseas KPMG firms:			
Audit of financial statements		**134,200**	239,100
		1,108,000	1,021,500
Other services			
Auditors of the Company KPMG Australia			
Other assurance services[1]		**49,700**	42,600
Overseas KPMG firms:			
Taxation compliance services		**47,543**	34,096
Other assurance services[1]		**2,686**	13,048
		99,929	89,744

1 Other assurance services include agreed upon procedures performed on bank covenant certification provided to the Consolidated Entity's banking syndicate and monitoring of the whistleblower hotline

It is the Company's policy not to engage the Company's auditor to provide non-audit services, unless the provision of those services will not prejudice the auditor's independence. Approval to provide these services must be obtained in accordance with the Audit, Business Risk and Compliance Committee's policy on non-audit services.

NOTE 6 – INCOME TAX EXPENSE/(BENEFIT)

	NOTE	CONSOLIDATED 2012 $'000	2011 $'000
Current income tax expense/(benefit)			
Current year		**23,814**	27,146
Over provided in prior year		**(1,750)**	(1,622)
Deferred income tax expense/(benefit)			
Origination and reversal of temporary differences		**(2,134)**	8,075
Total income tax expense/(benefit) in the Statement of Comprehensive Income		**19,930**	33,599
Reconciliation between income tax expense/(benefit) and profit/(loss) before income tax expense/(benefit)			
Profit /(loss) before income tax expense/(benefit)		**(430,917)**	(97,886)
Income tax using Australian corporation tax rate of 30%		**(129,275)**	(29,366)
Increase/(decrease) in income tax expense due to:			
Share based payments		**(114)**	310
Non-deductible impairment on goodwill and other intangibles		**150,813**	61,747
Losses made in foreign jurisdictions		**1,021**	1,726
Property disposals		**(1,050)**	-
Sundry items (including effect of tax rates in foreign jurisdictions)		**285**	804
Over provided in prior year		**(1,750)**	(1,622)
Total income tax expense/(benefit) on profit/(loss) before income tax expense/(benefit)		**19,930**	33,599
Deferred tax recognised directly in equity			
Relating to derivative financial instruments		**237**	(5,403)

Current income tax liability

The current tax liability for the Consolidated Entity of $18.6 million (2011: $26.9 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.

NOTE 7 – EARNINGS/(LOSS) PER SHARE

	NOTE	2012 $'000	2011 $'000
Earnings reconciliation			
Profit/(loss)		**(450,847)**	(131,485)
Less/(add) non-controlling interest		**197**	(410)
Basic and diluted earnings		**(450,650)**	(131,895)

	NOTE	2012	2011
Weighted average number of shares used as the denominator			
Number for basic earnings per share:			
Ordinary shares at 1 July	20	**930,440,168**	929,544,088
Effect of shares bought back/allocated[1]		**(13,090,460)**	965,822
Weighted average ordinary shares at 30 June		**917,349,708**	930,509,910
Number for diluted earnings per share:			
Weighted average number of ordinary shares (basic)		**917,349,708**	930,509,910
Effect of performance rights on issue[2]		**-**	-
Weighted average potential ordinary shares at 30 June		**917,349,708**	930,509,910

1 The change in weighted average number of ordinary shares in 2012 was mainly attributable to the movements associated with the on market buy back program whereby the Company repurchased 18,470,553 shares over the period from 7 September 2011 to 15 November 2011

2 The effect of performance rights on issue during the current and prior financial years have been excluded from the calculation as their effect would have been anti-dilutive

NOTE 8 – SEGMENT REPORTING

On 24 June 2011, management announced that it would combine the Homewares and Footwear, Outerwear and Sport segments into a single operating group. This change was effective 1 July 2011 and as a result Homewares, Footwear & Outerwear now form one reportable segment. The corresponding items of segment information for the comparative period to 30 June 2011 have been restated to allow meaningful comparison.

The Consolidated Entity has three reportable segments, as described below. The segments offer different products and are managed separately. For each segment, the Consolidated Entity's Chief Executive Officer ('CEO') reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Consolidated Entity's reportable segments:

Underwear	Marketer, distributor, importer, manufacturer, wholesaler and retailer of underwear, intimate apparel, socks, hosiery and Bonds outerwear
Workwear	Marketer, distributor, importer, manufacturer, wholesaler and retailer of industrial, corporate imagewear and other workwear
Homewares, Footwear & Outerwear	Marketer, distributor, importer, manufacturer, wholesaler and retailer of bed linen, pillows, accessories and carpet underlay; women's, men's and children's footwear; casual outerwear; and sporting outerwear and equipment

As of 1 July 2011, the segment information attributable to clearance stores is included in the Underwear segment. Previously, this was included in 'Other unallocated Operations' which form part of the reconciliations over page. Other unallocated Operations now primarily include unallocated corporate expenses. The corresponding items of segment information for the comparative period to 30 June 2011 has been restated to allow meaningful comparison.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest, tax and significant items (EBIT before significant items) as included in the internal management reports that are reviewed by the Consolidated Entity's Chief Executive Officer. Segment EBIT before significant items is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

During the year ended 30 June 2012, the measure of profit or loss presented to and used by the CEO in assessing segment performance (EBITA before significant items) was changed to include amortisation of other intangibles. The amortisation of other intangibles is no longer relevant in assessing segment performance as the amounts are insignificant.

The accounting policies of the reportable segments are the same as described in Note 1.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

	UNDERWEAR $'000	WORKWEAR $'000	HOMEWARES, FOOTWEAR & OUTERWEAR[1,2] $'000	TOTAL $'000
2012				
Revenue				
External sales	**432,483**	**388,705**	**501,482**	**1,322,670**
Inter-segment sales	**281**	**189**	**565**	**1,035**
Total segment sales	**432,764**	**388,894**	**502,047**	**1,323,705**
Other income	**276**	**2,407**	**1,945**	**4,628**
Total segment revenue	**433,040**	**391,301**	**503,992**	**1,328,333**
Result				
EBIT before significant items	**76,003**	**38,636**	**26,209**	**140,848**
Impairment of goodwill, brand names and other intangibles	**(388,709)**	**(51,000)**	**(63,000)**	**(502,709)**
Other significant items	**(17,606)**	**(4,548)**	**(5,472)**	**(27,626)**
EBIT after significant items	**(330,312)**	**(16,912)**	**(42,263)**	**(389,487)**
Depreciation and amortisation	**2,873**	**2,205**	**7,702**	**12,780**
Segment assets	**756,225**	**427,923**	**268,360**	**1,452,508**
Segment liabilities	**53,219**	**73,956**	**53,202**	**180,377**
Capital expenditure	**12,590**	**1,583**	**5,891**	**20,064**
2011				
Revenue				
External sales	513,365	396,817	703,970	1,614,152
Inter-segment sales	214	1,122	744	2,080
Total segment sales	513,579	397,939	704,714	1,616,232
Other income	939	1,436	3,675	6,050
Total segment revenue	514,518	399,375	708,389	1,622,282
Result				
EBIT before significant items	111,288	48,721	38,900	198,909
Impairment of goodwill, brand names and other intangibles	-	-	(214,700)	(214,700)
Other significant items	(1,583)	(3,650)	(12,337)	(17,570)
EBIT after significant items	109,705	45,071	(188,137)	(33,361)
Depreciation and amortisation	1,886	2,751	10,615	15,252
Segment assets	1,117,387	515,475	333,460	1,966,322
Segment liabilities	55,268	49,857	59,101	164,226
Capital expenditure	3,978	1,079	12,821	17,878

1 The results of the Sleepmaker and Dunlop Foams businesses for the period from 1 July 2010 to 31 March 2011 are included in the comparative result for the Homewares, Footwear & Outerwear segment. These businesses were divested on 31 March 2011

2 The results of the Bikes business for the period from 1 July 2010 to 30 June 2011 are included in the comparative results for the Homewares, Footwear & Outerwear segment. This business was divested on 31 August 2011 and therefore the current year results include the Bikes business results for the period from 1 July 2011 to 31 August 2011

Geographical segments

	2012 $'000	2011 $'000
Revenue		
Australia	**1,209,692**	1,491,605
Rest of world	**118,554**	130,435
	1,328,246	1,622,040
Total assets		
Australia	**1,201,088**	1,741,226
Rest of world	**55,568**	80,849
	1,256,656	1,822,075

Reconciliation of reportable segment revenue, profit or loss, assets and liabilities and significant items

	2012 $'000	2011 $'000
Revenue		
Total revenue for reportable segments	**1,328,333**	1,622,282
Other income	**948**	1,392
Elimination of inter-segment revenue	**(1,035)**	(1,634)
Consolidated revenue and other income	**1,328,246**	1,622,040
EBIT		
Total EBIT after significant items for reportable segments	**(389,487)**	(33,361)
Net interest expense	**(26,053)**	(35,632)
Unallocated amounts: corporate expenses	**(11,784)**	(12,696)
Unallocated significant items	**(3,593)**	(16,197)
Consolidated profit/(loss) before income tax expense/(benefit)	**(430,917)**	(97,886)
Total EBIT before significant items for reportable segments[1]	**140,848**	198,909
Unallocated amounts: corporate expenses	**(11,784)**	(12,696)
Consolidated EBIT before significant items[1]	**129,064**	186,213
Assets		
Total assets for reportable segments	**1,452,508**	1,966,322
Unallocated assets	**140,591**	164,898
Elimination of inter-segment assets	**(336,443)**	(309,145)
Consolidated total assets	**1,256,656**	1,822,075
Liabilities		
Total liabilities for reportable segments	**180,377**	164,226
Unallocated liabilities	**724,041**	782,095
Elimination of inter-segment liabilities	**(336,443)**	(309,145)
Consolidated total liabilities	**567,975**	637,176

1 Amortisation of other intangibles was previously excluded in the measure of profit or loss used by the CEO in assessing segment performance and deciding how to allocate resources. Amortisation of other intangibles which are now included in the measure of profit or loss amount to $0.3 million (2011: $3.5 million)

The Consolidated Entity supplies four major customers which in combination account for 35.9% of sales revenue (2011: 37.3%).

