PACIFIC BRANDS

24 September 2010

Manager Company Announcements
Australian Securities Exchange Limited
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:

1. Notice of Annual General Meeting;
2. Proxy Form; and
3. 2010 Annual Report.

These documents are in the process of being forwarded to shareholders.

Yours faithfully
Pacific Brands Limited

John Grover
Company Secretary

Notice of Annual General Meeting

25 OCTOBER 2010

PACIFIC BRANDS

PACIFIC BRANDS LIMITED ABN 64 106 773 059

Notice of Annual General Meeting

PACIFIC BRANDS LIMITED ABN 64 106 773 059

The 2010 Annual General Meeting of Pacific Brands Limited will be held as follows:

Date: **Monday 25 October 2010**

Time: **10:00am (AEDT)**

Venue: **Pacific Brands Limited**
Ground Floor, 290 Burwood Road
Hawthorn, Victoria, Australia.

Ordinary Business

1 Financial Report

To receive and consider the financial report of the Company for the financial year ended 30 June 2010 and the reports of the Directors and Auditor.

2 Election of Directors

To consider, and if thought fit, to pass the following as separate ordinary resolutions:

(a) **Election of Ms Arlene Tansey as a Director**

Arlene Tansey, who was appointed as a director of the Company on 25 March 2010, retires under rule 8.1(c) of the Company's constitution and being eligible, offers herself for election

(b) **Election of Mr Peter Bush as a Director**

Peter Bush, who was appointed as a director of the Company on 24 August 2010, retires under rule 8.1(c) of the Company's constitution and being eligible, offers himself for election

Mr Andrew Cummins retires in accordance with rule 8.1(d) of the Company's constitution and will not be standing for re-election. Ms Dominique Fisher also retires in accordance with rule 8.1(d) of the Company's constitution and will not be standing for re-election.

Other Business – Non-binding Advisory Vote

3 Adoption of Remuneration Report

To adopt the Remuneration Report as set out in the Annual Report for the financial year ended 30 June 2010.

Note that the vote on this resolution is advisory only and does not bind the directors of the Company.

Special Business

4 Increase in aggregate cap of non-executive Directors remuneration

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, in accordance with rule 8.3 of the Company's constitution and ASX Listing Rule 10.17, the maximum aggregate amount of remuneration that may be paid in any financial year to the Company's non-executive directors be increased by $500,000 from $1,500,000 to a maximum sum of $2,000,000 (inclusive of superannuation contributions) per year."

5 Grant performance rights to the Chief Executive Officer under the Pacific Brands Limited Performance Rights Plan

To consider and, if thought fit, to pass the following resolutions as separate ordinary resolutions:

(a) "That approval be given under Listing Rule 10.14 for a grant of 1,228,915 performance rights to Ms Sue Morphet, effective 1 July 2009, in accordance with the rules of the Pacific Brands Limited Performance Rights Plan and on the terms summarised in the Explanatory Notes included in this Notice."

(b) "That approval be given under Listing Rule 10.14 for a grant of 1,377,078 performance rights to Ms Sue Morphet, effective 1 July 2010, in accordance with the rules of the Pacific Brands Limited Performance Rights Plan and on the terms summarised in the Explanatory Notes included in this Notice."

By order of the Board

John Grover
Company Secretary
24 September 2010

Questions

IN ORDER TO PROVIDE AN EQUAL OPPORTUNITY FOR ALL SHAREHOLDERS TO ASK QUESTIONS OF THE BOARD, WE ASK YOU TO SUBMIT IN WRITING ANY QUESTIONS TO THE COMPANY OR TO THE COMPANY'S AUDITOR, KPMG (THE AUDITOR) IN RELATION TO ITS CONDUCT OF THE EXTERNAL AUDIT FOR THE YEAR ENDED 30 JUNE 2010, OR THE CONTENT OF ITS AUDIT REPORT. PLEASE SEND YOUR QUESTIONS TO:

The Company's dedicated email address:

agmquestions@pacbrands.com.au

or by mail or delivery to:

The Company Secretary
Pacific Brands Limited
Level 3, 290 Burwood Road
Hawthorn Victoria 3122

or by facsimile to:

The Company Secretary
Pacific Brands Limited
03 9947 4953 (within Australia)
+61 3 9947 4953 (outside Australia)

Written questions must be received by no later than 5:00 pm on **Friday 15 October 2010**.

Your questions should relate to matters that are relevant to the business of the Annual General Meeting, as outlined in this Notice of Meeting and Explanatory Memorandum. Any written answers will be made available as soon as practicable by posting them on the Company's website after the Annual General Meeting.

In accordance with the Corporations Act 2001 (Cth) and the Company's policy, a reasonable opportunity will also be provided to shareholders attending the Annual General Meeting to ask questions about, or make comments upon, matters in relation to the Company including the Remuneration Report.

During the course of the Annual General Meeting, the Chairman will endeavour to address as many of the more frequently raised shareholder questions as possible and, where appropriate, will give a representative of the Auditor the opportunity to answer written questions submitted to the Auditor. However, there may not be sufficient time available at the Meeting to address all questions. Please note that individual responses may not be sent to shareholders.

Voting Information

Voting exclusion

In accordance with the ASX Listing Rules, the Company will disregard any votes cast in respect of the resolutions in item 4 and 5 by:

- any director of the Company
- any associate of a director of the Company

The Company need not disregard a vote if it is cast by:

- a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides

Voting by Proxy or Attorney

- A shareholder entitled to attend and vote at the meeting has a right to appoint a proxy to attend and vote for the shareholder. A Proxy Form is enclosed with this Notice of Meeting. A proxy is entitled to vote on a poll and, provided that only one proxy attends, on a show of hands

- A shareholder may appoint a person or a body corporate as their proxy. If a shareholder appoints a body corporate as proxy, the body corporate will need to ensure that it appoints an individual as corporate representative and provides satisfactory evidence of the appointment of its corporate representative. A proxy need not be a shareholder of the Company

- A shareholder who is entitled to cast two or more votes may appoint two proxies

- Where two proxies are appointed you should specify the proportion or number of votes each proxy is entitled to exercise. If the appointments do not specify the proportion or number of the shareholder's votes that each proxy may exercise, then each proxy may exercise half of the shareholder's votes. Where more than one proxy is appointed, neither proxy is entitled to vote on a show of hands

- Where a shareholder appoints an attorney to act on his or her behalf, such appointment must be made by a duly executed power of attorney

- To be effective, a Proxy Form and the original (or a certified copy) of the power of attorney or any other instrument under which it is signed, must be received by the Company at its registered office or c/- Computershare Investor Services Pty Limited by no later than 10:00am (AEDT) on Saturday, 23 October, 2010 at:
  - Postal address: Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001, Australia
  - Delivery address: Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067, Australia
  - Or if by facsimile to 1800 783 447 (within Australia), +61 3 9473 2555 (outside Australia)

Voting Rights

The Board has determined that a shareholder's voting entitlement at the meeting will be taken to be held by the persons who are the registered holders at 7:00pm (AEDT) on Saturday, 23 October 2010. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

On a show of hands every shareholder present has one vote. On a poll, shareholders have one vote for every fully paid ordinary share held.

A corporate shareholder or proxy must appoint a person as its corporate representative. The appointment must comply with section 250D of the Corporations Act and the representative must provide satisfactory evidence of his / her appointment.

If you propose to attend and vote at the meeting, please bring the accompanying Chairman's letter or the enclosed Proxy Form with you. This will assist in registering your attendance.

Custodian voting

For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.

Explanatory Notes to Shareholders

Item 1 - Financial Report

The financial report for consideration at the meeting will be the full financial report, consisting of the reports of the Directors and Auditors and the annual financial report, including the financial statements of the Company for the year ended 30 June 2010.

Neither the Corporations Act 2001 nor the constitution requires a vote of shareholders on the reports or statements. However, shareholders will be given a reasonable opportunity as a whole to raise questions or comments on the reports and statements at the meeting. In addition, a reasonable opportunity will be given to members as a whole at the meeting to ask the Company's Auditor questions relevant to the conduct of the audit and the preparation and content of the Auditor's report.

Item 2 – Election of Directors

Arlene Tansey
Director, Independent Non-Executive
FAICD, MBA, JD, BBA, Age 52

Ms Tansey, who was appointed to the Board in March 2010, retires in accordance with rule 8.1(c) of the Company's constitution and is standing for election at the annual general meeting as a non-executive Director of the Company.

Arlene was appointed to the Board of the Company in March 2010, bringing over 25 years experience as a senior executive in business and financial services.

Arlene is currently a Director of the Police & Community Youth Clubs.

Her prior Directorships include Retirement Villages Group (2007-2008), ASX-listed Sydney Roads Group (acquired by Transurban) (2006-2007), Snowy Hydro Limited (1999-2006), Sydney Ports Corporation (2003-2005) and the Royal Hospital for Women Foundation. Arlene worked for ANZ Institutional Bank for ten years, her last role being Managing Director, Balance Sheet Management. Arlene also spent four years in Project and Structured Finance at Macquarie Bank, having come to Australia from the US with a background in investment banking and securities law.

The Directors (other than Ms Tansey) unanimously recommend that Ms Tansey be elected as a director of the Company.

Peter Bush
Director, Independent Non-Executive
BA, Age 59

Mr Bush, who was appointed to the Board in August 2010, retires in accordance with rule 8.1(c) of the Company's constitution and is standing for election at the annual general meeting as a non-executive Director of the Company.

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 has held several non-executive directorships including Miranda Wines Pty Ltd, The Institute for Psycho-Social Research, McDonald's Australia, Speedfins, Frucor and Lion Nathan Limited (2005 to 2009).

The Directors (other than Mr Bush) unanimously recommend that Mr Bush be elected as a director of the Company

Andrew Cummins

Mr Andrew Cummins retires in accordance with rule 8.1(d) of the Company's constitution and will not be standing for re-election. Accordingly, Mr Cummins will retire from the Board at the conclusion of the 2010 Annual General Meeting.

Dominique Fisher

Ms Dominique Fisher retires in accordance with rule 8.1(d) of the Company's constitution and will not be standing for re-election. Accordingly, Ms Fisher will retire from the Board at the conclusion of the 2010 Annual General Meeting.

Item 3 – Adoption of Remuneration Report

The Annual Report for the financial year ended 30 June 2010 contains a Remuneration Report, which forms part of the Directors' Report and sets out the remuneration policy for the Company and its controlled entities and reports on the remuneration arrangements in place for executive directors, senior management and non-executive directors.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

The Corporations Act 2001 requires listed companies to put an annual non-binding resolution to shareholders to adopt the Remuneration Report. In line with the legislation, this vote will be advisory only, and does not bind the Directors or the Company, however the Directors will have regard to the outcome of the vote and any discussion when setting the remuneration policies in future years.

The Directors unanimously recommend that shareholders vote in favour of adopting the Remuneration Report.

Item 4 – Increase in aggregate cap of non-executive Directors remuneration

The current maximum aggregate amount which may be paid as fees to all non-executive Directors of the Company for their services as Directors is $1,500,000 per annum. This amount was approved by shareholders at the 2008 Annual General Meeting. The amount approved was exclusive of other payments (eg statutory superannuation payments) that may be payable to the non-executive Directors, as specified in the constitution. In June 2010 the ASX Listing Rules were amended with the effect that all superannuation payments, including statutory superannuation payments must be included within the shareholder approved amount.

The remuneration provided to each non-executive Director for the year ended 30 June 2010 is detailed in the Remuneration Report which is set out on pages 27 to 42 of the 2010 Annual Report.

The proposed increase in the non-executive Directors' fee cap by $500,000 would take the maximum aggregate amount to $2,000,000 (inclusive of superannuation contributions) per annum effective immediately. This amount includes fees that are paid to non-executive Directors for serving on the Board committees.

The Board considers it necessary to seek approval for this increase in order to:

- continue to attract and retain Directors with the appropriate experience and skills
- allow for periodic adjustments in line with market conditions
- retain the flexibility to increase the number of future Board members as part of a staged Board renewal process or in order to broaden the range of skills of the Board
- ensure that the Company continues to be able to comply with its statutory and regulatory obligations

It is critical that the Company has the capacity to pay adequate fees to non-executive Directors in order to attract and retain Directors of the highest calibre. The proposed increase will provide the Company with the flexibility to ensure that a high calibre Board of appropriate size serves the Company and its shareholders.

Increasing the maximum amount of non-executive Directors' remuneration payable does not mean that the maximum aggregate amount which may be paid to Directors will be used immediately.

Shareholders should note that the proposed increase in non-executive Directors' remuneration does not relate to salaries paid to Executive Directors in their capacity as executives of the Company. Executive Directors do not receive remuneration in the form of Directors' fees in addition to their salaries.

As the non-executive Directors have a personal interest in the proposed resolution, the Directors make no recommendation as to how shareholders should vote on this resolution.

Item 5 – Grant of Performance Rights to Chief Executive Officer

Items 5(a) and (b) seek shareholder approval for the grant of performance rights to Ms Sue Morphet the Chief Executive Officer and an executive director of the Company, pursuant to the Pacific Brands Limited Performance Rights Plan ('PRP'), and otherwise on the terms and conditions set out in this notice.

The proposed grants of performance rights are in respect of the 2009 and 2010 financial years and will be granted shortly after the meeting.

The ASX requires, under Listing Rule 10.14, that shareholders approve the grant of new securities to a director. Shareholder approval is sought for the grant of:

- 1,228,915 performance rights to Ms Morphet, effective 1 July 2009 (the "2009 Grant")
- 1,377,078 performance rights to Ms Morphet, effective 1 July 2010 (the "2010 Grant")

on the terms set out in this notice.

The number of performance rights proposed to be granted is calculated by taking 85% of Ms Morphet's fixed annual remuneration and dividing this by the Company's volume weighted average share price ('VWAP') as at the effective date of the grant.

The terms of the proposed grant of performance rights in respect of the 2009 financial year could not be placed before shareholders at the time of the Company's 2009 Annual General Meeting due to uncertainty as to the operation of the PRP in the light of changes to the relevant taxation legislation first announced by the Federal Government in May 2009. For this reason shareholders are now being requested to approve grants in respect of both the 2009 Grant and the 2010 Grant.

The granting of performance rights forms an important part of the Company's executive remuneration policy, details of which are set out in the Company's Remuneration Report.

In summary, the Company's remuneration policy is to ensure that executive remuneration is competitive in attracting, motivating and retaining executives of high calibre which properly reflects the duties and responsibilities of each relevant executive. The remuneration structure used by the Company to achieve these objectives includes the combination of fixed annual remuneration and performance related remuneration (including participation in the PRP, which is only offered to executives who are able to influence the generation of shareholder wealth and therefore have a direct impact on the Company's performance). The Remuneration Committee obtains independent advice from external specialists on the appropriateness of remuneration packages when compared to packages offered by comparable companies.

Ms Morphet is the only Director who is entitled to participate in the PRP.

Subject to receipt of shareholder approval, the Board intends to grant the performance rights in respect of both the 2009 and 2010 financial years at the first Board meeting following the annual general meeting.

Tranches and Performance Conditions

Each grant to Ms Morphet will comprise two equal tranches, with each tranche subject to a different performance condition which is tested at the end of the three year performance period (ie in 2012 in respect of the 2009 grant and in 2013 in respect of the 2010 grant) as described below.

Tranche 1 – TSR performance condition

The performance condition applicable to Tranche 1, comprising 50% of the performance rights, is based on the relative Total Shareholder Return of Pacific Brands. Total Shareholder Return (**'TSR'**) is, the return to shareholders provided by share price appreciation, plus reinvested dividends, expressed as a percentage of investment.

The relative TSR performance condition compares the TSR performance of the Company with the TSR performance of entities in a comparator group of entities over the performance condition measurement period.

Following a review of the Company's long term incentive program ('LTI') during the 2010 financial year, with advice being obtained from external remuneration consultants, the Board determined that the comparator group for the 2009 and 2010 Grants should be broadened to the ASX 200 excluding financial services and resources companies. The main reasons for this change, were the relatively low correlation of the Company's TSR with the historical comparator group of companies and the relatively small size of the historical comparator group (nineteen), which could create significant volatility in the Company's TSR ranking and the vesting outcomes for senior executives. Financial services and resources companies were excluded from the comparator group due to their very different business activities, operating risk profiles and leverage. The comparator group for the 2009 Grant and the 2010 Grant as at the respective effective grant dates are as follows:

TSR Comparator Companies – 2009 Grant

Australian Agricultural Company Limited, ABB Grain Limited, Adelaide Brighton Limited, AGL Energy Limited, Asciano Group, AJ Lucas Group Limited, Aristocrat Leisure Limited, Alesco Corporation Limited, Amcor Limited, Ansell Limited, APN News and Media Limited, Austar United Communications Limited, AWB Limited, Billabong International Limited, Prime Infrastructure Group, Bradken Limited, Boral Limited, Brambles Limited, Cabcharge Australia Limited, Coca-Cola Amatil Limited, ConnectEast Group, Consolidated Media Holdings Limited, Cochlear Limited, Crane Group Limited, CSL Limited, Crown Limited, Corporate Express Australia Limited, David Jones Limited, Downer EDI Limited, Emeco Holdings Limited, Elders Limited, Envestra Limited, Foster's Group Limited, Flight Centre Limited, Fleetwood Corporation Limited, Fairfax Media Limited, Goodman Fielder Limited, Gunns Limited, GUD Holdings Limited, GWA International Limited, Hills Industries Limited, Healthscope Limited, Hastie Group Limited, Harvey Norman Holdings Limited, Infigen Energy, Incitec Pivot Limited, Iress Market Technology Limited, iSOFT Group Limited, InvoCare Limited, JB Hi-Fi Limited, James Hardie Industries SE, Leighton Holdings Limited, Lion Nathan Limited, MAP Group, Macquarie Communications Infrastructure Group, Intoll Group, Southern Cross Media Group Limited, Monadelphous Group Limited, Metcash Limited, Nufarm Limited, News Corporation, Origin Energy Limited, Orica Limited, PMP Limited, PaperlinX Limited, Primary Health Care Limited, Qantas Airways Limited, Ramsay Health Care Limited, ResMed Inc., Seek Limited, Seven Group Holdings Limited, Sims Metal Management Limited, Singapore Telecommunications Limited, Sonic Healthcare Limited, Sigma Pharmaceuticals Limited, Spark Infrastructure Group, SMS Management & Technology Limited, SP AusNet, Spotless Group Limited, Tabcorp Holdings Limited, Transurban Group, Telecom Corporation of New Zealand Limited, Ten Network Holdings Limited, Telstra Corporation Limited, Toll Holdings Limited, Transpacific Industries Group Ltd, Transfield Services Limited, Tatts Group Limited, UGL Limited, Virgin Blue Holdings Limited, West Australian Newspapers Holdings Limited, Wesfarmers Limited, Woolworths Limited, Wotif.com Holdings Limited.

TSR Comparator Companies – 2010 Grant

AGL Energy Limited, APN News and Media Limited, AWB Limited, Adelaide Brighton Limited, Alesco Corporation Limited, Amcor Limited, Ansell Limited, Aristocrat Leisure Limited, Asciano Group, Austar United Communications Limited' Billabong International Limited, Biota Holdings Limited, Boral Limited, Bradken Limited, Brambles Limited, CSL Limited, Cabcharge Australia Limited, Carsales.com Limited, Coca-Cola Amatil Limited, Cochlear Limited, ConnectEast Group, Consolidated Media Holdings Limited, Crane Group Limited, Crown Limited, David Jones Limited, Downer EDI Limited, Elders Limited, Emeco Holdings Limited, Envestra Limited, Fairfax Media Limited, Fleetwood Corporation Limited, Flight Centre Limited, Foster's Group Limited, GUD Holdings Limited, GWA International Limited, Goodman Fielder Limited, Graincorp Limited, Gunns Limited, Harvey Norman Holdings Limited, Hastie Group Limited, Healthscope Limited, Hills Industries Limited, Incitec Pivot Limited, Infigen Energy, Intoll Group, InvoCare Limited, Iress Market Technology Limited, James Hardie Industries SE, JB Hi-Fi Limited, Leighton Holdings Limited, MAP Group, Mermaid Marine Australia Limited, Metcash Limited, Monadelphous Group Limited, Myer Holdings Limited, News Corporation, Nufarm Limited, Orica Limited, Origin Energy Limited, PaperlinX Limited, Primary Health Care Limited, Prime Infrastructure Group, Qantas Airways Limited, Ramsay Health Care Limited, ResMed Inc., SMS Management & Technology Limited, SP AusNet, Seek Limited, Seven Group Holdings Limited, Sigma Pharmaceuticals Limited, Sims Metal Management Limited, Singapore Telecommunications Limited, Sonic Healthcare Limited, Southern Cross Media Group Limited, Spark Infrastructure Group, Spotless Group Limited, Tabcorp Holdings Limited, Tatts Group Limited, Telecom Corporation of New Zealand Limited, Telstra Corporation Limited, Ten Network Holdings Limited, The Reject Shop Limited, Toll Holdings Limited, Transfield Services Limited, Transpacific Industries Group Ltd, Transurban Group, UGL Limited, Virgin Blue Holdings Limited, Wesfarmers Limited, West Australian Newspapers Holdings Limited, Woolworths Limited, Wotif.com Holdings Limited, iSOFT Group Limited.

Any companies that are delisted, merged or taken over during the vesting period will be removed from the comparator group and not replaced.

The level of TSR achieved by the Company over the relevant vesting period will be given a percentile ranking having regard to the Company's performance compared with the performance of other companies in the comparator group.

The percentage of performance rights in Tranche 1 which vest at particular percentile rankings is as follows:

Three year relative TSR – percentile ranking	Percentage of performance rights in tranche that vest
50th percentile or below	0%
51st percentile	50%
Between 51st and 75th percentile	Pro rata between 50% and 100% (2% increase for each higher percentile ranking)
75th percentile or above	100%

The use of a TSR based hurdle is regarded by the Company as appropriate as it:

- ensures an alignment between comparative shareholder return and reward for the executive
- provides an external market performance measure in respect of share price growth and dividends
- measures and rewards the extent to which shareholder returns are generated relative to the performance of those companies with which the Company competes for capital, customers and talent

Further details about the relative TSR performance condition are set out in the Remuneration Report.

Tranche 2 – EPS performance condition

The performance condition applicable to Tranche 2, which comprises the remaining 50% of both the 2009 Grant and 2010 Grant of performance rights, is based on Pacific Brands' Earnings Per Share. Earnings Per Share ('EPS') means net profit after tax divided by the average number of shares on issue.

The growth in EPS over the vesting period, expressed as a compound per annum percentage, will determine the percentage of performance rights in the tranche which vest.

As part of the review of the Company's LTI program noted above, the operation of the EPS performance hurdles applicable to previous grants of performance rights was considered. The Board determined that the percentage of shares which would vest upon the threshold EPS compound annual growth rate (CAGR) being achieved be moved from 25% to 50%, to mirror the structure of the TSR performance hurdle and to increase simplicity.

It was also determined to lower both the threshold and maximum CAGR EPS hurdle requirements to 5% and 8% respectively (previously 8% and 12%) to reflect:

- a more realistic view of what is attainable given the Company largely has relatively high market shares in relatively low growth categories whilst still remaining a 'stretch' target to maximise performance
- capital market expectations as to the level of sustainable long term earnings growth which may lead to a re-rating of the Company's share price

The vesting schedule set by the Board for the proposed 2009 Grant and 2010 Grant are as follows:

Three year EPS growth achieved (compound pa)	Percentage of performance rights in tranche that vest
Less than 5%	0%
5%	50%
Between 5% and 8%	Pro rata between 50% and 100% (1.667% increase for 0.1% additional EPS growth)
8% or above	100%

The Board has adopted EPS as a performance requirement because:

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

Further details about the EPS performance condition are set out in the Remuneration Report.

