

Pacific Brands Limited

ABN 64 106 773 059

ASX Appendix 4E

Preliminary Final Report

for the year ended 30 June 2007

(Previous Corresponding Period: Year ended 30 June 2006)

Results for announcement to the market

	2007 \$'000	2006 \$'000	up/down	% movement
Sales revenue	1,820,737	1,624,878	up	12.1%
Profit for the year	106,136	101,366	up	4.7%
Profit attributable to equity holders of the parent	105,959	101,211	up	4.7%

Dividends

	Cents per share	Total amount \$'000	Franked amount
Interim dividend (paid 2 April 2007)	8.0	40,182	100%
Final dividend	8.5	42,694	100%
Total dividends for the year	16.5	82,876	100%

Final dividend dates

The Company's dividend record date is 30 August 2007 and the dividend is payable on 1 October 2007.

Pacific Brands Limited operates a Dividend Reinvestment Plan ("DRP") under which shareholders can reinvest the dividends payable in ordinary shares in Pacific Brands Limited acquired on market. The last date of receipt of an election notice for participation in the DRP is 30 August 2007.

Details of entities over which control has been gained

100% control gained 2 April 2007

Yakka (Aust) Pty Ltd
Yakka Pty Ltd
CTE Pty Ltd
Yakka New Zealand Limited
Neat n Trim Uniforms Pty Ltd
Neat n Trim Uniforms Ltd
Dowd Corporation Pty Ltd
Dowd Corporation (NZ) Limited
Icon Clothing Pty Ltd
Icon Clothing (NZ) Pty Ltd
Yakka (Kingsgrove) Pty Ltd
West End Clothing Pty Ltd
Yakobi Pty Ltd

Shared Apparel Services Pty Ltd
Wrights Workwear Pty Ltd
Yakka Apparel Solutions Limited
Yakka (QLD) Pty Ltd
Yakka (Wodonga) Pty Ltd
Cushen Clothing Company Pty Ltd
Cushen Clothing (Distributors) Pty Ltd
Cushen Unit Trust
FW Fleming Pty Ltd
Industrial Workwear Centre Pty Ltd
Yakka (WA) Pty Ltd
Yakka (SA) Pty Ltd
Yalee Pty Ltd

50.1% control gained 2 January 2007

World Brands Pty Ltd

Other information

	2007	2006
Net tangible asset backing per share	(\$0.37)	\$0.00

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

For the year ended 30 June 2007

Income Statements

for the year ended 30 June 2007

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Sales revenue	2	1,820,737	1,624,878	-	-
Cost of sales		(1,062,103)	(961,912)	-	-
Gross profit		758,634	662,966	-	-
Other income	2	13,425	17,189	100,000	77,500
Freight and distribution expenses		(118,543)	(111,906)	-	-
Sales, marketing and advertising expenses		(332,762)	(288,005)	-	-
Information technology expenses		(24,954)	(21,510)	-	-
Administrative expenses		(103,544)	(85,719)	(4,791)	(3,226)
Results from operating activities		192,256	173,015	95,209	74,274
Financial income		3,378	2,174	44	100
Financial expenses		(50,016)	(37,717)	-	-
Net financing costs	3	(46,638)	(35,543)	44	100
Profit before income tax (expense)/benefit		145,618	137,472	95,253	74,374
Income tax (expense)/benefit	5	(39,482)	(36,106)	2,553	459
Profit for the year		106,136	101,366	97,806	74,833
Profit attributable to minority interest	22	(177)	(155)	-	-
Profit attributable to equity holders of the parent	20	105,959	101,211	97,806	74,833

Basic and diluted earnings per share

Ordinary shares	6	21.1 cents	20.1 cents
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The Income Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 38.

Balance Sheets

as at 30 June 2007

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current assets					
Cash and cash equivalents	8	138,640	94,025	568	487
Trade and other receivables	9	302,966	211,402	48,624	26,076
Inventories	10	361,524	296,501	–	–
Other current assets	11	9,636	7,064	–	–
Total current assets		812,766	608,992	49,192	26,563
Non-current assets					
Trade and other receivables	9	50	214	1,203,714	1,203,714
Property, plant and equipment	12	206,849	167,086	–	–
Intangible assets	13	1,503,765	1,297,330	–	–
Deferred tax assets	14	30,357	32,185	3,321	5,964
Other non-current assets	11	1,731	1,979	–	–
Total non-current assets		1,742,752	1,498,794	1,207,035	1,209,678
Total assets		2,555,518	2,107,786	1,256,227	1,236,241
Current liabilities					
Trade and other payables	15	191,702	126,782	1,133	140
Interest-bearing loans and borrowings	16	2,689	1,642	–	–
Income tax payable		7,924	3,903	7,725	8,585
Provisions	17	70,681	54,705	–	–
Total current liabilities		272,996	187,032	8,858	8,725
Non-current liabilities					
Trade and other payables	15	14,599	9,983	–	–
Interest-bearing loans and borrowings	16	938,171	601,643	–	–
Provisions	17	10,378	10,522	–	–
Total non-current liabilities		963,148	622,148	–	–
Total liabilities		1,236,144	809,180	8,858	8,725
Net assets		1,319,374	1,298,606	1,247,369	1,227,516
Equity					
Contributed equity	18	1,218,577	1,220,446	1,218,577	1,220,446
Reserves	19	(12,109)	(6,806)	4,911	3,075
Retained earnings	20	108,241	80,202	23,881	3,995
Total equity attributable to equity holders of the parent		1,314,709	1,293,842	1,247,369	1,227,516
Minority interest	22	4,665	4,764	–	–
Total equity		1,319,374	1,298,606	1,247,369	1,227,516

The Balance Sheets are to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 38.

