PACIFIC BRANDS

17 February 2012

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

Market Information Services
New Zealand Exchange Limited
9th Floor
ASB Tower
2 Hunter Street
Wellington
New Zealand

Dear Sir/Madam

**HALF YEAR REPORT FOR THE 6 MONTHS ENDED 31 DECEMBER 2011**

In accordance with Australian Securities Exchange Listing Rule 4.2A, attached is the Company's Appendix 4D – Half year Report for the period 1 July 2011 to 31 December 2011, together with a copy of a Press Release which the Company intends to send to the media today.

These documents will also be available on the Company's website at www.pacificbrands.com.au

Yours faithfully
Pacific Brands Limited

John Grover
Company Secretary

Enc.

PACIFIC BRANDS

17 February 2012

# Half Year Result Announcement

## Key points

- Sales and earnings down consistent with outlook commentary provided with F11 result announcement and more recently at the October AGM
- Bonds, Sheridan and Workwear resilient in a difficult market – Bonds and Sheridan online performing well
- Cash flow remained strong due to effective working capital management and a conservative financial position has been maintained
- Interim dividend of 2.0 cents per share fully franked – payout ratio maintained at c.50% in line with stated dividend policy and prior corresponding period
- Non-cash write-down of 2004 IPO goodwill in Underwear business due to changes in retail market and impact on business performance
- The outlook remains, as indicated at the time of the Annual General Meeting in October, challenging

## Group result (audited)[1] for the six months ended 31 December 2011

| $ millions | Reported | | | Before significant items[2] | | |
|---|---|---|---|---|---|---|
| | 1H12 | 1H11 | Change | 1H12 | 1H11 | Change |
| **Sales** | 684.7 | 852.1 | (19.6)% | 684.7 | 852.1 | (19.6)% |
| **EBIT** | (336.5) | (124.9) | n.m. | 65.6 | 103.2 | (36.5)% |
| **NPAT[3]** | (362.4) | (166.1) | n.m. | 35.7 | 58.0 | (38.4)% |
| **EPS (cps)** | (39.3) | (17.9) | n.m. | 3.9 | 6.2 | (38.0)% |
| **DPS (cps)** | 2.0 | 3.1 | (35.5)% | 2.0 | 3.1 | (35.5)% |
| **Payout ratio[4]** | n.m. | n.m. | n.m. | 51% | 50% | 1pt |
| **Net debt[5]** | 242.2 | 267.2 | (9.4)% | 242.2 | 267.2 | (9.4)% |

1 Other than as indicated, the financial information contained in this document is directly extracted or calculated from the audited Financial Statements. Comparative financial information for the six months ended 31 December 2010 has been subject to review rather than audit

2 Before other expenses that are individually significant as disclosed in Note 7 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 performance considered by management in operating the business and by Directors in determining dividends

3 After deducting non controlling interest

4 Dividends declared / NPAT before significant items

5 Interest bearing loans and borrowings less cash and cash equivalents

n.m. Not meaningful

Pacific Brands today announced a reported net loss after tax of $362.4 million for the six months ended 31 December 2011. The loss was due to the impact of significant items relating to the non-cash write-down of the goodwill in the Underwear business of $388.7 million, with no tax effect, booked at the time of the company's IPO in 2004. There were also restructuring costs associated with the Pacific Brands 2010 transformation program of $13.4 million ($9.4 million post tax).

Before significant items, net profit after tax was $35.7 million, a 38.4% decline from 1H11. The earnings decline was driven by reduced sales in challenging retail conditions with reported sales down 19.6% and underlying sales[6] down 7.4% or 2.9% exclusive of sales to Kmart.

Cash flow remained strong with cash conversion[7] of 127.8% due to effective working capital management. This was achieved in difficult circumstances due to the impact of higher inventory costs from the increase in cotton prices and in the context of a decline in sales. Gearing[8] remains low at 1.5 times and interest cover[8] remains high at 6.1 times.

Directors declared an interim dividend of 2.0 cents per share fully franked, maintaining the payout ratio at c.50% of net profit after tax before significant items, in line with the company's stated dividend policy and the prior corresponding period.

Pacific Brands' Chief Executive Officer Sue Morphet said: "As expected, sales performance was impacted by difficult trading conditions and the Kmart transition. We have partially mitigated the impact of the increase in the cotton price on margins and managed our cost base, while maintaining strong cash flow.

"Excluding Kmart, Bonds' sales were up. Workwear's sales, driven by KingGee, were flat despite reduced business confidence and Sheridan is doing well, with a flat performance in a tough first half, with sales in our boutique stores up.

"The write-down of goodwill in the Underwear business is disappointing, but a necessary step to reflect the impact of trading conditions and other factors on the business' performance and outlook."

## Operating performance

Reported sales were down 19.6%, a significant part of which was attributable to the impact of business divestments and exits, particularly the sale of the Sleepmaker and Dunlop Foams businesses (effective 31 March 2011) and the Bikes business (effective 31 August 2011). Underlying sales were down 7.4%, or 2.9% excluding sales to Kmart. This result is broadly in line with the market and reflects the difficult retail environment that continues to prevail.

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[6] Defined as reported sales less sales from 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 PB2010 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. Refer Appendix A for supporting data. Underlying sales data is not audited

[7] Operating cash flow pre interest, tax and capex (OCFPIT) / EBITDA before significant items. 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

[8] Defined as per the Subscription Agreement with the company's banking syndicate as follows:

- Gearing: Net debt / Last Twelve Months (LTM) EBITDA (annualised for acquisitions) before significant items
- Interest cover: LTM EBITDA before significant items / net interest expense excluding amortisation of deferred borrowing costs and unused line fees

The business-to-business (B2B) and business-to-consumer (B2C) channels increased sales over the period. This reflects the strength of the Workwear business in a challenging market and the increased investment and success in both online and traditional retail for certain other businesses. All wholesale channels saw reduced sales, especially the department store channel as value conscious shoppers continued to trade down and customers adjusted inventory levels.