NOTE 9 – CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Cash on hand and at bank	**54,685**	82,619
Bank short term deposits	**100,736**	72,860
	155,421	155,479

NOTE 10 – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current		
Trade debtors[1]	**181,959**	231,173
Less allowance for doubtful trade debtors	**(2,589)**	(3,835)
Less allowance for rebates, trade allowances and settlement discounts	**(39,256)**	(48,243)
	140,114	179,095
Other debtors[2]	**12,174**	13,814
	152,288	192,909
Non-current		
Other debtors	**51**	28

1 Includes $171.3 million gross which is part of the securitisation facility (2011: $212.3 million (refer Note 18 for further disclosures))
2 Includes $5.2 million in relation to the fair value of foreign currency contracts (refer Note 25). In 2011, the fair value of foreign currency contracts was in a net credit position and therefore has been included as other creditors and accruals (refer Note 17)

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

NOTE 11 – INVENTORIES

	CONSOLIDATED	
	2012 $'000	2011 $'000
Raw materials	**25,210**	19,096
Work in progress	**1,982**	3,199
Finished goods	**217,071**	240,184
	244,263	262,479

Inventories recognised as expense during the year ended 30 June 2012 amounted to $709.6 million (2011: $861.5 million).

NOTE 12 – OTHER ASSETS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Prepayments	**6,807**	9,996

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2012 $'000	2011 $'000
Freehold land		
At cost	**16,499**	20,405
Accumulated impairment losses	**-**	-
	16,499	20,405
Freehold buildings		
At cost	**10,852**	12,050
Accumulated depreciation and impairment losses	**(9,468)**	(9,642)
	1,384	2,408
Leasehold improvements		
At cost	**13,060**	15,280
Accumulated depreciation and impairment losses	**(11,614)**	(11,164)
	1,446	4,116
Plant and equipment		
At cost	**105,285**	86,248
Accumulated depreciation and impairment losses	**(47,174)**	(42,178)
	58,111	44,070
Leased plant and equipment		
At capitalised cost	**-**	1,775
Accumulated amortisation and impairment losses	**-**	(1,752)
	-	23
Capital works in progress		
At cost	**4,908**	9,342
Accumulated impairment losses	**-**	-
	4,908	9,342
Total property, plant and equipment	**82,348**	80,364

Reconciliation

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

	CONSOLIDATED						
2012	FREEHOLD LAND $'000	FREEHOLD BUILDINGS $'000	LEASEHOLD IMPROVE-MENTS $'000	PLANT AND EQUIPMENT $'000	LEASED PLANT AND EQUIPMENT $'000	CAPITAL WORKS IN PROGRESS $'000	TOTAL $'000
Carrying amount at the beginning of the year	**20,405**	**2,408**	**4,116**	**44,070**	**23**	**9,342**	**80,364**
Additions/acquisitions	**-**	**-**	**609**	**3,679**	**-**	**20,481**	**24,769**
Transfers	**-**	**104**	**(993)**	**25,767**	**(23)**	**(24,855)**	**-**
Disposals	**(3,034)**	**-**	**(348)**	**(4,155)**	**-**	**(60)**	**(7,597)**
Depreciation and amortisation	**-**	**(8)**	**(2,143)**	**(11,812)**	**-**	**-**	**(13,963)**
Transfers to/(from) assets held for sale	**(883)**	**(1,136)**	**210**	**529**	**-**	**-**	**(1,280)**
Effects of movements in foreign exchange	**11**	**16**	**(5)**	**33**	**-**	**-**	**55**
Carrying amount at the end of the year	**16,499**	**1,384**	**1,446**	**58,111**	**-**	**4,908**	**82,348**
2011							
Carrying amount at the beginning of the year	27,704	12,927	6,812	64,322	709	4,569	117,043
Additions/acquisitions	-	-	412	2,474	22	20,472	23,380
Transfers	-	(84)	522	15,052	(39)	(15,451)	-
Disposals	(1,728)	(1,317)	-	(3,042)	(260)	-	(6,347)
Depreciation and amortisation	-	(259)	(2,868)	(12,315)	(266)	-	(15,708)
Reversal of impairment losses	-	2,700	-	-	-	-	2,700
Transfers to/(from) assets held for sale	(2,800)	(5,985)	(68)	(753)	14	(12)	(9,604)
Disposals of businesses	(2,621)	(5,370)	(719)	(21,374)	(77)	(246)	(30,407)
Effects of movements in foreign exchange	(150)	(204)	25	(294)	(80)	10	(693)
Carrying amount at the end of the year	20,405	2,408	4,116	44,070	23	9,342	80,364

NOTE 14 – INTANGIBLE ASSETS

	CONSOLIDATED				
2012	GOODWILL $'000	BRAND NAMES $'000	SOFTWARE $'000	OTHER INTANGIBLE ASSETS[1] $'000	TOTAL $'000
Balance at 1 July 2011	**670,937**	**403,365**	**4,997**	**1,699**	**1,080,998**
Additions/acquisitions	**4,473**	**-**	**38**	**-**	**4,511**
Impairment[2]	**(503,816)**	**-**	**-**	**-**	**(503,816)**
Amortisation	**-**	**-**	**(983)**	**(261)**	**(1,244)**
Effects of movements in foreign exchange	**102**	**-**	**2**	**-**	**104**
Balance at 30 June 2012	**171,696**	**403,365**	**4,054**	**1,438**	**580,553**
2011					
Balance at 1 July 2010	854,644	432,155	9,235	11,521	1,307,555
Additions/acquisitions	1,352	-	-	2,548	3,900
Disposals	(7,448)	-	-	-	(7,448)
Impairment	(177,033)	(28,790)	(2,411)	(8,877)	(217,111)
Amortisation	-	-	(1,828)	(3,493)	(5,321)
Effects of movement in foreign exchange	(578)	-	1	-	(577)
Balance at 30 June 2011	670,937	403,365	4,997	1,699	1,080,998

1 Other intangible assets include licences, customer contracts and other customer related intangible assets
2 Includes $1.1m of goodwill impairment relating to the Restonic group

Impairment tests for CGUs containing goodwill and indefinite life intangible assets

The Consolidated Entity has four CGUs and the carrying amounts of goodwill and indefinite life intangible assets identified in each CGU are as follows:

	CONSOLIDATED			
	GOODWILL		BRAND NAMES	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Underwear	**-**	386,739	**273,041**	273,041
Workwear	**128,791**	177,763	**99,980**	99,980
Homewares	**42,905**	106,435	**30,344**	30,344
Footwear, Outerwear and Sport	**-**	-	**-**	-
	171,696	670,937	**403,365**	403,365

Cash generating units

During the year, the integration of Bonds with Omni Apparel resulted in the formation of the Underwear CGU for the purposes of impairment testing. These were considered two separate CGUs in the previous year as the businesses were managed separately. Homewares was also combined with Footwear, Outerwear and Sport (FOS) which resulted in the formation of one operating segment (Homewares, Footwear and Outerwear or HFO). However for the purposes of impairment testing, the carrying values are monitored separately for these businesses and therefore Homewares and FOS remain as two separate independent CGUs.

Impairments during the year

During the half year, the Consolidated Entity recognised impairment losses with respect to the Underwear CGU. The impairment resulted from a decline in financial performance over the first half and lower growth expectations. This change has been driven by various factors including structural change in the market (particularly the loss of a key customer) and challenging retail conditions. Growth expectations are lower due to uncertainties surrounding the extent and timing of recovery in retail trading. The Consolidated Entity impaired the carrying amount of the goodwill by $388.7 million at the half year and did not recognise any further impairment for the Underwear CGU at 30 June 2012.

At 30 June 2012, the Consolidated Entity recognised further impairment losses of $63 million for the Homewares CGU and $51 million for the Workwear CGU.

The impairment in Homewares was due to structural market changes impacting sales and/or margins in the Tontine and Dunlop Flooring businesses. These changes have impacted current performance and resulted in lower growth expectations.

The impairment in Workwear was due to a number of factors impacting sales through lower business confidence, a slowdown in the resource sector and reduced government spending, combined with lower margins due to higher input costs and an increased allocation of shared costs. These factors have impacted current performance and growth expectations have been impacted by uncertainties surrounding the extent and timing of recovery in market conditions.

Impairments of goodwill during the year are recorded as other expenses in the Statement of Comprehensive Income (note 4).

Valuation techniques

The recoverable amounts of the CGUs were determined using the greater of value in use and fair value less costs to sell. The fair value less costs to sell has been determined with the assistance of external valuation input using a combination of internal and external sources of information and analysis. The information used and assumptions made in the calculation are reflective of past experience and expected future performance. This approach is considered appropriate for each of the CGUs while the Company continues to transform its business and manage market challenges and uncertainties. For the Underwear, Workwear and Homewares CGUs, the recoverable amounts were based on a capitalisation of maintainable earnings before interest and tax approach as representative of the fair value less costs to sell.

Reasonable possible change

Following the impairments of the Underwear CGU at the half year and the Homewares and Workwear CGUs at 30 June 2012, an immaterial amount or no headroom exists between the assessed recoverable amount and the carrying values of these CGUs. Accordingly, any adverse percentage change in the maintainable earnings or capitalisation multiple applied to each CGU to assess its recoverable amount would have a corresponding adverse percentage change on the carrying value.