Testing

Performance against the relative TSR requirement will be assessed as at 30 June 2012 for the period 1 July 2009 to 30 June 2012 in respect of the 2009 Grant and will be assessed as at 30 June 2013 for the period 1 July 2010 to 30 June 2013 in respect of the 2010 Grant. For the 2009 Grant, performance against the EPS growth requirement will be based on audited results for the year ending 30 June 2012 against the base year ended 30 June 2009 and for the 2010 Grant will be based on audited results for the year ending 30 June 2013 against the base year ended 30 June 2010.

Any Performance Rights under the 2009 Grant which do not vest (either in whole or in part) following 30 June 2012 will be re-tested as at 30 June 2013 against the same performance conditions, but measured over the four year period ending 30 June 2013. Similarly, any Performance Rights under the

2010 Grant which do not vest (either in whole or in part) following 30 June 2013 will be re-tested as at 30 June 2014 against the same performance conditions, but measured over the four year period ending 30 June 2014.

The primary reason for introducing a second testing date is to reflect the impact foreign exchange and other variables can have on the Company's TSR and EPS, as highlighted by the Company's recent experience.

Other terms

(a) The performance rights will be granted at no cost to Ms Morphet. Upon vesting, each performance right will entitle Ms Morphet to one share in the Company. Shares will be issued or acquired on market on vesting of the performance rights. No amount is payable by Ms Morphet upon vesting of the performance rights. The Company will fund the cost of acquisition or issue of the shares

(b) In general, the performance rights are not transferable

(c) Subject to the discretion of the Board, any entitlement to performance rights which have not vested will lapse if Ms Morphet resigns from employment with the Company or ceases employment for any other reason

(d) Following changes to the relevant taxation legislation first announced by the Federal Government in May 2009 and subject to the Company's Guidelines on Dealing in Securities, shares allocated on the vesting of performance rights will not be subject to any trading restrictions

(e) In the event of a takeover of the Company, performance rights may, at the discretion of the Board, vest on a pro rata basis in accordance with an assessment of performance, using the same performance criteria but with the performance period pro rated to the date of the takeover offer

Other information

There are no loans to be granted to Ms Morphet in relation to the acquisition of performance rights.

At the Company's 2008 Annual General Meeting shareholder approval was obtained to the grant of 82,677 performance rights to Ms Morphet and 51,591 performance rights to Mr Tierney (the Chief Financial Officer of the Company at the time of grant). Those performance rights were granted in October 2008. No other performance rights have been issued to Ms Morphet under the PRP since approval was obtained at the Company's 2008 Annual General Meeting.

Further details of these and prior grants and the performance rights which have vested pursuant to previous grants are set out in the Remuneration Report which forms part of the Company's 2010 Annual Report.

No performance rights will be issued under this approval later than 12 months after the date of the Meeting.

The Directors (other than Ms Morphet) unanimously recommend that shareholders vote in favour of this resolution.

PACIFIC BRANDS

Pacific Brands Limited ("Pacific Brands")

ABN 64 106 773 059

Lodge your vote:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For intermediary Online subscribers only
(custodians) www.intermediaryonline.com

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

For all enquiries call:

(Australia) 1300 132 632
(New Zealand) 09 488 8777
(Overseas) +61 3 9415 4184

Proxy Form

For your vote to be effective it must be received by 10:00 am (AEDT) Saturday, 23 October 2010

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: This form must be signed in accordance with section 127 of the Corporations Act or the company's constitution. Please sign in the appropriate place to indicate the office held.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.computershare.com.

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form →

View your annual report visit
www.pacificbrands.com.au
or update your securityholding, 24 hours a day, 7 days a week:
www.investorcentre.com

- ☑ **Access the annual report**
- ☑ **Review your securityholding**
- ☑ **Update your securityholding**

Your secure access information is:

SRN/HIN: I1234567890

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

119304_0107KD

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 1234567890 IND

Proxy Form

Please mark X to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Pacific Brands Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ______________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Pacific Brands Limited to be held at the offices of Pacific Brands Limited, Ground Floor, 290 Burwood Road, Hawthorn, Victoria, Australia, Monday 25 October 2010 at 10:00am (AEDT) and at any adjournment of that meeting.

Important for Items 4, 5a & 5b: If the Chairman of the Meeting is your proxy and you have not directed him/her how to vote on Items 4, 5a & 5b below, please mark the box in this section. If you do not mark this box and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Items 4, 5a & 5b and your votes will not be counted in computing the required majority if a poll is called on these Items. The Chairman of the Meeting intends to vote undirected proxies in favour of Items 4, 5a & 5b of business.

☐ I/We acknowledge that the Chairman of the Meeting may exercise my proxy even if he/she has an interest in the outcome of that Item and that votes cast by him/her, other than as proxy holder, would be disregarded because of that interest.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

ORDINARY BUSINESS

		For	Against	Abstain
Item 2a	Election of Ms Arlene Tansey as a Director	☐	☐	☐
Item 2b	Election of Mr Peter Bush as a Director	☐	☐	☐

OTHER BUSINESS

		For	Against	Abstain
Item 3	Adoption of Remuneration Report (non-binding resolution)	☐	☐	☐

SPECIAL BUSINESS

		For	Against	Abstain
Item 4	Increase in aggregate cap of non-executive Directors remuneration	☐	☐	☐
Item 5a	Grant performance rights to the Chief Executive Officer under the Pacific Brands Limited Performance Rights Plan effective 1 July 2009	☐	☐	☐
Item 5b	Grant performance rights to the Chief Executive Officer under the Pacific Brands Limited Performance Rights Plan effective 1 July 2010	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ______________________ **Contact Daytime Telephone** ______________________ **Date** ___ / ___ / ___

PBG 119304A

computershare

119304_0107KD

Annual Report
2010

Volley

Hard Yakka.

NNT

Sheridan

Bonds

Berlei

KingGee

Bonds

Everlast

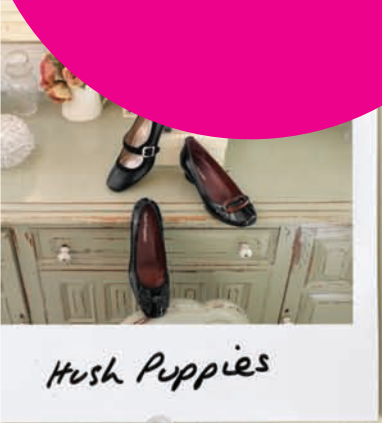
PACIFIC BRANDS

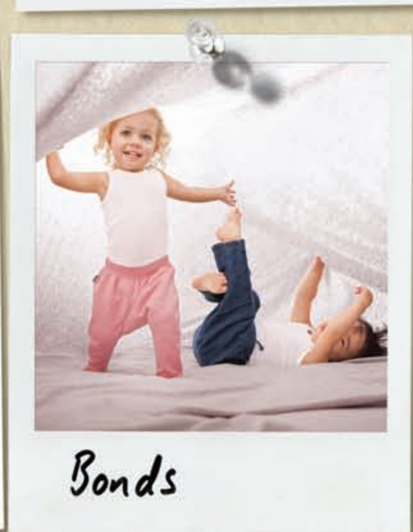
Our brands

People wear our brands, they sleep in our brands and accessorise their homes with our brands. They play sport, go to work, dress their children and relax in our brands.

Every day. Every week. Every year.

That's the power of everyday brands. A strategic platform for building shareholder value.





Superdry

Rio

Malvern Star

Razzamatazz

Sleepmaker

Grosby

Jockey

Mossimo

Julius Marlow

Slazenger

Pacific Brands manages "Everyday Essential Brands", marketing some of the most recognised underwear, hosiery, workwear, homewares, footwear, outerwear and sport brands across Australia and New Zealand.

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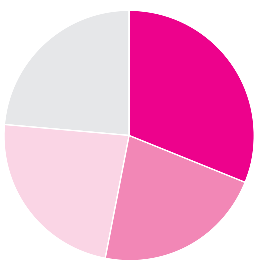
Financial Summary

$ millions	Notes	2010	2009	2008	2007	2006
Income and Cash Flow						
Sales revenue	1	**1,742.4**	1,959.8	2,074.0	1,781.5	1,584.9
Gross margin	1, 2	**732.2**	827.9	911.0	732.8	640.2
EBITDA	2	**201.0**	230.0	253.0	216.4	192.3
EBITA	2	**181.4**	205.3	229.1	194.0	173.0
PBT	2	**130.7**	139.1	160.9	145.6	137.5
NPAT	2	**90.3**	100.1	116.6	106.0	101.2
Reported NPAT		**52.7**	(234.5)	116.6	106.0	101.2
OCFPIT	3	**290.4**	206.0	279.4	208.1	169.9
Reported net operating cash flow		**135.3**	103.7	182.5	138.3	88.4
Statement of Financial Position						
Inventory		**241.3**	311.4	356.9	361.5	296.5
Receivables		**194.3**	231.5	246.4	280.7	187.9
Property, plant & equipment		**117.0**	144.4	204.9	206.8	167.0
Intangibles		**1,307.6**	1,321.3	1,507.5	1,503.8	1,297.3
Creditors		**(119.5)**	(117.4)	(150.5)	(138.8)	(107.3)
Other		**(48.5)**	(171.7)	(92.4)	(92.4)	(30.2)
Total capital employed		**1,692.2**	1,719.5	2,072.8	2,121.6	1,811.2
Net debt		**(312.7)**	(452.8)	(742.7)	(802.2)	(512.6)
Net assets / total equity		**1,379.5**	1,266.7	1,330.1	1,319.4	1,298.6
Ratios						
EBITA margin (%)	1, 2	**10.4**	10.5	11.0	10.9	10.9
EPS (cents)	2, 4	**9.7**	17.0	20.9	19.0	18.1
Reported EPS (cents)		**5.7**	(39.9)	23.2	21.1	20.1
Dividends per share (cents)		**0.0**	0.0	17.0	16.5	15.0
Inventory turnover (times)		**3.6**	3.2	3.4	3.3	3.4
Cash conversion (%)	5	**144.5**	89.6	110.4	96.2	88.4
Net debt / equity (%)		**22.7**	35.7	55.8	60.8	39.5
Return on capital employed (%)	1, 2	**10.7**	12.0	11.1	9.1	9.6

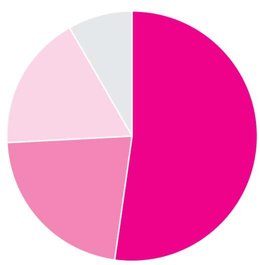
1 Prior years adjusted for the reclassification of certain amounts of sales and marketing expenses now netted against sales revenue
2 Before significant items comprising asset impairment, writedowns and restructuring expenses
3 Operating cash flow pre interest and tax
4 2006, 2007 and 2008 have been 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

Sales by operating segment



- Underwear & Hosiery **31.2%**
- Workwear **22.0%**
- Homewares **23.4%**
- Footwear, Outerwear & Sport **23.4%**

EBITA by operating segment[2]



- Underwear & Hosiery **52.4%**
- Workwear **21.9%**
- Homewares **17.6%**
- Footwear, Outerwear & Sport **8.1%**

Chairman & CEO's Review

Dear shareholders,

Thank you for your support through the financial year. In last year's Annual Report we detailed our Pacific Brands 2010 transformation strategy, a plan to reset the company's cost base and capability set for the future. As you are well aware, real long-term change doesn't happen overnight, but we are pleased to be able to report that we are on or ahead of schedule and are making meaningful and positive change to your company.

We are halfway through the implementation of the strategy and have already achieved a great deal. This includes making significant cost savings and restructuring critical parts of the business. We are also well into the retraining and up-skilling of many of our 6,000 people.

As a business, we are healthier, fitter and faster on our feet. We are more flexible and more market responsive, and we are seeing results in those parts of the business that are the furthest along the transformation path.

The company is now well positioned for long-term sustainable growth and a positive future.

Financial results

Pacific Brands delivered a creditable result amidst a very difficult and changing retail environment and despite the adverse impact of hedged foreign exchange rates.

The reported sales result of $1,742 million was heavily impacted by necessary structural changes, including business divestments and exits, and by brands being discontinued as part of the Pacific Brands 2010 transformation plan.

Underlying sales were down 5.9% (ie before the impact of divestments and brand discontinuations) while reported sales were down 11.1%. Many of our key brands grew in the last year and the overall decline was largely due to the weak retail environment, pricing adjustments, cycling the Government stimulus package and challenges in discount department stores. Restoring underlying sales growth is a top priority for management and your board.

Our earnings before interest, tax and amortisation (EBITA) and significant items was $181.4 million. EBITA in the second half was up on the second half last year reflecting both transformation savings and the strength of our core brands. Reported net profit after tax was $52.7 million, impacted by a number of significant items not relating to ongoing operations.

Operating cash flow has continued to be very strong and this has enabled us to reduce debt by a further $140 million in the last 12 months to $313 million as at June 2010.

Licence renewals

During the year we announced the renewal of our licences with Clarks and Hush Puppies. These renewals mean that all of our key licences in Footwear, Outerwear and Sport – Clarks, Everlast, Hush Puppies, Mossimo and Superdry – are now secured providing us with greater certainty in our business. It also recognises our ability to successfully manage and develop leading brands.

As part of those licence renewals, we will be complementing the wholesale business with an increased retail presence. Our licence partners have had significant success overseas with a complementary retail network and we are very confident that, with support from our partners, we will have similar success here in Australia in entering retail with Clarks and Hush Puppies and expanding our presence with Superdry.

Pacific Brands 2010

As mentioned, we are half way through our transformation plan. The main initiatives for cost reductions have now been largely implemented – 12 months ahead of the original timetable – and the benefits are becoming more visible in our reported results.

The most significant milestone during the year was the manufacturing closures, the last of which occurred in March 2010. The retraining and other support provided to those affected was key to all concerned. We were pleased with the professional and caring manner in which the manufacturing closures were managed by our people in close co-operation with the relevant unions. May we once again thank those affected for their significant contribution to the company and wish them well in their future endeavours.

“As a business, we are healthier, fitter and faster on our feet. We are more flexible and more market responsive, and we are seeing results…”

Changes to the board and management team

There were a number of changes to the structure and composition of the board and management team of Pacific Brands during the past year.

At last year's Annual General Meeting we said farewell to Max Ould who retired as a director. This year's AGM will see Andrew Cummins retire from the board after almost 10 years of service. Both Max and Andrew made significant contributions to the company over an extended period. Dominique Fisher will also retire from the board at this year's AGM, having been with us since 2007 and helping guide our use of technology to drive the company forward. We take this opportunity to formally thank them all for their valuable counsel and guidance.

Coming onto the board in the past 12 months have been James King (September 2009), Arlene Tansey (March 2010) and Peter Bush (August 2010). We look forward to their continued contribution in the years ahead.

At senior management level and reflecting the overall strategy of enriching the talent in the business, we have been pleased to be able to welcome Anthony Heraghty and Holly Kramer to the company. Anthony has been charged with turning around our Footwear, Outerwear and Sport operating group and Holly is heading up Homewares.

There have been other significant changes throughout the business as we continue to refresh the whole organisation, finding the right people where new skills are required but also continuing to foster, develop and nurture the existing and substantial talent within the company.

Dividend

During the year we conducted an extensive review of a range of financial policies, including dividends. Our financial position has strengthened significantly over the past 18 months and so – subject to performance, financial position and outlook at the time – it is the board's current intention to resume dividends following announcement of the result for the six months ending 31 December 2010, with a target payout ratio of at least 50% of net profit after tax. The board will also continue to consider other forms of capital management if and where appropriate.

Outlook

The uncertain economic environment and inconsistent market conditions make it difficult to predict future performance.

Underlying sales performance is expected to improve this year; however reported sales growth will continue to be impacted by past divestments and ongoing brand discontinuations.

Earnings are expected to benefit from the impact of off-shore sourcing and improved foreign exchange rates which are largely hedged, but will be impacted by increasing product costs, temporary supply constraints and increases in the cost of doing business as we reinvest in our brands and capability to grow. EBITA before significant items is expected to improve this year.

Importantly, implementation of the Pacific Brands 2010 strategy is creating a stronger business that has started to deliver on its objective of sustainable and value creating long term growth.

Feedback

Your feedback is extremely 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 25 October 2010.

Once again thank you for your support over the last 12 months. We will continue the hard work to make your company a stronger and better performer now and into the future.

James MacKenzie
Chairman

Sue M Morphet

Sue Morphet
Chief Executive Officer

25 August 2010

Operational Highlights

Group underlying sales were down 5.9% while reported sales declined by 11.1% due to lost or reduced sales from divested businesses and discontinued brands.

Underwear & Hosiery

Underwear and Hosiery businesses include market-leading brands Berlei, Bonds, Holeproof, Jockey, Razzamatazz, Rio and Voodoo. Sales derive from a broad range of underwear, intimate apparel, hosiery and socks for women, men and children across Australasia and in selected international markets.

$ millions	F10	F09	Change %
Sales[1]	539.4	605.5	(10.9)
EBITA[2]	99.9	93.4	7.0
EBITA margin[2]	18.5%	15.4%	3.1pts

1 Excluding other segment revenue and inter segment revenue
2 Excluding corporate expenses and before significant items

Financial

- One-third of the decline in sales was due to brand discontinuations
- Jockey and Berlei both grew in the second half of the year
- Jockey increased sales particularly in its women's ranges and Berlei benefited from stronger sales in department stores
- Bonds, Holeproof and Rio were impacted by range reductions in the DDS channel, especially in the second half
- The late onset of winter adversely affected many categories, especially hosiery and Bonds outerwear
- Margins improved through pricing adjustments, portfolio rationalisation and off-shore sourcing benefits
- Phasing of advertising spend also positively impacted margins in a non-recurring manner

Marketing and operations

- Bonds celebrated 10 years of the Hipster, commemorating the occasion with 'The Original Hipster' campaign
- Men's underwear sales benefited from Bonds' 'Undie Pride' campaign which won two EFFIES awards in the 'Original Thinking' and 'Other Consumer Goods' categories
- Berlei launched Fabulous Fit, a range of bras to cater to women of all sizes
- Antz Pantz appointed former Miss Australia, Erin McNaught, as a brand ambassador and the Bondi Rescue Boys joined Holeproof
- Relaunched Razzamatazz, Australia's No 1. Hosiery brand, with the search for the next Razzamatazz girl via a digital campaign

Workwear

Pacific Brands keeps a nation comfortably clothed, offering industrial workwear and imagewear to employees and businesses. Workwear 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	F10	F09	Change %
Sales[1]	379.5	389.4	(2.5)
EBITA[2]	41.8	40.3	3.8
EBITA margin[2]	11.0%	10.4%	0.6pts

Financial

- After a difficult first half due to general weakness in the economy, there was a strong turnaround in the second half with both sales and profits up
- The industrial workwear businesses saw strong sales growth in both Hard Yakka and KingGee in the second half, underpinned by improved business confidence, especially in the key industries of mining and construction
- Demand for corporate uniforms also rose throughout the year, helped by higher employment levels and employee turnover plus a number of new contract wins. There was also some catch up spending following the release of full or partial freezes on purchases which some corporate customers put in place during the global financial crisis
- Margins improved despite lower hedged exchange rates, reflecting tighter cost control, although there is some currency protection built into business-to-business contracts

Marketing and operations

- Hard Yakka introduced Vintage Workwear, a new take on industrial workwear featuring improved fits and vintage-inspired finishes
- KingGee launched Steel, a new body-odour resistant range that uses a neutralising treatment to attract, isolate and kill body odour
- The uniform business off-shore is expanding and is now supplying uniforms to Compass Group in seven European countries, and was awarded their Strategic Supplier of the Year

The underlying sales result was impacted by pricing adjustments made to mitigate the impact of lower hedged exchange rates and continuing difficult market conditions. However, margins were maintained due to the pricing adjustments and transformation savings made. Cash flow continued to be very strong and this enabled a significant reduction in net debt to $313 million at year end.

Homewares

Pacific Brands beds down a nation. Homewares businesses are leading manufacturers and marketers of beds, pillows, quilts, bedlinen, towels, carpet underlay and foam. Homewares brands include Sheridan, Tontine, Sleepmaker, Simmons, Dunlopillo and Dunlop.

$ millions	F10	F09	Change %
Sales[1]	404.4	448.5	(9.8)
EBITA[2]	33.6	40.6	(17.2)
EBITA margin[2]	8.3%	9.0%	(0.7)pts

1 Excluding other segment revenue and inter segment revenue
2 Excluding corporate expenses and before significant items

Financial

- Sheridan gained market share. Sales were flat despite pressure on discretionary spending and the underlying improvement in the UK business being masked by the negative effects of currency translation
- Tontine's sales were down due to housebrand competition but showed some improvement late in the year
- Sleepmaker's sales declined with imports and bedding specialists being the key challenges. However, progress is being made and department store sales were up
- Flooring had a good second half, rising in line with a stronger housing and construction market
- Foams performance was robust and it held share in a declining market
- Given the higher fixed cost structures associated with the manufacturing businesses, margins were negatively impacted by the overall reduction in volumes in line with the market over the year

Marketing and operations

- Sheridan celebrated the 'Sheridan Artiste' in its Autumn/Winter 2010 range, with new designs featuring techniques such as hand-painting and photography
- Tontine introduced a new range of winter quilts, using Tontine's unique 'warmth rating system' and featuring uniquely designed fabrications, trims and fill types
- Sleepmaker was awarded supplier of the year by Harvey Norman
- Dunlop Flooring received a 'Highly Recommended' award in the 2010 Australian Achiever Awards for Australia's Floor and Wall Services Category

Footwear, Outerwear & Sport

The Footwear, Outerwear and Sport businesses are some of Australia's leading suppliers of footwear, casualwear, streetwear, sports clothing, sports equipment, bicycles and bicycle accessories. Key brands include Clarks, Hush Puppies, Volley, Mossimo, Superdry, Slazenger and Malvern Star.

$ millions	F10	F09	Change %
Sales[1]	399.3	491.2	(18.7)
EBITA[2]	15.5	43.7	(64.4)
EBITA margin[2]	3.9%	8.9%	(5.0)pts

Financial

- Sales and profits were impacted significantly by the exit from Icon Clothing, Merrell and the footwear operations in the UK and China, and the discontinuation of some housebrands and several other minor brands and labels
- Sales grew over the year for the three key footwear brands – Clarks, Grosby and Hush Puppies – as well as for the key outerwear brands – Mossimo and Superdry
- Underlying sales were affected by the downturn in discretionary spending, most notably in bikes and sporting equipment, and the cycling of the fiscal stimulus
- Dunlop, Everlast, Mooks, Slazenger and Volley all declined in the year
- Margins were also impacted by higher than usual stock writedowns, lower foreign exchange rates and restructuring costs

Marketing and operations

- Renewed key licences – Clarks, Hush Puppies and Everlast
- Refreshed management team with key appointments including a new Group General Manager and a new Group Commercial Manager to turn around business performance
- Clarks formed a partnership with the President of the Australasian Podiatry Council, Brendan Brown, as part of the 'Nothing Else Fits Like Clarks' Back to School 2010 campaign, offering education to parents around fitting their children for school shoes
- Superdry opened its second Australian store at the iconic Chadstone Shopping Centre in Melbourne
- Everlast celebrated its 100 year anniversary

Board of Directors

James MacKenzie
Chairman
Independent Non-Executive
BBus, FCA, FAICD
Age 57

James joined the board of Pacific Brands Limited in May 2008 and was appointed as Chairman in November 2008. 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) and Gloucester Coal Limited (appointed June 2009), and a director of Melco Crown Entertainment Limited (appointed April 2008). James has previously been a director of Bravura Solutions Limited (2006 to 2008), Circadian Technologies Limited (2002 to 2008), James Fielding Holdings Limited (2001 to 2005), Medaire Inc. (2004 to 2005), Strategic Pooled Development Limited (2005 to 2007) and Zenyth Therapeutics Limited (2005 to 2006).