Ms Morphet said: “A key element of our strategy is to continue to diversify our channels to market, so the increased sales in the B2B and B2C channels was pleasing, especially our online initiatives which are performing well.”

Price increases helped mitigate the impact of increased input prices (most notably due to cotton). Excluding net divested businesses – which had below average margins – gross margins[9] reduced by 2.7 percentage points, but the reduction was only 0.5 percentage points on a reported basis (47.3% to 46.8% including net divested businesses).

Ms Morphet said: “In the context of current market conditions, increasing prices was difficult but necessary given the cost pressures from the cotton price increase.

“During the half we continued to invest in new product development and advertising for our key brands but at the same time controlled our costs of doing business.”

## Segment results

### *Underwear*

Reported sales were down 16.0% to $217.3 million. Reported EBIT was a loss of $360.7 million due to the write-down of goodwill. EBIT before significant items was down 40.6% to $35.4 million.

Approximately two-thirds of the decline in sales can be attributed to the Kmart transition.

Excluding sales to Kmart, Bonds recorded growth in a weak market. Bonds increased sales to supermarkets, driven by a broadening of the offer to include more outerwear, expanded women’s underwear sales aided by the success of Invisitails and improved sales in both babywear and children’s underwear.

All categories benefited from the success of the ‘12 Days of Christmas’ campaign which helped drive Bonds to deliver total sales growth in December. Bonds’ online launch is performing well.

Other key Underwear brands experienced declining sales. Rio and Razzamatazz’s sales were down in supermarkets and the discount department store channel. Rio was down due mainly to increased home brand competition, whereas Razzamatazz was impacted by reduced shelf space for its category in supermarkets. Berlei sales also declined due to weaker sales to department stores.

There was also a degree of trade destocking during the period with sales by retail customers generally ahead of wholesale sales by Underwear to retailers.

As expected, gross margins were impacted by input cost increases and were only partially offset by price increases which were implemented throughout the half. EBIT margins were down due to the impact of lower sales and gross margins, despite lower costs of doing business. The benefits from the successfully completed Underwear restructure only had a partial impact in the first half but will have full effect in the second half.

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[9] Defined as (Gross Profit + Other Income) / Sales. The movement in gross margin excluding net divested businesses is unaudited. Directors believe that the gross margin movement measured in this way is more reflective of the impact of cost pressures and other factors on the margins of the ongoing businesses as it removes the distortive effect on reported margins of the net divested businesses

***Workwear***

Reported sales were down 1.1% to $194.5 million. Reported EBIT was down 14.1% to $18.4 million (or down 18.2% to $19.4 million before significant items).

Business-to-business (B2B) sales were up. There were new contract wins in the half that will benefit future periods, including for the NSW Fire Brigade. Retention rates remain high and there was also an increase in some indent orders. On-going replenishment levels have generally slowed in line with reducing headcounts and employee turnover at some corporate and government customers, and reduced smaller business demand due to lower business and consumer confidence.

Wholesale sales, particularly for KingGee, benefited from increased demand from the resources sector, with sales in Western Australia and Queensland strong. This was offset by reduced sales due to lower business confidence in other sectors and discount department stores.

Margins benefited from price increases but were negatively impacted by higher input costs (especially due to cotton) and an increased allocation of shared costs.

***Homewares, Footwear & Outerwear (HFO)***

Reported sales were down 31.2% to $272.9 million due mainly to business divestments. Reported EBIT was $14.8 million compared to a loss of $187.9 million in 1H11. EBIT before significant items was down 39.7% to $17.6 million, again due principally to divestments.

Sheridan's sales were flat, with declines in wholesale, concessions and factory outlets offset by growth in boutique stores and online sales. Sheridan's online launch is performing well. Flooring's sales were also flat, holding up well despite the continued slowing of the housing market. Tontine's sales were down due to narrowing of ranges taken by some customers and reduced volumes of unprofitable private label manufacture, with the latter being positive for margins going forward.

Footwear & Sport sales were down due to the loss of sales to Kmart which particularly affected Grosby and Volley. Sales for Slazenger and Dunlop also declined further due to reduced distribution.

Clarks and Hush Puppies were down in line with a generally weaker footwear market, especially in the department store channel, but the pilot of footwear retail stores continues to progress well as evidenced by improving sales performance and profitability. Clarks had point-of-sale growth in January with back-to-school and back-to-work purchases.

Key Outerwear brands, Mossimo, Superdry and Stussy all had increased sales. Diesel's sales performance was below expectations.

EBIT margins before significant items for the ongoing businesses were generally steady. Gross margins declined due to input price increases offset by reductions in costs of doing business, including the benefits of combining the Footwear and Sport divisions into a single business unit.

## Underwear impairment

As part of its review of the carrying value of assets, the Board has decided to impair the carrying value of the Underwear business by writing off the $388.7 million of goodwill which was booked at the time of the company's initial public offering in 2004. The carrying value of the Underwear business' brand names (including Bonds) and net tangible assets are not impacted by this decision.

The impairment has resulted from a material decline in financial performance over the past six months 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 trading conditions. Growth expectations are lower due to uncertainties surrounding the extent and timing of recovery in retail trading conditions.

## Underwear strategy

The launch of Bonds online in October has been successful. The outlet store network has recently been expanded through the addition of 12 outlets of the Brands United multi-brand network. The business is improving category management and intensifying brand marketing activity such as the successful Bonds '12 Days of Christmas' campaign.

The successful integration of Bonds and Omni Apparel's front-end operations, which was announced in 1H12, has advanced further through the consolidation of the combined Underwear businesses' distribution centre operations into a new facility in Melbourne. This initiative will complete the integration of the Underwear group's end-to-end business system – including international sourcing, in-market supply chain, front-end business operations and supporting functions.