NOTE 15 – RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	CONSOLIDATED					
	ASSETS		LIABILITIES		NET	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trade and other receivables	**876**	1,572	**-**	-	**876**	1,572
Inventories	**2,038**	-	**-**	(7,170)	**2,038**	(7,170)
Property, plant and equipment	**2,020**	605	**-**	-	**2,020**	605
Provisions for employee benefits	**10,013**	14,743	**-**	-	**10,013**	14,743
Other provisions	**12,951**	11,449	**-**	-	**12,951**	11,449
Share issue costs[1]	**479**	957	**-**	-	**479**	957
Derivative financial instruments[2]	**-**	5,403	**(237)**	-	**(237)**	5,403
Other items	**-**	-	**(462)**	(2,015)	**(462)**	(2,015)
Tax assets/(liabilities)	**28,377**	34,729	**(699)**	(9,185)	**27,678**	25,544
Set off of tax	**(699)**	(9,185)	**699**	9,185	**-**	-
Net tax assets	**27,678**	25,544	**-**	-	**27,678**	25,544

1 Included in equity
2 Includes derivative financial instruments recognised directly in equity

NOTE 16 – ASSETS AND LIABILITIES HELD FOR SALE AND DISPOSED DURING THE PERIOD

	CONSOLIDATED	
	30 JUNE 2012 $'000	30 JUNE 2011 $'000
Assets held for sale		
Cash and cash equivalents	**1,922**	-
Trade and other receivables	**2,898**	162
Inventories	**991**	4,512
Property, plant and equipment	**1,280**	9,604
Deferred tax assets	**156**	-
Total assets held for sale	**7,247**	14,278
Liabilities directly associated with assets classified as held for sale		
Provisions	**2,665**	355
Total liabilities associated with assets classified as held for sale	**2,665**	355

Assets held for sale represent the Consolidated Entity's 50% share of the Malaysian bedding business ('Restonic group') and the assets owned by the non-controlling interest. The Company is in the process of finalising a sale agreement with another party who holds a non-controlling interest in the Restonic group.

The revenue and results of this business are included in the Homewares, Footwear & Outerwear reportable segment presented in Note 8.

Business disposals

The divestment of the Bikes business was completed on 31 August 2011 and the related assets and liabilities of the disposal group which were classified as held for sale at 30 June 2011 were derecognised from the Statement of Financial Position. The total net loss on disposal recognised on completion of the sale was $5.0 million. The Consolidated Entity previously recognised $2.7 million of one off losses in other expenses at 30 June 2011. A further one off loss of $2.3 million was recognised in other expenses during the year ended 30 June 2012.

The revenue and results of the Bikes business previously formed part of the Homewares, Footwear and Outerwear reportable segment presented in Note 8.

Property disposals

The sale of the Coolaroo property was completed on 28 June 2012. The net gain recognised on completion of the sale was $1.8 million.

The sale of the Kingsgrove property was completed on 10 April 2012. The net gain recognised on completion of the sale was $1.7 million.

The total gain on property disposals for the year amounts to $3.5 million (refer Note 4 - Other expenses).

NOTE 17 – TRADE AND OTHER PAYABLES

	CONSOLIDATED 2012 $'000	2011 $'000
Current		
Trade creditors	**119,648**	115,787
Other creditors and accruals[1]	**10,562**	28,683
	130,210	144,470
Non-current		
Other creditors[1]	**5,218**	4,250

1 In 2012 other creditors and accruals includes the fair value of interest rate swaps while the fair value of foreign currency contracts are in a net asset position and have therefore been included in other debtors (refer Note 10). The 2011 other creditors and accruals include the fair value of foreign currency contracts and interest rate swaps (refer Note 25)

NOTE 18 – INTEREST-BEARING LOANS AND BORROWINGS

	CONSOLIDATED 2012 $'000	2011 $'000
Current		
Lease liabilities	**-**	177
Non-current		
Bank loans	**344,541**	382,503

Finance lease liabilities

Finance lease liabilities are payable as follows:

	CONSOLIDATED					
	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
	2012 $'000	2012 $'000	2012 $'000	2011 $'000	2011 $'000	2011 $'000
Within one year	**-**	**-**	**-**	180	3	177
One year or later and no later than five years	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	180	3	177

The Consolidated Entity had no finance leases as at 30 June 2012.

Bank loans

All bank loans are denominated in AUD. The bank loans are secured with a fixed and floating charge over the assets of the Consolidated Entity.

The Consolidated Entity is required to comply with various financial covenants which it has met.

The committed tranches and maturities under the banking facility are detailed in Note 25.

Securitisation facility

During the year, the Company reduced the size of its securitisation facility to $175 million (2011: $200 million). The facility which was due to mature on 24 May 2013 was also extended to a new maturity date of 31 July 2015. At 30 June 2012, this facility was drawn to $96.5 million (2011: $110.5 million).

The trade debtors which have been securitised represent the Company's Australasian trade debtors and have been presented within the Consolidated Entity's trade debtors (refer Note 10). Debtors under this arrangement are securitised to a third party financier in exchange for the advance of an agreed amount that does not exceed the value of the receivables as determined under the securitisation agreement. The Company retains the obligation to collect the outstanding receivables. The facility includes a number of undertakings that are typical of a facility of this type including a requirement to not dispose of any debtors which have been securitised under this arrangement. The Company is also subject to certain financial covenant undertakings which are the same as those contained in the Company's syndicated debt facilities. All financial undertakings were complied with at balance date.

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates.

NOTE 19 – PROVISIONS

	NOTE	CONSOLIDATED 2012 $'000	2011 $'000
Current			
Employee benefits	29	**32,779**	48,123
Restructuring		**13,585**	11,605
Other		**8,445**	9,050
		54,809	68,778
Non-current			
Employee benefits	29	**3,319**	3,889
Other		**8,651**	5,831
		11,970	9,720

Reconciliation

A reconciliation of the carrying amounts of each class of provision, except for employee benefits (refer Note 29), is set out below:

	NOTE	RESTRUCTURING 2012 $'000	RESTRUCTURING 2011 $'000	OTHER PROVISIONS 2012 $'000	OTHER PROVISIONS 2011 $'000
Carrying amount at the beginning of the year		**11,605**	23,330	**14,881**	8,327
Provisions recognised		**31,394**	25,479	**5,933**	7,152
Provisions utilised		**(29,414)**	(37,204)	**(3,718)**	(598)
Carrying amount at the end of the year		**13,585**	11,605	**17,096**	14,881

Restructuring

The Consolidated Entity continues to review and rationalise the Company's brand portfolio and focus on reducing costs of doing business. The provision relates to certain restructuring costs and employee termination benefits associated with the operational restructure. Expenses are recognised in other expenses (refer Note 4) in the Statement of Comprehensive Income. The Consolidated Entity expects to settle the provision over the next year.

Other

The provision for other relates to straight-lining of leases, make good provisions on leased premises and onerous lease charges, supplier rebates and claims and other administrative proceedings.

NOTE 20 – SHARE CAPITAL

	CONSOLIDATED 2012 $'000	2011 $'000
Share capital		
Publicly held		
930,440,168 fully paid ordinary shares at the beginning of the year (2011: 929,544,088)	**1,469,094**	1,469,094
971,080 fully paid ordinary shares transferred from treasury shares (2011: 1,328,080)	**-**	-
18,470,553 fully paid ordinary shares bought back under on market buy back program (2011: 0)	**(12,337)**	-
25,000 fully paid ordinary shares bought to allocate to employees (2011: 432,000)	**-**	-
Share capital reduction	**(647,757)**	-
912,915,695 fully paid ordinary shares at the end of the year (2011: 930,440,168)	**809,000**	1,469,094
Treasury shares		
946,080 fully paid treasury shares at the beginning of the year (2011: 1,842,160)	**-**	-
971,080 fully paid treasury transferred to publicly held (2011: 1,328,080)	**-**	-
25,000 fully paid treasury shares bought to allocate to employees (2011: 432,000)	**-**	-
No fully paid treasury shares at the end of the year (2011: 946,080)	**-**	-
	809,000	1,469,094

Ordinary shares

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.

Treasury shares

Treasury shares represent the ordinary shares held by the trustee of the Consolidated Entity's equity compensation plan. As at 30 June 2012, the Trust did not hold any of the Company's shares (2011: 946,080).

NOTE 21 – RESERVES

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

Equity compensation reserve

The equity compensation reserve arises on the grant of performance rights to executives under the Performance Rights Plan and other compensation granted in the form of equity. Amounts are transferred out of the reserve and into issued capital when the rights are exercised. Further information about equity compensation payments to employees is given in Note 29.

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 Consolidated Entity'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(W)).

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.

NOTE 22 – RETAINED PROFITS/(ACCUMULATED LOSSES)

	CONSOLIDATED	
	2012 $'000	2011 $'000
Balance at the beginning of the year	**(247,149)**	(88,325)
Net profit/(loss) attributable to equity holders of the Company	**(450,650)**	(131,895)
Dividends recognised	**(47,018)**	(28,864)
On market purchase of performance rights	**-**	1,935
Share capital reduction	**647,757**	-
Balance at the end of the year	**(97,060)**	(247,149)

NOTE 23 – DIVIDENDS

Dividends recognised in the current year by the Company are:

	CENTS PER SHARE	TOTAL AMOUNT $ MILLIONS	FRANKED/ UNFRANKED	DATE OF PAYMENT
2012				
Interim 2012 ordinary	2.0	18.3	Franked	2 April 2012
Final 2011 ordinary	3.1	28.7	Franked	3 October 2011
2011				
Interim 2011 ordinary	3.1	28.9	Franked	1 April 2011

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

Subsequent events

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

	CENTS PER SHARE	TOTAL AMOUNT $ MILLIONS	FRANKED/ UNFRANKED	DATE OF PAYMENT
Final 2012 ordinary	2.5	22.8	Franked	1 October 2012

	COMPANY 2012 $'000	COMPANY 2011 $'000
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years	**61,009**	57,662

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

- 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 payment of the current tax liabilities
- franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the end of the year
- franking credits that the Company may be prevented from distributing in subsequent years

In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of $61.0 million (2011: $57.7 million) franking credits.