Cash Flow Statements

for the year ended 30 June 2007

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash flows from operating activities					
Cash receipts from customers		1,682,869	1,535,692	-	-
Cash paid to suppliers and employees		(1,473,205)	(1,377,484)	(2,002)	(7,593)
Dividends received		-	-	100,000	77,500
Income taxes paid		(30,830)	(37,862)	(22,610)	(7,623)
Reimbursements received from tax consolidated entities		-	-	26,946	11,231
Interest paid		(43,713)	(34,240)	-	-
Interest received		3,174	2,313	84	100
Net cash from operating activities	27(b)	138,295	88,419	102,418	73,615
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		1,432	1,457	-	-
Acquisition of controlled entities (net of cash acquired)	26	(266,348)	(64,702)	-	-
Acquisition of businesses (net of cash acquired)	26	(42,304)	(15,216)	-	-
Acquisition of property, plant and equipment		(23,921)	(21,598)	-	-
Net cash used in investing activities		(331,141)	(100,059)	-	-
Cash flows from financing activities					
Lease payments		(4,059)	(1,945)	-	-
Repayment of borrowings		(10,846)	(28,675)	-	-
Loans to controlled entities		-	-	(22,548)	-
Dividends paid		(77,920)	(75,493)	(77,920)	(75,493)
Dividend paid to minority interest		(358)	-	-	-
Proceeds from borrowings		334,300	111,804	-	-
Share buy back		(1,869)	-	(1,869)	-
Net cash from/(used in) financing activities		239,248	5,691	(102,337)	(75,493)
Net increase/(decrease) in cash and cash equivalents		46,402	(5,949)	81	(1,878)
Cash and cash equivalents at the beginning of the year		94,025	101,106	487	2,365
Effect of exchange rate fluctuations on cash held		(1,787)	(1,132)	-	-
Cash and cash equivalents at the end of the year	27(a)	138,640	94,025	568	487

The Cash Flow Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 38.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2007

	Issued capital \$'000	Retained earnings \$'000	Equity compensation reserve \$'000	Foreign currency translation reserve \$'000	Hedge reserve \$'000	Total equity attributable to equity holders of the parent \$'000	Minority interest \$'000	Total equity \$'000
Balance at 30 June 2005	1,220,446	54,484	1,510	(2,855)	–	1,273,585	4,330	1,277,915
Change in accounting policy application of AASB 132 and AASB 139	–	–	–	–	(2,781)	(2,781)	–	(2,781)
Restated balance at 1 July 2005	1,220,446	54,484	1,510	(2,855)	(2,781)	1,270,804	4,330	1,275,134
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	3,117	3,117	–	3,117
Foreign exchange translation differences	–	–	–	(7,362)	–	(7,362)	279	(7,083)
Total (expense)/income for the period recognised directly in equity	–	–	–	(7,362)	3,117	(4,245)	279	(3,966)
Profit for the year	–	101,211	–	–	–	101,211	155	101,366
Total recognised income/(expense) for the year	–	101,211	–	(7,362)	3,117	96,966	434	97,400
Dividends recognised during the year	–	(75,493)	–	–	–	(75,493)	–	(75,493)
Cost of share based payments	–	–	1,565	–	–	1,565	–	1,565
Balance at 30 June 2006	1,220,446	80,202	3,075	(10,217)	336	1,293,842	4,764	1,298,606
Balance at 1 July 2006	1,220,446	80,202	3,075	(10,217)	336	1,293,842	4,764	1,298,606
Foreign exchange translation differences	–	–	–	202	–	202	–	202
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(7,341)	(7,341)	(325)	(7,666)
Total expense for the period recognised directly in equity	–	–	–	–	–	–	–	–
Profit for the year	–	105,959	–	–	–	105,959	177	106,136
Total recognised income/(expense) for the year	–	105,959	–	202	(7,341)	98,820	(148)	98,672
Minority interest acquired during the period	–	–	–	–	–	–	407	407
Share buy back	(1,869)	–	–	–	–	(1,869)	–	(1,869)
Dividends recognised during the year	–	(77,920)	–	–	–	(77,920)	(358)	(78,278)
Cost of share based payments	–	–	1,836	–	–	1,836	–	1,836
Balance at 30 June 2007	1,218,577	108,241	4,911	(10,015)	(7,005)	1,314,709	4,665	1,319,374

The Consolidated Statement of Changes in Equity are to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 38.

Company Statement of Changes in Equity

for the year ended 30 June 2007

	Issued capital \$'000	Retained earnings \$'000	Equity compensation reserve \$'000	Total equity \$'000
Balance at 1 July 2005	1,220,446	4,655	1,510	1,226,611
Profit for the year	–	74,833	–	74,833
Total recognised income for the year	–	74,833	–	74,833
Dividends recognised during the year	–	(75,493)	–	(75,493)
Cost of share based payments	–	–	1,565	1,565
Balance at 30 June 2006	1,220,446	3,995	3,075	1,227,516
Balance at 1 July 2006	1,220,446	3,995	3,075	1,227,516
Profit for the year	–	97,806	–	97,806
Total recognised income for the year	–	97,806	–	97,806
Dividends recognised during the year	–	(77,920)	–	(77,920)
Cost of share based payments	–	–	1,836	1,836
Share buy back	(1,869)	–	–	(1,869)
Balance at 30 June 2007	1,218,577	23,881	4,911	1,247,369

The Company Statement of Changes in Equity are to be read in conjunction with the Notes to the Financial Statements set out on pages 6 to 38.