Sue Morphet
Chief Executive Officer
Executive Director
BSc (Ed)
Age 55

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.

Peter Bush
Director
Independent Non-Executive
BA
Age 58

Peter joined the board in August 2010. 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 six 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 has held several non-executive directorships including Miranda Wines Pty Ltd, the Institute for Psycho-Social Research, McDonald's Australia, Speedfins, Frucor and Lion Nathan Limited (2005 to 2009).

Andrew Cummins
Director
Independent Non-Executive
BEng (Hons), PostGradDip (Bus Studies), MBA, MIEAust
Age 61

Andrew joined the board of Pacific Brands Holdings Pty Ltd in November 2001, bringing with him many years of experience in private equity and as an executive in prominent Australian and international public companies. Andrew was appointed to the Board of Pacific Brands Limited in February 2004. Currently, Andrew is Chairman of Stella Hotels & Travel Limited, I-Med Group and RCTI Inc. He is also a director of PBL Media and Asia Bottles Limited. Previously, Andrew has been Chairman of Amatek Holdings Limited, a director of Affinity Health Limited (2003 to 2005), Tech Pacific Holdings, Li & Fung (Distribution) Limited, Inchcape plc, Strategy Director of Foster's Brewing Group Limited and Chief Executive of Elders Investments Limited. Andrew also spent nine years with McKinsey & Company.

Dominique Fisher
Director
Independent Non-Executive
BA (Hons)
Age 53

Dominique joined the board of Pacific Brands Limited in March 2007, bringing with her over 25 years experience gained in information technology and telecommunications, electronic commerce, online strategies and social media, commercialisation of new technologies and the development and implementation of business strategy across a range of industries including roles as CEO. Dominique is currently the Chairman of Circadian Technologies Ltd, Managing Director of Helix Digital Pty Ltd and Chairman of Sky Technologies Pty Ltd. She is also a board member of the Prostate Cancer Foundation of Victoria. Dominique was previously a director of Insurance Australia Group Ltd and its predecessor companies for eight years. She has also been a board member of the Australian Council of Arts, Chair of the Australian Council of the Arts Dance Board, a member of the advisory board to the Minister for Information Technology and Communications and a director of the Malthouse Theatre, Sydney Opera House Trust and a wide range of other community organisations.

James King
Director
Independent Non-Executive
BComm, FAICD
Age 58

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 also Chairman of Juvenile Diabetes Research Foundation (Victoria) and on the Council of Xavier College. He is a Fellow of the Australian Institute of Company Directors.

Maureen Plavsic
Director
Independent Non-Executive
Age 54

Maureen joined the board of Pacific Brands Limited in May 2004, bringing more than 25 years experience in media, advertising and brand marketing roles. Maureen is currently Chair of the Nomination Committee. Maureen is a trustee of National Gallery of Victoria (since 2003), a non-executive director of Macquarie Radio Network Limited (since 2005) and a director of not for profit entity Bestest Inc. Maureen has previously been a director of Seven Network Limited and Opera Australia. Maureen previously spent fourteen years in various executive roles at the Seven Network, including Chief Executive of Broadcast Television and prior to that, Director of Sales and Corporate Marketing. Maureen also held various roles in the advertising industry and a senior regional media role at Unilever.

Nora Scheinkestel
Director
Independent Non-Executive
LLB (Hons), PhD, FAICD
Age 50

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) and two of its subsidiaries, AMP Bank Ltd and AMP Capital Investors. Nora is also a director of Orica Ltd (since 2006) and Telstra Corporation Limited (since 2010). Her prior directorships include Newcrest Mining Ltd (2000 to 2007), Mayne Group Ltd (2005), Mayne Pharma Ltd (2005 to 2007), PaperlinX Ltd (2000 to 2009), North Ltd, MBF Health Fund, IOOF Funds Management and various Government Business Enterprises. Nora is an Associate Professor at the Melbourne Business School at Melbourne University and a member of the Australian Government Takeovers Panel. 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 52

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 currently a director of the Police & Community Youth Clubs. Her prior directorships include Retirement Villages Group (2007 to 2008), ASX-listed Sydney Roads Group (acquired by Transurban) (2006 to 2007), Snowy Hydro Limited (1999 to 2006), Sydney Ports Corporation (2003 to 2005) and the Royal Hospital for Women Foundation. Arlene worked for ANZ Institutional Bank for 10 years, her last role being Managing Director, Balance Sheet Management. Arlene also spent four years in Project and Structured Finance at Macquarie Bank, having come to Australia from the US with a background in investment banking and securities law.

Senior Management

Melanie Allibon
Group General Manager, Human Resources
BBus
Age 45

After a career in human resources and operating risk with several blue-chip multinational organisations including Amcor, Foster's Group Limited and BHP, Melanie joined Pacific Brands in November 2008. Melanie is responsible for all aspects of Human Resources including talent management, remuneration, learning and development and employee relations. In addition, she leads the Safety, Health and Environment team across the group.

David Bortolussi
Chief Financial & Operating Officer
BComm, FFin, FCA
Age 41

David joined Pacific Brands in June 2009 in the role of Chief Financial and Operating Officer. Prior to his appointment, David spent five years at Foster's Group Limited, most recently as Chief Strategy Officer where his responsibilities included corporate strategy, business development, financial planning and operational performance improvement. David has a strong background in the consumer goods and financial sectors, having held senior consulting roles with McKinsey & Company and PricewaterhouseCoopers.

Kate Hann
Group General Manager, Bonds
BMark
Age 47

Kate joined Pacific Brands when the company acquired Kolotex in 2003. Kate was General Manager of the Hosiery group until she was appointed to her current role in June 2008. Kate was extensively involved in the integration and turnaround of the Hosiery business. Prior to the acquisition, Kate held product development and marketing roles in hair care and consumer goods companies for 17 years.

Anthony Heraghty
Group General Manager, Footwear, Outerwear & Sport
BBus
Age 36

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 brings to his role as head of the Footwear, Outerwear and Sport group 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
Group General Manager, Homewares
BA (Hons), MBA
Age 45

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. 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 brings to her role at Pacific Brands over 18 years experience in all marketing disciplines, as well as strong commercial and operational management experience.

Simon Smith
Group General Manager, Workwear
BEcon, MBA
Age 42

Simon joined Pacific Brands in March 2009 from eBay Australia where he spent eight years as Managing Director. Simon has also held senior strategy and marketing roles with Lion Nathan and was a consultant at McKinsey & Company for seven years. Simon is responsible for leading performance improvement and growth in the Workwear operating group.

Ross Taylor
Group General Manager, Underwear & Hosiery
Age 57

Ross joined Pacific Brands in 1991 after a career in sales and marketing with a number of major food and consumer goods companies. In his time with Pacific Brands, Ross has worked across all sectors of the business, with senior roles in footwear, bikes, sporting equipment, workwear, outerwear, homewares and underwear and hosiery. Ross brings extensive sales and marketing experience to this role and a real depth of understanding of the brands, customers and operations of Pacific Brands.

John Grover
Company Secretary
LLB, BComm, FCIS
Age 48

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 RTZ Limited (formerly CRA 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 remains committed to being an ethical, responsible and sustainable business.

Pacific Brands remains committed to being an ethical, responsible and sustainable business. The five-year plan for a sustainable future, known as PlanetBrands, was launched in 2008 and operates across the whole business. PlanetBrands 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.

PlanetBrands focuses on four areas where the company is seeking to make a difference:

- People
- Community
- Environment
- Marketplace

People

Pacific Brands has an ongoing commitment to providing a responsible working environment for all its employees.

The company's learning and development programs help build a high performance organisation capable of delivering its strategy. A key focus has been on leadership development at all levels and on actively managing performance and talent across all divisions.

Health and safety programs

The health and safety of employees is a top priority for Pacific Brands which has an integrated management system, BrandsSafe, encompassing safety (AS/NZS 4801), quality (ISO 9001) and environment (ISO 14001). BrandsSafe covers areas such as leadership, process approach and continual improvement. Pacific Brands is externally accredited in all three systems.

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 safety, quality and the environment.

The company has a strong dedication to social compliance; however it does recognise the difficulties in dealing with a large and complex supply chain. Pacific Brands' commitment to improving, over time, social compliance within the supplier base is based on a philosophy of continuous improvement.

Community

Looking after the communities in which the group'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.

This year a number of different charitable organisations were supported including:

- Breast Cancer Network of Australia
- Brotherhood of St Laurence
- 'Nippers' Surf Education Program
- Salvation Army

Many businesses also participated in a large range of community initiatives in their local communities.

Environment

Pacific Brands is committed to reducing its environmental footprint. Its Environmental Management System (EMS), certified within ISO 14001, helps to ensure that the company has a positive impact in reducing emissions.

By continuing to work with environmental partners, waste to landfill was again reduced and Pacific Brands continued its membership of the National Packaging Covenant (NPC). Water usage continued to fall.

Recycling is important in many of the company's businesses, especially Dunlop Flooring which recycles 98% of its manufacturing waste and produces carpet underlay that is both recycled and recyclable.

Travel was significantly down through the year, with more use of video-conferencing facilities. Energy efficient hybrid cars are favoured when employees travel and require a hire car.

Marketplace

Consideration of the impact businesses make 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.

To ensure the provision of good social and environmental outcomes for all stakeholders, while continuing to deliver the best products, the company aims to foster partnerships that are mutually beneficial by being innovative, transparent and fair in all its dealings with its suppliers, customers and consumers.

Financial Statutory and Other Information

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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. A checklist summarising this is found in section 11 of this statement.

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

1. ROLE AND RESPONSIBILITIES OF THE BOARD

The Board is committed to maximising operational performance and financial returns, generating shareholder value, and stewarding a portfolio of high quality brands.

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 maintenance of an effective risk management and compliance framework
- approving significant acquisitions or divestments
- overseeing relations with shareholders
- approving accounting policies and annual accounts

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 described in the Remuneration Report.

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 eight non-executive directors satisfy the Board's criteria for independence.

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

Details of the directors as at the date of this Annual Report, including their terms of office, qualifications and experience, are set out on pages 8 and 9 of the Annual Report.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

In making recommendations to the Board regarding the appointment of directors, the Nomination Committee periodically assesses 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 qualitative factors such as diversity and cultural fit. Nominations for appointment are then approved by the Board as a whole.

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.

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.

Directors' shareholdings are shown on page 23 of the Annual Report.

3. BOARD PROCESSES

The Board currently schedules nine meetings per year. In addition, the Board meets whenever necessary to deal with specific matters requiring attention between the scheduled meetings. During the 2010 financial year, the Board met nine times. Extraordinary meetings take place at such times as may be necessary to address any specific significant matters that may arise.

The table on page 23 of the Annual Report shows the number of Board meetings held in the 2010 financial year and the attendance of each director.

The agenda for meetings is prepared by the Company Secretary, in conjunction with the Chairman and Chief Executive 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.

4. BOARD COMMITTEES

With the increase in the number of non-executive directors in the 2010 financial year, the Board decided to reconstitute the Nomination and Remuneration Committee as a separate Nomination Committee and a separate Remuneration Committee. This change was made to more evenly spread the committee workload among non-executive directors and to provide dedicated focus on both areas.

Following this change to the Board committee structure, there are now 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 and, in relation to the Audit, Business Risk and Compliance Committee, chaired by an independent non-executive director, other than the Chairman of the Board.

Details of the committee members' qualifications are set out on pages 8 and 9 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 an effective 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.
Functions	▪ ensuring that financial information provided to shareholders and the Board is accurate and reliable ▪ 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) ▪ 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
Members	▪ Nora Scheinkestel (Chair) ▪ Peter Bush ▪ Dominique Fisher ▪ James King ▪ James MacKenzie	▪ Maureen Plavsic (Chair) ▪ James MacKenzie ▪ Nora Scheinkestel	▪ James King (Chair) ▪ Andrew Cummins ▪ James MacKenzie ▪ Maureen Plavsic ▪ Arlene Tansey
Composition	The committee is chaired by an independent non-executive director and must comprise of 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 of 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 of 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 & Safety, Health and Environment, 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 auditors and/or internal auditors 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 Group General Manager, Human Resources have standing invitations to attend committee meetings. The committee may obtain information from, and consult with, management and external advisers, as it considers appropriate.
Meetings and attendance	The table on page 23 of the annual report shows the number of meetings held in the 2010 financial year and the attendance of each member.	The table on page 23 of the Annual Report shows the number of meetings held in the 2010 financial year and the attendance of each member.	The table on page 23 of the Annual Report shows the number of meetings held in the 2010 financial year and the attendance of each member.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

5. REVIEW OF BOARD PERFORMANCE

The performance of the Board is reviewed bi-annually by the Board with the assistance of the Nomination Committee and an external adviser. The most recent process of formally reviewing the performance of the Board (including Board committees), commenced in May 2009 and concluded in August 2009.

The evaluation process included a review of:

- the Board's membership
- Board processes and its committees' effectiveness in supporting the Board
- the performance of the Board and its committees

As part of the 2009 review process, all directors completed a questionnaire and were able to make other comments or raise any issue that they had relating to the Board's or a committee's operation. The results of the questionnaire were compiled by the external adviser and a written report provided which included both a quantitative and qualitative analysis. An appropriate level of senior executive input was also sought and provided into the review process.

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 director chosen by the Board for this purpose would review the Chairman's performance. Details about the senior executive performance review process are contained in the Remuneration Report on page 27.

6. 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. 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. 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.

7. 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 review 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.

7.1 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 organisational 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 a robust infrastructure and 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

Risk management oversight

The key functional responsibility for risk management resides with the General Manager, Risk and Occupational Health & Safety, who reports to the Chief Financial & Operating Officer. The General Manager, Risk & Safety, Health and Environment, is responsible for assisting corporate functions and business units 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 short term and long term 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 the material 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.

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 practices to ensure:

- capital expenditure and leasing commitments above a certain size obtain prior Board approval
- 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
- business transactions are properly authorised and executed
- the quality and integrity of personnel
- the ethical practices of its suppliers (see section 8 of this statement)
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see above)
- environmental regulation compliance (see section 9 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 and employees, the standards of behaviour expected of them, and the steps that should be taken in the event of uncertainty or a suspected breach by a colleague.

The code of conduct is discussed in more detail in section 7.4 of this statement.

Internal audit

The Company has a three year internal audit plan covering the 2010 to 2012 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.

7.2 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 accounts, 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 goals. 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 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 on the Company's website at www.pacificbrands.com.au.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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.

7.3 Trading in shares by directors and employees

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

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').

Subject to the overriding restriction that persons may not deal in shares while they are in possession of material price-sensitive information, directors, management and employees will only be permitted to deal in shares 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. Outside of these periods, directors, management and employees must receive clearance from the person stated in the guidelines for any proposed dealing in shares. For New Zealand, any dealing in the Company's shares must receive clearance from the Company Secretary.

Except in circumstances of special hardship, with the Chairman's approval, employees may not buy and sell the Company's shares within a three month period.

A copy of the Company's Guidelines for Dealing in Securities is available on the Company's website at www.pacificbrands.com.au.

7.4 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.

The Company has adopted a code of conduct which outlines expectations in relation to the business conduct of directors and employees. In particular, the code requires:

- awareness of, and compliance with, relevant fair trading and trade practices laws in the jurisdictions in which the Company operates
- that employees and directors act in the best interests of the Company when undertaking Company business and avoid conflicts of interest (whether perceived or real)
- employees and directors to protect any Company assets under their control and not use Company assets for personal purposes, without prior Company approval
- employees and directors to respect the privacy of others and comply with the Company's privacy policy
- employees and directors not to disclose or use in any improper manner confidential Company information, including information about customers, agents or other business affairs

In addition, the code contains procedures for reporting improper conduct, and the protection of whistleblowers. A copy of the code of conduct is available on the Company's website at www.pacificbrands.com.au.

Gifts

The Company has extensive dealings with companies based in countries where gift giving has important cultural significance and plays an important role in business relationships. As a consequence, the Company has a policy on the giving and receipt of gifts, a copy of which can be found on the Company's website at www.pacificbrands.com.au. The policy prohibits the giving and acceptance of gifts of a material nature and, in particular, the giving and acceptance of gifts where they are given or offered with the intention to inappropriately influence business dealings.

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' 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. Callers may also elect to remain anonymous. A summary of all calls and the subsequent actions undertaken are periodically reported to the Remuneration Committee. Any reported improper conduct will be investigated while protecting the confidentiality of the identity of the whistleblower.

Occupational health and safety

The Company has in place an Occupational Health and Safety Policy which outlines how it manages its health and safety obligations. Occupational health and safety key performance indicators are reported to the Audit, Business Risk and Compliance Committee and Board on a regular basis, to assist the Board in monitoring compliance with the Occupational Health and Safety Policy.

7.5 Remuneration

Full details of the remuneration paid to non-executive and executive directors and the Company's other senior executives in relation to the 2010 financial year, as well as the Board policy for determining the nature and amount of remuneration and the relationship between such policy and performance, is discussed in detail in sections 2 and 4 of the Remuneration Report.

7.6 External audit

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 advice, IT systems services, executive recruitment services, material human resources functions, corporate strategy advice or legal services or from acting as a broker, promoter or underwriter. 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. 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 non-Australasian suppliers to determine compliance with the 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.

9. ENVIRONMENT

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 procedures in place designed to ensure compliance with all environmental regulatory requirements. In particular, it has developed an environmental management system to enable identification and assessment of environmental hazards which arise from its activities. This management system provides processes for effectively managing environmental risks by applying sound practices for the prevention of pollution and disposal and minimisation of waste.

This environmental system is based on international standards AS/NZS ISO 9001 which covers areas such as leadership, process approach and continual improvement.

Key programs in place to help reduce the environmental impact of the Company's operations are discussed on page 12 of the Annual Report.

10. NZX CORPORATE GOVERNANCE RULES

The following statement is included in compliance with NZX Listing Rule 5.1.8(d):

The Company notes that the ASX Corporate Governance Council's Good Corporate Governance Principles 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.

11. 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 performances 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.	5	Comply
2.6	Companies should provide the information indicated in Guide to reporting on Principle 2.	1, 2, 4, 6, Board members (pages 8 & 9), Directors' Report (page 23)	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 ▪ practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders ▪ responsibility and accountability of individuals for reporting and investigating reports of unethical practices	7.4	Comply
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.	7.3	Comply
3.3	Companies shall provide the information indicated in Guide to reporting on Principle 3.	7.3, 7.4	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.	7.2	Comply
5.2	Companies should provide the information indicated in Guide to reporting on Principle 5.	7.2	Comply

	ASX PRINCIPLE	REFERENCE[1]	COMPLIANCE
Principle 6	**Respect the rights of shareholders**		
6.1	Companies should design and disclose 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.	7.2	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	7.2	Comply
Principle 7	**Recognise and manage risk**	7.1	Comply
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	7.1	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.	7.1	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.	7.1	Comply
7.4	Companies should provide the information indicated in Guide to reporting on Principle 7.	4, 7.1, 7.6	Comply
Principle 8	**Remunerate fairly and responsibly**		
8.1	The board should establish a remuneration committee.	4	Comply
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Remuneration Report	Comply
8.3	Companies should provide the information indicated in Guide to reporting on Principle 8.	4, 7.5, Directors' Report page 23 and 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 2010 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 27 to 41 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)
P H Bush (appointed 24 August 2010)
A D Cummins
D G Fisher
J S King (appointed 4 September 2009)
S M Morphet, Chief Executive Officer
M G Ould (resigned 20 October 2009)
M A Plavsic
N L Scheinkestel
A M Tansey (appointed 25 March 2010)

Particulars of directors' age, qualifications, other listed company directorships, experience and special responsibilities are detailed on pages 8 and 9 of the Annual Report. Particulars of the qualifications and experience of the company secretary are detailed on page 9 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	Nil	
A D Cummins	1,378,035	
D G Fisher	67,480	
J S King	25,000	
J A C MacKenzie	202,162	
S M Morphet	1,081,600	1,311,592
M A Plavsic	197,263	
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 33 to 38 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 2010 financial year are:

	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	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
A D Cummins	7	9	1	1	2	3	1	2
D G Fisher	9	9	6	6				
J S King	8	8	5	5	3	3		
J A C MacKenzie	9	9	6	6	2	2	2	2
S M Morphet	9	9						
M G Ould	2	2	1	1				
M A Plavsic	8	9	1	1	3	3	2	2
N L Scheinkestel	9	9	6	6				
A M Tansey	4	4			1	1		

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

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 2010 financial year were the manufacturing, sourcing, marketing, wholesaling and retailing of predominantly consumer lifestyle brands, across the underwear, socks, hosiery, intimate apparel, corporate uniforms, workwear, bed linen, pillows, quilts, mattresses, carpet underlay, foams, footwear, fashion apparel, and sporting apparel and goods markets. All products are sold predominantly throughout the Asia-Pacific region. The consolidated entity also markets and distributes underwear, intimate apparel, footwear, workwear and bed linen in the United Kingdom, the United States and Europe.

There has been no significant change in the nature of principal activities during the year other than as a consequence of the 'Pacific Brands 2010' transformation discussed below.

The Company's key strategy established to drive future shareholder value is the implementation of the 'Pacific Brands 2010' transformation announced in February 2009 which focuses effort on primary businesses and brands, removing complexity from the business, reducing duplication and inefficiency.

The six core themes of Pacific Brands 2010 are:

- rationalise and focus the portfolio
- optimise the revenue base
- rebase overhead cost structures
- transform supply chain and operations
- reduce capital employed
- build organisational capability

In addition to implementation of the transformation, the Company is focusing on organic growth opportunities including expanding its most powerful consumer brands, both domestically and offshore, growing its business-to-business operations and developing its multi-channel route to market.

In the 2010 financial year, the Company's key objectives were to rationalise its brand portfolio, restructure and relocate offshore a substantial proportion of its manufacturing operations, reduce overhead costs, build capability, maintain earnings, maximise cash flow and reduce net debt.

Disclosure of 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 and CEO's Review and Operational Highlights.

6. REVIEW AND RESULTS OF OPERATIONS

A review of the operations of the consolidated entity during the 2010 financial year and of the results of those operations and financial position of the Consolidated Entity is contained in the Chairman and CEO'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.

7. DIVIDENDS

Neither an interim dividend nor a final dividend was declared or paid by the Company in respect of the 2010 financial year.

8. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial periods, other than that noted below.

Subsequent to year end the Consolidated Entity reduced unused debt facilities by $100 million.

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 and CEO's Review and Operational Highlights. The Chairman and CEO'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.

DIRECTORS' REPORT (CONTINUED)

10. NON-AUDIT SERVICES

During the 2010 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 42 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:

	NOTE	CONSOLIDATED 2010 $	2009 $
Audit services			
Auditors of the Company			
KPMG Australia:			
Audit and review of financial statements		**794,000**	1,323,500
Overseas KPMG firms:			
Audit of financial statements		**135,002**	288,478
		929,002	1,611,978
Other services			
Auditors of the Company			
KPMG Australia:			
Taxation compliance services		**154,630**	222,677
Other assurance services[1]		**66,200**	82,500
Other advisory services		**50,000**	515,680
Overseas KPMG firms:			
Taxation compliance services		**19,391**	35,951
Other assurance services		**3,159**	13,545
		293,380	870,353

1 2009 adjusted for final amounts invoiced

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 2009 to 30 November 2010 and the premium was paid on 21 December 2009. 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 2010) and in accordance with that Class Order, amounts in the Financial Report and this Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

REMUNERATION REPORT - AUDITED

1. REMUNERATION STRATEGY AND OVERVIEW

The Board believes that a transparent and appropriately structured remuneration strategy underpins a strong performance based culture and assists in driving above average returns. The Company's remuneration strategy, developed with the assistance of external remuneration consultants, is based on this philosophy and is designed to attract, motivate and retain appropriately qualified and experienced non-executive directors and senior executives.