NOTE 24 – NON-CONTROLLING INTEREST

The non-controlling interest relates to a 50% interest in Restonic (M) Sdn Bhd. The Consolidated Entity is in the process of divesting its 50% interest in Restonic (M) Sdn Bhd (refer Note 16).

	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000
Non-controlling interest in controlled entities comprises:		
Interest in accumulated losses at the beginning of the year	**(1,232)**	(1,219)
Profit/(loss) attributable to non-controlling interest	**(197)**	410
Dividend paid to non-controlling interest	**(313)**	(423)
Interest in retained profits/(accumulated losses) at the end of the year	**(1,742)**	(1,232)
Interest in share capital	**4,293**	4,293
Interests in reserves	**(253)**	(287)
Total non-controlling interest	**2,298**	2,774

NOTE 25 – FINANCIAL INSTRUMENTS

Overview

The Consolidated Entity has exposure to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk

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

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Consolidated Entity defines capital as total equity attributable to equity holders of the Company in the Statement of Financial Position plus net debt. At balance date, total capital amounted to $875,503,000 (2011: $1,409,326,000).

Net debt is calculated as total interest-bearing loans and borrowings less cash and cash equivalents. In order to adjust the capital structure, the Consolidated Entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, acquire existing shares or increase/reduce debt.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

From time to time, the Consolidated Entity may purchase its own shares on market for distributions under the Consolidated Entity's Performance Rights Plan or Dividend Reinvestment Plan (when active) or for capital management purposes. Decisions are made on a case by case basis by the Board.

During the year, the Company repurchased 18,470,553 shares amounting to $12.3 million in accordance with the on market buy back program. The Company also reduced its share capital by $647.8 million in accordance with section 258F of the Corporations Act 2001.

At balance date the Consolidated Entity complied with all financial covenant undertakings as outlined in the financing arrangements. The Company has a process in place to monitor compliance at all relevant times.

Fair values of financial assets and liabilities

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

The table below analyses financial instruments carried at fair value, by valuation level, as determined in accordance with the relevant accounting standard. The different levels have been defined as follows:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There have been no transfers between levels during the current or prior year.

All financial asset and liabilities carried at fair value have been deemed to be level 2 within the fair value hierarchy. With respect to specific financial assets and liabilities, the following valuation methods have been used:

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows.

Derivatives

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

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Non-derivative financial liabilities

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

Fair value versus carrying amounts

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

		CONSOLIDATED			
		30 JUNE 2012		30 JUNE 2011	
	FAIR VALUE HIERARCHY LEVEL	CARRYING AMOUNT $'000	FAIR VALUE $'000	CARRYING AMOUNT $'000	FAIR VALUE $'000
Assets carried at amortised cost					
Cash and cash equivalents		**155,421**	**155,421**	155,479	155,479
Trade and other receivables		**147,149**	**147,149**	192,937	192,937
Assets carried at fair value					
Forward exchange contracts receivable	2	**5,190**	**5,190**	-	-
Liabilities carried at amortised cost					
Trade and other payables		**130,919**	**130,919**	130,993	130,993
Finance lease liabilities		**-**	**-**	177	177
Bank loans		**344,541**	**344,541**	382,503	382,503
Liabilities carried at fair value					
Interest rate swaps	2	**4,509**	**4,509**	1,329	1,329
Forward exchange contracts payable	2	**-**	**-**	16,398	16,398

Market risk

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

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

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

Interest rate risk

As prescribed by the Company's banking arrangements, the Company ensures that at least 35% of its exposure to changes in interest rates on senior debt is on a fixed rate basis. This is achieved by entering into interest rate swaps.

At the balance date, the interest rate profile of the Consolidated Entity's interest-bearing financial instruments was:

	2012 WEIGHTED AVERAGE INTEREST RATE PA	2011 WEIGHTED AVERAGE INTEREST RATE PA
Instruments with interest rate risk exposure		
Cash and cash equivalents	**4.0%**	4.2%
Finance lease liabilities	**-**	9.3%
Bank loans[1]	**6.7%**	7.5%

1 After incorporating the effect of interest rate swaps
Refer 'Liquidity risk' for maturity profile of the above financial liabilities

Sensitivity analysis

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

A decrease/(increase) of 100 basis points in interest rates at the reporting date would decrease/(increase) (loss)/profit before tax and decrease/(increase) equity by the amounts shown below for the Consolidated Entity. The analysis also assumes that all other variables, in particular foreign currency rates, remain constant and ignores management action. The analysis is performed on the same basis as at 30 June 2011.

The impact to profit/(loss) before tax reflects the additional interest that would have been expensed had the change in basis points occurred throughout the financial year. The impact to equity before tax reflects the change in basis points on the valuation of interest swaps at the reporting date on the portion of debt fixed through effective cash flow hedges. The analysis is based off interest rate movements considered reasonable at year end but is not a forecast or prediction.

	PROFIT/(LOSS) BEFORE TAX		EQUITY BEFORE TAX	
	100BP INCREASE $'000	100BP DECREASE $'000	100BP INCREASE $'000	100BP DECREASE $'000
30 June 2012	**(711)**	**711**	**2,074**	**(2,109)**
30 June 2011	(1,100)	1,100	3,070	(3,152)

Currency risk

The Consolidated Entity is exposed to currency risk on purchases that are denominated in a currency other than the respective functional currencies of entities within the Consolidated Entity, primarily the US dollar ('USD').

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

However, the Consolidated Entity hedges approximately 80% of its estimated foreign currency exposure in respect of forecast purchases up to 12 months forward by business. The Consolidated Entity uses forward exchange contracts and other derivatives to hedge its currency risk.

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

	2012			2011		
	WEIGHTED AVERAGE EXCHANGE RATE	AUD EQUIVALENT $'000	FAIR VALUE $'000	WEIGHTED AVERAGE EXCHANGE RATE	AUD EQUIVALENT $'000	FAIR VALUE $'000
Maturing within one year						
Buy US dollars	**1.0134**	**245,933**	**5,195**	0.99	276,172	(16,295)
Buy UK pounds	**0.6351**	**482**	**(5)**	0.6113	566	(40)
Buy Euros	**0.8082**	**66**	**-**	0.7468	345	(14)
Buy Japanese yen	**-**	**-**	**-**	84.60	234	(4)
Sell New Zealand dollars	**1.2362**	**1**	**-**	1.3135	2,772	(45)

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales are recognised in other debtors in Note 10 and other creditors and accruals in Note 17. The timing of their anticipated recognition as part of purchases and sales is:

	CONSOLIDATED NET GAINS/(LOSSES)	
	2012 $'000	2011 $'000
Within 6 months	**3,858**	(13,484)
6 – 12 months	**1,332**	(2,914)
1 – 2 years	**-**	-
2 – 5 years	**-**	-
More than 5 years	**-**	-

The Consolidated Entity's net exposure to the USD at balance date was as follows, based on notional amounts:

	2012 $'000	2011 $'000
Cash and cash equivalents	**8,526**	10,818
Trade debtors	**3,392**	3,099
Trade creditors	**(14,797)**	(20,704)
Forward exchange contracts	**5,195**	(16,295)
Net exposure	**2,316**	(23,082)

A 10% change in the value of the AUD against the USD at 30 June 2012 would have changed profit/(loss) before income tax and equity by the amounts shown below for the Consolidated Entity. The analysis is based off foreign currency exchange rate variances considered reasonable at year end but is not a forecast or prediction. This analysis assumes that all other variables, in particular interest rates, remain constant. Any foreign exchange exposures deemed to be translation risk exposures have been excluded from the analysis. The analysis is performed on the same basis as at 30 June 2011.

	PROFIT/(LOSS) BEFORE TAX 10% INCREASE $'000	PROFIT/(LOSS) BEFORE TAX 10% DECREASE $'000	EQUITY 10% INCREASE $'000	EQUITY 10% DECREASE $'000
30 June 2012	**422**	**(422)**	**(24,521)**	**24,521**
30 June 2011	31	(31)	(25,111)	25,111

Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Entity's receivables from customers. As at 30 June 2012, the Consolidated Entity does not hold any collateral (of financial or non-financial assets) that it is permitted to sell or repledge in the event of default.

Exposure to credit risk

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

Cash on deposit

Short term bank deposits are held with credible financial institutions.

Trade and other receivables

The Consolidated Entity supplies four major customers which in combination account for 35.9% of sales revenue (2011: 37.3%).

The Consolidated Entity's exposure to credit risk is influenced mainly by the creditworthiness of each customer. The demographics of the Consolidated Entity's customer base, including the default risk of the industry and country in which customers operate, have less of an influence on credit risk. The Consolidated Entity has established a credit policy under which each new customer of the Consolidated Entity is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered.

The Consolidated Entity's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from senior management.

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

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Consolidated Entity may have a secured claim.

The Consolidated Entity does not require collateral in respect of trade and other receivables.