Notes to the Financial Statements

for the year ended 30 June 2007

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Notes to the Financial Statements

1 Significant accounting policies

Pacific Brands Limited ('Company') is a company domiciled in Australia. The consolidated Financial Report of the Company as at and for the year ended 30 June 2007 comprises the Company and its controlled entities (together referred to as the 'consolidated entity').

This Financial Report was authorised for issue by the directors on 21 August 2007.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

(b) Basis of preparation

This Financial Report is presented in Australian dollars.

This Financial Report is prepared on the historical cost basis except for derivative financial instruments that are stated at their fair value.

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in this Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The following AASBs, amendments and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption but have not been applied by the Company and consolidated entity in these financial statements:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the consolidated entity's financial instruments and share capital;
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report;
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard is only concerned with disclosures;
- AASB 101 *Presentation of Financial Statements (October 2006)* makes amendments to the existing AASB 101. The standard is applicable for annual reporting periods beginning on or after 1 January 2007, with early adoption permitted and is not expected to have an impact on the financial results of the Company and consolidated entity but may impact certain disclosures.
- AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment of Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report;
- ED 151 *Australian Additions to, and Deletions from, IFRSs* further eliminates differences between AASBs and IFRS. ED 151 is applicable for annual reporting periods beginning on or after 1 July 2007, with early adoption permitted. It is not expected to have an impact on the financial results of the Company or the consolidated entity but may impact certain disclosures.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(b) Basis of preparation

- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the consolidated entity's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the consolidated entity first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e. 1 July 2004 and 1 July 2005, respectively). The adoption of Interpretation 10 is not expected to have a material impact on the financial statements;
- Interpretation 11 *AASB 2 Share-based Payment – Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the consolidated entity's 2008 financial report. Interpretation 11 is not expected to have any impact on the consolidated financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined; and
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 Share-based Payments to insert the transitional provisions of AASB 2, previously contained in AASB 1 First-time Adoption of Australian Equivalents to international Financial Reporting Standards. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.

In the prior financial year the Group adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the movements in equity.

(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.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the consolidated entity are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated entity's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the consolidated entity equity. Any cash paid for the acquisition is recognised directly in equity.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or revenues and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Revenue recognition

Revenues are recognised at fair value of the consideration received, net of the amount of goods and services tax ('GST') payable to the relevant taxation authority.

Sale of goods

Revenue from the sale of goods (net of returns, discounts and allowances) is recognised in the Income Statement when the significant risks and rewards of ownership have been transferred to the buyer. Transfers of risks and rewards vary depending on the individual terms of the contract of sale. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Dividends

Dividend revenue is recognised net of any franking credits. Revenue from distributions from controlled entities is recognised by the Company when they are declared by the controlled entities.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and are not recognised in revenue.

Other income

Government grants

Revenue from government grants is recognised when the consolidated entity has complied with the conditions attaching

Notes to the Financial Statements

1 Significant accounting policies (continued)

to the grant and has reasonable assurance that the grant will be received.

Sale of non-current assets

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

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

(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 Income Statement (refer Note 1(v)). Borrowing costs are expensed as incurred and included in net financing costs.

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

(f) Goods and services tax

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

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

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

Cash flows are included in the Cash Flow Statements 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 tax authority are classified as operating cash flows.

(g) Income tax

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the tax 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 that is not a business combination that affect neither accounting nor taxable profit, and differences relating to investments in controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from April 2004 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Pacific Brands Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'group allocation' 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 arrangements and tax sharing agreements

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 arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

The members of the tax consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(h) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent for the reporting period, after excluding any costs of servicing, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

(i) Receivables

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

(j) Inventories

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

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 determined on the basis of each inventory line's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

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

(k) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount (refer Note 1(n)).

(l) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment (refer Note 1(n)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

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 property 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.

Depreciation and amortisation

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

Depreciation and amortisation are calculated on a straight line basis so as to write off the cost of each item of property, plant and equipment, excluding land, over its estimated useful life.

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

- freehold buildings: 40 years;
- leasehold improvements: life of lease; and
- owned and leased plant and equipment: 3 to 10 years.

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

(m) Intangible assets

Brandnames

The carrying value of brandnames are reviewed at least at each reporting date to determine whether they are in excess of its recoverable amount. If the carrying amount exceeds its recoverable amount, the asset is written down to the lower amount, through a charge to the Income Statement.

No amortisation is allowed for, against the carrying value of these brandnames on the basis that the lives of these assets are considered indefinite at this point in time, as they are not currently associated with products that are likely to become commercially or technically obsolete.

Software

Software that is acquired by the consolidated entity is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life.

Other intangibles

Other intangibles that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of the asset.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(n) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (refer Note 1(j)) and deferred tax assets (refer Note 1(g)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that have an indefinite useful life, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Income Statement.

Impairment losses recognised in respect of a cash generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the Income Statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the Income Statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement.

Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use,

the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the Income Statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the Income Statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company and consolidated entity retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party; or
- the Company or consolidated entity have transferred their rights to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(n) Impairment (continued)

Derecognition of financial assets and liabilities (continued)

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

(o) Payables

Trade and other payables are stated at their amortised cost.

(p) Interest-bearing loans and borrowings

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

(q) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave represent the present obligations resulting from employees' services provided up to the reporting date. The provisions have been calculated at undiscounted amounts based on expected wage and salary rates that the consolidated entity expects to pay as at reporting date and include related on-costs, such as workers' compensation insurance and payroll tax.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made by the consolidated entity resulting from employees' services provided up to the reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Superannuation plans

The consolidated entity contributes to various defined benefit and defined contribution superannuation plans. Employer contributions to these plans are recognised as an expense as they are made.

Defined benefit plans

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 deducted.

The discount rate is the yield at the balance sheet date on national government bonds that have maturity dates approximating to the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When employee benefits under the plan are improved, the proportion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Income Statement.

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

For actuarial gains and losses that arise in calculating the consolidated entity's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the Income Statement over the expected average remaining working lives of the active employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(r) Share based payments

The Company has introduced a number of share plans pursuant to which senior executives and directors may acquire shares.

The fair value of performance rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread 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 options were granted. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(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

Notes to the Financial Statements

1 Significant accounting policies (continued)

current market assessments of the time value of money and the risks specific to the liability, being risk-free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Restructuring

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefit has either commenced or been publicly announced, or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

Surplus lease space

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less.

The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

(t) Accounting for acquisitions

Business combinations

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is allocated to cash generating units and is tested annually for impairment (refer Note 1(n)).

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or

trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(u) Foreign currency

Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Translation of controlled foreign 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 sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Net investment in foreign operations

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

(v) Derivative financial instruments

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

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However,

Notes to the Financial Statements

1 Significant accounting policies (continued)

(v) Derivative financial instruments (continued)

where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Hedging

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement (i.e. when interest income or expense is recognised).

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

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship

but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

Hedge of monetary assets and liabilities

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the Income Statement.

Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the Income Statement.

(w) Accounting estimates and judgements

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and judgements that have a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Defined benefit superannuation plan assumptions

The consolidated entity has decided on a rate of return on assets of 6.9% per annum because this is the average premium achieved over the last three years. If this were to reduce, then the consolidated entity's unrecognised actuarial gains would increase with the risk that they would fall outside the corridor and would be recognised in the Income Statement and Balance Sheet in 2008.

Impairment of goodwill and intangible assets with indefinite useful lives

The consolidated entity assesses whether goodwill and intangible assets with indefinite useful lives are impaired at least annually (refer Note 13). These calculations involve an estimation of the recoverable amount of the cash generating units to which the goodwill and intangible assets with indefinite useful lives are allocated.

Notes to the Financial Statements

2 Revenue and other income

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Sales revenue	1,820,737	1,624,878	-	-
Other income				
Royalties – other parties	919	805	-	-
Dividends – controlled entities	-	-	100,000	77,500
Net gain on disposal of non-current assets	-	1,561	-	-
Sundry income	12,506	14,823	-	-
Total other income	13,425	17,189	100,000	77,500
Total revenue and other income	1,834,162	1,642,067	100,000	77,500

3 Other expenses

Depreciation of:				
Freehold buildings and leasehold improvements	3,962	2,499	-	-
Plant and equipment	14,232	12,742	-	-
	18,194	15,241	-	-
Amortisation of:				
Software	2,692	2,832	-	-
Other intangibles	1,781	-	-	-
Leased plant and equipment	1,440	1,230	-	-
	5,913	4,062	-	-
Total depreciation and amortisation	24,107	19,303	-	-
Net financing costs:				
Financial income	(3,378)	(2,174)	(44)	(100)
Interest on bank loans and overdraft	49,688	36,644	-	-
Finance charges on capitalised leases	328	1,073	-	-
	46,638	35,543	(44)	(100)
Impairment loss on trade debtors	628	1,417	-	-
Amounts set aside to allow for:				
Doubtful debts	1,255	1,040	-	-
Rebates, trade allowances, claims and settlement discounts	125,759	101,837	-	-
Personnel expenses:				
Wages and salaries	322,146	284,373	-	-
Contributions to defined contributions superannuation plans	21,606	21,018	-	-
Defined benefit superannuation expense	1,050	1,430	-	-
Leave entitlements	33,405	28,552	-	-
Other employee costs	17,136	16,281	-	-
Share based payments	1,836	1,565	1,836	1,565
	397,179	353,219	1,836	1,565
Net foreign exchange loss	1,327	1,009	-	-

Notes to the Financial Statements

4 Auditors' remuneration

	Consolidated		The Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Audit services				
Auditors of the Company				
KPMG Australia				
Audit and review of financial reports	1,128,000	1,065,000	60,000	55,000
Overseas KPMG firms				
Audit of financial reports	291,000	230,000	-	-
	1,419,000	1,295,000	60,000	55,000
Other services				
Auditors of the Company				
KPMG Australia				
Taxation services	209,800	210,070	-	-
Other assurance services	13,240	12,695	-	-
Overseas KPMG firms				
Taxation services	9,357	20,043	-	-
Other assurance services	38,167	7,036	-	-
	270,564	249,844	-	-

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; the assignments are principally related to tax advice and assurance services relating to debt covenants and regulatory requirements.