This Remuneration Report includes details and an explanation, of the remuneration strategies for key management personnel of the consolidated entity. The key management personnel of the Company and the consolidated entity are defined under Australian Accounting Standard AASB 124 *Related Party Disclosures* to include the non-executive directors, the executive directors and those persons with authority and responsibility for planning, directing and controlling the activities of the Company during the financial year. The key management personnel, other than the non-executive directors, are referred to throughout this Remuneration Report as 'senior executives'. The senior executives include the five most highly remunerated executives of the Company and the consolidated entity. The names and positions of the senior executives during the 2010 financial year and up to the date of this Remuneration Report, are listed in the following table. Unless otherwise indicated, each senior executive has been in their current role for the entire 2010 financial year.

Current senior executives
S M Morphet Chief Executive Officer
M J Allibon Group General Manager, Human Resources
D L Bortolussi Chief Financial & Operating Officer
K J Hann Group General Manager, Bonds
A M Heraghty Group General Manager, Footwear, Outerwear & Sport (commenced 9 November 2009)
H S Kramer Group General Manager, Homewares (appointed 3 May 2010)
S M Smith Group General Manager, Workwear (appointed to his current role on 16 November 2009, ceasing in the role of Group General Manager, Homewares on the same date)
R A Taylor Group General Manager, Underwear & Hosiery
Former senior executives
M M Clark Group General Manager, Workwear (ceased in the role on 16 November 2009 and ceased employment effective 2 July 2010)

It is important that the Board is independent of 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 (the role and responsibilities of which are discussed on pages 15 and16 of the Annual Report) is comprised solely of non-executive directors. The Remuneration Committee seeks and considers advice from independent remuneration consultants where appropriate. However, all decisions are ultimately made by the Board with the benefit of the Remuneration Committee's independent advice.

Consistent with the Board's objective of achieving and maintaining best practice standards and recognising changing market conditions, the Remuneration Committee oversaw a review of the Company's remuneration strategies during the 2010 financial year. The review was undertaken with the assistance of independent consultants. A number of recommendations were made and adopted by the Board to more closely align the Company's remuneration arrangements and strategy, with the interests of shareholders. Recommendations adopted by the Board and other key changes during the 2010 financial year included:

- a 'salary freeze' for all salaried employees, except in exceptional circumstances where increases were necessary to adjust employee salaries to market rates or to reflect materially increased accountability in connection with the implementation of the Company's transformation program. This freeze was lifted at the start of the 2011 financial year
- as part of the ongoing need to ensure the highest calibre of senior management, the 2010 financial year saw the recruitment of new Group General Managers for the Homewares and Footwear, Outerwear & Sport groups
- a full review of all salaried roles was undertaken, which entailed evaluating all roles (using the Hay evaluation methodology) and then mapping all roles into a new 12 grade job structure, with Grade 1 encompassing the most senior roles through to Grade 12. Each job grade has a salary band and standardised conditions, such as incentives or car allowances where applicable
- following a review undertaken with the assistance of independent consultants, the Company's short term incentive ('STI') program for management has been revised, with effect on and from the commencement of the 2011 financial year. The STI program will encompass both a business performance element (75%) and a personal performance element (25%) linked to the job grades referred to above, with the Board retaining discretion over the total bonus pool

- in consultation with independent consultants, the Company's long term incentive ('LTI') program was also reviewed. Following that review it was determined that a performance rights plan applying a combination of earnings per share ('EPS') and relative total shareholder return ('TSR') performance hurdles continued to be an appropriate LTI arrangement linking senior executive reward with shareholder wealth. Adjustments were however recommended, and adopted by the Board in respect of the 2010 financial year grant of performance rights, to the EPS hurdle rates and the TSR comparator group. These changes are discussed on page 34 of the Annual Report

In keeping with current market best practice, a substantial proportion of remuneration of its senior executives, up to 67% in the case of the Chief Executive Officer is at risk, and is not payable, if key performance measurements are not met. In the case of the Chief Executive Officer, this includes the requirement to meet both internal (short term) performance hurdles set at the beginning of the financial year, as well as market based (long term) performance hurdles. In most instances, approximately 50% of the remuneration of executives is paid as fixed annual remuneration, including cash salary, car allowance and superannuation.

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

		DIRECTORS			
	ELEMENTS OF REMUNERATION	NON-EXECUTIVE	CHIEF EXECUTIVE OFFICER	OTHER SENIOR EXECUTIVES	DISCUSSION IN REMUNERATION REPORT
Fixed remuneration	Fees	✓			Page 29
	Salary		✓	✓	Page 32
	Superannuation[1]	✓	✓	✓	Pages 29 & 32
	Other benefits		✓	✓	Page 32
At risk remuneration	Short term incentive		✓	✓	Page 32
	Long term incentive		✓	✓	Page 33
Post employment	Notice periods and termination payments		✓	✓	Page 39

1 Non-executive directors' fees are set inclusive of 9% statutory superannuation contributions

2. COMPANY PERFORMANCE

As reported on page 3 of the Annual Report, the consolidated entity generated EBITA (as defined below) of $181.4 million for the year ended 30 June 2010.

Recognising the ongoing volatility in market conditions experienced by the Company in the 2010 financial year, the Board decided to preserve the Company's capital and as a result no interim or final dividend was declared or paid by the Company in respect of that financial year.

The following table sets out various measures of the Company's performance relative to shareholder wealth (or TSR):

	2010	2009	2008	2007	2006
Net sales revenue ($m) [1]	1,742.4	1,959.8	2,074.0	1,781.5	1,584.9
EBITA ($m)[2]	181.4	205.3	229.1	194.0	173.0
NPAT ($m)[3]	52.7	(234.3)	117.1	106.0	101.2
EPS (cents)[4]	5.7	(39.9)	23.2	21.1	20.1
Dividends per share price (cents)	0	0	17.0	16.5	15.0
Year end share price ($)	0.89	0.86	1.78	3.49	2.15
Return of capital ($m)	0	0	0	1.87	0
TSR (%)[5]	3.5	(5.8)	(44.9)	66.4	(1.1)

1 Prior periods adjusted for certain sales and marketing allowances, now netted against sales revenue in accordance with accounting policies outlined in Note 1(D)
2 Earnings before tax, interest, amortisation and significant items
3 Net operating profit/(loss) after tax
4 Earnings per share have been calculated based on the weighted average number of shares outstanding for the period
5 TSR or total shareholder return is, broadly, a measure of the return to shareholders provided by movements in the Company's share price plus any dividends paid or declared in respect of the relevant financial period and reinvested in Company shares, expressed as a percentage of investment

Whilst the Company has achieved solid operating earnings and cash flow in challenging market conditions, its financial performance has in some instances been below expectations. The alignment of shareholder wealth and senior executive rewards is demonstrated by the fact that performance rights under the Company's LTI plan have (with the exception of performance rights granted as part of a 'sign on' arrangement) only vested once (2007) in the past five financial years.

As part of the Board's commitment to align remuneration with Company performance, employee performance is reviewed annually against agreed performance objectives set prior to the commencement of the relevant financial year. The Board (through its Remuneration Committee) agrees criteria for the evaluation of the Chief Executive Officer and reviews the objectives of the other senior executives. The performance of the Chief Executive Officer against the agreed objectives is reviewed by the Chairman on behalf of the Board. The performance of all other senior executives is reviewed by the Chief Executive Officer. Performance reviews take place shortly after the end of the 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.

Details about the Board and non-executive director performance review process are contained in section 5 of the Corporate Governance Statement.

3. NON-EXECUTIVE DIRECTORS' REMUNERATION

A. Board policy on remuneration

The disclosures in this section relate to the remuneration for the Company's non-executive directors who are regarded as 'key management personnel' for the purpose of Australian Accounting Standard AASB 124 *Related Party Disclosures*.

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 $1,500,000 per annum, which is the limit shareholders approved at the Company's 2008 Annual General Meeting. 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:

- 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 Nomination Committee undertook such a review of Board remuneration in the first half of the 2010 financial year, with advice being obtained from external consultants and industry sources. As an outcome of that review, it was recommended that the fees paid to non-executive directors be increased to align the Company's remuneration practices with those of comparable companies and to take account of the material and ongoing increase in the workload of non-executive directors as a result of the oversight of the Company's ongoing strategic transformation and repositioning. The Company intends to seek shareholder approval at its Annual General Meeting on 25 October 2010 to increase the maximum aggregate amount of non-executive director remuneration by $500,000 per annum. This increase is being sought to ensure that directors fees can be set at a level which enables the Company to appoint and retain the best and most appropriate non-executive directors and to accommodate any increase in the number of non-executive directors as part of a staged Board renewal process.

Current fees per annum (effective 1 January 2010) are as follows:

- base remuneration (Board fees)
  - $425,000 for the Chairman
  - $150,000 for other non-executive directors
- committee fees (paid in addition to base remuneration)
  - $30,000 for the Chairman of the Audit, Business Risk & Compliance Committee
  - $15,000 for other members of the Audit, Business Risk & Compliance Committee (other than the Board Chairman)
  - $20,000 for the Chairman of the Remuneration Committee
  - $10,000 for the Chairman of the Nomination Committee
  - No additional fee for other members of the Remuneration Committee or the Nomination Committee

The aggregate fees paid to the non-executive directors, including the Chairman, during the 2010 financial year increased from $715,000 in the previous financial year to $1,142,885 due in part to the timing of an increase in the number of non-executive directors over the comparative period as part of a staged Board renewal process. 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. The sum of $1,142,885 paid as directors' fees during 2010 financial year is inclusive of superannuation contributions.

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.

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.

It has always been the policy of the Board that retirement benefits are not payable to non-executive directors upon their retirement.

B. Remuneration

Details of non-executive directors' remuneration for the 2010 financial year are set out in the following table:

		SHORT TERM PAYMENTS		POST EMPLOYEE BENEFITS	TOTAL[2]
		CASH	SHARES[1]	SUPERANNUATION CONTRIBUTIONS	
		$	$	$	$
J A C MacKenzie (Chairman)	2010	332,568	N/A	29,932	362,500
	2009	150,172	56,250	18,578	225,000
A D Cummins	2010	123,853	N/A	11,147	135,000
	2009	30,592	63,500	25,908	120,000
D G Fisher	2010	130,733	N/A	11,767	142,500
	2009	80,092	30,000	9,908	120,000
J S King[3]	2010	121,559	N/A	10,941	132,500
	2009	N/A	N/A	N/A	N/A
M G Ould[4]	2010	36,697	N/A	3,303	40,000
	2009	63,592	46,500	9,908	120,000
M A Plavsic	2010	92,853	N/A	47,147	140,000
	2009	11,250	30,000	78,750	120,000
N L Scheinkestel	2010	137,614	N/A	12,386	150,000
	2009	9,174	0	826	10,000
A M Tansey[5]	2010	37,050	N/A	3,335	40,385
	2009	N/A	N/A	N/A	N/A
Total	**2010**	**1,012,927**	**N/A**	**129,958**	**1,142,885**
	2009	**344,872**	**226,250**	**143,878**	**715,000**

1 Relates solely to the purchase of shares under the Non-Executive Director Share Plan through salary sacrifice
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 covers, 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 J S King was appointed as a director of the Company on 4 September 2009 and appointed Chairman of the Remuneration Committee on 20 October 2009
4 M G Ould retired as a director of the Company on 20 October 2009
5 A M Tansey was appointed as a director of the Company on 25 March 2010

4. EXECUTIVE DIRECTOR AND OTHER SENIOR EXECUTIVE REMUNERATION

The disclosures in this section relate to the remuneration for key management personnel other than the non-executive directors.

A. Board policy

The Board believes that a transparent and appropriately structured remuneration strategy underpins a strong performance based culture and assists in driving above average returns. The Company's remuneration framework and strategy is designed to attract, retain and motivate appropriately qualified and experienced senior executives and includes the following objectives:

- ensuring alignment of executive remuneration with the short and long term objectives as set out in the Company's strategic business plans endorsed by the Board
- providing a common interest between employees and shareholders by linking the rewards that accrue to management to the creation of value for shareholders
- being competitive in the markets in which the Company operates in order to attract, motivate and retain high calibre employees
- being fully costed on a 'cost to company' basis including all applicable fringe benefits and other taxes

The Remuneration Committee obtains independent advice from external consultants on the level and mix of remuneration for comparable roles in comparable companies.

REMUNERATION REPORT - AUDITED (CONTINUED)

Alignment of executive remuneration with the Company's business strategy is achieved through both STIs and LTIs. Key financial and non-financial value drivers are identified, targets set, and rewards provided on their achievement. Value drivers include, in the case of STIs, EBITA growth, quality of earnings and the achievement of certain non-financial (ie strategic, organisational or operational) objectives and, in the case of LTIs, EPS growth and relative TSR.

The relative proportion of the executive director's and other senior executive's total remuneration packages for the 2010 financial year that is performance based is set out in the table below:

	% OF TOTAL TARGET REMUNERATION (ANNUALISED)[1]			
	FIXED REMUNERATION		PERFORMANCE BASED REMUNERATION	
		SHORT TERM INCENTIVES[3]	LONG TERM INCENTIVES	TOTAL PERFORMANCE BASED REMUNERATION
Chief Executive Officer	33%	27%	40%	67%
Chief Financial & Operating Officer	45%	41%	14%	55%
Other senior executives[2]	54%	32%	14%	46%

1 Percentages based on target remuneration for the relevant senior executives assuming incentives 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

Financial results are verified by reference to the Company's audited accounts. Relative TSR performance is verified by external consultants. The achievement of performance objectives is assessed by the Chief Executive Officer for direct reports and verified by the Board, while the Board assesses the performance of the Chief Executive Officer against her agreed performance objectives.

B. Remuneration earned (Section B has not been subject to audit)

The table on page 41 of the Remuneration Report provides a breakdown of the Company's senior executive remuneration in accordance with statutory obligations and accounting standards. The Board is aware, however, 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 actual value senior executives derived from the various components of their remuneration in the 2010 financial year.

The following table sets out the cash and other benefits actually earned by the Company's current senior executives during the 2010 financial year in respect of service during that financial year. In particular, the table below illustrates that no value was derived in the 2010 financial year from the granting of performance rights.

	FIXED[1] $	SUPER-ANNUATION $	STI[2] $	LTI[3] $	TERMINATION $	OTHER[4] $	TOTAL $
Current senior executives							
S M Morphet Chief Executive Officer	1,015,341	190,105	828,660	0		39,093	2,073,199
M J Allibon Group General Manager, Human Resources	339,999	33,077	216,330	0		27,522	616,928
D L Bortolussi Chief Financial & Operating Officer	604,266	44,115	923,400	0		35,352	1,607,133
K J Hann Group General Manager, Bonds	376,612	35,100	273,600	17,200		43,387	745,899
A M Heraghty Group General Manager, Footwear, Outerwear & Sport	243,956	16,667	130,000	0		30,045	420,668
H S Kramer Group General Manager, Homewares	87,164	7,975	0	0		3,951	99,090
S M Smith Group General Manager, Workwear	497,719	40,980	187,380	0		27,522	753,601
R A Taylor Group General Manager, Underwear & Hosiery	372,668	93,382	296,150	0		31,615	793,815
Former senior executives							
M M Clark Group General Manager, Workwear	388,478	38,477	0	0	388,333	81,042	896,330

1 Does not include movement in annual leave and long service leave provisions unless leave was actually taken in the 2010 financial year

2 This figure represents the value of STI paid to the executive following the conclusion of the 2010 financial year, but relating to the achievement of the relevant performance hurdles in respect of the 2010 financial year. The Chief Financial & Operating Officer also earned a STI incentive in respect of the 2010 financial year of $307,800, agreed to as part of the terms of his employment in April 2009, relating to the achievement of agreed performance targets in relation to the Pacific Brands 2010 transformation plan in addition to the ongoing STI program. For further details of the Company's STI program, see pages 32 and 33 of the Remuneration Report

3 This figure represents the market value, at the time of vesting, of shares issued to an employee as a result of the relevant LTI performance hurdles being satisfied

4 Principally includes motor vehicle allowances and payments made on the employee's behalf under a novated motor vehicle lease arrangement

C. Fixed remuneration

The terms of employment for all executive management contain a fixed remuneration component comprising base salary, superannuation and motor vehicle (or motor vehicle allowance). The Company utilises the Hay evaluation methodology and market comparisons to value individual roles.

Longer serving employees receive defined benefit superannuation as a legacy from the previous ownership of Pacific Brands. The cost of providing their superannuation benefit varies with each individual's salary level and years of membership of the plan. Longer serving employees will attract greater superannuation costs than more recent employees. This plan has been closed to new members since 2001. Newer employees receive a superannuation benefit that allows them to control and vary their contribution levels above the mandated statutory minimum on a salary sacrifice basis.

Executive fixed remuneration is reviewed annually, with effect from 1 July each year.

D. Short term incentives

The Chief Executive Officer and all other members of the senior executive team participate in a STI program which has performance conditions that link annual targets (both financial and non-financial) with the opportunity to earn a cash bonus on a percentage of the executive's fixed remuneration. In respect of the 2010 financial year, the Chief Executive Officer had the opportunity to earn a bonus equivalent to 100% of her base salary. In the case of the Chief Financial & Operating Officer, the STI bonus opportunity was an amount equal to 90% of his fixed annual remuneration. In relation to other members of the senior executive team, 60% of their fixed annual remuneration could be earned as a cash bonus.

The actual amount of any STI award is determined based on achievement of annual performance conditions. Performance is reviewed at the end of each financial year. The payment of a STI to the Chief Executive Officer is subject to the discretion of the Board notwithstanding achievement of the performance conditions. Similarly, in the case of all other senior executives, the payment of any STI is subject to the discretion of the Chief Executive Officer, in consultation with the Board, to take account of the overall level of performance of the Company and the individual senior executive. The Board has ultimate responsibility for, and discretion in, the awarding of STI payments.

For the 2010 financial year, it was a condition to the payment of any STI to a senior executive that earnings before interest, tax, amortisation and significant items ('EBITA') be in excess of target EBITA (after fully providing for all STI payments payable to any employee of the Company). Additional performance requirements also needed to be met for a senior executive to be entitled to a STI payment. These performance requirements varied with the individual executive and his/her responsibilities and included the implementation of certain strategic, organisational and operational initiatives linked to the Pacific Brands 2010 transformation plan. In the 2010 financial year the Board determined to award cash bonuses based on actual EBITA outcomes and the successful execution of the Pacific Brands 2010 transformation plan over the 2009 and 2010 financial years.

REMUNERATION REPORT - AUDITED (CONTINUED)

The 2010 financial year STI program relevant to the Chief Executive Officer and other senior executives can be summarised as follows:

	EFFECTIVE DATE OF GRANT[1]	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 2009	85	15	Nil	974,895
M J Allibon Group General Manager, Human Resources	1 July 2009	90	10	Nil	240,367
D L Bortolussi Chief Financial & Operating Officer	1 July 2009	100	0	Nil	615,600
K J Hann Group General Manager, Bonds	1 July 2009	100	0	Nil	273,600
A M Heraghty Group General Manager, Footwear, Outerwear & Sport[2]	14 August 2009	75	25	Nil	173,333
H S Kramer Group General Manager, Homewares[3]	N/A	N/A	N/A	N/A	N/A
S M Smith Group General Manager, Workwear	1 July 2009	60	40	Nil	312,300
R A Taylor Group General Manager, Underwear & Hosiery	1 July 2009	100	0	Nil	296,150
Former senior executives					
M M Clark Group General Manager, Workwear[4]	1 July 2009	0	0	Nil	N/A

1 Due to the review of the Company's STI program as discussed on page 32 of this report, the non-financial performance targets were not finalised until 12 November 2009 but were effective from 1 July 2009

2 A M Heraghty was appointed to the role of Group General Manager, Footwear, Outerwear & Sport effective 14 August 2009

3 H S Kramer was appointed to the role of Group General Manager, Homewares effective 3 May 2010

4 M M Clark ceased in the role of Group General Manager, Workwear effective 16 November 2009 and ceased employment with the Company effective 2 July 2010

E. Long term incentives

The Company's LTI arrangements are designed to link executive reward with the key performance drivers which underpin sustainable growth in shareholder value. Participation in the LTI arrangements is only offered to senior executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant performance hurdles. In addition, the Board believes that the appropriateness of LTI arrangements cannot be viewed in isolation, but must be considered in the context of the total array of possible remuneration elements which may be provided to senior executives, taking account of the remuneration practices of competitor companies.

The Company's senior executive LTI plan is currently comprised of a performance rights plan ('PRP') first introduced in 2004 as part of the Company's initial public offering, giving an entitlement to one ordinary share in the Company in respect of each performance right granted, on satisfaction of the performance requirements. Grants are generally made annually to ensure there is a 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. There have been grants of performance rights to senior executives pursuant to the terms of the PRP every financial year commencing in 2005.

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, or that no amount is payable upon allocation of a share once a performance right vests. The granting of performance rights to executive directors is approved by shareholders at the Company's Annual General Meetings.

In respect of the 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.

Performance hurdle selection

Under all current grants of performance rights, half of the grant of performance rights is subject to a relative TSR hurdle which provides an external measure in respect of share price growth and dividend income. It is the view of the Board that TSR alone does not always reflect the long term value created by senior executives in the relevant measurement period. For this reason, an EPS measure of performance is also employed in respect of the other half of each grant of performance rights, because the Board believes that an EPS performance requirement:

- as an absolute measure, provides management 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 Board is of the opinion that, collectively, TSR and EPS performance is better correlated with executive performance over time and creates a better alignment between the executives' reward and shareholder interests.

Frequency of testing against performance hurdles

The 2007 and 2008 grants of performance rights have the performance requirements tested only once, at the end of a three year performance measurement period, being at the end of the 2010 and 2011 financial years respectively.

Following a review of the Company's LTI program during the 2010 financial year, with advice being obtained from external remuneration consultants, the Board determined to introduce one additional testing date in relation to the 2009 (and subsequent years) grant of performance rights. In effect, the 2009 grant will be tested at the end of the three year performance period, being at the end of the 2012 financial year, and again one year later at the end of the 2013 financial year should the performance rights fail to vest in whole or part at the first testing date. The primary reason for introducing a second testing date is to reflect the impact foreign exchange and other variables can have on the Company's TSR and EPS as highlighted by Pacific Brands' recent experience.

Based on the financial performance of the Company in the 2010 financial year, no performance rights vested in the executive director and other senior executives effective 1 July 2010. The maximum percentage of remaining and proposed performance rights that may vest, subject to performance, in any one year are set out in the table below:

VESTING DATE	MAXIMUM % 0F 2007 GRANT[1]	MAXIMUM % 0F 2008 GRANT	MAXIMUM % 0F 2009 GRANT
30 June 2010	0%	0%	0%
30 June 2011	N/A	100%	0%
30 June 2012	N/A	N/A	100%
Maximum	0%	100%	100%

1 All rights lapsed and no shares vested under the 2007 LTI grant in respect of the Company's performance over the 2008 to 2010 financial years

TSR performance conditions

Each year, the Board reviews and if necessary refines the peer group for TSR performance comparison. The comparison group for the 2007 and 2008 grants is comprised of companies which are:

- ASX listed
- in the consumer staples and discretionary sectors
- either side of the Company in market capitalisation, such that the Company's market capitalisation at the start of the performance period approximates the median of the comparison group

The only changes to the comparator group, initially formulated in respect of the 2006 LTI grant, for the 2007 and 2008 grants of performance rights have been to remove any companies which have been delisted (Burns Philp & Company Limited and UNiTAB Limited were removed from the comparator group for the 2007 grant, and Just Group Limited and Southern Cross Broadcasting (Australia) Limited were removed from the comparator group for the 2008 grant).