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

Impairment losses

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

	GROSS 2012 $'000	IMPAIRMENT 2012 $'000	GROSS 2011 $'000	IMPAIRMENT 2011 $'000
Not past due date	**167,263**	**-**	205,679	-
Past due 0 - 30 days	**6,184**	**-**	10,209	-
Past due more than 30 days	**8,512**	**2,589**	15,285	3,835

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

	CARRYING AMOUNT	
	2012 $'000	2011 $'000
Balance at 1 July	**3,835**	5,739
Impairment loss recognised	**(1,148)**	(1,112)
Increase/(decrease) in allowance recognised in profit or loss	**(114)**	(694)
Effect of movements in foreign exchange	**16**	(98)
Balance at 30 June	**2,589**	3,835

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

Liquidity risk

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

The Consolidated Entity forecasts and monitors cash flow requirements. Typically, the Consolidated Entity ensures that it has sufficient available funds to meet expected operational expenses and the servicing of financial obligations when they become due and payable. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In doing so the Consolidated Entity maintains a level of unused overdraft and bank loan facilities, which amounted to $211.5 million as at 30 June 2012, and cash and cash equivalents of $155.4 million at 30 June 2012.

Financing facilities

	CONSOLIDATED 2012 $'000	2011 $'000
Secured bank overdraft facility, reviewed annually and payable at call:		
Amount used	**-**	-
Amount unused	**33,000**	38,000
	33,000	38,000
Secured bank loan and securitisation facilities with various maturity dates through to 2016 which may be extended by mutual agreement:		
Amount used	**346,500**	385,500
Amount unused	**178,500**	314,500
	525,000	700,000

The Consolidated Entity has a $350 million facility secured with a fixed and floating charge over the assets of the Consolidated Entity. The committed amounts and maturities are as follows:

- Tranche 1: revolving facility of $100 million maturing 31 January 2014 (2011: facility of $225 million)
- Tranche 2: term facility of $150 million maturing 31 January 2015 (2011: facility of $175 million)
- Tranche 3: term facility of $100 million maturing 31 January 2016 (2011: facility of $100 million)

The Consolidated Entity repaid $25 million of Tranche 2 during the year. The securitisation facility which was due on 24 May 2013 was reduced from $200 million to $175 million and is now maturing on 31 July 2015. Based on eligible receivables at 30 June 2012, $133 million of the $175 million securitisation facility is drawable.

The following are the contractual maturities of financial liabilities:

	CONSOLIDATED CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1-5 YEAR(S) $'000
2012			
Non-derivative financial liabilities			
Trade and other payables	**130,919**	**127,733**	**3,186**
Finance lease liabilities	**-**	**-**	**-**
Bank loans[1]	**344,541**	**-**	**344,541**
Derivative financial liabilities			
Interest rate swaps	**4,509**	**2,477**	**2,032**
Forward exchange contracts	**-**	**-**	**-**
2011			
Non-derivative financial liabilities			
Trade and other payables	130,993	126,743	4,250
Finance lease liabilities	177	177	-
Bank loans[1]	382,503	-	382,503
Derivative financial liabilities			
Interest rate swaps	1,329	-	1,329
Forward exchange contracts	16,398	16,398	-

1 Deferred borrowing costs of $2 million are included in the bank loans

NOTE 26 – OPERATING LEASES

	CONSOLIDATED 2012 $'000	2011 $'000
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the Financial Statements and payable:		
Within one year	**47,832**	43,585
One year or later and no later than five years	**115,831**	113,017
Later than five years	**32,863**	40,240
	196,526	196,842

The Consolidated Entity leases property under non-cancellable operating leases. 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 typically based on either movements in the Consumer Price Index or sales 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 19). During the year, an amount of $50.9 million was recognised as an expense in the Statement of Comprehensive Income in relation to operating leases (2011: $55.2 million).

NOTE 27 – CONTROLLED ENTITIES

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

CONTROLLED ENTITY	PLACE OF INCORPORATION	CONTROLLED ENTITY	PLACE OF INCORPORATION
Pacific Brands (Australia) Pty Ltd	Australia	Pacific Brands Workwear Group 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
Bonds Industries Pty Ltd	Australia	Dowd Corporation Pty Ltd	Australia
Sheridan Australia Pty Ltd	Australia	Yakka (Wodonga) Pty Ltd	Australia
Pacific Brands Services Group Pty Ltd	Australia	Pacific Brands (Singapore) Pte Ltd	Singapore
PT Berlei Indonesia	Indonesia	PacBrands USA Inc	USA
Sheridan NZ Limited	New Zealand	PacBrands (UK) Ltd	UK
Pacific Brands Holdings (NZ) Ltd	New Zealand	Sheridan UK Limited	UK
Pacific Brands Holdings (Hong Kong) Ltd	Hong Kong	Icon Clothing Pty Ltd	Australia
Pacific Brands (Asia) Ltd	Hong Kong		

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

CONTROLLED ENTITY	PLACE OF INCORPORATION	CONTROLLED ENTITY INTEREST 2012	CONSOLIDATED ENTITY INTEREST 2011
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 Spring Manufacturing Sdn Bhd	Malaysia	**50%**	50%
Eurocoir Products Sdn Bhd	Malaysia	**50%**	50%
Sleepmaker Sdn Bhd	Malaysia	**50%**	50%
Pacific Brands UAE Trading LLC	United Arab Emirates	**49%**	-

As at 30 June 2012, the Consolidated Entity's interest in the Restonic group (comprising of all Malaysian entities above) was classified as held for sale (refer Note 16).

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

NOTE 28 – NOTES TO THE STATEMENT OF CASH FLOWS

		CONSOLIDATED	
	NOTE	2012 $'000	2011 $'000
Profit/(loss) after income tax		**(450,847)**	(131,485)
Add/(less) non-cash items			
Depreciation and amortisation	3	**15,207**	21,029
Equity settled share based payments	3	**(380)**	1,032
Impairment of intangible assets	4	**502,709**	214,700
Impairment of other assets	4	**555**	6,019
Loss on sale of businesses and other assets	4	**2,760**	2,269
Gain on disposal of properties	4	**(3,490)**	-
Net cash from operating activities before change in assets and liabilities		**66,514**	113,564
(Increase)/decrease in trade and other receivables		**39,581**	(4,007)
(Increase)/decrease in inventories		**18,229**	(38,086)
(Increase)/decrease in other assets		**3,134**	(3,439)
(Increase)/decrease in deferred tax assets		**(7,844)**	13,047
Increase/(decrease) in trade and other payables		**7,626**	3,044
Increase/(decrease) in income tax payable		**(7,122)**	12,629
Increase/(decrease) in restructuring provisions		**1,980**	(11,725)
Increase/(decrease) in employee and other provisions		**(14,999)**	9,664
Net cash from operating activities		**107,099**	94,691

NOTE 29 – EMPLOYEE BENEFITS

		CONSOLIDATED	
	NOTE	2012 $'000	2011 $'000
Aggregate liability for employee benefits, including on-costs:			
Current	19	**32,779**	48,123
Non-current	19	**3,319**	3,889
		36,098	52,012

The present values of employee benefits not expected to be settled within 12 months of reporting date have been calculated using the following weighted assumptions:

	CONSOLIDATED	
	2012	2011
Assumed rate of increase in wage and salary rates (per annum):	**4.0%**	4.0%
Discount rate (per annum)	**2.3%**	4.5%
Settlement term (period)	**6 years**	6 years
Number of active defined benefit plan members	**24**	35

(a) Superannuation plans

The Consolidated Entity contributes to the Pacific Brands Superannuation Plan ('Plan'), which is a plan in the Mercer Super Trust, at rates advised from time to time by the Plan's actuary. Defined benefit plan members receive lump sum benefits on retirement, death, disablement or withdrawal. The defined benefit section of the Plan is closed to new members.

The Consolidated Entity has been contributing at the rates set out in the previous actuarial review, as at 1 July 2011, as adjusted in accordance with annual updates provided by the Plan's actuary.

The Consolidated Entity expects to make a contribution of $2.6 million in the 2013 financial year.

With respect to the defined benefits component of the Plan, the defined benefit obligations and Plan assets at fair value are:

Movements in the recognised net defined benefit obligation

	CONSOLIDATED 2012 $'000	2011 $'000
Present value of funded defined benefit obligation	**11,569**	13,734
Fair value of Plan assets	**(8,813)**	(10,683)
Deficit	**2,756**	3,051
Unrecognised actuarial losses/(gains)	**3,147**	2,467
Net (asset)/liability for defined benefit obligation at 30 June	**(391)**	584

Changes in the present value of the defined benefit obligation are as follows:

	CONSOLIDATED 2012 $'000	2011 $'000
Opening defined benefit obligation	**13,734**	25,057
Service cost	**901**	1,258
Interest cost	**564**	898
Contributions by Plan participants	**218**	349
Actuarial losses/(gains)	**714**	1,053
Benefits paid	**(1,747)**	(8,317)
Taxes and premium paid	**(404)**	(587)
Contributions to accumulation section	**(196)**	(298)
Curtailment	**95**	19
Settlements	**(2,310)**	(5,698)
Closing defined benefit obligation	**11,569**	13,734

Changes in the fair value of Plan assets are as follows:

	CONSOLIDATED 2012 $'000	2011 $'000
Opening fair value of Plan assets:	**10,683**	23,330
Expected return	**775**	1,212
Actuarial gains/(losses)	**(792)**	692
Contributions by employer	**2,586**	-
Contributions by Plan participants	**218**	349
Benefits paid	**(1,747)**	(8,317)
Taxes and premiums paid	**(404)**	(587)
Contributions to accumulation section	**(196)**	(298)
Settlements	**(2,310)**	(5,698)
Closing fair value of Plan assets	**8,813**	10,683

The major categories of fund assets as a percentage of total Plan assets are as follows:

	CONSOLIDATED 2012	2011
Australian equities	**26%**	27%
International equities	**28%**	29%
Fixed income	**18%**	14%
Property	**16%**	14%
Cash	**12%**	16%