## Dividends and capital management

The company's dividend policy is to pay out at least 50% of annual net profit after tax before the impact of significant items. Accordingly, an interim dividend of 2.0 cents per share fully franked has been declared. This maintains the payout ratio at c.50% and is in line with the prior corresponding period.

Since the announcement of an on-market buy-back on 24 August 2011, the company has repurchased 18.5 million shares for a total outlay of $12.3 million. The board will continue to consider capital management initiatives as and when appropriate.

## Unsolicited approach

The company announced on 10 January 2012 that it was considering an unsolicited approach regarding a possible acquisition of the entire issued capital of the company and preliminary discussions were being held. Since then, other enquiries have been received which the company is also considering. There is no certainty that any agreement will be reached with any party. The company does not propose to make any further announcement in relation to these discussions until they have been concluded.

## Outlook

The outlook remains, as indicated at the time of the Annual General Meeting in October, challenging.

In relation to 2H12 (compared to 2H11):

- EBIT and net profit after tax (before significant items) are both expected to be materially down
- Underlying sales are expected to be down due to continuing weak retail conditions and changes to the customer base
- The impact on earnings is expected to be partially mitigated by a continuing focus on reducing costs of doing business, however results will largely be determined by trading conditions

Due to the transformation and restructuring work completed, the company remains well placed to deal with the challenges ahead of it and then to benefit from any improvement in market conditions.

## Results briefing

Following the release today of the company's result for the half year ended 31 December 2011, the briefing on the results by Sue Morphet (Chief Executive Officer) and David Bortolussi (Chief Financial & Operating Officer) has been brought forward to today, 17 February 2012. It will be held at 11.30am AEST and will be available for viewing by webcast.  A link to the webcast and a copy of the presentation slides is available at www.pacificbrands.com.au.

For those analysts, investors and media dialling into the briefing, details are as follows:

Australia dial: 1800 148 258

International dial: +61 2 8524 6650

Conference ID: 53182542

For further information contact:


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## Appendix A: Underlying sales[1]

| | | | Change | |
|---|---|---|---|---|
| **$ millions** | **1H12** | **1H11** | **$m** | **%** |
| Net business divestments[2] | 10.1 | 113.5 | (103.4) | (91.1) |
| Brand discontinuations[3] | 6.4 | 17.2 | (10.8) | (62.8) |
| Underlying sales - total | 668.2 | 721.3 | (53.1) | (7.4) |
| **Reported sales** | **684.7** | **852.1** | **(167.3)** | **(19.6)** |
| | | | | |
| Underlying sales - Kmart | 5.4 | 38.6 | (33.2) | (86.0) |
| Underlying sales - excl. Kmart | 662.8 | 682.7 | (19.9) | (2.9) |
| **Underlying sales - total** | **668.2** | **721.3** | **(53.1)** | **(7.4)** |

1 Unaudited data. Defined as reported sales less sales from acquisitions, divested businesses, businesses held for sale and brands and labels subject to discontinuation

2 Sleepmaker and Dunlop Foams divested in F11 (effective 31 March 2011); Bikes business divested in F12 (effective 31 August 2011); Net of minor acquisitions

3 To be discontinued largely by the end of F12

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Level 3, 290 Burwood Road, Hawthorn, Victoria 3122 Australia
Tel: +61 3 9947 4900  www.pacificbrands.com.au
ABN 64 106 773 059

# Pacific Brands Limited and its controlled entities
# ABN 64 106 773 059

# ASX Appendix 4D - Interim Financial Report for the half year ended 31 December 2011

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | | |
|---|---|---|
| Sales revenue from ordinary activities | Down 19.6% to | 684.7 million |
| Earnings/(deficit) before interest and tax | Down 169.4% to | (336.5) million |
| Earnings before interest, tax, and significant items[1] | Down 36.5% to | 65.6 million |
| Net (loss)/profit for the period | Down 118.3% to | (362.2) million |
| Net (loss)/profit attributable to equity holders of the parent | Down 118.2% to | (362.4) million |

1 Individually significant items are disclosed as other expenses in Note 7 to the Appendix 4D. 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

## DIVIDENDS

| | AMOUNT PER SHARE | TOTAL AMOUNT | FRANKED AMOUNT |
|---|---|---|---|
| Interim Dividend | 2.0 cents | $18.3 million | 100% |

The Company's dividend record date is 29 February 2012 and the dividend is payable on 2 April 2012.

## OTHER INFORMATION

| | CURRENT PERIOD | PREVIOUS CORRESPONDING PERIOD |
|---|---|---|
| Net tangible asset backing per ordinary share: | $0.11 | $0.10 |

The previous corresponding period is 31 December 2010.

This report is based on information which has been subject to audit by KPMG. Information for the six months ended 31 December 2010 has been subject to review by KPMG.

FURTHER INFORMATION:

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# DIRECTORS' REPORT

The Directors of Pacific Brands Limited ('the Company') present their report together with the condensed consolidated interim financial report of the Company and its controlled entities (collectively the 'Consolidated Entity') for the half year ended 31 December 2011 and the auditors report thereon.

## 1. DIRECTORS

The Directors of the Company at any time during or since the end of the half year are:

| Non-executive | Year of Directorship |
|---|---|
| J A C MacKenzie, Chairman | Director since May 2008. Appointed Chairman November 2008 |
| M A Plavsic | Director since May 2004, retired October 2011 |
| N L Scheinkestel | Director since June 2009 |
| J S King | Director since September 2009 |
| A M Tansey | Director since March 2010 |
| P H Bush | Director since August 2010 |

| Executive | |
|---|---|
| S M Morphet, Chief Executive Officer | Director since January 2008 |

The office of Company Secretary is held by J C Grover.