Following a review of the Company's LTI program during the 2010 financial year, with advice being obtained from external remuneration consultants, the Board determined that the comparator group for the 2009 grant should be broadened to the ASX 200 excluding financial services and resources companies. The main reasons for this change were the relatively low correlation of the Company's TSR with the historical comparator group of companies and the relatively small size of the comparator group, which may create significant volatility in the Company's TSR ranking and the vesting outcomes for senior executives, potentially reducing the effectiveness of the LTI as a genuine performance incentive. Financial services and resources companies are excluded from the comparator group due to their very different business activities, operating risk profiles and leverage.

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A summary of comparator companies for unvested performance rights is provided in the table below:

2007: Consumer staples and discretionary companies	ABC Learning Centres Limited, Austereo Group Limited, Amalgamated Holdings Limited, APN News & Media Limited, AWB Limited, Billabong International Limited, David Jones Limited, Futuris Corporation Limited, Flight Centre Limited, GUD Holdings Limited, Harvey Norman Holdings Limited, JB Hi-Fi Limited, Just Group Limited, Metcash Limited, Southern Cross Broadcasting (Australia) Limited, Seek Limited, Seven Network Limited, STW Communications Group Limited, Ten Network Holdings Limited, Tattersall's Limited and West Australian Newspapers Holdings Limited.
2008: Consumer staples and discretionary companies	ABC Learning Centres Limited, Austereo Group Limited, Amalgamated Holdings Limited, APN News & Media Limited, AWB Limited, Billabong International Limited, David Jones Limited, Futuris Corporation Limited, Flight Centre Limited, GUD Holdings Limited, Harvey Norman Holdings Limited, JB Hi-Fi Limited, Metcash Limited, Seek Limited, Seven Network Limited, STW Communications Group Limited, Ten Network Holdings Limited, Tattersall's Limited and West Australian Newspapers Holdings Limited.
2009: ASX 200 (excluding financial services and resources companies)	Australian Agricultural Company Limited, ABB Grain Limited, Adelaide Brighton Limited, AGL Energy Limited, Asciano Group, AJ Lucas Group Limited, Aristocrat Leisure Limited, Alesco Corporation Limited, Amcor Limited, Ansell Limited, APN News & Media Limited, Austar United Communications Limited, AWB Limited, Billabong International Limited, Prime Infrastructure Group, Bradken Limited, Boral Limited, Brambles Limited, Cabcharge Australia Limited, Coca-Cola Amatil Limited, ConnectEast Group, Consolidated Media Holdings Limited, Cochlear Limited, Crane Group Limited, CSL Limited, Crown Limited, Corporate Express Australia Limited, David Jones Limited, Downer EDI Limited, Emeco Holdings Limited, Elders Limited, Envestra Limited, Foster's Group Limited, Flight Centre Limited, Fleetwood Corporation Limited, Fairfax Media Limited, Goodman Fielder Limited, Gunns Limited, GUD Holdings Limited, GWA International Limited, Hills Industries Limited, Healthscope Limited, Hastie Group Limited, Harvey Norman Holdings Limited, Infigen Energy, Incitec Pivot Limited, Iress Market Technology Limited, iSOFT Group Limited, InvoCare Limited, JB Hi-Fi Limited, James Hardie Industries SE, Leighton Holdings Limited, Lion Nathan Limited, MAP Group, Macquarie Communications Infrastructure Group, Intoll Group, Southern Cross Media Group Limited, Monadelphous Group Limited, Metcash Limited, Nufarm Limited, News Corporation, Origin Energy Limited, Orica Limited, PMP Limited, PaperlinX Limited, Primary Health Care Limited, Qantas Airways Limited, Ramsay Health Care Limited, ResMed Inc., Seek Limited, Seven Group Holdings Limited, Sims Metal Management Limited, Singapore Telecommunications Limited, Sonic Healthcare Limited, Sigma Pharmaceuticals Limited, Spark Infrastructure Group, SMS Management & Technology Limited, SP AusNet, Spotless Group Limited, Tabcorp Holdings Limited, Transurban Group, Telecom Corporation of New Zealand Limited, Ten Network Holdings Limited, Telstra Corporation Limited, Toll Holdings Limited, Transpacific Industries Group Ltd, Transfield Services Limited, Tatts Group Limited, UGL Limited, Virgin Blue Holdings Limited, West Australian Newspapers Holdings Limited, Wesfarmers Limited, Woolworths Limited and Wotif.com Holdings Limited.

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. This is done in respect of each grant of performance rights.

The TSR performance conditions in relation to all grants of performance rights are:

TARGET	PERCENTAGE OF SHARES 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 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 and operational performance upside.

As part of the review of the Company's LTI program noted above, the operation of the EPS performance hurdles was considered. The Board determined that the percentage of shares which would vest upon the threshold EPS compound annual growth rate (CAGR) being achieved be moved from 25% to 50%, to mirror the structure of the TSR performance hurdle and to increase simplicity.

It was determined to lower both the threshold and maximum CAGR EPS hurdle requirements to 5% and 8% respectively (previously 8% and 12% in relation to the 2009 performance rights EPS target) to reflect:

- a realistic view of what is attainable given the Company largely has relatively high market shares in relatively low growth categories whilst still remaining a 'stretch' target to maximise performance
- capital market expectations as to the level of sustainable long term earnings growth which would lead to a re-rating of the Company's share price

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

PERCENTAGE OF SHARES IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS	2007 AND 2008 PERFORMANCE RIGHTS EPS TARGET
0%	The Company's 3 year compound EPS growth is less than 8.0%
25%	The Company's 3 year compound EPS growth equals 8.0%
Pro rata between 25% and 100%	The Company's 3 year compound EPS growth is between 8.0% and 12.0%
100%	The Company's 3 year compound EPS growth is equal to or exceeds 12.0%

PERCENTAGE OF SHARES IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS	2009 PERFORMANCE RIGHTS EPS TARGET
0%	The Company's 3 year compound EPS growth is less than 5.0%
50%	The Company's 3 year compound EPS growth equals 5.0%
Pro rata between 50% and 100%	The Company's 3 year compound EPS growth is between 5.0% and 8.0%
100%	The Company's 3 year compound EPS growth is equal to or exceeds 8.0%

EPS in respect of the 2009 grant is calculated using earnings on a pre-significant items (adjusted for the related income tax (benefit)/ expense) basis, and using the number of ordinary shares on issue at 30 June 2009. Earnings for the purpose of EPS will be calculated on this basis for the duration of the Pacific Brands 2010 transformation plan.

Testing

The performance conditions in relation to the 2007 grant of performance rights were tested at the end of the 2010 financial year. Based on the EPS growth and relative TSR of the Company for the 2010 financial year, no performance rights vested on 30 June 2010 under the 2007 performance rights grant.

Restrictions on performance rights that vest

In the case of the 2007 and 2008 grants, senior executives are not entitled to trade in shares allocated on vesting of the performance rights until the earliest to occur of:

- a request from the relevant executive to the Board to release the holding lock
- 10 years after the date of grant of the shares allocated on vesting
- six months following the date of cessation of employment with the consolidated entity

In the case of the 2009 grant, 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 executives' rights to trade in those shares.

Vesting and lapsing of rights

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 on a pro rata basis 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 2005 to 30 June 2010 is set out in section 2 of this report. As shown above, the Company's performance is linked to vesting and reward. The 2007 grant of performance rights did not vest on the test date because the Company's performance was such that the required hurdles were not satisfied.

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.

Equity grants made to executive directors and other senior executives[1]:

	NATURE OF COMPENSATION / INSTRUMENT GRANTED	COMMENCEMENT DATE OF PERFORMANCE MEASUREMENT PERIOD	GRANT DATE OF PERFORMANCE RIGHT	PERCENTAGE OF GRANT PAID/VESTED (%)	PERCENTAGE OF GRANT FORFEITED (%)	FUTURE FINANCIAL YEARS THAT GRANT WILL BY PAYABLE	MINIMUM TOTAL VALUE OF GRANT[1] ($)	MAXIMUM TOTAL VALUE OF GRANT[2] ($)
Current senior executives								
S M Morphet Chief Executive Officer[3]	250,000 performance rights	01/07/2007	23/10/2007	Nil	100	N/A	Nil	Nil
	82,677 performance rights	01/07/2008	21/10/2008	Nil	Nil	2011	Nil	105,000
	1,228,915 performance rights	01/07/2009	29/08/2010	Nil	Nil	2012	Nil	785,506
M J Allibon	193,060 performance rights	01/07/2009	29/06/2010	Nil	Nil	2012	Nil	123,558
D L Bortolussi[4]	329,639 performance rights	01/07/2009	29/06/2010	Nil	Nil	2012	Nil	210,969
	1,742,160 fully paid shares	01/07/2009	21/04/2009	Nil	Nil	2011	Nil	500,000
K J Hann[5]	50,000 reward rights	01/07/2006	30/06/2006	40	Nil	2011	Nil	90,000
	29,000 performance rights	01/07/2007	23/10/2007	Nil	100	N/A	Nil	Nil
	25,984 performance rights	01/07/2008	21/10/2008	Nil	Nil	2011	Nil	33,000
	219,325 performance rights	01/07/2009	29/06/2010	Nil	Nil	2012	Nil	140,368
A M Heraghty[6]	60,000 performance rights	14/08/2009	14/08/2009	Nil	Nil	2011	Nil	75,600
H S Kramer[7]	100,000 performance rights	01/07/2010	03/05/2010	Nil	Nil	2012	Nil	107,000
S M Smith[8]	100,000 performance rights	01/07/2009	24/02/2009	Nil	Nil	2011	Nil	31,700
	224,578 performance rights	01/07/2009	29/06/2010	Nil	Nil	2012	Nil	143,730
R A Taylor	41,000 performance rights	01/07/2007	23/10/2007	Nil	100	N/A	Nil	Nil
	28,346 performance rights	01/07/2008	21/10/2008	Nil	Nil	2011	Nil	35,999
	237,866 performance rights	01/07/2009	29/06/2010	Nil	Nil	2012	Nil	152,234
Former senior executive								
M M Clark[9]	131,496 performance rights	01/07/2008	21/10/2008	Nil	Nil	N/A	Nil	Nil

1 A total of 659,000 performance rights were granted under the 2007 issue of performance rights and all of these performance rights lapsed on 30 June 2009. The terms and conditions attached to the 2007, 2008 and 2009 performance rights grants are set out on pages 33 to 37 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 2007 is $2.28 per share (TSR: $1.71, EPS: $2.85). The fair value in respect of the grant having an effective date of 1 July 2008 is $1.27 per share (TSR: $0.98, EPS: $1.56). 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 relation to sign on payments for D L Bortolussi is $0.29 cents, S M Smith $0.32 cents, A M Heraghty $1.26 and H S Kramer $1.07

3 In accordance with ASX Listing Rules 10.11 and 10.14, the 2010 grant (effective 1 July 2009) of performance rights to the Chief Executive Officer is conditional upon approval being obtained from the Company's shareholders at the Company's Annual General Meeting on 25 October 2010

4 The Company agreed on 21 April 2009 to issue to D L Bortolussi, the Chief Financial & Operating Officer, $500,000 worth of shares in the Company as a sign on bonus. Effective 1 July 2010, 871,080 of those shares vested in D L Bortolussi absolutely. The details of which are contained in section F of this report

5 K J Hann was the recipient of 50,000 reward rights granted with effect from 1 July 2006, as part of her remuneration when in the role of General Manager, Pacific Brands Hosiery Group. The reward rights were issued pursuant to the Company's Deferred Employee Share Plan, established with the approval of the Board in June 2006 to provide long term equity incentives to certain senior management, not being senior executives, approved by the Chief Executive Officer. 40% of the reward rights are tested against a service condition and 60% of the reward rights are tested against an EPS hurdle. 20,000 fully paid ordinary shares were issued to K J Hann in September 2009, based on the service condition being satisfied. The balance of the reward rights will be retested against the earnings per share hurdle effective 30 June 2011

6 On 14 August 2009, the Company agreed to grant to A M Heraghty a sign on bonus of 60,000 performance rights. The details of which are contained in section F of this report

7 On 3 May 2010, the Company agreed to grant to H S Kramer a sign on bonus of 100,000 performance rights. The details of which are contained in section F of this report

8 On 24 February 2009, the Company agreed to grant to S M Smith, a sign on bonus of 100,000 performance rights. The details of which are contained in section F of this report

9 M M Clark's 131,496 performance rights were forfeited subsequent to year end, upon the cessation of his employment with the Company

During the financial year, the Company has not granted any options or rights in addition to the performance rights granted with effect from 1 July 2009 (and summarised in the previous table), other than sign-on payments as outlined in section F of this Remuneration report.

The following table set 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 01/07/2009	GRANTED	EXERCISED[1]	LAPSED/ FORFEITED	BALANCE AT 30/06/2010	AGGREGATE VALUE TOTAL AT 30/06/2010
Current senior executives						
S M Morphet[1]						
Number	332,677	1,228,915	Nil	250,000	1,311,592	
Value	$675,000	$785,506	Nil	$222,500		$1,238,006
M J Allibon						
Number	Nil	193,060	Nil	Nil	193,060	
Value	Nil	$123,558	Nil	Nil		$123,558
D L Bortolussi						
Number	Nil	329,639	Nil	Nil	329,639	
Value	Nil	$210,969	Nil	Nil		$210,969
K J Hann[2]						
Number	54,984	219,325	Nil	29,000	245,309	
Value	$99,120	$140,368	Nil	$25,810		$213,678
A M Heraghty						
Number	Nil	60,000	Nil	Nil	60,000	
Value	Nil	$75,600	Nil	Nil		$75,600
H S Kramer						
Number	Nil	100,000	Nil	Nil	100,000	
Value	Nil	$107,000	Nil	Nil		$107,000
S M Smith						
Number	100,000	224,578	Nil	Nil	324,578	
Value	$31,700	$143,730	Nil	Nil		$175,430
R A Taylor						
Number	69,346	237,866	Nil	41,000	266,212	
Value	$129,479	$152,234	Nil	$36,490		$245,223
Former senior executive						
M M Clark[3]						
Number	131,496	Nil	Nil	Nil	131,496	
Value	$167,000	Nil	Nil	Nil		$167,000
Total senior executives						
Number	688,503	2,593,383	Nil	320,000	2,961,886	
Value	$1,102,299	$1,738,965	Nil	$284,800		$2,556,464

1 In accordance with ASX Listing Rules 10.11 and 10.14, the 2010 grant (effective 1 July 2009) of performance rights to the Chief Executive Officer is conditional upon approval being obtained from the Company's shareholders at the Company's Annual General Meeting on 25 October 2010

2 K J Hann was also granted 50,000 reward rights granted with effect from 1 July 2006, as part of her remuneration when in the role of General Manager, Pacific Brands Hosiery Group. The fair value of these reward rights was $90,000. 20,000 shares were issued to K J Hann in September 2009, based on the service condition in respect of the reward rights being satisfied. The balance of the reward rights will be retested against the EPS hurdle effective 30 June 2011

3 All performance rights issued to M M Clark were forfeited subsequent to year end, upon cessation of his employment with the Company

Hedging and margin lending arrangements

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, 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 director or senior executive has a relevant interest in, where those shares are offered as security for the lending arrangement.

The Company treats compliance with these policies as a serious issue and takes appropriate measures to ensure the policy is adhered to, requiring 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.

REMUNERATION REPORT - AUDITED (CONTINUED)

F. Service agreements

The remuneration and other terms of employment for the Chief Executive Officer and the 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, car allowance and superannuation contributions, the provision of performance related cash bonuses (as disclosed on page 33 in this report), and participation in the Company's employee LTI scheme (as disclosed on page 37 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 Chief Executive Officer is employed under a fixed term service agreement of three years which expires on 31 December 2010, after which the contract is ongoing unless terminated by either party. All other senior executives are employed under agreements that are ongoing unless 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 on giving a maximum of three months notice. Generally, 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 section 200A-J of the Corporations Act 2001, which took effect on 24 November 2009, the maximum termination payment payable by the Company to any senior executive whose contract of employment was entered into or varied after that date is capped at 12 months average base salary. Accordingly, the employment contract of H S Kramer specifies that H S Kramer's employment may be terminated upon payment (including any payment in lieu of notice) of an amount not exceeding 12 months base salary.

In the event that the Chief Executive Officer ceases to be the most senior executive in the consolidated entity or the Company ceases to be listed on the ASX, the Company will be deemed to have terminated the employment of the Chief Executive Officer and will be liable to make compensation payments.

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 contracts 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 plus pro rata STI	3 months
M J Allibon Group General Manager, Human Resources	23 February 2009	3 months	12 months plus pro rata STI	3 months
D L Bortolussi Chief Financial & Operating Officer	21 April 2009	3 months	9 months plus pro rata STI	3 months
K J Hann Group General Manager, Bonds	23 February 2009	3 months	12 months plus pro rata STI	3 months
A M Heraghty Group General Manager, Footwear, Outerwear & Sport	14 August 2009	3 months	12 months plus pro rata STI	3 months
H S Kramer Group General Manager, Homewares	3 May 2010	3 months	12 months plus pro rata STI	3 months
S M Smith Group General Manager, Workwear	24 February 2009	3 months	12 months plus pro rata STI	3 months
R A Taylor Group General Manager, Underwear & Hosiery	23 February 2009	3 months	12 months plus pro rata STI	3 months
Former senior executives				
M M Clark Group General Manager, Workwear	16 April 2008	3 months	12 months plus pro rata STI	3 months

Sign on bonuses

The Company granted to S M Smith, the Group General Manager, Home Comfort, a sign on bonus of 100,000 performance rights. The performance rights were issued at no cost to S M Smith on 1 July 2009 and vested on 1 July 2010, as a result of S M Smith satisfying the performance condition that he remain in the employ of the Company until at least 1 July 2010.

The Company agreed on 21 April 2009 to issue to D L Bortolussi, the Chief Financial & Operating Officer, $500,000 worth of 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 is 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 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 2010, 50% of the shares (871,080 shares) vested in D L Bortolussi on that date.

The Company agreed to grant to A M Heraghty, the Group General Manager, Footwear, Outerwear & Sport, a sign on bonus of 60,000 performance rights on 14 August 2009. The performance rights were issued at no cost to A M Heraghty and vested on 1 July 2010 as a result of A M Heraghty satisfying the performance condition that he remain in the employ of the Company until at least 1 July 2010.

The Company agreed to grant to H S Kramer, the Group General Manager, Homewares, a sign on bonus of 100,000 performance rights on 3 May 2010. The performance rights were issued at no cost to H S Kramer effective 1 July 2010 and will vest on 1 July 2011, subject to H S Kramer satisfying the performance condition that she remain in the employ of the Company until at least 1 July 2011.

G. Remuneration paid and other specific disclosures

Details of the remuneration paid to the Chief Executive Officer and the senior executives are set out in the following table. All values are in Australian dollars unless otherwise stated.

REMUNERATION REPORT - AUDITED (CONTINUED)

Remuneration for 2010 financial year

Chief Executive Officer and other senior executives of the Company and the consolidated entity

		SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS			SHARE BASED PAYMENTS	TERMI-NATION 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	2010	1,109,239	828,660	39,093	190,105			130,918		2,298,015	5.7
Chief Executive Officer	2009	703,559	0	41,361	136,500			188,811		1,070,231	17.6
M J Allibon	2010	356,998	216,330	27,522	33,077			41,186		675,113	6.1
Group General Manager, Human Resources[4]	2009	217,141	0	17,113	20,567			0		254,821	0.0
D L Bortolussi	2010	611,189	923,400	35,352	44,115			320,323		1,934,379	16.6
Chief Financial & Operating Officer[5, 6]	2009	45,748	0	0	3,946			0		49,694	0.0
K J Hann	2010	390,637	273,600	43,387	35,100			38,504		781,228	4.9
Group General Manager, Bonds	2009	396,310	0	28,742	33,300			9,095		467,447	1.9
A M Heraghty	2010	251,113	130,000	30,045	16,667			75,600		503,425	15.0
Group General Manager, Footwear, Outerwear & Sport[5]	2009	N/A	N/A	N/A	N/A			N/A		N/A	N/A
H S Kramer	2010	93,739	0	3,951	7,975			0		105,665	0
Group General Manager, Homewares[5]	2009	N/A	N/A	N/A	N/A			N/A		N/A	N/A
S M Smith	2010	489,232	257,280	27,522	40,980			47,910		862,924	5.6
Group General Manager, Homewares[4, 5, 6]	2009	119,788	0	8,150	11,395			0		139,333	0.0
R A Taylor	2010	346,193	296,150	31,615	93,382			35,480		802,820	4.4
Group General Manager, Underwear & Hosiery	2009	359,657	0	35,719	72,637			43,160		511,173	8.4
	2010	**3,648,340**	**2,925,420**	**238,487**	**461,401**	**0**	**0**	**689,921**	**0**	**7,963,569**	**8.7**
	2009	1,842,203	0	131,085	278,345	0	0	241,066	0	2,492,699	9.7
Former senior executives											
M M Clark	2010	400,785	0	81,042	38,477			(55,667)	388,333	852,970	(6.5)
Group General Manager, Workwear	2009	344,629	0	37,064	38,447			55,667	0	475,807	11.7
Total remuneration – executive director and senior executives											
	2010	**4,049,125**	**2,925,420**	**319,529**	**499,878**	**0**	**0**	**634,254**	**388,333**	**8,816,539**	**7.2**
	2009	2,186,832	0	168,149	316,792	0	0	296,733	0	2,968,506	10.0

1 Includes movements in annual leave and long service leave provisions

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 2007 is $2.28 per share. The fair value in respect of the grant having an effective date of 1 July 2008 is $1.27 per share. The fair value in respect of the grant having an effective date of 1 July 2009 is $0.64 per share. The fair value of these equity investments is calculated for the Company by an independent expert

4 M J Allibon and S M Smith were employed for only part of the 2009 financial year, having commenced employment on 19 November 2008 and 24 February 2009 respectively

5 D L Bortolussi and S M Smith were issued sign on bonuses effective 1 July 2009. A M Heraghty and H S Kramer were issued sign on bonuses effective 14 August 2009 and 1 July 2010 respectively. Refer to page 40 for further details of these sign on bonuses. The fair value of these sign on bonuses will be expensed over the term of the relevant vesting period

6 For the 2009 financial year, the Group General Manager, Homewares (S M Smith) also earned part of his target STI incentive as he met specific targets in respect of developing the long term strategy for the Homewares group prior to transferring to the Workwear group. Although in respect of the 2009 financial year, as approval and payment of this cash bonus occurred in the 2010 financial year, the payment is included in this remuneration table. The Chief Financial & Operating Officer also earned a STI incentive in respect of the 2010 financial year of $307,800, agreed to as part of the terms of his employment in April 2009, relating to the achievement of specific performance targets in relation to the Pacific Brands 2010 transformation plan in addition to the ongoing STI program

DIRECTORS REPORT

This Directors report is signed in accordance with a resolution of the Directors.

Dated at Melbourne this 25th day of August 2010.

Sue M Morphet.