Notes to the Financial Statements

5 Income tax expense/(benefit)

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current income tax expense/(benefit)					
Current year		42,103	35,193	(5,193)	(3,564)
Adjustments for prior year		(4,713)	(2,483)	–	–
Deferred income tax expense					
Origination and reversal of temporary differences		2,092	3,396	2,640	3,105
Total income tax expense/(benefit) in the Income Statements		39,482	36,106	(2,553)	(459)
Numerical reconciliation between income tax expense/(benefit) and profit before income tax					
Profit before income tax expense/(benefit)		145,618	137,472	95,253	74,374
Income tax using the domestic corporation tax rate of 30%		43,685	41,241	28,575	22,312
Increase in income tax expense due to:					
Share based payments		550	469	550	469
Decrease in income tax expense due to:					
Non-assessable dividend income		–	–	(30,000)	(23,250)
Sundry items		(40)	(3,121)	(1,678)	10
Over provided in prior year		(4,713)	(2,483)	–	–
Total income tax expense/(benefit) on profit before income tax		39,482	36,106	(2,553)	(459)
Deferred tax recognised directly in equity					
Relating to derivative financial instruments	1(v)	(3,146)	1,336	–	–

Current income tax liability

The current tax liability for the consolidated entity of \$7.9 million (2006: \$3.9 million) and for the Company of \$7.7 million (2006: \$8.6 million) represent 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.

Notes to the Financial Statements

6 Earnings per share

	Consolidated	
	2007	2006
	\$'000	\$'000
Earnings reconciliation		
Profit for the year	106,136	101,366
Less minority interest	(177)	(155)
Basic earnings	105,959	101,211

	Consolidated	
	2007	2006
	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares at 1 July 2006	503,000,003	503,000,003
Effect of shares brought back during the period	514,859	–
Ordinary shares at 30 June 2007	502,485,144	503,000,003

7 Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

Intersegment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Primary reporting: business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

Underwear & Hosiery	Marketer, distributor, importer and manufacturer of underwear, intimate apparel, socks and hosiery.
Outerwear & Sport	Marketer, distributor, importer and manufacturer of casual outerwear, workwear, sports clothing, sports footwear and sporting equipment.
Home Comfort	Marketer, distributor, importer and manufacturer of mattresses, pillows, bed linen, bedding accessory products and foam.
Footwear	Marketer, distributor, importer and manufacturer of women's, men's and children's footwear.
Other	Retail clearance outlets, administration functions and amortisation.

Notes to the Financial Statements

7 Segment reporting (continued)

	Underwear & Hosiery \$'000	Outerwear & Sport \$'000	Home Comfort \$'000	Footwear \$'000	Other \$'000	Eliminations ¹ \$'000	Consolidated \$'000
2007							
Revenue							
External segment revenue	633,580	362,706	518,530	284,435	34,911	–	1,834,162
Intersegment revenue	122	79	–	–	468	(669)	–
Total segment revenue	633,702	362,785	518,530	284,435	35,379	(669)	1,834,162
Result							
Segment result	93,701	26,959	45,544	37,251	(11,199)	–	192,256
Net financing costs							46,638
Income tax expense							39,482
Profit for the year							106,136
Depreciation and amortisation	6,633	3,479	7,042	1,493	5,460	–	24,107
Segment assets	366,121	480,134	290,292	129,875	1,499,162	(210,066)	2,555,518
Segment liabilities	67,595	173,990	191,657	35,029	977,939	(210,066)	1,236,144
Acquisition of non-current assets	5,252	245,770	15,993	1,404	2,636	–	271,055
2006							
Revenue							
External segment revenue	617,876	249,533	448,889	282,161	43,608	–	1,642,067
Intersegment revenue	7	98	–	449	765	(1,319)	–
Total segment revenue	617,883	249,631	448,889	282,610	44,373	(1,319)	1,642,067
Result							
Segment result	87,644	22,271	36,529	35,693	(9,122)	–	173,015
Net financing costs							(35,543)
Income tax expense							(36,106)
Profit for the year							101,366
Depreciation and amortisation	6,662	1,671	6,056	1,371	3,543	–	19,303
Segment assets	335,273	106,723	259,603	104,720	1,453,219	(151,752)	2,107,786
Segment liabilities	67,065	67,593	176,863	29,889	619,522	(151,752)	809,180
Acquisition of non-current assets	7,403	3,056	92,124	2,172	4,543	–	109,298

¹ Segment revenue, results, assets and liabilities are determined before the effects of consolidation eliminations, except where transactions are between entities in a single segment.

Notes to the Financial Statements

7 Segment reporting (continued)

Secondary reporting: geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets:

Australia	Manufacturing facilities, distribution facilities and sales offices
New Zealand	Manufacturing facilities, distribution facilities and sales offices
Rest of world	Manufacturing facilities, distribution facilities and sales offices

	Australia \$'000	New Zealand \$'000	Rest of world \$'000	Consolidated \$'000
2007				
External segment revenue by location of customers	1,561,625	167,196	105,341	1,834,162
Segment assets by location of assets	2,255,101	219,215	81,202	2,555,518
Acquisition of non-current assets	260,083	8,413	2,559	271,055

2006				
External segment revenue by location of customers	1,410,438	136,714	94,915	1,642,067
Segment assets by location of assets	1,843,994	178,410	85,382	2,107,786
Acquisition of non-current assets	90,644	11,556	7,098	109,298

8 Cash and cash equivalents

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash on hand		326	465	-	-
Cash at bank		128,631	91,132	568	487
Bank short term deposits		9,683	2,428	-	-
	27(a)	138,640	94,025	568	487

The bank short term deposit matures within 45 days and interest is paid at a weighted average interest rate of 6.3% per annum (2006: 4.7% per annum).