## 2. REVIEW OF OPERATIONS

A review of the operations of the Consolidated Entity during the 2012 half year and of the results of those operations and financial position of the Consolidated Entity is contained in the accompanying Pacific Brands Limited half year results announcement dated 17 February 2012.

## 3. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 16 and forms part of the directors' report for the half year ended 31 December 2011.

## 4. ROUNDING OFF

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998. In accordance with that Class Order amounts in the interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 17th day of February 2012.

Sue M Morphet.

**Sue Morphet**
Chief Executive Officer

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | NOTE | CONSOLIDATED<br>HALF YEAR ENDED<br>31 DECEMBER 2011<br>$'000 | HALF YEAR ENDED<br>31 DECEMBER 2010<br>$'000 |
|---|---|---|---|
| Sales revenue | 5 | **684,729** | 852,078 |
| Cost of sales | | **(366,580)** | (452,449) |
| **Gross profit** | | **318,149** | 399,629 |
| Other Income | 5 | **2,054** | 3,116 |
| Freight and distribution expenses | | **(57,341)** | (66,908) |
| Sales, marketing and advertising expenses | | **(135,620)** | (150,162) |
| Administrative expenses | | **(61,657)** | (82,445) |
| Other expenses | 7 | **(402,127)** | (228,147) |
| **Results from operating activities** | | **(336,542)** | (124,917) |
| Financial income | 6 | **2,786** | 2,894 |
| Financial expenses | 6 | **(16,430)** | (21,372) |
| **Net financing costs** | | **(13,644)** | (18,478) |
| **Profit/(Loss) before income tax expense** | | **(350,186)** | (143,395) |
| Income tax expense | 9 | **(12,026)** | (22,530) |
| **Profit/(Loss) for the period** | | **(362,212)** | (165,925) |
| **Profit/(Loss) attributable to:** | | | |
| Equity holders of the parent | | **(362,390)** | (166,098) |
| Non controlling interest | | **178** | 173 |
| **Profit/(Loss) for the period** | | **(362,212)** | (165,925) |
| **Other comprehensive income/(loss)** | | | |
| Foreign currency translation differences | | **(215)** | (10,344) |
| Changes in fair value of cash flow hedges (net of tax) | | **8,562** | (29,866) |
| Other comprehensive income/(loss) for the period net of tax | | **8,347** | (40,210) |
| **Total comprehensive income/(loss) for the period** | | **(353,865)** | (206,135) |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Equity holders of the parent | | **(354,066)** | (205,919) |
| Non controlling interest | | **201** | (216) |
| **Total comprehensive income/(loss) for the period** | | **(353,865)** | (206,135) |
| **Earnings per share:** | | | |
| Ordinary shares | 11 | **(39.3) cents** | (17.9) cents |
| Diluted shares | 11 | **(39.3) cents** | (17.9) cents |

The condensed consolidated interim statement of comprehensive income is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 8 to 14.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

| | | CONSOLIDATED | |
|---|---|---|---|
| | NOTE | 31 DECEMBER 2011 $'000 | 30 JUNE 2011 $'000 |
| **Current assets** | | | |
| Cash and cash equivalents | | **141,051** | 155,479 |
| Trade and other receivables | | **178,901** | 192,909 |
| Inventories | | **266,009** | 262,479 |
| Other current assets | | **7,173** | 9,996 |
| Assets classified as held for sale | 12 | **14,203** | 14,278 |
| **Total current assets** | | **607,337** | 635,141 |
| **Non-current assets** | | | |
| Trade and other receivables | | **53** | 28 |
| Property, plant and equipment | | **81,143** | 80,364 |
| Intangible assets | 13 | **693,480** | 1,080,998 |
| Deferred tax assets | | **27,165** | 25,544 |
| **Total non-current assets** | | **801,841** | 1,186,934 |
| **Total assets** | | **1,409,178** | 1,822,075 |
| **Current liabilities** | | | |
| Trade and other payables | | **148,885** | 144,470 |
| Interest bearing loans and borrowings | | **107** | 177 |
| Income tax payable | | **16,236** | 26,923 |
| Provisions | | **56,655** | 68,778 |
| Liabilities directly associated with assets classified as held for sale | 12 | **-** | 355 |
| **Total current liabilities** | | **221,883** | 240,703 |
| **Non-current liabilities** | | | |
| Trade and other payables | | **3,762** | 4,250 |
| Interest bearing loans and borrowings | | **383,133** | 382,503 |
| Provisions | | **10,066** | 9,720 |
| **Total non-current liabilities** | | **396,961** | 396,473 |
| **Total liabilities** | | **618,844** | 637,176 |
| **Net assets** | | **790,334** | 1,184,899 |
| **Equity** | | | |
| Contributed equity | | **1,147,200** | 1,469,094 |
| Reserves | | **(31,095)** | (39,820) |
| Retained earnings/(Accumulated losses) | | **(328,746)** | (247,149) |
| **Total equity attributable to equity holders of the parent** | | **787,359** | 1,182,125 |
| Minority interest | | **2,975** | 2,774 |
| **Total equity** | | **790,334** | 1,184,899 |