James MacKenzie
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 2010 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

Paul Shannon
Partner

Melbourne
25 August 2010

FINANCIAL STATEMENTS TO SHAREHOLDERS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Sales revenue	2	**1,742,393**	1,959,786
Cost of sales		**(1,019,572)**	(1,144,221)
Gross profit		**722,821**	815,565
Other income	2	**9,354**	12,341
Freight and distribution expenses		**(126,731)**	(140,846)
Sales, marketing and advertising expenses		**(272,408)**	(324,551)
Administrative expenses		**(154,058)**	(160,227)
Other expenses	4	**(51,333)**	(380,572)
Results from operating activities		**127,645**	(178,290)
Financial income	3	**2,312**	2,443
Financial expenses	3	**(50,601)**	(65,643)
Net financing costs		**(48,289)**	(63,200)
Profit/(loss) before income tax (expense)/benefit		**79,356**	(241,490)
Income tax (expense)/benefit	6	**(26,161)**	7,199
Profit/(loss)		**53,195**	(234,291)
Profit/(loss) attributable to:			
Owners of the Company	21	**52,722**	(234,479)
Non-controlling interest	23	**473**	188
Profit/(loss)		**53,195**	(234,291)
Other comprehensive income			
Foreign currency translation differences		**1,558**	7,307
Effective portion of changes in fair value of cash flow hedges (net of tax)		**58,187**	(45,297)
Other comprehensive income net of tax		**59,745**	(37,990)
Total comprehensive income		**112,940**	(272,281)
Total comprehensive income attributable to:			
Owners of the Company		**112,413**	(272,855)
Non-controlling interest		**527**	574
Total comprehensive income		**112,940**	(272,281)
Earnings per share:			
Ordinary shares	7	5.7 cents	(39.9) cents
Diluted shares	7	5.7 cents	(39.9) cents

The Statement of Comprehensive Income is to be read in conjunction with the notes to the Financial Statements set out on pages 48 to 83.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	9	**149,974**	126,475
Trade and other receivables	10	**235,331**	252,873
Inventories	11	**241,274**	311,445
Other assets	12	**6,960**	8,322
Total current assets		**633,539**	699,115
Non-current assets			
Trade and other receivables	10	**36**	32
Property, plant and equipment	13	**117,043**	144,402
Intangible assets	14	**1,307,555**	1,321,277
Deferred tax assets	15	**30,437**	60,669
Total non-current assets		**1,455,071**	1,526,380
Total assets		**2,088,610**	2,225,495
Current liabilities			
Trade and other payables	16	**133,508**	203,836
Interest-bearing loans and borrowings	17	**760**	816
Income tax payable		**14,288**	7,175
Provisions	18	**87,043**	149,963
Total current liabilities		**235,599**	361,790
Non-current liabilities			
Trade and other payables	16	**5,232**	5,900
Interest-bearing loans and borrowings	17	**461,900**	578,471
Provisions	18	**6,422**	12,644
Total non-current liabilities		**473,554**	597,015
Total liabilities		**709,153**	958,805
Net assets		**1,379,457**	1,266,690
Equity			
Share capital	19	**1,469,094**	1,469,094
Reserves	20	**(4,577)**	(65,351)
Accumulated losses	21	**(88,325)**	(141,047)
Total equity attributable to equity holders of the Company		**1,376,192**	1,262,696
Non-controlling interest	23	**3,265**	3,994
Total equity		**1,379,457**	1,266,690

The Statement of Financial Position is to be read in conjunction with the notes to the Financial Statements set out on pages 48 to 83.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

		CONSOLIDATED	
	NOTE	2010 $'000	2009 $'000
Cash flows from operating activities			
Cash receipts from customers		**1,944,889**	2,182,932
Cash paid to suppliers and employees		**(1,747,532)**	(1,998,497)
Income taxes paid		**(13,673)**	(13,461)
Interest paid		**(50,720)**	(69,710)
Interest received		**2,312**	2,443
Net cash from operating activities	27	**135,276**	103,707
Cash flows from investing activities			
Proceeds from disposal of businesses (net of cash disposed)		**2,988**	-
Proceeds from disposal of property, plant and equipment		**15,675**	451
Acquisition of property, plant and equipment	13	**(10,043)**	(22,473)
Net cash from/(used in) investing activities		**8,620**	(22,022)
Cash flows from financing activities			
Finance lease payments		**(276)**	(1,540)
Repayment of borrowings		**(118,405)**	(268,509)
Dividends paid		**-**	(42,708)
Dividend paid to non-controlling interest		**(1,256)**	(281)
Proceeds from share issue		**-**	248,597
Net cash used in financing activities		**(119,937)**	(64,441)
Net increase in cash and cash equivalents		**23,959**	17,244
Cash and cash equivalents at the beginning of the period		**126,475**	104,822
Effect of exchange rate fluctuations on cash held		**(460)**	4,409
Cash and cash equivalents at the end of the period	9	**149,974**	126,475

The Statement of Cash Flows is to be read in conjunction with the notes to the Financial Statements set out on pages 48 to 83.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	CONSOLIDATED							
	SHARE CAPITAL	EQUITY COMPENSATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	HEDGE RESERVE	RETAINED EARNINGS (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 2008	1,218,577	4,591	(31,834)	(1,087)	136,140	1,326,387	3,701	1,330,088
Profit/(loss)	-	-	-	-	(234,479)	(234,479)	188	(234,291)
Other comprehensive income								
Effective portion of net changes in fair value of cash flow hedges[1]	-	-	-	(45,125)	-	(45,125)	-	(45,125)
Net change in fair value of cash flow hedges transferred to inventory or profit and loss[1]	-	-	-	(172)	-	(172)	-	(172)
Foreign currency translation differences	-	-	6,921	-	-	6,921	386	7,307
Total other comprehensive income	-	-	6,921	(45,297)	-	(38,376)	386	(37,990)
Total comprehensive income	-	-	6,921	(45,297)	(234,479)	(272,855)	574	(272,281)
Transactions with owners, recorded directly in equity								
Issue of ordinary shares	250,517	-	-	-	-	250,517	-	250,517
Movement in treasury shares	-	-	-	-	-	-	-	-
Dividends recognised	-	-	-	-	(42,708)	(42,708)	(281)	(42,989)
Cost of share based payments	-	1,355	-	-	-	1,355	-	1,355
Balance at 30 June 2009	1,469,094	5,946	(24,913)	(46,384)	(141,047)	1,262,696	3,994	1,266,690
Balance at 1 July 2009	1,469,094	5,946	(24,913)	(46,384)	(141,047)	1,262,696	3,994	1,266,690
Profit/(loss)	-	-	-	-	52,722	52,722	473	53,195
Other comprehensive income								
Effective portion of net changes in fair value of cash flow hedges[1]	-	-	-	(7,377)	-	(7,377)	-	(7,377)
Net change in fair value of cash flow hedges transferred to inventory or profit and loss[1]	-	-	-	65,564	-	65,564	-	65,564
Foreign currency translation differences	-	-	1,504	-	-	1,504	54	1,558
Total other comprehensive income	-	-	1,504	58,187	-	59,691	54	59,745
Total comprehensive income	-	-	1,504	58,187	52,722	112,413	527	112,940
Transactions with owners, recorded directly in equity								
Movement in treasury shares	-	-	-	-	-	-	-	**-**
Dividends recognised	-	-	-	-	-	-	(1,256)	(1,256)
Cost of share based payments	-	1,083	-	-	-	1,083	-	1,083
Balance at 30 June 2010	**1,469,094**	**7,029**	**(23,409)**	**11,803**	**(88,325)**	**1,376,192**	**3,265**	**1,379,457**

1 Amounts are stated net of tax

The Statement of Changes in Equity is to be read in conjunction with the notes to the Financial Statements set out on pages 48 to 83.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

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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 2010 comprises the Company and its controlled entities (together referred to as the 'Consolidated Entity').

These Financial Statements were authorised for issue by the directors on 25 August 2010.

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

B. Basis of preparation

These Financial Statements are presented in Australian dollars ('AUD').

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

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

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.

These included:

- revised AASB 3 *Business Combinations* (2008)
- amended AASB 127 *Consolidated and Separate Financial Statements* (2008)
- AASB 8 *Operating Segments*
- revised AASB 101 *Presentation of Financial Statements* (2007)
- revised AASB 123 *Borrowing Costs* (2007)

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

The following amendments to AASBs and Interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 will become mandatory for the Consolidated Entity's 30 June 2014 statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ending 30 June 2012 or earlier. The Consolidated Entity' has not yet determined the potential effect of AASB 9
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Consolidated Entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements
- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Consolidated Entity's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash settled share based payments between different entities within a group. As a result of the amendments AI 8 *Scope of AASB 2* and AI 11 *AASB 2 – Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues (AASB 132)* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Consolidated Entity's 30 June 2011 financial statements, are not expected to have any impact on the financial statements

- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement – (AI 14)* make amendments to AI 14 *AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements* removing an unintended consequence arising from the treatment of the repayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Consolidated Entity's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact on the financial statements
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Consolidated Entity has not yet determined the potential effect of the interpretation

C. Principles of consolidation

Controlled entities

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

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. 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. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Dividends

Dividend revenue is recognised net of any franking credits.

Other income

Government grants

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

Sale of non-current assets

The profit/(loss) on disposal of non-current assets is included in other income of the Consolidated Entity and is brought to account at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal.

E. Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in the Statement of Comprehensive Income (refer Note 1(V)). 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.

F. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant taxation authorities. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the 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.

G. 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 UIG 1052 *Tax Consolidation Accounting*.

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

Nature of tax funding 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.

H. Earnings per share

Basic and diluted 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.

I. Receivables

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

J. Inventories

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

The cost of 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.

K. Leased assets

Leases under which the Consolidated Entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

A lease asset and a lease liability are recognised equal to the fair value of the leased asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

L. Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (refer Note 1(N)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

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. Previously, the Consolidated Entity immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of AASB 123 *Borrowing Costs* (2007) and in accordance with the transitional provisions of that AASB comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

Sale of property, plant and equipment

The profit/(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, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal.

M. Intangible assets

Goodwill

Change in accounting policy

As from 1 July 2009, the Consolidated Entity has adopted the revised AASB 3 *Business Combinations* (2008) and the amended AASB 127 *Consolidated and Separate Financial Statements* (2008). Revised AASB 3 and amended AASB 127 have been applied prospectively to business combinations with an acquisition date on or after 1 July 2009. The change in accounting policy had no material impact on earnings per share.

Goodwill arises on the acquisition of subsidiaries. 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 the Statement of Comprehensive Income on a straight line basis over the estimated useful life of the Software.

Other intangible assets

Other intangible assets that are acquired by the Consolidated Entity are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the 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 years

N. 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, 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 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.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in a fair value reserve in equity, to comprehensive income. The cumulative loss that is removed from other comprehensive income and recognised in comprehensive income is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in comprehensive income, then the impairment loss is reversed, with the amount of the reversal recognised in comprehensive income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other 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 that cannot be tested individually 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 (the "cash-generating unit"). The recoverable amount of an asset or cash generating unit ('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 that reflects current market assessments of the time value of money and the risks specific to the asset. 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 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. 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, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Consolidated Entity's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

O. Payables

Trade and other payables are stated at their amortised cost.

P. Interest-bearing loans and borrowings

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

Q. Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave represent the present obligations resulting from employees' services provided up to 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 AA credit rated or 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.

R. Share based payments

The Company has introduced a number of share plans pursuant to which senior executives and directors 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. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest except where forfeiture is only due to Total Shareholders Return ('TSR') not achieving the threshold for vesting. The expense related to share based payments is accounted for in the entity which employs the relevant individual.

S. Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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.

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.

T. Segment reporting

As of 1 July 2009, the Consolidated Entity determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer ('CEO'), who is the Consolidated Entity's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments.* Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting.* The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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 CEO 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, amortisation and significant items ('EBITA') as included in the internal management reports that are reviewed by the Consolidated Entity's CEO. Segment EBITA 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.

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

Segment results that are reported to the CEO 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.

U. Foreign currency

Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance date are translated to Australian dollars 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 Australian dollars 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 Australian dollars at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Net investment in foreign operations

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

V. Derivative financial instruments

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

Derivative financial instruments are recognised initially at fair value.

Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement 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, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the 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.

W. Share capital

Ordinary shares

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

Treasury shares

The Company operates the Pacific Brands Share Trust ('Trust'). The main purpose of the Trust is to hold unvested performance shares as part of the Pacific Brands Performance Rights Plan. Under AASB's, 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 share capital of the Company and the Consolidated Entity.

X. Accounting estimates and judgements

The preparation of the Financial Report 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 that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. 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:

- assessment of the recoverability of goodwill, intangible assets and property, plant and equipment
- provisions and contingencies including restructuring provisions
- assessment of realisable value of inventory
- valuation of derivative financial instruments

Y. Presentation of Financial Statements

The Consolidated Entity applies revised AASB 101 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Consolidated Entity presents in the Consolidated Statement of Changes in Equity all owner changes in equity, whereas all non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income.

Comparative information has been re-presented so that it is also in conformity with the revised AASB. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

NOTE 2 – SALES REVENUE AND OTHER INCOME

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Sales revenue[1]		**1,742,393**	1,959,786
Other income			
Royalties		**2,037**	2,635
Sundry income		**7,317**	9,706
Total other income		**9,354**	12,341
Total sales revenue and other income		**1,751,747**	1,972,127

1 Prior year adjusted for certain sales and marketing allowances, now netted against sales revenue in accordance with accounting policies outlined in Note 1(D)

NOTE 3 - OTHER EXPENSES

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Depreciation of:			
Freehold buildings and leasehold improvements		**2,973**	5,233
Plant and equipment		**13,366**	16,073
		16,339	21,306
Amortisation of:			
Software		**2,162**	2,380
Other intangible assets		**2,402**	3,050
Leased plant and equipment		**1,055**	1,048
		5,619	6,478
Total depreciation and amortisation		**21,958**	27,784
Net financing costs:			
Interest income		**(2,312)**	(2,443)
Interest on bank loans and overdraft		**50,489**	65,323
Finance charges on capitalised leases		**112**	320
		48,289	63,200
Personnel expenses:			
Wages, salaries and employee benefits		**362,040**	428,163
Contributions to defined contribution superannuation plans		**23,979**	28,089
Curtailment and settlement loss		**1,535**	2,404
Defined benefit superannuation expense		**1,649**	1,516
Share based payments – equity settled		**1,083**	1,355
		390,286	461,527

NOTE 4 – SIGNIFICANT ITEMS

Other expenses are reconciled as follows:

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Asset impairment			
Goodwill impairment		**-**	128,813
Brand names impairment		**-**	52,529
Property, plant and equipment impairments		**872**	59,211
Other asset impairments		**4,709**	33,320
		5,581	273,873
Loss on sale			
Loss on sale of businesses and other assets		**6,249**	-
Restructuring expenses			
Redundancies, decommissioning and other costs		**39,503**	106,699
		51,333	380,572

The related income tax benefit on significant items, where applicable, is $13.8m. (2009: $46.0m.)

The significant items incurred relate to the Consolidated Entity's transformation program, for further details refer to Note 18.

NOTE 5 – AUDITORS' REMUNERATION

	NOTE	CONSOLIDATED 2010 $	2009 $
Audit services			
Auditors of the Company			
KPMG Australia:			
Audit and review of financial statements		**794,000**	1,323,500
Overseas KPMG firms:			
Audit of financial statements		**135,002**	288,478
		929,002	1,611,978
Other services			
Auditors of the Company			
KPMG Australia:			
Taxation compliance services		**154,630**	222,677
Other assurance services		**66,200**	82,500
Other advisory services[1]		**50,000**	515,680
Overseas KPMG firms:			
Taxation compliance services		**19,391**	35,951
Other assurance services		**3,159**	13,545
		293,380	870,353

1 2009 adjusted for final amounts invoiced

It is the Company's policy to employ KPMG on assignments additional to its statutory audit duties where KPMG's expertise with the Company is important. Approval for these assignments is required from the Audit, Business Risk and Compliance Committee, having regard to the Auditor independence requirements of the Corporations Act 2001 and the Company's policy on Auditor independence. The assignments are principally related to tax compliance and other assurance services relating to debt covenants and regulatory requirements.

NOTE 6 – INCOME TAX EXPENSE/(BENEFIT)

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Current income tax expense/(benefit)			
Current year		**27,982**	11,689
(Over)/under provided in prior year		**(3,018)**	(5,251)
Deferred income tax expense/(benefit)			
Origination and reversal of temporary differences		**1,197**	(13,637)
Total income tax expense/(benefit) in the Statement of Comprehensive Income		**26,161**	(7,199)
Reconciliation between income tax expense/(benefit) and profit/(loss) before income tax			
Profit /(loss) before income tax expense/(benefit)		**79,356**	(241,490)
Income tax using Australian corporation tax rate of 30%		**23,807**	(72,447)
Increase/(decrease) in income tax expense due to:			
Share based payments		**325**	406
Non-deductible asset impairment		**-**	66,063
Sundry items		**5,047**	4,030
(Over)/under provided in prior year		**(3,018)**	(5,251)
Total income tax expense/(benefit) on profit/(loss) before income tax expense/(benefit)		**26,161**	(7,199)
Deferred tax recognised directly in equity			
Relating to derivative financial instruments		**5,058**	(19,413)

Current income tax liability

The current tax liability for the Consolidated Entity of $14.3 million (2009: $7.1 million) represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidated group.

NOTE 7 – EARNINGS PER SHARE

	NOTE	2010 $'000	2009 $'000
Earnings reconciliation			
Profit/(loss) for the period		**53,195**	(234,291)
(Less)/add non-controlling interest		**(473)**	(188)
Basic and diluted earnings		**52,722**	(234,479)

	NOTE	2010	2009
Weighted average number of shares used as the denominator			
Number for basic earnings per share:			
Ordinary shares at 1 July		**929,408,903**	502,277,852
Effect of discount on rights issue[1]		**-**	1,575,921
Effect of shares issued in May 2009[1]		**-**	76,526,103
Effect of shares issued in June 2009[1]		**-**	7,565,150
Ordinary shares at 30 June		**929,408,903**	587,945,026
Number for diluted earnings per share:			
Potential Ordinary shares at 1 July		**930,037,325**	502,277,852
Effect of discount on rights issue[1]		**-**	1,575,921
Effect of shares issued in May 2009[1]		**-**	76,526,103
Effect of shares issued in June 2009[1]		**-**	7,565,150
Ordinary shares at 30 June		**930,037,325**	587,945,026

1 Prior year weighted average number of shares impacted by rights issue. For number of shares issued refer to Note 19

NOTE 8 – SEGMENT REPORTING

The Consolidated Entity has four 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 & Hosiery	Marketer, distributor, importer and manufacturer of underwear, intimate apparel, socks, hosiery and outerwear
Workwear	Marketer, distributor, importer and manufacturer of industrial, corporate imagewear and other workwear
Footwear, Outerwear & Sport	Marketer, distributor and importer of women's, men's and children's footwear; casual outerwear; and sporting outerwear and equipment
Homewares	Marketer, distributor, importer and manufacturer of bed linen, pillows, mattresses, foam and carpet underlay

Other operations include retail clearance outlets, corporate expenses and amortisation of intangible assets, included in the reconciliations over page.

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest, tax, amortisation (other intangibles only) and significant items ('EBITA') as included in the internal management reports that are reviewed by the Consolidated Entity's CEO. Segment EBITA 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.

Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

2010	UNDERWEAR & HOSIERY	WORKWEAR	FOOTWEAR, OUTERWEAR & SPORT	HOMEWARES	TOTAL
	$'000	$'000	$'000	$'000	$'000
Revenue					
External	**539,858**	**380,554**	**405,124**	**404,995**	**1,730,531**
Inter segment	**10,029**	**1,303**	**1,465**	**57**	**12,854**
Total segment revenue	**549,887**	**381,857**	**406,589**	**405,052**	**1,743,385**
Result					
EBITA before significant items	**99,885**	**41,822**	**15,457**	**33,618**	**190,782**
Significant items	**(19,014)**	**(1,002)**	**(18,489)**	**(1,545)**	**(40,050)**
EBITA after significant items	**80,871**	**40,820**	**(3,032)**	**32,073**	**150,732**
Depreciation and amortisation	**3,069**	**3,360**	**3,065**	**6,755**	**16,249**
Segment assets	**1,032,581**	**487,469**	**313,232**	**340,083**	**2,173,365**
Segment liabilities	**48,331**	**51,638**	**27,503**	**100,121**	**227,593**
Acquisition of non-current assets	**162**	**963**	**1,511**	**4,306**	**6,942**

2009	UNDERWEAR & HOSIERY	WORKWEAR	FOOTWEAR, OUTERWEAR & SPORT	HOMEWARES	TOTAL
	$'000	$'000	$'000	$'000	$'000
Revenue					
External	605,744	390,552	499,317	448,995	1,944,608
Inter-segment	-	30	140	9	179
Total segment revenue	605,744	390,582	499,457	449,004	1,944,787
Result					
EBITA before significant items	93,412	40,280	43,669	40,560	217,921
Significant items	(128,624)	(24,642)	(75,227)	(123,862)	(352,355)
EBITA after significant items	(35,212)	15,638	(31,558)	(83,302)	(134,434)
Depreciation and amortisation	6,272	3,343	3,526	7,952	21,093
Segment assets	1,033,113	496,850	368,239	359,965	2,258,167
Segment liabilities	114,097	81,227	45,891	124,803	366,018
Acquisition of non-current assets	5,778	2,409	3,745	4,654	16,586

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

Geographical segments

	2010 $'000	2009 $'000
Revenue		
Australia	**1,600,537**	1,725,081
Rest of world	**151,210**	247,046
	1,751,747	1,972,127
Total assets		
Australia	**1,964,937**	2,044,531
Rest of world	**123,673**	180,964
	2,088,610	2,225,495

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

	2010 $'000	2009 $'000
Revenues		
Total revenue for reportable segments	**1,743,385**	1,944,787
Other revenue	**1,484**	2,258
Clearance store revenue	**19,732**	25,261
Elimination of inter-segment revenue	**(12,854)**	(179)
Consolidated revenue	**1,751,747**	1,972,127
EBITA		
Total EBITA after significant items for reportable segments	**150,732**	(134,434)
Amortisation	**(2,402)**	(3,050)
Net Interest expense	**(48,289)**	(63,200)
Unallocated amounts: corporate expenses	**(9,402)**	(12,589)
Unallocated significant items	**(11,283)**	(28,217)
Consolidated profit/(loss) before income tax expense/(benefit)	**79,356**	(241,490)
Total EBITA before significant items for reportable segments	**190,782**	217,921
Unallocated amounts: corporate expenses	**(9,402)**	(12,589)
Consolidated EBITA before significant items	**181,380**	205,332
Assets		
Total assets for reportable segments	**2,173,365**	2,258,167
Unallocated assets	**180,339**	163,795
Elimination of inter-segment assets	**(265,094)**	(196,467)
Consolidated total assets	**2,088,610**	2,225,495
Liabilities		
Total liabilities for reportable segments	**227,593**	366,018
Unallocated liabilities	**746,654**	789,254
Elimination of inter-segment liabilities	**(265,094)**	(196,467)
Consolidated total liabilities	**709,153**	958,805

The Consolidated Entity supplies two customers which in combination account for 28.8% of revenue (2009: 27.9%).