Notes to the Financial Statements

9 Trade and other receivables

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current					
Trade debtors		315,686	212,554	-	-
Less allowance for doubtful trade debtors		(4,467)	(1,999)	-	-
Less allowance for rebates, trade allowances, claims and settlement discounts		(30,552)	(22,638)	-	-
		280,667	187,917	-	-
Amounts owing by controlled entities	28	-	-	48,618	26,068
Other debtors		22,299	23,485	6	8
		302,966	211,402	48,624	26,076
Non-current					
Amounts owing by controlled entities	28	-	-	1,203,714	1,203,714
Other debtors		50	214	-	-
		50	214	1,203,714	1,203,714

Other debtor amounts generally arise from transactions outside the usual operating activities of the consolidated entity.

10 Inventories

Raw materials and stores		56,642	41,247	-	-
Work in progress		22,670	15,190	-	-
Finished goods		282,212	240,064	-	-
		361,524	296,501	-	-

11 Other assets

Current

Prepayments		9,636	7,064	-	-
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Non-current

Other investments		1,731	1,979	-	-
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Notes to the Financial Statements

12 Property, plant and equipment

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Freehold land				
At cost	34,134	31,413	-	-
Freehold buildings				
At cost	52,009	30,528	-	-
Accumulated depreciation	(8,859)	(1,644)	-	-
	43,150	28,884	-	-
Leasehold improvements				
At cost	23,749	14,497	-	-
Accumulated amortisation	(6,483)	(3,319)	-	-
	17,266	11,178	-	-
Plant and equipment				
At cost	155,655	106,721	-	-
Accumulated depreciation	(61,286)	(23,380)	-	-
	94,369	83,341	-	-
Leased plant and equipment				
At capitalised cost	7,409	5,610	-	-
Accumulated amortisation	(2,063)	(1,586)	-	-
	5,346	4,024	-	-
Capital works in progress	12,584	8,246	-	-
Total property, plant and equipment at net book value	206,849	167,086	-	-

Reconciliation

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

	Freehold land \$'000	Freehold buildings \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Leased plant and equipment \$'000	Capital works in progress \$'000	Total \$'000
Consolidated 2007							
Carrying amount at the beginning of the year	31,413	28,884	11,178	83,341	4,024	8,246	167,086
Acquisitions through business combinations	2,400	15,074	4,189	10,860	367	88	32,978
Additions	-	-	235	1,380	3,606	22,919	28,140
Transfer from/(to) capital works in progress	384	50	4,871	14,515	(1,079)	(18,741)	-
Disposals	(197)	-	-	(1,791)	(29)	-	(2,017)
Depreciation and amortisation	-	(1,084)	(2,878)	(14,232)	(1,440)	-	(19,634)
Effects of movements in foreign exchange	134	226	(329)	296	(103)	72	296
Carrying amount at the end of the year	34,134	43,150	17,266	94,369	5,346	12,584	206,849

Notes to the Financial Statements

12 Property, plant and equipment (continued)

	Freehold land \$000	Freehold buildings \$000	Leasehold improvements \$000	Plant and equipment \$000	Leased plant and equipment \$000	Capital works in progress \$000	Total \$000
Consolidated 2006							
Carrying amount at the beginning of the year	29,916	29,492	7,046	75,543	2,068	8,232	152,297
Acquisitions through business combinations	–	–	2,857	4,151	–	2,516	9,524
Additions	3,004	–	40	1,709	3,775	17,330	25,858
Transfer from/(to) capital works in progress	190	379	3,020	16,484	(309)	(19,764)	–
Disposals	(1,540)	–	(10)	(1,393)	(288)	–	(3,231)
Depreciation and amortisation	–	(739)	(1,760)	(12,742)	(1,230)	–	(16,471)
Effects of movements in foreign exchange	(157)	(248)	(15)	(411)	8	(68)	(891)
Carrying amount at the end of the year	31,413	28,884	11,178	83,341	4,024	8,246	167,086

13 Intangible assets

	Consolidated				
	Goodwill	Brandnames	Software	Other intangibles ¹	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2005	830,367	375,000	21,702	–	1,227,069
Acquisitions through business combinations	43,355	30,561	–	–	73,916
Amortisation for the year	–	–	(2,832)	–	(2,832)
Effects of movements in foreign exchange	173	(996)	–	–	(823)
Balance at 30 June 2006	873,895	404,565	18,870	–	1,297,330
Acquisitions through business combinations	109,265	80,000	–	20,672	209,937
Amortisation for the year	–	–	(2,692)	(1,781)	(4,473)
Effects of movements in foreign exchange	299	672	–	–	971
Balance at 30 June 2007	983,459	485,237	16,178	18,891	1,503,765

¹ Other intangibles include licences, customer contracts and other customer related intangibles.

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of indefinite life intangible assets.