The investment policies and strategies for the defined benefit superannuation plans and post-retirement benefits funds do not use target allocations for the individual asset categories. The fund's investment goals are to maximise returns subject to specific risk management policies. Its risk management policies permit investments in mutual funds and prohibit direct investments in debt and equity securities and derivative financial instruments. The policies address diversification by the use of mutual fund investments whose underlying investments are in domestic and international equity securities and domestic and international fixed income securities. These mutual fund investments are readily marketable and can be sold to fund benefit payment obligations as they become payable.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

Historical information

Amounts for the current and previous periods are as follows:

	CONSOLIDATED				
	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Defined benefit obligation	**11,569**	13,734	25,057	34,943	41,173
Fair value of Plan assets	**(8,813)**	(10,683)	(23,330)	(28,502)	(44,114)
Deficit/(surplus) in Plan	**2,756**	3,051	1,727	6,441	(2,941)
Experience adjustments (gains)/losses – Plan assets	**792**	(692)	(482)	8,620	7,539
Experience adjustments losses/(gains) – Plan liabilities	**(735)**	982	1,074	(2,733)	(615)

Expenses/(income) recognised in the Statement of Comprehensive Income

	CONSOLIDATED	
	2012 $'000	2011 $'000
Service cost	**901**	1,258
Interest cost	**564**	898
Expected return	**(775)**	(1,212)
Actuarial losses	**174**	168
Curtailment and settlement loss	**747**	1,134
	1,611	2,246
The expenses are recognised in the following line items in the Statement of Comprehensive Income:		
Administrative expenses	**864**	1,112
Other expenses	**747**	1,134

	CONSOLIDATED	
	2012 $'000	2011 $'000
Principal actuarial assumptions at balance date (expressed as weighted average annual rates):		
Actual return on Plan assets	**(17)**	1,904
Discount rate at 30 June	**2.3%**	4.5%
Expected return on Plan assets at 30 June	**7.0%**	7.0%
Future salary increases	**4.0%**	4.0%

The expected return on Plan assets at 30 June assumption is determined by weighting the expected long term return for each asset class by the target allocation of asset classes. The returns used for each class are net of investment tax and investment fees. An allowance for administrative expenses has been deducted from the expected return.

(b) Share based payments

The Company has a share plan pursuant to which senior executives may acquire shares. This is the Performance Rights Plan (which is open to executive directors and other selected senior executives). The Company also has in place a deferred share plan, which has not issued any rights since 1 July 2007.

(i) Performance Rights Plan ('PRP')

General

The PRP is the Company's long term incentive scheme for selected key senior executives. Under the PRP, eligible executives will be granted performance rights (each being an entitlement to a share), subject to the satisfaction of vesting conditions on terms and conditions determined by the Board. If the vesting conditions are satisfied, the performance rights vest and shares will be delivered to the executive. Other than the vesting conditions noted below, the performance rights granted are subject to service conditions.

Vesting conditions

Total shareholder performance return conditions

The performance conditions based on the relative total shareholder return ('TSR') of the Company are measured against a comparator group of companies. The comparator group of companies differs for each grant; explanation of the comparator groups of companies are contained on page 37 in the Remuneration Report. TSR is a measure of the return to shareholders provided by share price appreciation, plus reinvested dividends, expressed as a percentage of investment.

The TSR performance conditions in relation to the F10, F11 and F12 grants are:

TARGET	PERCENTAGE OF SHARES AVAILABLE IN GIVEN YEAR THAT VESTS
The Company's TSR is less than the median performance of the comparator companies	0%
The Company's TSR equals or exceeds the median performance of the comparator companies	50%
The Company's TSR is ranked in third quartile of the comparator companies	Pro rata between 50% and 100% (2% increase for each higher percentile ranking)
The Company's TSR is ranked in fourth quartile of the comparator companies	100%

Earnings per share performance conditions

Earnings per share ('EPS') growth is a requirement in relation to the F10, F11 and F12 grants. The Board introduced this performance requirement because:

- as an absolute measure, it provides management with a performance goal over which it can directly exert some control
- it provides a good "line of sight" between the actions of senior executives and the Company's result
- it is directly correlated with shareholder returns, so it complements the relative TSR performance requirement

EPS performance requirements are reviewed prior to each year's allocation of performance rights. The range of EPS growth reflects the Company's view of what is a reasonable target value, taking into account the Company's market position, upside potential and capital market expectations. EPS performance requirements for each grant are shown in the table below:

PERCENTAGE OF SHARES IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS	F10, F11 AND F12 PERFORMANCE RIGHTS EPS TARGET
0%	The Company's compound EPS growth is less than 5.0%
50%	The Company's compound EPS growth equals 5.0%
Pro rata between 50% and 100%	The Company's compound EPS growth is between 5.0% and 8.0%
100%	The Company's compound EPS growth is equal to or exceeds 8.0%

EPS is calculated using earnings pre other expenses adjusted for the related income tax (benefit)/expense basis, and using the number of ordinary shares on issue. Other expenses is comprised of individually significant items as disclosed in Note 4 - Other expenses.

Valuation

The fair value of the performance rights was calculated by independent experts at the date of grant using a Monte Carlo simulation model and allocated to each reporting period evenly over the period from grant date to vesting date. The value of share based payments disclosed in Note 3 includes a portion of the fair value of the performance rights allocated to this year. In valuing the performance rights, market conditions have been taken into account.

	F12 GRANT	F11 GRANT	F10 GRANT
Fair value of performance rights and assumptions			
Fair value at measurement date	$0.42	$0.64	$0.64
Share price	$0.57	$0.89	$0.89
Expected volatility	68%	71%	71%
Performance right life (period)	3 years	3 years	3 years
Dividend yield (per annum)	7.0%	7.0%	7.0%
Risk-free interest rate (per annum)	3.1%	4.4%	4.5%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the performance rights), adjusted for any expected changes to future volatility due to publicly available information.

Grant of performance rights

The Board has approved the following grants of performance rights to employees, under the PRP.

The movement in the number of performance rights to employees during the year is as follows:

	F12 GRANT[1]	F11 GRANT[1]	F10 GRANT[1]
1 July 2010	-	3,338,212	2,433,383
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	(258,427)	(224,578)
30 June 2011	-	3,079,785	2,208,805
Granted	**3,606,763**	**-**	**-**
Exercised	**-**	**-**	**-**
Forfeited	**(477,648)**	**(433,929)**	**(430,926)**
30 June 2012	**3,129,115**	**2,645,856**	**1,777,879**

1 These grants consisted of two equal tranches with different vesting conditions, being (1) TSR, and (2) EPS

The maximum percentage of the performance rights granted to date which may vest in favour of the senior executives is as follows:

VESTING DATE	MAXIMUM % OF F12 GRANT	MAXIMUM % OF F11 GRANT	MAXIMUM % OF F10 GRANT
30 June 2012	N/A	N/A	0
30 June 2013	N/A	100%	100%
30 June 2014	100%	100%	N/A
30 June 2015	100%	N/A	N/A

Following changes to the relevant taxation legislation first announced by the Federal Government in May 2009, shares allocated on the vesting of performance rights will not be subject to any restriction of the senior executives' rights to trade in those shares other than any restrictions imposed by the Company's guidelines for dealing in securities.

(ii) Deferred shares

Grants of deferred shares

The Board has approved the following grants of deferred shares. The movement in the number of deferred shares during the year is as follows:

	F08 GRANT (NUMBER)
1 July 2010	700,000
Granted	-
Exercised	(272,000)
Forfeited	(182,000)
30 June 2011	246,000
Granted	**-**
Exercised	
Forfeited	**(246,000)**
30 June 2012	**-**

Valuation

The fair value of the deferred shares was calculated at the date of grant based on the fair value of shares on that date. Expected dividends are not considered in the determination of the fair value of deferred shares. The fair value of deferred shares is allocated to each reporting period evenly over the period from grant date to vesting date. The value of share based payments disclosed in Note 3 includes a portion of the fair value of the deferred shares allocated to this year. In valuing the deferred shares, the following assumptions have been taken into account

	F08 GRANT
Fair value of deferred shares and assumptions	
Fair value at measurement date	$2.85
Share price	$3.45
Deferred share life (period)	3 years

Performance conditions for vesting

The conditions with respect to deferred shares issued in F08 are based on the following:

- 60% of the deferred shares will be available to vest in accordance with the following schedule measured at the end of the three year performance period:

TARGET	PERCENTAGE OF SHARES AVAILABLE IN GIVEN YEAR THAT VESTS
The Company's 3 year compound EPS growth rate is less than 8.5% pa	0%
The Company's 3 year compound EPS growth rate is 8.5% pa	25%
For each 0.1% pa increase in the Company's 3 year compound EPS growth rate above 8.5% pa	Pro rata between 25% and 100% (3.75% increase for each 0.1% additional EPS growth)
The Company's 3 year compound EPS growth rate is above 10.5% pa	100%

- 40% of the deferred shares were available to vest if eligible executives discharged their obligations to the Company in accordance with annual key performance indicators agreed with their managers. This performance condition was determined at the end of the three year performance period (ie after 30 June 2010 for the F08 grant) by the Chief Executive Officer
- If the target compound EPS growth rate did not reach 10.5% per annum at the end of the initial three year period, and some of the deferred shares remain unvested, those unvested deferred shares remain available for a further two years, and will be re-tested at the end of that time (ie 30 June 2012 for the F08 grant). The unvested deferred shares will then be tested over a five year period in accordance with the vesting schedule above, so that if the threshold compound EPS growth rate of 8.5% per annum is achieved over the five year period, 25% of those previously unvested deferred shares will vest. Vesting will again be scaled on a straight line basis to 100%, at the target compound EPS growth rate of 10.5% per annum

Based on the EPS growth rate of the Company for F12, no deferred shares vested on 30 June 2012 in relation to the F08 grant and accordingly the F08 grant of deferred shares lapsed.