NOTE 9 – CASH AND CASH EQUIVALENTS

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Cash on hand		**202**	713
Cash at bank		**96,223**	104,383
Bank short term deposits		**53,549**	21,379
		149,974	126,475

NOTE 10 – TRADE AND OTHER RECEIVABLES

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Current			
Trade debtors[1]		**245,222**	274,422
Less allowance for doubtful trade debtors		**(5,739)**	(7,081)
Less allowance for rebates, trade allowances and settlement discounts		**(45,199)**	(35,816)
		194,284	231,525
Other debtors[2]		**41,047**	21,348
		235,331	252,873
Non-current			
Other debtors		**36**	32

1 Includes amounts which have been securitised (refer Note 17)
2 Includes the fair value of foreign currency contracts (refer Note 24(a))

NOTE 11 – INVENTORIES

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Raw materials and stores		**30,777**	50,026
Work in progress		**8,160**	15,880
Finished goods		**202,337**	245,539
		241,274	311,445

NOTE 12 – OTHER ASSETS

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Prepayments		**6,960**	8,322

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Freehold land			
At cost		**27,704**	41,745
Accumulated impairment losses		**-**	(2,000)
		27,704	39,745
Freehold buildings			
At cost		**23,744**	37,141
Accumulated depreciation and impairment losses		**(10,817)**	(19,218)
		12,927	17,923
Leasehold improvements			
At cost		**18,379**	22,537
Accumulated depreciation and impairment losses		**(11,567)**	(11,437)
		6,812	11,100
Plant and equipment			
At cost		**138,879**	162,768
Accumulated depreciation and impairment losses		**(74,557)**	(95,307)
		64,322	67,461
Leased plant and equipment			
At capitalised cost		**3,018**	4,517
Accumulated amortisation and impairment losses		**(2,309)**	(2,044)
		709	2,473
Capital works in progress			
At cost		**4,569**	7,457
Accumulated impairment losses		**-**	(1,757)
		4,569	5,700
Total property, plant and equipment		**117,043**	144,402

Reconciliation

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

CONSOLIDATED	FREEHOLD LAND $'000	FREEHOLD BUILDINGS $'000	LEASEHOLD IMPROVE-MENTS $'000	PLANT AND EQUIPMENT $'000	LEASED PLANT AND EQUIPMENT $'000	CAPITAL WORKS IN PROGRESS $'000	TOTAL $'000
2010							
Carrying amount at the beginning of the year	**39,745**	**17,923**	**11,100**	**67,461**	**2,473**	**5,700**	**144,402**
Additions	**-**	**15**	**172**	**1,487**	**25**	**8,344**	**10,043**
Transfers	**42**	**(707)**	**(1,460)**	**11,558**	**(552)**	**(8,881)**	**-**
Disposals	**(12,086)**	**(4,150)**	**(95)**	**(2,216)**	**(110)**	**(395)**	**(19,052)**
Depreciation and amortisation	**-**	**(440)**	**(2,533)**	**(13,366)**	**(1,055)**	**-**	**(17,394)**
Impairment losses	**-**	**282**	**(367)**	**(566)**	**(25)**	**(196)**	**(872)**
Effects of movements in foreign exchange	**3**	**4**	**(5)**	**(36)**	**(47)**	**(3)**	**(84)**
Carrying amount at the end of the year	**27,704**	**12,927**	**6,812**	**64,322**	**709**	**4,569**	**117,043**

2009

Carrying amount at the beginning of the year	41,620	32,393	18,212	95,369	3,864	13,441	204,899
Additions	-	28	961	1,763	599	19,718	23,069
Transfers	-	407	430	25,983	(1,111)	(25,709)	-
Disposals	-	-	(2,457)	(1,532)	(34)	-	(4,023)
Depreciation and amortisation	-	(730)	(4,503)	(16,073)	(1,048)	-	(22,354)
Impairment losses	(2,000)	(14,342)	(2,788)	(38,317)	(7)	(1,757)	(59,211)
Effects of movements in foreign exchange	125	167	1,245	268	210	7	2,022
Carrying amount at the end of the year	39,745	17,923	11,100	67,461	2,473	5,700	144,402

During the prior year, the Consolidated Entity announced its intention to exit certain local manufacturing. As a result, impairment losses were recognised with respect to redundant plant and equipment utilised in the manufacturing process and freehold land, freehold buildings and leasehold improvements where these assets were carried in excess of their recoverable amount.

NOTE 14 – INTANGIBLE ASSETS

	CONSOLIDATED				
	GOODWILL $'000	BRAND NAMES $'000	SOFTWARE $'000	OTHER INTANGIBLE ASSETS[1] $'000	TOTAL $'000
Balance at 1 July 2008	992,448	484,352	13,758	16,958	1,507,516
Additions	-	-	28	15	43
Disposals	-	-	(9)	-	(9)
Amortisation	-	-	(2,380)	(3,050)	(5,430)
Impairment losses	(128,813)	(52,529)	-	-	(181,342)
Effects of movement in foreign exchange	167	332	-	-	499
Balance at 30 June 2009	**863,802**	**432,155**	**11,397**	**13,923**	**1,321,277**
Disposals	**(8,754)**	**-**	**-**	**-**	**(8,754)**
Amortisation	**-**	**-**	**(2,162)**	**(2,402)**	**(4,564)**
Effects of movements in foreign exchange	**(404)**	**-**	**-**	**-**	**(404)**
Balance at 30 June 2010	**854,644**	**432,155**	**9,235**	**11,521**	**1,307,555**

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

Impairment tests for cash generating units containing goodwill and indefinite life intangibles

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

	CONSOLIDATED			
	GOODWILL		BRAND NAMES	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Underwear & Hosiery	**200,220**	200,220	**84,541**	84,541
Bonds	**186,519**	186,519	**188,500**	188,500
Workwear	**177,763**	177,763	**99,980**	99,980
Footwear, Outerwear & Sport	**137,103**	145,857	**28,790**	28,790
Homewares	**153,039**	153,443	**30,344**	30,344
	854,644	863,802	**432,155**	432,155

The recoverable amount of the cash generating units ('CGU') above was determined using value in use calculations. Separate value in use calculations are prepared for each of the CGUs that make up the Consolidated Entity. The CGUs are consistent with the operating segments of the Consolidated Entity. Those calculations use cash flow projections based on actual operating results, Board approved budgets and forecasts for a further four year period which are extrapolated using a long term growth rate of 3% in perpetuity with foreign currency cash flows translated at the spot rate at 30 June 2010 in accordance with AASB 136 *Impairment*. The recoverable amount as determined by the value in use calculation is materially sensitive to the spot rate at balance date.

A pre-tax discount rate of 14.0% (2009:13.7%) per annum has been used in discounting the projected cash flows.

During the prior year, the Consolidated Entity recognised impairment losses with respect to the above CGUs. The impairment losses were triggered by a downturn in economic conditions in the markets in which the CGUs operate and a corresponding impact on forecast cash flows and related impacts of 'Pacific Brands 2010' transformation plan. As a result the Consolidated Entity impaired the carrying amount of goodwill by $128.8 million.

Recoverability of brand names

The carrying amount of intangible assets representing brand names was impaired during the prior year. The impairment test was triggered by the Consolidated Entity's brand rationalisation as part of its 'Pacific Brands 2010' transformation plan and certain brand names have become redundant, been discontinued or identified for retirement. The recoverable amount was calculated using value in use calculations. The carrying amount of the brand names was determined to be higher than their recoverable amount and an impairment loss was recognised against Brand names in the following units; Underwear and Hosiery $0.4 million, Homewares $24.9 million and Footwear, Outerwear & Sport $27.3 million.

NOTE 15 – RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	CONSOLIDATED					
	ASSETS		LIABILITIES		NET	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Trade and other receivables	**1,806**	1,422	**-**	-	**1,806**	1,422
Inventories	**807**	2,308	**-**	-	**807**	2,308
Property, plant and equipment	**2,110**	8,296	**-**	-	**2,110**	8,296
Provisions for employee benefits	**17,777**	19,654	**-**	-	**17,777**	19,654
Other provisions	**13,431**	8,883	**-**	-	**13,431**	8,883
Share issue costs[1]	**1,361**	1,827	**-**	-	**1,361**	1,827
Derivative financial instruments[2]	**-**	19,878	**(5,058)**	-	**(5,058)**	19,878
Other items	**-**	-	**(1,797)**	(1,599)	**(1,797)**	(1,599)
Tax assets/(liabilities)	**37,292**	62,268	**(6,855)**	(1,599)	**30,437**	60,669
Set off of tax	**(6,855)**	(1,599)	**6,855**	1,599	**-**	-
Net tax assets	**30,437**	60,669	**-**	-	**30,437**	60,669

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

NOTE 16 – TRADE AND OTHER PAYABLES

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Current			
Trade creditors		**119,451**	117,422
Other creditors and accruals		**14,057**	86,414
		133,508	203,836
Non-current			
Other creditors		**5,232**	5,900

NOTE 17 – INTEREST-BEARING LOANS AND BORROWINGS

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Current			
Lease liabilities		**760**	816
Non-current			
Bank loans		**461,526**	577,123
Lease liabilities		**374**	1,348
		461,900	578,471

Finance lease liabilities

The Consolidated Entity's finance lease liabilities are secured by the leased assets of $0.7 million (2009: $2.5 million) as in the event of default, the assets revert to the lessor.

Finance lease liabilities payable as follows:

	CONSOLIDATED					
	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL	MINIMUM LEASE PAYMENTS	INTEREST	PRINCIPAL
	2010 $'000	2010 $'000	2010 $'000	2009 $'000	2009 $'000	2009 $'000
Within one year	**814**	**54**	**760**	926	110	816
One year or later and no later than five years	**378**	**4**	**374**	1,501	153	1,348
	1,192	**58**	**1,134**	2,427	263	2,164

The Consolidated Entity leases motor vehicles under finance leases expiring in one to five years. At the end of the lease term, the Consolidated Entity has the option to purchase the motor vehicles at the agreed residual value.

Bank loans

All bank loans are denominated in Australian dollars. The 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 Consolidated Entity entered into a debtor securitisation arrangement by which it transfers to a third party its gross trade debtors in exchange for an immediate discounted cash payment while retaining an exposure to credit losses and a continuing obligation to service its accounts with these customers. At 30 June 2010, the maximum amount allowed to be drawn on this facility is $250 million (reduced by $25 million subsequent to year end). This facility was drawn to $120 million (2009: $170 million). The gross trade debtors which have been securitised have been presented as trade debtors (refer Note 10) with the secured borrowing included as a component of bank loans.

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates.

NOTE 18 – PROVISIONS

		CONSOLIDATED	
	NOTE	2010 $'000	2009 $'000
Current			
Employee benefits		**61,345**	64,011
Leased premises		**2,368**	3,366
Restructuring		**23,330**	82,586
		87,043	149,963
Non-current			
Employee benefits		**463**	6,778
Leased premises		**5,959**	5,866
		6,422	12,644

Reconciliation

A reconciliation of the carrying amounts of each class of provision, except for employee benefits (refer Note 28), is set out below:

		RESTRUCTURING		LEASED PREMISES	
	NOTE	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Carrying amount at the beginning of the year		**82,586**	-	**9,232**	9,774
Recognised in the Statement of Comprehensive Income		**33,853**	104,187	**882**	1,962
Payments		**(93,109)**	(21,601)	**(1,787)**	(2,504)
Carrying amount at the end of the year		**23,330**	82,586	**8,327**	9,232

Restructuring

During the year ended 30 June 2009, the Consolidated Entity committed to a plan to discontinue non-core activities and some smaller brands as part of its 'Pacific Brands 2010' transformation plan to reduce complexity and the cost of doing business. Following the announcement of the plan, the Consolidated Entity recognised a provision for restructuring costs including employee termination benefits.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

NOTE 19 – CONTRIBUTED EQUITY

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Share capital			
Publicly held			
929,294,088 fully paid ordinary shares at the beginning of the year (2009: 502,277,852)		**1,469,094**	1,218,577
250,000 fully paid ordinary shares transferred from treasury shares during the year (2009: nil)		**-**	-
Nil fully paid ordinary shares issued during the year (2009: 427,016,236)[1]		**-**	250,517
Treasury shares			
1,842,160 fully paid treasury shares (2009: 2,092,160)		**-**	-
250,000 fully paid ordinary treasury transferred to publicly held during the year (2009: nil)		**-**	-
		1,469,094	1,469,094

1 Net of capital raising costs

Treasury shares

Treasury shares represent the ordinary shares held by the trustee of the Consolidated Entity's equity compensation plan. As at 30 June 2010 the trust held 1,842,160 of the Company's shares (2009: 2,092,160). These were issued by the Company during the prior year for no consideration.

Ordinary shares

Ordinary shares have no par value. 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.

NOTE 20 – NATURE OF 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 28.

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(U)).

Hedge reserve

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

NOTE 21 – ACCUMULATED LOSSES

	NOTE	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Balance at the beginning of the year		**(141,047)**	136,140
Net profit/(loss) attributable to equity holders of the Company		**52,722**	(234,479)
Dividends recognised		**-**	(42,708)
Balance at the end of the year		**(88,325)**	(141,047)

NOTE 22 – DIVIDENDS

Dividends recognised in the current year by the Company are:

	CENTS PER SHARE	TOTAL AMOUNT $'000	FRANKED/ UNFRANKED	DATE OF PAYMENT
2010				
None declared or paid				
2009				
Final 2008 ordinary	8.5	42,708	Franked	1 October 2008

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

Subsequent events

Since the end of the financial year, the directors have not declared any dividends for 2010.

	COMPANY 2010 $'000	COMPANY 2009 $'000
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years	**55,708**	38,148

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The Company has not declared a final dividend for the financial year.

NOTE 23 – NON-CONTROLLING INTEREST

The non-controlling interest at 30 June 2010 relates to a 50% interest in Restonic (M) Sdn Bhd which is not held by the Company nor by one of its controlled entities.

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Non-controlling interest in controlled entities comprises:		
Interest in retained earnings/(accumulated losses) at the beginning of the year	**(436)**	(343)
Net profit attributable to non-controlling interest	**473**	188
Dividend paid to non-controlling interest	**(1,256)**	(281)
Interest in retained earnings/(accumulated losses) at the end of the year	**(1,219)**	(436)
Interest in share capital	**4,293**	4,293
Interests in reserves	**191**	137
Total non-controlling interest	**3,265**	3,994

NOTE 24 – 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 this Financial Report.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

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

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

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

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Consolidated Entity defines capital as total equity attributable to equity holders of the Company in the Statement of Financial Position plus net debt.

Net debt is calculated as total interest-bearing loans and borrowings less cash and cash equivalents. At balance date, total capital amounted to $1,688,878,000 (2009: $1,715,508,000). In order to adjust the capital structure, the Consolidated Entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, acquire existing shares or increase / reduce debt.

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 or for capital management purposes. Decisions are made on a case by case basis by the Board.

There were no changes in the Consolidated Entity's approach to capital management during the year, whereby it continued with a moratorium on dividends and focused on reducing net debt.

(a) Fair values of financial assets and liabilities

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

The table over page 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 2010		30 JUNE 2009	
	FAIR VALUE HEIRARCHY LEVEL	CARRYING AMOUNT $'000	FAIR VALUE $'000	CARRYING AMOUNT $'000	FAIR VALUE $'000
Assets carried at amortised cost					
Cash and cash equivalents		**149,974**	**149,974**	126,475	126,475
Trade and other receivables		**217,117**	**217,117**	252,905	252,905
Assets carried at fair value					
Interest rate swaps	2	**-**	**-**	-	-
Forward exchange contracts receivable	2	**18,250**	**18,250**	-	-
Liabilities carried at amortised cost					
Trade and other payables		**137,949**	**137,949**	151,595	151,595
Finance lease liabilities		**1,134**	**1,134**	2,164	2,164
Bank loans		**461,526**	**461,526**	577,123	577,123
Liabilities carried at fair value					
Interest rate swaps	2	**791**	**791**	10,850	10,850
Forward exchange contracts payable	2	**-**	**-**	33,344	33,344
Foreign exchange options	2	**-**	**-**	13,584	13,584

(b) 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

The Consolidated Entity adopts a policy of ensuring that at least 60% 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:

	2010 WEIGHTED AVERAGE INTEREST RATE PA	2009 WEIGHTED AVERAGE INTEREST RATE PA
Instruments with interest rate risk exposure		
Cash and cash equivalents	**3.7%**	2.4%
Finance lease liabilities	**8.7%**	9.2%
Bank loans[1]	**7.8%**	8.3%

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

Sensitivity analysis

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

A change of 100 basis points in interest rates at the reporting date would increase/(decrease) (loss)/profit before tax and increase/(decrease) equity by the amounts shown below for the Consolidated Entity. The analysis also assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as at 30 June 2009.

The impact to profit/(loss) before tax reflects the additional interest that would have been expensed had the change in basis points occurred at the beginning of the financial year. The impact to equity reflects the change in basis points on the valuation of interest swaps at the reporting date on the portion of debt fixed through effective cash flow hedges. The analysis is based off interest rate movements considered reasonable at year end.

	PROFIT / (LOSS) BEFORE TAX		EQUITY	
	100BP INCREASE $'000	100BP DECREASE $'000	100BP INCREASE $'000	100BP DECREASE $'000
30 June 2010	**555**	**(555)**	**4,445**	**(4,530)**
30 June 2009	679	(679)	7,472	(7,472)

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'), Hong Kong dollar, UK pound, Japanese yen and New Zealand dollars.

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 (typically 6 – 9 months overall). 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:

	2010			2009		
	WEIGHTED AVERAGE EXCHANGE RATE	AUSTRALIAN DOLLAR EQUIVALENT $'000	FAIR VALUE $'000	WEIGHTED AVERAGE EXCHANGE RATE	AUSTRALIAN DOLLAR EQUIVALENT $'000	FAIR VALUE $'000
Maturing within one year						
Buy US dollars	**0.89**	**306,670**	**18,250**	0.67	312,802	(42,972)
Buy Hong Kong dollars	**7.35**	**58**	**2**	5.51	34,445	(3,889)
Buy UK pounds	**0.6317**	**64**	**2**	0.4825	1,168	(6)
Buy euros	**0.6644**	**2,063**	**(73)**	0.5598	353	(6)
Buy Japanese yen	**79.65**	**1,022**	**71**	75.80	2,050	(30)
Sell New Zealand dollars	**1.2183**	**4,452**	**(2)**	1.2384	266	(24)

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales recognised in other debtors in Note 10, and in other creditors and accruals in Note 16 in the prior year, and the timing of their anticipated recognition as part of purchases and sales are:

	CONSOLIDATED NET (LOSSES)/GAINS	
	2010 $'000	2009 $'000
Within six months	**18,250**	(46,927)

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

	30 JUNE 2010 $'000	30 JUNE 2009 $'000
Cash and cash equivalents	**12,356**	13,539
Trade debtors	**5,333**	9,944
Trade creditors	**(17,162)**	(21,713)
Forward exchange contracts and options	**18,250**	(42,972)
Net exposure	**18,777**	(41,202)

Sensitivity analysis

A 10% strengthening of the AUD against the USD at 30 June 2010 would have increased/(decreased) (loss)/profit before income tax and (decreased)/increased 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. 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 2009.

	NET PROFIT $'000	EQUITY $'000
30 June 2010	**(18)**	**(31,396)**
30 June 2009	(26)	(25,191)

A 10% weakening of the AUD against the USD at 30 June 2010 would effectively have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

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

Exposure to credit risk

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

Trade and other receivables

The Consolidated Entity's exposure to credit risk is influenced mainly by the credit worthiness 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 2010 $'000	IMPAIRMENT 2010 $'000	GROSS 2009 $'000	IMPAIRMENT 2009 $'000
Not past due date	**217,244**	**-**	245,844	-
Past due 0 - 30 days	**14,327**	**-**	16,431	-
More than 30 days	**13,651**	**5,739**	12,147	7,081

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	
	2010 $'000	2009 $'000
Balance at 1 July	**7,081**	3,128
Impairment loss recognised	**(1,512)**	(1,204)
Increase in allowance recognised in profit or loss	**187**	5,097
Effect of movements in foreign exchange	**(17)**	60
Balance at 30 June	**5,739**	7,081

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.

(d) Liquidity risk

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

The Consolidated Entity forecasts and monitors cash flow requirements. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational expenses for a period of approximately 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Consolidated Entity maintains a level of unused overdraft and bank loan facilities, which amounted to $375 million as at 30 June 2010.

Financing facilities

	CONSOLIDATED	
	2010 $'000	2009 $'000
Secured bank overdraft facility, reviewed annually and payable at call:		
Amount used	**-**	-
Amount unused	**39,044**	39,026
	39,044	39,026
Secured bank loan facilities with various maturity dates through to 2013 which may be extended by mutual agreement:		
Amount used	**464,510**	582,500
Amount unused[1]	**335,000**	247,500
	799,510	830,000

1 Subsequent to 30 June 2010 the Consolidated Entity reduced unused facilities by $100 million

The following are the contractual maturities of financial liabilities:

	CONSOLIDATED		
	CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1-5 YEAR(S) $'000
2010			
Non-derivative financial liabilities			
Trade and other payables	**137,949**	**132,717**	**5,232**
Finance lease liabilities	**1,134**	**760**	**374**
Bank loans[1]	**461,526**	**-**	**461,526**
Derivative financial liabilities			
Interest rate swaps	**791**	**314**	**477**
2009			
Non-derivative financial liabilities			
Trade and other payables	151,595	151,595	-
Finance lease liabilities	2,164	816	1,348
Bank loans	577,123	-	577,123
Derivative financial liabilities			
Interest rate swaps	10,850	10,850	-
Forward exchange contracts payable	33,344	33,344	-
Forward exchange options	13,584	13,584	-

1 Consists of $120 million of securitisation facility maturing in 2013 and $344.5 million of senior debt maturing in 2012

NOTE 25 – OPERATING LEASES

	CONSOLIDATED	
	2010 $'000	2009 $'000
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the Financial Statements and payable:		
Within one year	**53,502**	47,281
One year or later and no later than five years	**105,110**	106,343
Later than five years	**39,707**	26,633
	198,319	180,257

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 operating criteria. Where the incremental rentals are fixed, they are incurred evenly over the term of the lease. The Consolidated Entity has provided for these fixed increments (refer Note 18).

NOTE 26 - CONTROLLED ENTITIES

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

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

The Consolidated Entity had a 100% ownership interest in the following entities at 30 June 2009 but no ownership interest at 30 June 2010:

CONTROLLED ENTITY	PLACE OF INCORPORATION	CONTROLLED ENTITY	PLACE OF INCORPORATION
Grosby (China) Ltd	Hong Kong	Yakka (QLD) Pty Ltd	Australia
Yakka (Kingsgrove) Pty Ltd	Australia	Pacific Brands (UK) Ltd	UK

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

CONTROLLED ENTITY	PLACE OF INCORPORATION	CONTROLLED ENTITY INTEREST 2010	CONSOLIDATED ENTITY INTEREST 2009
Restonic (M) Sdn Bhd	Malaysia	**50%**	50%
Dream Crafts Sdn Bhd	Malaysia	**50%**	50%
Dream Products Sdn Bhd	Malaysia	**50%**	50%
Dreamland Corporation (M) Sdn Bhd	Malaysia	**50%**	50%
Dreamland (Singapore) Pte Ltd	Singapore	**50%**	50%
Dreamland Spring Manufacturing Sdn Bhd	Malaysia	**50%**	50%
Eurocoir Products Sdn Bhd	Malaysia	**50%**	50%
Sleepmaker Sdn Bhd	Malaysia	**50%**	50%

1 Pac Brands (UK) Ltd was incorporated on 16 September 2009
2 This entity was placed into voluntary liquidation during the year and will be liquidated following year end

NOTE 27 - NOTES TO THE STATEMENT OF CASH FLOWS

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
(a) Reconciliation of profit/(loss) for the period to net cash from operating activities			
Profit/(loss) for the period		**53,195**	(234,291)
Add/(less) non-cash items:			
Share based payments – equity settled	3	**1,083**	1,355
Curtailments	3	**1,535**	2,404
Loss on disposal of businesses and other assets	4	**6,249**	490
Amounts set aside to allow for doubtful debts, rebates, claims and settlement discounts		**150,416**	154,482
Amounts set aside to allow for employee benefits		**51,428**	38,245
Amounts set aside for restructuring		**(55,141)**	85,098
Depreciation and amortisation	3	**21,958**	27,784
Asset impairment	4	**5,581**	273,873
Increase/(decrease) in income tax payable		**7,113**	(5,741)
Increase/(decrease) in current and deferred tax assets		**5,295**	(15,029)
Net cash provided by operating activities before change in assets and liabilities		**248,712**	328,670
Change in assets and liabilities:			
Increase in trade and other receivables		**(122,159)**	(140,900)
Decrease in inventories		**64,003**	16,784
Decrease in prepayments		**1,220**	5,944
Decrease in trade and other payables		**(1,756)**	(56,960)
(Decrease) in provisions		**(54,744)**	(49,831)
Net cash from operating activities		**135,276**	103,707

NOTE 28 - EMPLOYEE BENEFITS

	NOTE	CONSOLIDATED 2010 $'000	2009 $'000
Aggregate liability for employee benefits, including on-costs:			
Current	18	**61,345**	64,011
Non-current	18	**463**	6,778
		61,808	70,789

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 2010	2009
Assumed rate of increase in wage and salary rates (per annum):	**4.0%**	4.0%
Discount rate (per annum)	**4.6%**	4.9%
Settlement term (period)	**6 years**	6 years
Number of active defined benefit members	**81**	123

(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 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 2007, as adjusted in accordance with annual updates provided by the Plan's actuary.