The condensed consolidated interim statement of financial position is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 8 to 14.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

| | CONSOLIDATED | |
|---|---|---|
| | HALF YEAR ENDED 31 DECEMBER 2011 $'000 | HALF YEAR ENDED 31 DECEMBER 2010 $'000 |
| **Cash flows from operating activities** | | |
| Cash receipts from customers | **773,134** | 926,536 |
| Cash paid to suppliers and employees | **(692,298)** | (846,229) |
| Income taxes paid | **(27,100)** | (6,741) |
| Interest paid | **(15,904)** | (20,336) |
| Interest received | **2,786** | 3,016 |
| **Net cash from operating activities** | **40,618** | 56,246 |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | **(12,728)** | (12,288) |
| Proceeds from disposal of property, plant and equipment | **361** | 8,744 |
| Acquisition of business (net of cash acquired) | **(4,209)** | (1,770) |
| Proceeds from disposal of businesses (net of cash disposed) | **2,655** | - |
| **Net cash used in investing activities** | **(13,921)** | (5,314) |
| **Cash flows from financial activities** | | |
| Finance lease payments | **(38)** | (384) |
| Repayment of borrowings | **-** | (7,380) |
| Dividends paid | **(28,764)** | - |
| Share buy back | **(12,337)** | - |
| **Net cash used in financing activities** | **(41,139)** | (7,764) |
| **Net increase/(decrease) in cash and cash equivalents** | **(14,442)** | 43,168 |
| Cash and cash equivalents at the beginning of the period | **155,479** | 149,974 |
| Effect of exchange rate fluctuations on cash held | **14** | (4,546) |
| **Cash and cash equivalents at the end of the period** | **141,051** | 188,596 |

The condensed consolidated interim statement of cash flow is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 8 to 14.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

| | ISSUED CAPITAL | EQUITY COMPENSATION RESERVE | FOREIGN CURRENCY TRANSLATION RESERVE | HEDGE RESERVE | ACCUMULATED LOSSES | TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | NON CONTROLLING INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **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) for the period | **-** | **-** | **-** | **-** | **(362,390)** | **(362,390)** | **178** | **(362,212)** |
| Effective portion of net changes in fair value of cash flow hedges[1] | **-** | **-** | **-** | **207** | **-** | **207** | **-** | **207** |
| Net change in fair value of cash flow hedges transferred to inventory or profit and loss[1] | **-** | **-** | **-** | **8,355** | **-** | **8,355** | **-** | **8,355** |
| Foreign currency translation differences | **-** | **-** | **(238)** | **-** | **-** | **(238)** | **23** | **(215)** |
| Total other comprehensive income/(loss) | **-** | **-** | **(238)** | **8,562** | **-** | **8,324** | **23** | **8,347** |
| Total comprehensive (loss)/income for the period | **-** | **-** | **(238)** | **8,562** | **(362,390)** | **(354,066)** | **201** | **(353,865)** |
| **Transactions with owners recorded directly in entity** | | | | | | | | |
| Share capital reduction[2] | **(309,557)** | **-** | **-** | **-** | **309,557** | **-** | **-** | **-** |
| On market buy back of shares[3] | **(12,337)** | **-** | **-** | **-** | **-** | **(12,337)** | **-** | **(12,337)** |
| Dividends recognised | **-** | **-** | **-** | **-** | **(28,764)** | **(28,764)** | **-** | **(28,764)** |
| Cost of share based payments | **-** | **401** | **-** | **-** | **-** | **401** | **-** | **401** |
| **Balance at 31 December 2011** | **1,147,200** | **6,110** | **(33,159)** | **(4,046)** | **(328,746)** | **787,359** | **2,975** | **790,334** |
| **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) for the period | - | - | - | - | (166,098) | (166,098) | 173 | (165,925) |
| Effective portion of net changes in fair value of cash flow hedges[1] | - | - | - | (38,674) | - | (38,674) | - | (38,674) |
| Net change in fair value of cash flow hedges transferred to inventory or profit and loss[1] | - | - | - | 8,808 | - | 8,808 | - | 8,808 |
| Foreign currency translation differences | - | - | (9,955) | - | - | (9,955) | (389) | (10,344) |
| Total other comprehensive (loss)/income | - | - | (9,955) | (29,866) | - | (39,821) | (389) | (40,210) |
| Total comprehensive (loss)/income for the period | - | - | (9,955) | (29,866) | (166,098) | (205,919) | (216) | (206,135) |
| **Transactions with owners recorded directly in entity** | | | | | | | | |
| On market purchase of performance rights | - | (2,352) | - | - | 1,867 | (485) | - | (485) |
| Cost of share based payments | - | 1,150 | - | - | - | 1,150 | - | 1,150 |
| **Balance at 31 December 2010** | 1,469,094 | 5,827 | (33,364) | (18,063) | (252,556) | 1,170,938 | 3,049 | 1,173,987 |

1. Amounts are stated net of tax
2. On 23 August 2011 the Company reduced its share capital by $309.6 million for the amount that is not represented by available assets, reflecting impairment charges incurred by the Company during the year ended 30 June 2011. This had the effect of eliminating accumulated losses at the Company and Consolidated Entity level. There was no impact on the Statement of Comprehensive Income or Statement of Cash Flow
3. 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 31 December 2011

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the condensed notes to the interim financial statements set out on pages 8 to 14.

# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

Pacific Brands Limited (the 'Company') is a Company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the half year ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the 'Consolidated Entity').

The condensed consolidated interim financial report was authorised for issue by the directors on 17 February 2012.

The consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2011 is available upon request from the Company's registered office at Level 3, 290 Burwood Road, Hawthorn, Victoria or on the Company's website at www.pacificbrands.com.au.

## 2. STATEMENT OF COMPLIANCE

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2011. This report must also be read in conjunction with any public announcements made by Pacific Brands Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The Consolidated Entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998. In accordance with that Class Order amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated annual financial report as at and for the year ended 30 June 2011.

### Impact of standards issued but not yet applied by the entity

AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable for the Group until annual reporting period beginning 1 July 2013 but is available for early adoption. The standard only permits the recognition of fair value gains and losses on financial assets in other comprehensive income if they relate to equity investments that are not held for trading and an election is made. The new requirement is not expected to impact on the Group's accounting for financial assets as they are predominantly measured at amortised cost, with the exception of forward exchange contracts which are carried at fair value and relate specifically to a hedging relationship. Under the standard, fair value gains and losses related to a hedging relationship may continue to be recognised directly in equity. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

AASB 10 *Consolidated Financial Statements* provides a revised definition of control which considers both power and the ability to affect variable returns before control is present. The standard is not applicable for the Group until annual reporting period beginning 1 July 2013 but is available for early adoption. The Group currently has no significant investments that will be impacted by the new requirements. However, the accounting policies will be revisited on implementation.