NOTE 30 – KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

The key management personnel ('KMP') compensation included in the Consolidated Entity's personnel expenses (refer Note 3) is as follows:

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Short term employee benefits	**5,401,733**	8,648,698
Non-monetary benefits	**210,739**	276,944
Post-employment benefits	**498,746**	630,765
Termination benefits	**-**	974,003
Share based payments	**(421,370)**	1,461,790
	5,689,848	11,992,200

The KMP of the Company and the Consolidated Entity are defined under AASB 124 to include the non-executive directors, the executive directors and those other persons with authority and responsibility for planning, directing and controlling the activities of the Company during the financial year.

Individual director and senior executive compensation disclosures

Information regarding individual director and senior executive compensation and some equity instruments disclosure as permitted by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Annual Report on pages 32 to 46.

Apart from the details disclosed in this Note, no director has entered into a material contract with the Company or the Consolidated Entity since the end of the previous year and there were no material contracts involving directors' interests existing at year end.

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

A number of the directors of Pacific Brands Limited 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 companies. These transactions are undertaken on normal commercial terms and conditions and the directors and KMP do not directly influence these transactions.

Performance rights over equity instruments

The movement during the reporting period in the number of performance rights over ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	HELD AT 30 JUNE 2010	GRANTED	EXERCISED	FORFEITED	HELD AT 30 JUNE 2011	GRANTED	EXERCISED	LAPSED/ FORFEITED	HELD AT 30 JUNE 2012
Current senior executives									
S M Morphet[1]	1,311,592	1,377,078	-	(82,677)	2,605,993	1,873,807	-	-	4,479,800
D L Bortolussi[2]	329,639	336,809	-	-	666,448	476,490	-	-	1,142,938
C M Garnsey[3]	-	1,981,818	-	-	1,981,818	477,648	-	(2,459,466)	-
A M Heraghty	60,000	212,035	(60,000)	-	212,035	358,209	-	-	570,244
H S Kramer[4]	100,000	307,416	-	-	407,416	420,609	(100,000)	-	728,025
Former executives									
M J Allibon[5]	193,060	190,039	-	-	383,099	-	-	(383,099)	-
R A Taylor[6]	266,212	243,890	-	(28,346)	481,756	-	-	(481,756)	-
K J Hann[7]	245,309	210,271	-	(25,984)	429,596	-	-	-	429,596

1 In accordance with Australian Stock Exchange Listing Rules 10.11 and 10.14, the 2010 grant (effective 1 July 2009) of performance rights to the Chief Executive Officer was approved by the Company's shareholders at the Company's Annual General Meeting on 25 October 2010

2 The Company agreed on 21 April 2009 to issue to D L Bortolussi, the Chief Financial & Operating Officer, $500,000 worth of fully paid ordinary shares in the Company as a sign on bonus. The shares were issued on 1 July 2009, at no cost to D L Bortolussi, and were held on trust for D L Bortolussi, subject to satisfaction of a service condition that he was still employed by the Company on the relevant vesting dates. Under the relevant performance condition, 50% of the shares would vest on 1 July 2010 and the balance would vest on 1 July 2011, if D L Bortolussi was still in the employ of the Company on those dates. The number of shares acquired was calculated based on the volume weighted average price ('VWAP') during the period discussions were held between D L Bortolussi and the Company regarding his possible employment, specifically 23 February 2009 to 20 April 2009. The VWAP for the period was 28.7 cents per share. Accordingly, on 1 July 2009 the Company issued 1,742,160 shares to the Pacific Brands Employee Share Trust to be held on D L Bortolussi's behalf. As D L Bortolussi was still employed by the Company on 1 July 2011, 50% of the shares (871,080 shares) vested in D L Bortolussi on 1 July 2010 and the balance (a further 871,080 shares) vested in D L Bortolussi on 1 July 2011

3 On 26 October 2010, the Company agreed to grant C M Garnsey a sign on bonus of 1,981,818 performance rights. These were issued at no cost to C M Garnsey effective 1 July 2011 and were to vest on 1 July 2013 subject to C M Garnsey satisfying the performance condition that she still be in the employ of the Company on that date. C M Garnsey ceased as Group General Manager, Underwear on 20 June 2012 after tendering her resignation that day. These performance rights were forfeited upon C M Garnsey's resignation from the Company on 20 June 2012

4 On 3 May 2010, the Company agreed to grant H S Kramer a sign on bonus of 100,000 performance rights. The performance rights were issued at no cost to H S Kramer effective 1 July 2010 and were subject to H S Kramer satisfying the performance condition that she remain employed by the Company until at least 1 July 2011. As H S Kramer was still employed by the Company on that date these rights vested on 1 July 2011 and accordingly 100,000 fully paid ordinary shares were issued to H S Kramer. H S Kramer ceased as Group General Manager, Workwear on 23 July 2012 after tendering her resignation that day. She will cease employment with the Company on 22 August 2012. All remaining performance rights will be forfeited upon H S Kramer's resignation from the Company on 23 July 2012

5 M J Allibon's role was made redundant on 31 May 2011 and she ceased employment with the Company on 30 September 2011

6 R A Taylor ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel and he ceased employment with the Company on 15 November 2011

7 K J Hann ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel. She remains in employment with the Company but no longer meets the definition of KMP

No performance rights were exercised in relation to the PRP during the year ended 30 June 2012. Non-executive directors do not participate in the PRP.

Movements in shares

The movement during the year in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP including their related parties, is as follows:

	HELD AT 30 JUNE 2010	PURCHASES	RECEIVED ON VESTING OF PERFORMANCE RIGHTS	SALES	HELD AT 30 JUNE 2011	PURCHASES	RECEIVED ON VESTING OF PERFORMANCE RIGHTS	SALES	HELD AT 30 JUNE 2012
Current non-executive directors									
J A C MacKenzie	202,162	-	-	-	202,162	-	-	-	202,162
P H Bush	-	10,000	-	-	10,000	-	-	-	10,000
J S King	25,000	-	-	-	25,000	-	-	-	25,000
N L Scheinkestel	54,600	-	-	-	54,600	-	-	-	54,600
A M Tansey	550	-	-	-	550	-	-	-	550
Former non-executive director									
M A Plavsic	197,263	-	-	-	197,263	-	-	-	N/A
Current senior executives									
S M Morphet	1,081,600	-	-	-	1,081,600	-	-	-	1,081,600
D L Bortolussi	343,000	1,372,840	871,080	(258,000)	2,328,920	-	871,080	-	3,200,000
C M Garnsey	-	-	-	-	-	-	-	-	-
A M Heraghty	-	-	60,000	-	60,000	-	-	(60,000)	-
H S Kramer	-	-	-	-	-	-	100,000	-	100,000
Former senior executives									
M J Allibon[1]	-	-	-	-	-	-	-	-	N/A
R A Taylor[2]	100,163	-	-	-	100,163	-	-	(95,141)	N/A
K J Hann[3]	23,766	-	-	-	23,766	-	-	-	N/A

1 M J Allibon's role was made redundant on 31 May 2011 and she ceased employment with the Company on 30 September 2011

2 R A Taylor ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel and he ceased employment with the Company on 15 November 2011

3 K J Hann ceased as KMP on 24 August 2011 when it was announced that the Company would integrate the operations of Bonds and Omni Apparel. She remains in employment with the Company but no longer meets the definition of KMP

NOTE 31 – COMPANY DISCLOSURES

As at, and throughout the financial year ended 30 June 2012, the parent company of the Consolidated Entity was Pacific Brands Limited.

	NOTE	COMPANY 2012 $'000	COMPANY 2011 $'000
Result of the Company			
Profit/(Loss)		**(403,070)**	(216,221)
Total comprehensive income/(loss)		**(403,070)**	(216,221)
Financial position of the Company at year end			
Current assets		**138,905**	46,592
Total assets		**809,012**	1,219,892
Current liabilities		**15,134**	23,118
Total liabilities		**106,571**	54,646
Total equity of the Company comprising of:			
Share capital		**809,000**	1,469,094
Equity compensation reserve		**5,329**	5,709
Retained profits/(accumulated losses)		**(111,888)**	(309,557)
Total equity		**702,441**	1,165,246

On 23 August 2011 and 16 February 2012, the Company reduced its share capital by $309.6 million and $338.2 million respectively for the amounts that are not represented by available assets, reflecting the impairment charges incurred by the Company during the year ended 30 June 2011 and the half year ended 31 December 2011. This had the effect of reducing the share capital account and eliminating accumulated losses at the Company and Consolidated Entity level. The equity transaction was made in accordance with Section 258F of the Corporations Act 2001, did not impact the number of shares on issues, and will not result in any gains or losses being recognised in future reporting periods.

It is the Consolidated Entity's policy that all transactions with related parties are on normal terms and conditions.

		COMPANY	
	NOTE	2012 $'000	2011 $'000
The aggregate amounts invested in/receivable from controlled entities are:			
Amounts receivable other than trade debtors			
Current			
Wholly-owned controlled entity		**138,867**	46,546
Non-current			
Wholly-owned controlled entity		**669,616**	1,172,316

The Company recognised an impairment in the value of its equity loan to Pacific Brands Australia Pty Ltd ('PBA') by $338.7 million at 31 December 2011. During the second half, the Company released PBA of its obligation to pay the equity loan and effected the reduction in the Company's share capital for an equivalent amount that is lost or not represented by available assets (as disclosed on page 90). As disclosed in Note 14, the Consolidated Entity recognised further impairment of its intangible assets amounting to $114 million at 30 June 2012. This has resulted in a corresponding impairment of the Company's equity loan to Pacific Brands Australia Pty Ltd. On 21 August 2012, as a consequence of the impairment of the equity loan, the Company decided to forgive the impaired amount of $114 million as set out in parent entity subsequent events below.