The Consolidated Entity made a contribution of $2.7 million during the 2010 financial year, in respect of the 2011 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 (included in non-current employee benefits)

	CONSOLIDATED	
	2010 $'000	2009 $'000
Present value of funded defined benefit obligation:	**25,057**	34,943
Fair value of Plan assets	**(23,330)**	(28,502)
Deficit	**1,727**	6,441
Unrecognised actuarial losses	**3,389**	4,721
Net (asset)/liability for defined benefit obligation at 30 June	**(1,662)**	1,720
Changes in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	**34,943**	41,173
Service cost	**1,764**	2,093
Interest cost	**1,525**	2,300
Contributions by plan participants	**466**	451
Actuarial losses/(gains)	**1,362**	(1,348)
Benefits paid	**-**	-
Taxes and premium paid	**(673)**	(165)
Contributions to accumulation section	**(172)**	(167)
Curtailments	**(441)**	988
Settlements	**(13,717)**	(10,382)
Closing defined benefit obligation	**25,057**	34,943

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

	CONSOLIDATED	
	2010 $'000	2009 $'000
Opening fair value of plan assets:	**28,502**	44,114
Expected return	**1,876**	2,877
Actuarial gains/(losses)	**482**	(8,620)
Contributions by employer	**6,566**	394
Contributions by plan participants	**466**	451
Benefits paid	**-**	-
Taxes and premiums paid	**(673)**	(165)
Contributions to accumulation section	**(172)**	(167)
Settlements	**(13,717)**	(10,382)
Closing fair value of plan assets	**23,330**	28,502

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

	CONSOLIDATED	
	2010	2009
Australian equities	**29%**	33%
International equities	**30%**	28%
Fixed income	**12%**	8%
Property	**10%**	11%
Cash	**19%**	20%

The Consolidated Entity's 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 Consolidated Entity'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 Consolidated Entity addresses 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.

Historical information

Amounts for the current and previous periods are as follows:

	CONSOLIDATED				
	2010 $'000	2009 $'000	2008 $'000	2007 $'000	2006 $'000
Defined benefit obligation	**25,057**	34,943	41,173	50,287	47,363
Fair value of plan assets	**(23,330)**	(28,502)	(44,114)	(60,183)	(54,617)
Deficit/(surplus) in plan	**1,727**	6,441	(2,941)	(9,896)	(7,254)
Experience adjustments (gains)/losses – plan assets	**(482)**	8,620	7,539	(4,010)	(4,323)
Experience adjustments losses/(gains) – plan liabilities	**1,074**	(2,733)	(615)	2,579	1,657

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

	CONSOLIDATED	
	2010 $'000	2009 $'000
Current service costs	**1,764**	2,093
Interest cost on obligation	**1,525**	2,300
Expected return on plan assets	**(1,876)**	(2,877)
Actuarial losses	**236**	-
Effects of curtailments/settlements	**1,535**	2,404
	3,184	3,920
The expenses are recognised in the following line items in the Statement of Comprehensive Income:		
Administrative expenses	**1,649**	1,516
Other expenses	**1,535**	2,404

	CONSOLIDATED	
	2010 $'000	2009 $'000
Principal actuarial assumptions at balance date (expressed as weighted average annual rates):		
Actual return on plan assets	**2,358**	(5,743)
Discount rate at 30 June	**4.6%**	4.9%
Expected return on plan assets at 30 June	**7.0%**	6.9%
Future salary increases	**4.0%**	4.0%

The expected return on plan assets 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 selected senior executives). The Company also operates 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, principally related to financial performance) 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 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; details of the comparator groups of companies are contained on page 35 of the Remuneration Report. TSR is, broadly, 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 Grants 4, 5 and 6 are:

TARGET	PERCENTAGE OF SHARES AVAILABLE IN GIVEN YEAR THAT VESTS
The Company's TSR does not exceed the median performance of the comparator companies	0%
The Company's TSR exceeds the median performance of the comparator companies	50%
The Company's TSR is ranked in the third quartile of the comparator companies	Pro rata between 50% and 100% (2% increase for each higher ranking)
The Company's TSR is ranked in the fourth quartile of the comparator companies	100%

Earnings per share performance conditions

Earnings per share ('EPS') growth are requirements in relation to Grants 4, 5 and 6. 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 reasonable target value, taking account of likely business cycle conditions as well as the upside potential the Company has for further earnings growth. EPS performance requirements for each grant are shown in the table below:

PERCENTAGE OF SHARES IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS	2007 AND 2008 PERFORMANCE RIGHTS EPS TARGET
0%	The Company's 3 year compound EPS growth is less than 8.0%
25%	The Company's 3 year compound EPS growth equals 8.0%
Pro rata between 25% and 100%	The Company's 3 year compound EPS growth is between 8.0% and 12.0%
100%	The Company's 3 year compound EPS growth is equal to or exceeds 12.0%

PERCENTAGE OF SHARES IN TRANCHE AVAILABLE IN GIVEN YEAR THAT VESTS	2009 PERFORMANCE RIGHTS EPS TARGET
0%	The Company's 3 year compound EPS growth is less than 5.0%
50%	The Company's 3 year compound EPS growth equals 5.0%
Pro rata between 50% and 100%	The Company's 3 year compound EPS growth is between 5.0% and 8.0%
100%	The Company's 3 year compound EPS growth is equal to or exceeds 8.0%

EPS in respect of the 2009 grant is calculated using earnings on a pre-significant items (adjusted for the related income tax (benefit)/ expense) basis, and using the number of ordinary shares on issue at 30 June 2009. Earnings for the purpose of EPS will be calculated on this basis for the duration of the Pacific Brands 2010 transformation plan.

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.

	1 JULY 2009 GRANT 6	1 JULY 2008 GRANT 5	1 JULY 2007 GRANT 4
Fair value of performance rights and assumptions			
Fair value at measurement date	\$0.64	\$1.27	\$2.28
Share price	\$0.89	\$1.83	\$3.45
Expected volatility	71%	31%	27%
Performance right life (period)	3 years	3 years	3 years
Dividend yield (per annum)	7.0%	5.4%	6.4%
Risk-free interest rate (per annum)	4.5%	6.78%	6.4%

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:

NUMBER OF PERFORMANCE RIGHTS	GRANT DATE 1 JULY 2009 (NUMBER) GRANT 6[1]	GRANT DATE 1 JULY 2008 (NUMBER) GRANT 5[1]	GRANT DATE 1 JULY 2007 (NUMBER) GRANT 4[1]
1 July 2008			
Granted	-	381,511	611,000
Exercised	-	-	-
Forfeited	-	(79,937)	(254,000)
30 June 2009	-	301,574	357,000
Granted	2,433,383	-	-
Exercised	-	-	(357,000)
Forfeited	-	(33,071)	-
30 June 2010	**2,433,383**	**268,503**	**-**

1 These grants consisted of two equal tranches with different vesting conditions, being (1) total shareholder return, and (2) earnings per share

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

	% VESTING GRANT DATE 1 JULY 2009	% VESTING GRANT DATE 1 JULY 2008	% VESTING GRANT DATE 1 JULY 2007
30 June 2010	-	-	100
30 June 2011	-	100	-
30 June 2012	100	-	-
Maximum	100	100	100

Restrictions on shares

In the case of the 2007 and 2008 grants, executives are not entitled to trade in shares allocated on vesting of the performance rights until the earliest to occur of:

- a request from the relevant executive to the Board to release the holding lock
- 10 years after the date of grant of the shares allocated on vesting
- six months following the date of cessation of employment with the Consolidated Entity

In the case of the 2009 grant, 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 executives' rights to trade in those shares.

(ii) Deferred Shares

Grants of deferred shares

The Board has approved the following grants of deferred shares:

NUMBER OF DEFERRED SHARES	GRANT DATE 1 JULY 2007 (NUMBER) GRANT 2	GRANT DATE 1JULY 2006 (NUMBER) GRANT 1
1 July 2008	1,150,000	810,000
Granted	-	-
Exercised	-	(262,000)
Forfeited	(100,000)	(173,000)
30 June 2009	**1,050,000**	**375,000**
Granted	-	-
Exercised	-	-
Forfeited	(350,000)	(60,000)
30 June 2010	**700,000**	**315,000**

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:

	1 JULY 2007 GRANT 2	1 JULY 2006 GRANT 1
Fair value of deferred shares and assumptions		
Fair value at measurement date	$2.85	$1.80
Share price	$3.45	$2.15
Performance right life (period)	3 years	3 years

Performance conditions for vesting

The conditions with respect to deferred shares issued in Grants 1 and 2 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 will be available to vest if eligible executives discharge their obligations to the Company in accordance with annual KPIs agreed with their managers. This performance condition will be determined at the end of the three year performance period (ie after 30 June 2009 for Grant 1 and after 30 June 2010 for Grant 2) by the CEO

  If the target compound EPS growth rate does 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 2011 for Grant 1 and 30 June 2012 for Grant 2). 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.

NOTE 29 - 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	
	2010 $	2009 $
Short term employee benefits	**7,987,476**	**3,944,474**
Non-monetary benefits	**319,529**	**580,424**
Post-employment benefits	**629,832**	**747,551**
Termination benefits	**388,333**	**2,861,040**
Share based payments	**634,254**	**269,392**
	9,959,424	**8,402,881**

The key management personnel of the Company and the Consolidated Entity are defined under accounting standard AASB 124 to include the non-executive directors, the executive directors and those 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 27 to 41.

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.

FINANCIAL STATEMENTS TO SHAREHOLDERS (CONTINUED)

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 key management personnel, including their related parties, is as follows:

	HELD AT 30 JUNE 2008	GRANTED AS COMPEN-SATION	EXERCISED	FORFEITED	HELD AT 30 JUNE 2009	GRANTED AS COMPEN-SATION	EXERCISED	FORFEITED	HELD AT 30 JUNE 2010
Current Senior Executives									
S M Morphet[1]	342,261	82,677	-	(92,261)	332,677	1,228,915	-	(250,000)	1,311,592
M J Allibon	-	-	-	-	-	193,060	-	-	193,060
D L Bortolussi	-	-	-	-	-	329,639	-	-	329,639
K J Hann	29,000	25,984	-	-	54,984	219,325	-	(29,000)	245,309
A M Heraghty	-	-	-	-	-	60,000	-	-	60,000
H S Kramer	-	-	-	-	-	100,000	-	-	100,000
R A Taylor	41,000	28,346	-	-	69,346	237,866	-	(41,000)	266,212
S M Smith	-	100,000	-	-	100,000	224,578	-	-	324,578
Former Executives									
M M Clark[2]	-	131,496	-	-	131,496	-	-	-	131,496

1 In accordance with ASX Listing Rules 10.11 and 10.14, the 2010 grant (effective 1 July 2009) of performance rights to the Chief Executive Officer is conditional upon approval being obtained from the Company's shareholders at the Company's Annual General Meeting on 25 October 2010

2 All performance rights issued to M M Clark were forfeited subsequent to year end

No performance rights were exercised during the year ended 30 June 2010. Non-executive Directors do not participate in the performance rights plan.

Movements in shares

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

	HELD AT 30 JUNE 2008	PURCHASES	RECEIVED ON VESTING OF PERFORMANCE RIGHTS	SALES	HELD AT 30 JUNE 2009	PURCHASES	RECEIVED ON VESTING OF PERFORMANCE RIGHTS	SALES	HELD AT 30 JUNE 2010
Current Non-executive Directors									
J A C MacKenzie	1,636	200,526	-	-	202,162	-	-	-	202,162
P H Bush	-	-	-	-	-	-	-	-	-
A D Cummins	473,097	740,891	-	(45,000)	1,168,988	428,272	-	(219,225)	1,378,035
D G Fisher	14,067	53,413	-	-	67,480	-	-	-	67,480
J S King	-	-	-	-	-	25,000	-	-	25,000
M A Plavsic	168,747	420,158	-	-	588,905	-	-	(391,642)	197,263
N L Scheinkestel	-	32,000	-	-	32,000	22,600	-	-	54,600
A M Tansey	-	-	-	-	-	550	-	-	550
Former Non-executive Director									
M G Ould	102,822	196,037	-	-	298,859	-	-	(298,859)	-
Current Senior Executives				-					
S M Morphet	361,337	720,623	-	-	1,081,600	-	-	-	1,081,600
M J Allibon	-	-	-	-	-	-	-	-	-
D L Bortolussi	-	-	-	-	-	343,000	-	-	343,000
K J Hann	3,628	138	-	-	3,766	-	20,000	-	23,766
A M Heraghty	-	-	-	-	-	-	-	-	-
H S Kramer	-	-	-	-	-	-	-	-	-
S M Smith	-	-	-	-	-	-	-	-	-
R A Taylor	109,986	318,477	-	-	428,463	-	-	(328,300)	100,163
Former Senior Executives									
M M Clark	100,000	233,000	-	-	333,000	-	-	-	333,000

NOTE 30 - COMPANY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Consolidated Entity was Pacific Brands Limited.

		COMPANY	
	NOTE	2010 $'000	2009 $'000
Result of the Company			
Loss for the period		**(1,892)**	(24,052)
Total comprehensive income		**(1,892)**	(24,052)
Financial position of the Company at year end			
Current assets		**37,246**	27,223
Total assets		**1,425,815**	1,416,184
Current liabilities		**13,118**	4,564
Total liabilities		**16,087**	4,564
Total equity of the Company comprising of:			
Share capital		**1,469,094**	1,469,094
Equity compensation reserve		**7,029**	5,946
Accumulated losses		**(66,395)**	(63,420)
Total Equity		**1,409,728**	1,411,620

It is the Consolidated Entity's policy that all transactions with related parties are on normal terms and conditions, except for the loan of $1,387 million shown below. $1,204 million of this loan was made from the Company to Pacific Brands (Australia) Pty Ltd on 6 April 2004 to enable it to acquire Pacific Brands Holdings Pty Ltd and its associated international operations. An additional loan of $250 million was made by the Company to Pacific Brands (Australia) Pty Ltd after the capital raising conducted in June 2009. An impairment loss of $67 million was also recognised on the loan in the prior year.

		COMPANY	
	NOTE	2010 $'000	2009 $'000
The aggregate amounts included in the loss before income tax (benefit)/ expense that resulted from transactions with controlled entities are:			
Dividend revenue			
Wholly-owned controlled entity		**-**	45,000
The aggregate amounts receivable from controlled entities are:			
Amounts receivable other than trade debtors			
Current			
Wholly-owned controlled entity		**36,666**	26,660
Non-current			
Wholly-owned controlled entity		**1,387,016**	1,387,016

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

As set out in the Directors' Report, a number of the Directors of Pacific Brands 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 Director and KMP do not directly influence these transactions.

NOTE 31 - EVENTS SUBSEQUENT TO BALANCE DATE

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

Subsequent to year end the consolidated entity reduced unused debt facilities by $100 million. Refer to Note 24 for further details.

DIRECTORS' DECLARATION

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

   (a) the financial statements and notes and the Remuneration report in the Directors' report, set out on pages 27 to 83, 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 2010 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;

   (b) the financial statements also complies with International Financial Reporting Standards as disclosed in Note 1 (a); and

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

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 and Operating Officer for the financial year ended 30 June 2010.

Dated at Melbourne this 25th day of August 2010.

Signed in accordance with a resolution of the directors:

James MacKenzie
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 the Group comprising Pacific Brands Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, 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, a description of significant accounting policies and other explanatory notes 1 to 31 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a 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 2010 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 27 to 41 of the directors' report for the year ended 30 June 2010. 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 disclosures that are contained in the sections of the Directors' Remuneration Report of the Group for the year ended 30 June 2010 that are described as audited comply with Section 300A of the Australian Corporations Act 2001.

KPMG

KPMG

Melbourne
25 August 2010

Paul Shannon

Paul Shannon
Partner

SHAREHOLDERS' STATISTICS

As at 24 August 2010

DISTRIBUTION OF ORDINARY SHAREHOLDERS AND SHAREHOLDINGS

SIZE OF HOLDING	NUMBER OF HOLDERS		NUMBER OF SHARES	
1 to 1,000	7,381	25.2%	3,881,238	0.4%
1,001 to 5,000	14,293	48.8%	35,918,654	3.9%
5,001 to 10,000	3,950	13.5%	29,406,017	3.2%
10,001 to 100,000	3,435	11.7%	86,650,980	9.3%
100,001 and over	212	0.7%	775,529,359	83.3%
Total	29,271	100.0%	931,386,248	100.0%

Included in the above total are 4,801 shareholders holding less than a marketable parcel of 553 shares.

TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS

	SHARES	% OF TOTAL
J P Morgan Nominees Australia Ltd	220,307,661	23.65
National Nominees Ltd	123,171,514	13.22
HSBC Custody Nominees (Australia) Ltd	111,400,072	11.96
Citicorp Nominees Pty Limited	88,324,662	9.48
ANZ Nominees Ltd (Cash income A/C)	40,342,173	4.33
Cogent Nominees Pty Limited	30,511,571	3.28
Cogent Nominees Pty Limited (SMP Accounts)	24,776,109	2.66
AMP Life Limited	20,666,655	2.22
Woodross Nominees Pty Ltd	11,855,953	1.27
FJP Pty Ltd (Palazzo Family S/F A/C)	9,313,862	1.00
Queensland Investment Corporation	7,892,035	0.85
Australian Reward Investment Alliance	5,591,136	0.60
Bond Street Custodians Limited (Macquarie Smaller Co's A/C)	5,091,445	0.55
Buttonwood Nominees Pty Ltd	4,056,158	0.44
Citicorp Nominees Pty Limited (CFSIL CWLTH AUST SHS 18 A/C)	3,959,020	0.43
RBC Dexia Investor Services Australia Nominees Pty Limited (BKCUST A/C)	2,818,372	0.30
RBC Dexia Investor Services Australia Nominees Pty Limited (PIPOOLED A/C)	2,338,243	0.25
Warbont Nominees Pty Ltd (Settlement Entrepot A/C)	2,200,957	0.24
Tasman Asset Management Ltd (Tyndall Australia Core Share)	2,019,421	0.22
BB Retail Capital Pty Limited (Blundy Family A/C)	2,000,000	0.21

SUBSTANTIAL SHAREHOLDERS

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

01-07-10	Franklin Resources Inc	7.88%
16-04-10	Dimensional Fund Advisors LP	7.16%
25-05-10	AMP Limited	6.31%

SHAREHOLDERS INFORMATION

ANNUAL GENERAL MEETING

Wednesday 25 August 2010 10.00am
Pacific Brands Limited
290 Burwood Road
Hawthorn Victoria 3122
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 will be mailed to the address recorded on the share register less an administration fee of $1.00. 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.

DIVIDEND REINVESTMENT PLAN

The Dividend Reinvestment Plan enables Pacific Brands' fully paid ordinary shareholders having a registered address or being resident in Australia or New Zealand to reinvest all or part of their dividends in additional Pacific Brands fully paid ordinary shares. Applications are available from the Share Registry.

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 CEO. The website provides essential information about the Company and an insight into Pacific Brands' businesses.

REGISTERED OFFICE

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Website: www.pacificbrands.com.au

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Sue Morphet

Chief Financial & Operating Officer
David Bortolussi

Non-Executive Directors
Peter Bush
Andrew Cummins
Dominique Fisher
James King
Maureen Plavsic
Nora Scheinkestel
Arlene Tansey

Company Secretary
John Grover

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/join-us.asp**

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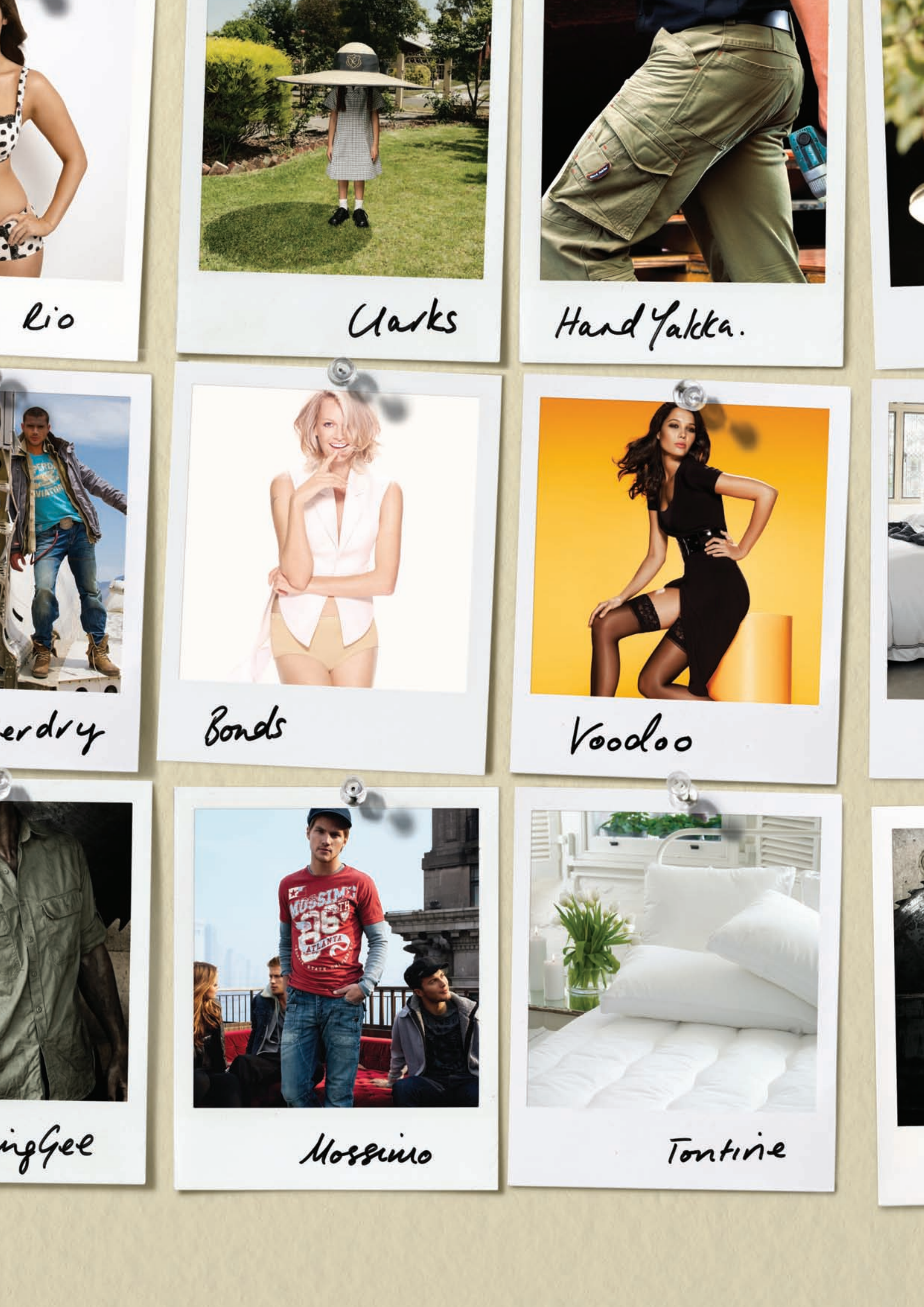
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