AASB 101 *Presentation of Financial Statements* provides a new presentation approach, whereby items of other comprehensive income that will never be recognised or recycled to the profit or loss should be presented separately from those items that will be subsequently reclassified or recycled to the profit or loss. The new requirement does not impact the Group's measurement of net profit however, the change will impact the way the items of other comprehensive income are presented. The standard is not applicable for the Group until annual reporting period beginning 1 July 2012.

AASB 13 *Fair Value Measurement* addresses the guidance currently provided within various individual accounting standards. The standard is not applicable for the Group until annual reporting period beginning 1 July 2013. Fair value measurement guidance will be consolidated into the one standard with a unified definition of fair value. Enhanced guidance is provided on application of fair value measurement in inactive markets. The new standard is not expected to significantly impact the Group's fair value measurement, as the Group currently does not apply fair value measurement for items in inactive markets. However increased fair value measurement disclosures are expected.

AASB119 *Employee Benefits* addresses the measurement and presentation of defined benefit pension expense. The amendments to the standard are not applicable for the Group until annual reporting period beginning 1 July 2013 but are available for early adoption. Under the new requirements, the corridor approach has been removed and new guidance is provided on the presentation of components of pension expense in the income statement. The expected return on assets is no longer required to be included in the measurement of pension expense. The changes will impact the Group's method for recognising actuarial gains and losses. These changes relating to the measurement of the pension fund are yet to be quantified. Minor changes to the Group's defined benefit disclosures are expected.

## 4. ESTIMATES AND JUDGEMENTS

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Except for revisions to estimates with respect to impairment testing (refer note 13) there have been no material revisions in the current financial reporting period. In preparing this condensed consolidated interim financial report the significant judgements made by management in applying the Consolidated Entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial report as at and for the year ended 30 June 2011.

## 5. REVENUE AND OTHER INCOME

| | CONSOLIDATED | |
|---|---|---|
| | HALF YEAR ENDED 31 DECEMBER 2011 $'000 | HALF YEAR ENDED 31 DECEMBER 2010 $'000 |
| Sales revenue | **684,729** | 852,078 |
| **Other income** | | |
| Royalties | **1,018** | 1,023 |
| Sundry income | **1,036** | 2,093 |
| Total other income | **2,054** | 3,116 |
| Total revenue and other income | **686,783** | 855,194 |

## 6. EXPENSES

| | CONSOLIDATED | |
|---|---|---|
| | HALF YEAR ENDED 31 DECEMBER 2011 $'000 | HALF YEAR ENDED 31 DECEMBER 2010 $'000 |
| Depreciation of: | | |
| Freehold buildings and leasehold improvements | **523** | 1,683 |
| Plant and equipment | **5,516** | 5,728 |
| | **6,039** | 7,411 |
| Amortisation of: | | |
| Software assets | **682** | 1,039 |
| Other Intangibles | **130** | 1,277 |
| Leased plant and equipment | **278** | 385 |
| | **1,090** | 2,701 |
| Total depreciation and amortisation | **7,129** | 10,112 |
| Net financing costs: | | |
| Financial income | **(2,786)** | (2,894) |
| Interest on bank loans and overdraft | **16,430** | 21,372 |
| | **13,644** | 18,478 |
| Personnel expenses: | | |
| Wages, salaries and entitlements | **138,917** | 179,603 |
| Contributions to defined contribution superannuation plans | **9,368** | 11,366 |
| Defined benefit superannuation expense | **346** | 431 |
| Share based payments | **401** | 1,150 |
| | **149,032** | 192,550 |

## 7. OTHER EXPENSES

Other expenses in the Statement of Comprehensive Income is comprised of the following individually significant items:

| | | HALF YEAR ENDED 31 DECEMBER 2011 | | | HALF YEAR ENDED 31 DECEMBER 2010 | | |
|---|---|---|---|---|---|---|---|
| | NOTE | GROSS $'000 | TAX $'000 | NET $'000 | GROSS $'000 | TAX $'000 | NET $'000 |
| **Asset impairment** | | | | | | | |
| Impairment of goodwill, brand names and other intangibles | 13 | **388,709** | **-** | **388,709** | 214,701 | - | 214,701 |
| Other asset impairments | | **555** | **167** | **388** | 390 | 117 | 273 |
| | | **389,264** | **167** | **389,097** | 215,091 | 117 | 214,974 |
| **Loss on sale** | | | | | | | |
| Loss on sale of businesses and other assets | 12 | **2,006** | **602** | **1,404** | - | - | - |
| **Restructuring expenses** | | | | | | | |
| Redundancies, decommissioning and other costs | | **10,857** | **3,257** | **7,600** | 13,056 | 3,917 | 9,139 |
| | | **402,127** | **4,026** | **398,101** | 228,147 | 4,034 | 224,113 |

## 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 affective 1 July 2011 and as a result Homewares, Footwear and Outerwear now form one reportable segment. The corresponding items of segment information for the comparative period 31 December 2010 has 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 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 and carpet underlay; women's, men's and children's footwear; casual outerwear; 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 Operations' which form part of the reconciliations over page. Other operations include unallocated corporate expenses and amortisation of corporate intangible assets including software. The corresponding items of segment information for the comparative period 31 December 2010 has been restated to allow meaningful comparison.

During the half year ended 31 December 2011, the measure of profit or loss presented to and used by the CEO in assessing segment performance (EBITA) was changed to exclude amortisation of intangibles.