Parent entity subsequent events

On 21 August 2012, the Company did the following:

- Released PBA of its obligation to pay the equity loan it owes, for the amount of $114 million
- Reduced its share capital by a further $114 million for the amount that is lost or not represented by available assets (refer Note 32)
- Recognised $22.8 million of dividend revenue it received from its subsidiary Pacific Brands Australia Pty Ltd. The Company has decided to appropriate $22.8 million into a separate profits reserve for the purpose of future dividend payments to shareholders

NOTE 32 – EVENTS SUBSEQUENT TO BALANCE DATE

On 13 August 2012, the Company entered into a binding agreement to sell the Wentworthville property. The sale is expected to generate net proceeds of $27 million, giving rise to an estimated profit on sale of $11 million (no tax effect) which will be brought to account in the 2014 financial year in line with expected completion in December 2013.

As disclosed in Note 14, the Consolidated Entity recognised further impairment of its intangible assets amounting to $114 million at 30 June 2012. This has resulted in a corresponding impairment of the Company's equity loan to Pacific Brands Australia Pty Ltd. On 21 August 2012, as a consequence of the impairment of the equity loan, the Company decided to forgive the impaired amount of $114 million as set out in parent entity subsequent event (Note 31). The Company also made the decision to reduce its share capital by $114 million for the amount that is lost or not represented by available assets, reflecting the impairment charges incurred by the Consolidated Entity during the second half of the year ended 30 June 2012. This will have the effect of reducing the share capital account and eliminating accumulated losses at the Company and Consolidated Entity level. The equity transaction has been made in accordance with Section 258F of the Corporations Act 2001, does not impact the number of shares on issue, and will not result in any gains or losses being recognised in future reporting periods. The financial effect of this transaction is not included in the financial statements for the year ended 30 June 2012.

On 22 August 2012, the Company declared a dividend (refer Note 23).

DIRECTORS' DECLARATION

1. In the opinion of the directors of Pacific Brands Limited ('Company'):

   (a) the consolidated Financial Statements and notes and the Remuneration Report in the Directors' Report, set out on pages 29 to 91, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001 and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts and when they become due and payable

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial & Operating Officer for the financial year ended 30 June 2012.

3. The directors draw attention to Note 1(A) to the consolidated Financial Statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Melbourne this 22nd day of August 2012.

Signed in accordance with a resolution of the directors:

Peter Bush
Chairman

Sue Morphet
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PACIFIC BRANDS LIMITED

KPMG

Report on the financial report

We have audited the accompanying financial report of Pacific Brands Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1A, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1A.

Report on the remuneration report

We have audited the Remuneration Report included in pages 32 to 46 of the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Pacific Brands Limited for the year ended 30 June 2012, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Alison Kitchen

Alison Kitchen
Partner

Melbourne
22 August 2012

SHAREHOLDERS' STATISTICS

As at 22 August 2012

DISTRIBUTION OF ORDINARY SHAREHOLDERS AND SHAREHOLDINGS

SIZE OF HOLDING	NUMBER OF HOLDERS		NUMBER OF SHARES	
1 to 1,000	6,976	27.4%	3,623,056	0.4%
1,001 to 5,000	12,018	47.2%	29,681,121	3.3%
5,001 to 10,000	3,224	12.7%	24,286,056	2.7%
10,001 to 100,000	3,003	11.8%	79,083,029	8.7%
100,001 and over	220	0.9%	776,242,433	85.0%
Total	25,441	100.0%	912,915,695	100.0%

Included in the above total are 5,136 shareholders holding less than a marketable parcel of 820 shares.

TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS

	SHARES	% OF TOTAL
J P Morgan Nominees Australia Limited	233,914,178	25.62
National Nominees Limited	197,615,812	21.65
HSBC Custody Nominees (Australia) Limited	101,137,545	11.08
Citicorp Nominees Pty Limited	86,580,072	9.48
BNP Paribas Noms Pty Ltd (Master Cust DRP)	45,688,264	5.00
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	15,968,337	1.75
FJP Pty Ltd (Palazzo Family S/F A/C)	9,188,762	1.01
Queensland Investment Corporation	6,654,445	0.73
J P Morgan Nominees Australia Limited (Cash Income A/C)	5,712,881	0.63
Mestjo Pty Ltd	3,422,846	0.37
Mrs Megan Louise Bortolussi	3,000,000	0.33
AMP Life Limited	2,937,535	0.32
Mr Don Lazzaro & Mrs Ann Lazzaro (Super Fund A/C)	2,500,000	0.27
Buttonwood Nominees Pty Ltd	1,812,280	0.20
UBS Wealth Management Australia Nominees Pty Ltd	1,525,844	0.17
Citicorp Nominees Pty Limited (DPSL A/C)	1,377,901	0.15
BNP Paribas Noms Pty Ltd (DRP)	1,366,060	0.15
The University of Melbourne	1,223,819	0.13
HSBC Custody Nominees (Australia) Limited (NT-Comnwlth Super Corp A/C)	1,190,355	0.13
Brispot Nominees Pty Ltd (House Head Nominee No 1 A/C)	1,150,900	0.13

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders in the Company, and the percentage of fully paid ordinary shares in which each has an interest on the respective dates, as disclosed in substantial shareholder notices to the Company are as follows:

27-08-12	Franklin Resources Inc	8.86%
20-07-12	Lazard Asset Management Pacific Co	8.38%
17-10-11	Integrity Investment Management	8.19%
16-04-10	Dimensional Fund Advisors LP	7.16%
21-06-12	Allan Gray Australia Pty Ltd	7.05%
29-03-12	AXA SA	6.06%

SHAREHOLDERS' INFORMATION

ANNUAL GENERAL MEETING

Tuesday 23 October 2012 10.00am
Computershare Conference Centre
Yarra Falls
452 Johnston Street
Abbotsford, Victoria 3067
Australia

STOCK EXCHANGE LISTING

Pacific Brands shares are listed on the Australian Securities Exchange ('ASX') and New Zealand Stock Exchange ('NZX') and are traded under the code 'PBG'.

PACIFIC BRANDS SHARE REGISTRY

Australia
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067
Australia
GPO Box 2975, Melbourne Victoria 3001
Australia

New Zealand
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
New Zealand

Telephone

Australia:	1300 132 632
New Zealand:	+64 9 488 8777
International:	+61 3 9415 4184
Facsimile:	+61 3 9473 2500
Email:	web.queries@computershare.com.au

TAX AND DIVIDEND PAYMENTS

For Australian registered shareholders who have not quoted their Tax File Number ('TFN'), exemption or Australian Business Number ('ABN'), the Company is obliged to deduct tax at the top marginal tax rate plus Medicare levy from unfranked and/or partially franked dividends. If you have not already provided your TFN/ABN, you may do so by contacting the Share Registry or by registering your TFN/ABN at the Share Registry's website at www.computershare.com.au.

DIVIDEND PAYMENTS

Any dividends will be paid in Australian dollars credited directly into your nominated bank account. If you have not nominated a bank account, a dividend cheque (less an administration fee of $1.00) will be mailed to the address recorded on the share register. If you wish to elect to receive your dividends by way of direct credit but have not done so, you should complete an application form available by contacting the Share Registry or enter the details at the Share Registry's website at www.computershare.com.au.

CONSOLIDATION OF MULTIPLE HOLDINGS

If you have multiple issuer-sponsored holdings that you wish to consolidate into a single account, please notify the Share Registry in writing, quoting your full registered names and Security Reference Numbers ('SRNs') for these accounts and nominating the account to which the holdings are to be consolidated.

CHANGE OF NAME AND/OR ADDRESS

For issuer-sponsored holdings, please notify the Share Registry in writing if you change your name and/or address. When advising the Share Registry of a change of name, please supply details of your new/previous name, your new/previous address, your SRN and supporting documentation evidencing your change of name. You can also change your address details online at the Share Registry's website at www.computershare.com.au. Changes of address relating to shareholdings in a single name can be made over the phone by calling 1300 132 632 (Australia only). Please note that this does not apply to shareholdings held jointly or in a company name.

For CHESS/broker-sponsored holdings, please notify your broker in writing if you change your name and/or address.

SHARE ENQUIRIES

Shareholders seeking information about their shareholding or dividends should contact the Share Registry. Contact details are above.

PACIFIC BRANDS' COMMUNICATIONS

Pacific Brands' website, www.pacificbrands.com.au offers information about the Company, news releases, announcements to ASX and NZX and addresses by the Chairman and Chief Executive Officer. The website provides essential information about the Company and an insight into Pacific Brands' businesses.

REGISTERED OFFICE

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Pacific Brands Limited
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Hawthorn Victoria 3122
Australia

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Email:	investorrelations@pacbrands.com.au
Website:	www.pacificbrands.com.au

INVESTOR RELATIONS

Telephone:	+61 3 9947 4900
Email:	investorrelations@pacbrands.com.au

AUDITORS

KPMG
147 Collins Street
Melbourne Victoria 3000
Australia

PACIFIC BRANDS COMPANY DIRECTORY

CHAIRMAN

Peter Bush

CHIEF EXECUTIVE OFFICER

John Pollaers

CHIEF FINANCIAL & OPERATING OFFICER

David Bortolussi

NON-EXECUTIVE DIRECTORS

James King

James MacKenzie

Nora Scheinkestel

Arlene Tansey

COMPANY SECRETARY

John Grover

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ACCESS PACIFIC BRANDS ON THE WEB

All Pacific Brands announcements and reports, including an electronic version of this Annual Report are available online at www.pacificbrands.com.au

You can also nominate to receive email notification of future announcements by registering at ‘Email Updates’ in the Investor Relations section of the site www.pacificbrands.com.au


Hard Yakka
Nothing's Tougher


BONDS


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