Performance is measured based on segment earnings before interest, tax and significant items ('EBIT') as included in the internal management reports that are reviewed by the Consolidated Entity's CEO. Segment EBIT is used to measure performance as management believes that such information is the most relevant in evaluating the results of segments. Inter-segment pricing is determined on an arm's length basis.

Information regarding the results of each reportable segment is included below.

| **Half year ended 31 December 2011** | UNDERWEAR $'000 | WORKWEAR $'000 | HOMEWARES, FOOTWEAR & OUTERWEAR[1,2] $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| External sales | **217,347** | **194,456** | **272,926** | **684,729** |
| Inter segment sales | **140** | **137** | **233** | **510** |
| Total segment sales | **217,487** | **194,593** | **273,159** | **685,239** |
| Other income | **175** | **369** | **856** | **1,400** |
| Total segment revenue | **217,662** | **194,962** | **274,015** | **686,639** |
| **Result** | | | | |
| EBIT before significant items | **35,359** | **19,355** | **17,647** | **72,361** |
| Impairment of goodwill, brand names and other intangibles | **(388,709)** | **-** | **-** | **(388,709)** |
| Significant items | **(7,389)** | **(982)** | **(2,890)** | **(11,261)** |
| EBIT after significant items | **(360,739)** | **18,373** | **14,757** | **(327,609)** |
| Depreciation and amortisation | **441** | **543** | **3,691** | **4,675** |
| Total assets | **731,065** | **482,995** | **336,345** | **1,550,405** |

| **Half year ended 31 December 2010** | UNDERWEAR $'000 | WORKWEAR $'000 | HOMEWARES, FOOTWEAR & OUTERWEAR[1,2] $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| External sales | 258,596 | 196,523 | 396,959 | 852,078 |
| Inter segment sales | 117 | 700 | 512 | 1,329 |
| Total segment sales | 258,713 | 197,223 | 397,471 | 853,407 |
| Other income | 717 | 499 | 1,698 | 2,914 |
| Total segment revenue | 259,430 | 197,722 | 399,169 | 856,321 |
| **Result** | | | | |
| EBIT before significant items | 59,560 | 23,673 | 29,259 | 112,492 |
| Impairment of goodwill, brand names and other intangibles | - | - | (214,701) | (214,701) |
| Significant items | (1,806) | (2,289) | (2,416) | (6,511) |
| EBIT after significant items | 57,754 | 21,384 | (187,858) | (108,720) |
| Depreciation and amortisation | 1,099 | 1,549 | 4,765 | 7,413 |
| Total assets | 1,081,439 | 494,103 | 437,359 | 2,012,901 |

1. The results of the Sleepmaker and Dunlop Foams businesses for the period 1 July 2010 to 31 December 2010 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 1 July 2010 to 31 December 2010 are included in the comparative result for the Homewares, Footwear & Outerwear segment. This business was divested on 31 August 2011

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

| | HALF YEAR ENDED 31 DECEMBER 2011 $'000 | HALF YEAR ENDED 31 DECEMBER 2010 $'000 |
|---|---|---|
| **Revenues** | | |
| Total revenue and other income for reportable segments | **686,639** | 856,321 |
| Other income | **654** | 202 |
| Elimination of inter-segment revenue | **(510)** | (1,329) |
| Consolidated revenue and other income | **686,783** | 855,194 |
| **EBIT** | | |
| Total EBIT after significant items for reportable segments | **(327,609)** | (108,720) |
| Unallocated amounts: corporate expenses | **(6,776)** | (9,262) |
| Unallocated significant items | **(2,157)** | (6,935) |
| Net Interest expense | **(13,644)** | (18,478) |
| Consolidated (loss)/profit before income tax expense | **(350,186)** | (143,395) |
| Total EBIT before significant items for reportable segments[1] | **72,361** | 112,492 |
| Unallocated amounts: corporate expenses | **(6,776)** | (9,262) |
| Consolidated EBIT before significant items[1] | **65,585** | 103,230 |

1. Amortisation of 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 $0.1 million (half year ended 31 December 2010: $1.3 million)

The Consolidated Entity supplies four major customers which account for 36% of revenue (2010: four major customers account for 38%).

## 9. INCOME TAX EXPENSE

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre tax income of the interim period. The Consolidated Entity's effective tax rate for the six months ended 31 December 2011 and 31 December 2010 were not meaningful due to the impact of the impairment recorded in each period. Refer note 7 for details.

## 10. DIVIDENDS

Since the end of the half year the directors have recommended that an interim dividend be paid. An interim dividend of 2.0 cents per fully paid Ordinary Share, franked to 100% in Australia based on tax paid at 30% (half year ended 31 December 2010: 3.1 cents dividend declared). Franking credits available at 31 December 2011 are $47.4 million (half year ended 31 December 2010: $68.2 million).

## 11. EARNINGS PER SHARE

| | HALF YEAR ENDED 31 DECEMBER 2011 $'000 | HALF YEAR ENDED 31 DECEMBER 2010 $'000 |
|---|---|---|
| Net (loss)/profit used in the calculation of basic and diluted earnings per share | **(362,390)** | (166,098) |

| | HALF YEAR ENDED 31 DECEMBER 2011 No. | HALF YEAR ENDED 31 DECEMBER 2010 No. |
|---|---|---|
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share[1] | **921,941,995** | 929,544,088 |

1. The change in weighted average number of ordinary shares was 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 31 December 2011

## 12. ASSETS CLASSIFIED AS HELD FOR SALE

| | CONSOLIDATED | |
|---|---|---|
| | 31 DECEMBER 2011 $'000 | 30 JUNE 2011 $'000 |
| **Assets held for sale** | | |
| Property, plant and equipment | **14,203** | 9,604 |
| Inventories | **-** | 4,512 |
| Other assets | **-** | 162 |
| Total assets held for sale | **14,203** | 14,278 |
| | | |
| **Liabilities directly associated with assets classified as held for sale** | | |
| Provisions | **-** | 355 |
| Total liabilities associated with assets classified as held for sale | **-** | 355 |

Assets held for sale at 31 December 2011 included the Coolaroo property ($8.8 million) and Kingsgrove property ($5.4 million).The Coolaroo property remains held for sale at 31 December 2011 and is expected to be completed on 30 June 2012.

### Business disposals

The divestment of the bikes business was completed on 31 August 2011. The total net loss on disposal recognised on completion of the sale was $4.7 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 $2.0 million is recognised in other expenses at 31 December 2011.

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

## 13. IMPAIRMENT

The Consolidated Entity has 4 CGUs and the carrying amounts of goodwill and indefinite life intangible assets identified in each CGU are:

| | CONSOLIDATED | | | |
|---|---|---|---|---|
| | GOODWILL | | BRAND NAMES | |
| | 31 DECEMBER 2011 $'000 | 30 JUNE 2011 $'000 | 31 DECEMBER 2011 $'000 | 30 JUNE 2011 $'000 |
| Underwear | **-** | 386,739 | **273,041** | 273,041 |
| Workwear | **177,763** | 177,763 | **99,980** | 99,980 |
| Homewares | **106,447** | 106,435 | **30,344** | 30,344 |
| Footwear, Outerwear & Sport | **-** | - | **-** | - |
| **Total** | **284,210** | 670,937 | **403,365** | 403,365 |

### Cash Generating Units

During the half year the integration of Bonds with Omni Apparel resulted in the formation of one CGU (Underwear) for the purposes of impairment testing. These were considered two separate CGUs at the last annual impairment test 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, carrying values are monitored separately for these businesses and therefore Homewares and FOS remain as two separate independent CGUs.

### Impairments during the half

During the half year, the Consolidated Entity recognised impairment losses with respect to the Underwear CGU. The impairment has resulted from a material decline in financial performance over the past six months 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 trading 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 $388.7m.

Valuation Techniques

The recoverable amounts of the CGUs above were determined using the greater of value in use and fair value less costs to sell. For the Underwear CGU, the recoverable amount was based on a capitalisation of maintainable earnings before interest and tax approach as representative of the fair value less costs to sell. The fair value less cost to sell has been determined with the assistance of external valuation advice using a combination of internal and external sources of information. The information used in the calculation is reflective of past experience and expected future performance.

For the Workwear and Homewares CGUs the recoverable amounts were determined using value in use calculations. This is consistent with the approach taken at 30 June 2011. The value in use calculations discount pre tax free cash flow projections which are based on a 5 year forecast period extrapolated into perpetuity. The recoverable amount as determined by the value in use is sensitive to earnings before interest, tax, depreciation and amortisation (EBITDA) growth in the forecast period, terminal value growth rates applied into perpetuity and the discount rate applied. The assumptions applied or derived in the value in use calculation for the Workwear and Homewares CGUs are as follows:

| **CGU** | **EBITDA growth** | **Terminal value growth** | **Discount rate** |
|---|---|---|---|
| Workwear | 6% (30 June 2011: 12%) | 3% (30 June 2011: 4%) | 14% (30 June 2011: 14%) |
| Homewares | 3% (30 June 2011: 7%) | 3% (30 June 2011: 2%) | 14% (30 June 2011: 14%) |

Assumed EBITDA growth rates over the forecast period for Workwear and Homewares are based on expected market growth and business performance during the period. The terminal value growth rate assumptions are based on long term expected GDP growth rates and are applied to both CGUs. The pre tax discount rate is based on the Consolidated Entity's weighted average cost of capital which is determined with regard to the capital asset pricing model and various external market indices.

For the Workwear CGU, a 7% reduction in the annual EBITDA across the forecast period, or a 2% reduction in the terminal value growth rate, or a 1% increase in the discount rate used in the value in use would cause the recoverable amount to be equal to the carrying value.

For the Homewares CGU, a 25% reduction in the annual EBITDA across the forecast period, or a 6% reduction in the terminal value growth rate, or a 3% increase in the discount rate used in the value in use would cause the recoverable amount to be equal to the carrying value.

As at 31 December 2011, results of the impairment testing performed for the Workwear, Homewares and FOS CGUs did not result in any impairment being identified.

## 14. EVENTS SUBSEQUENT TO REPORTING DATE

On 16 February 2012 the Company made the decision to reduce its share capital by $338.2 million for the amount that is not represented by available assets, reflecting the impairment charges incurred by the Company during the half year ended 31 December 2011. 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 issues, 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 half year ended 31 December 2011.

For dividends declared after 31 December 2011, refer to Note 10. The financial impact of the dividends declared have not been reflected in the interim financial statements.

# DIRECTOR'S DECLARATION

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

1 the condensed consolidated interim financial statements and condensed notes set out on pages 3 to 14, are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2011 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 17th day of February 2012.

Sue M Morphet.

**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 half-year ended 31 December 2011 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

**KPMG**

Melbourne
17 February 2012

Alison Kitchen

**Alison Kitchen**
Partner

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

## Report on the financial report

We have audited the accompanying interim financial report of Pacific Brands Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2011, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 14 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 interim period's end or from time to time during the interim period.

## Directors' responsibility for the interim financial report

The Directors of the Company are responsible for the preparation of the interim 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.

## Auditor's responsibility

Our responsibility is to express an opinion on the interim 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 interim financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the interim 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 interim 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 interim financial report.

We performed the procedures to assess whether, in all material respects, the interim financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standard AASB 134 Interim Financial Reporting 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.

## Auditor's opinion

In our opinion the interim financial report of Pacific Brands Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

**KPMG**

Melbourne
17 February 2012

Alison Kitchen

**Alison Kitchen**
Partner