	Consolidated			
	Goodwill		Brandnames	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Pacific Brands Group	832,468	832,169	382,237	381,565
Sheridan	41,726	41,726	23,000	23,000
Brand Collective	18,728	–	–	–
Yakka Group	90,537	–	80,000	–
	983,459	873,895	485,237	404,565

Notes to the Financial Statements

13 Intangible assets (continued)

The recoverable amount of the Pacific Brands Group cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets and industries in which the Pacific Brands Group operates. A pre-tax discount rate of 11.3% per annum has been used in discounting the projected cash flows.

The recoverable amount of the Sheridan cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets in which Sheridan operates. A pre-tax discount rate of 11.3% per annum has been used in discounting the projected cash flows.

The recoverable amount of the Brand Collective cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets in which Brand Collective operates. A pre-tax discount rate of 11.3% per annum has been used in discounting the projected cash flows.

The recoverable amount of the Yakka Group cash generating unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and cash flows for a further five year period which are extrapolated using a growth rate appropriate for markets and industries in which Yakka Group operates. A pre-tax discount rate of 11.3% per annum has been used in discounting the projected cash flows.

14 Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Consolidated						
Trade and other receivables	2,695	1,177	–	–	2,695	1,177
Inventories	3,751	4,035	–	–	3,751	4,035
Property, plant and equipment	–	–	(3,705)	(813)	(3,705)	(813)
Provisions for employee benefits	19,062	15,063	–	–	19,062	15,063
Other provisions	3,466	5,180	–	–	3,466	5,180
Transaction costs	2,981	5,964	–	–	2,981	5,964
Other items ¹	2,107	1,579	–	–	2,107	1,579
Tax assets/(liabilities)	34,062	32,998	(3,705)	(813)	30,357	32,185
Set off of tax	(3,705)	(813)	3,705	813	–	–
Net tax assets	30,357	32,185	–	–	30,357	32,185
Company						
Provisions for employee benefits	340	–	–	–	340	–
Transaction costs	2,981	5,964	–	–	2,981	5,964
Tax assets	3,321	5,964	–	–	3,321	5,964
Set off of tax	–	–	–	–	–	–
Net tax assets	3,321	5,964	–	–	3,321	5,964

¹ Includes a deferred tax asset of \$3.0 million (2006: \$0.1 million) relating to derivative financial instruments recognised directly in equity.

Notes to the Financial Statements

15 Trade and other payables

	Consolidated		The Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current				
Trade creditors	138,753	107,334	1,133	140
Other creditors and accruals	52,949	19,448	-	-
	191,702	126,782	1,133	140
Non-current				
Other creditors	14,599	9,983	-	-

16 Interest-bearing loans and borrowings

Current				
Lease liabilities	2,689	1,642	-	-
Non-current				
Bank loans – secured	936,708	599,287	-	-
Lease liabilities	1,463	2,356	-	-
	938,171	601,643	-	-

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates.

Finance lease liability

The consolidated entity's lease liabilities are secured by the leased assets of \$5.3 million as in the event of default, the assets revert to the lessor.

Finance lease liabilities of the consolidated entity are payable as follows:

	Consolidated			The Company		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2007 \$'000	2007 \$'000	2007 \$'000	2006 \$'000	2006 \$'000	2006 \$'000
Within one year	2,907	218	2,689	1,855	213	1,642
One year or later and no later than five years	1,562	99	1,463	2,493	137	2,356
	4,469	317	4,152	4,348	350	3,998

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

Bank loans

All bank loans are denominated in Australian dollars.

The consolidated entity is required to comply with various financial covenants which it has met. Additionally the consolidated entity entered into a debtor securitisation arrangement by which it transfers to a third party its gross trade debtors in exchange for an immediate discounted cash payment while retaining an exposure to credit losses and a continuing obligation to service its accounts with these customers. The maximum amount allowed to be drawn on this facility is \$250 million. At 30 June 2007, this arrangement was drawn to \$172 million (2006: \$160 million). The gross trade debtors which have been securitised have been presented as trade debtors (refer Note 9) with the secured borrowing included as a component of bank loans – secured.

Notes to the Financial Statements

17 Provisions

	Consolidated		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Current				
Employee benefits	65,666	51,532	-	-
Leased premises	5,015	3,173	-	-
	70,681	54,705	-	-
Non-current				
Employee benefits	6,343	7,354	-	-
Leased premises	4,035	3,168	-	-
	10,378	10,522	-	-

Reconciliation

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

Consolidated	Leased premises	
	2007	2006
	\$'000	\$'000
Carrying amount at the beginning of the year	6,341	6,729
Recognised in the Income Statement	1,709	(307)
Increase through business combinations	1,686	585
Payments	(686)	(666)
Carrying amount at the end of the year	9,050	6,341

18 Contributed equity

	Consolidated		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Share capital				
503,000,003 fully paid ordinary shares at the beginning of the year	1,220,446	1,220,446	1,220,446	1,220,446
722,151 shares were bought back during the financial year	(1,869)	-	(1,869)	-
502,277,852 fully paid ordinary shares at the end of the year	1,218,577	1,220,446	1,218,577	1,220,446

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Notes to the Financial Statements

19 Nature of reserves

The nature and purpose of reserves included in the Statement of Changes in Equity for the Company and consolidated entity are:

Equity compensation reserve

The equity compensation reserve arises on the grant of performance rights to executives under the performance rights plan. Amounts are transferred out of the reserve and into issued capital when the rights are exercised.

Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation (refer Note 1(u)).

Hedge reserve

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

20 Retained earnings

	Consolidated		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Balance at the beginning of the year	80,202	54,484	3,995	4,655
Net profit attributable to equity holders of the parent	105,959	101,211	97,806	74,833
Dividends recognised during the year	(77,920)	(75,493)	(77,920)	(75,493)
Balance at the end of the year	108,241	80,202	23,881	3,995

21 Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
2007				
Interim 2007 ordinary	8.0	40,182	franked	2 April 2007
Final 2006 ordinary	7.5	37,738	franked	2 October 2006
		77,920		
2006				
Interim 2006 ordinary	7.5	37,751	franked	3 April 2006
Final 2005 ordinary	7.5	37,742	franked	3 October 2005
		75,493		

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

Subsequent events

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

Final 2007 ordinary	8.5	42,694	franked	1 October 2007
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Notes to the Financial Statements

21 Dividends (continued)

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognised in subsequent financial reports.

	The Company	
	2007	2006
	\$'000	\$'000
30% franking credits available to shareholders of the Company for subsequent financial years	40,156	12,456

Dividend franking account

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it to \$22.9 million (2006: \$nil).

22 Minority interest

The minority interest relates to a 50% interest in Restonic (M) Sdn Bhd and a 50.1% in World Brands Pty Ltd which is not held by the Company nor by one of its controlled entities.

	Consolidated	
	2007	2006
	\$'000	\$'000
Minority interests in controlled entities comprise:		
Interest in retained earnings/(accumulated losses) at the beginning of the year	129	(26)
Net profit attributable to minority interest	177	155
Minority interest acquired	407	–
Dividend paid to minority interest	(358)	–
Interest in retained earnings at the end of the year	355	129
Interest in share capital	4,293	4,293
Interest in reserves	17	342
Total minority interest	4,665	4,764

Notes to the Financial Statements

23 Additional financial instruments disclosure

(a) Interest rate risk

The consolidated entity enters into interest rate swaps to manage cash flow risks associated with the interest rates on borrowings that are floating.

Interest rate swaps

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between two and five years. Each contract involves quarterly payment or receipt of the net amount of interest.

Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

	Average effective interest rate pa	Floating interest rate \$'000	Fixed interest maturing in		Non-interest bearing \$'000	Total \$'000
			1 year or less \$'000	1 to 5 year(s) \$'000		
2007						
Financial assets						
Cash and cash equivalents	6.3%	138,640	–	–	–	138,640
Trade and other receivables	–	–	–	–	302,966	302,966
Foreign exchange options	–	–	–	–	776	776
Other financial assets	–	–	–	–	1,731	1,731
		138,640	–	–	305,473	444,113
Financial liabilities						
Trade and other payables	–	–	–	–	206,301	206,301
Bank loans	7.1% ¹	936,708	–	–	–	936,708
Lease liabilities	6.6%	–	2,689	1,463	–	4,152
		936,708	2,689	1,463	206,301	1,147,161
Interest rate swaps ²		(344,000)	–	344,000	–	–

2006

Financial assets

Cash and cash equivalents	4.7%	94,025	–	–	–	94,025
Trade and other receivables	–	–	–	–	211,402	211,402
Foreign exchange options	–	–	–	–	347	347
Other financial assets	–	–	–	–	1,979	1,979
		94,025	–	–	213,728	307,753

Financial liabilities

Trade and other payables	–	–	–	–	136,765	136,765
Bank loans	6.6% ¹	599,287	–	–	–	599,287
Lease liabilities	6.6%	–	1,642	2,356	–	3,998
		599,287	1,642	2,356	136,765	740,050
Interest rate swaps ²		(340,036)	–	340,036	–	–

¹ After incorporating the effect of interest rate swaps, forward agreements and options.

² Notional principal amounts.

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(b) Foreign exchange risk

From time to time in the ordinary course of business, the consolidated entity enters into forward exchange contracts to hedge a proportion of anticipated purchase and sale commitments denominated in foreign currencies (principally US dollars). The amount of anticipated future purchases and sales is forecast in light of current market conditions and commitments from customers. Hedge contracts are used to cover the next available trading exposure until all contacts are fully utilised. Hedge cover generally does not exceed 12 months.

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

	Consolidated			
	2007		2006	
	Weighted average exchange rate	Australian dollar equivalent \$'000	Weighted average exchange rate	Australian dollar equivalent \$'000
Not later than one year				
Buy US dollars	0.80	252,372	0.74	216,852
Buy Hong Kong dollars	6.25	39,429	5.97	41,575
Buy Sterling Pounds	0.4164	1,854	0.40	2,421
Buy Euros	0.6198	1,805	0.59	473
Buy Japanese yen	96.08	2,157	84.62	2,227
Buy New Zealand dollars	1.1138	701	1.22	833

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales recognised in other debtors at Note 9 and the timing of their anticipated recognition as part of purchases and sales are:

	Consolidated Net gains/(losses)	
	2007	2006
	\$'000	\$'000
Within six months	(15,160)	(429)

(c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The maximum exposure to credit risk on financial assets, excluding investments, of the consolidated entity, is represented by the carrying amount of each financial asset, including derivatives, in the balance sheet.

Notes to the Financial Statements

23 Additional financial instruments disclosure (continued)

(d) Net fair values of financial assets and liabilities

Valuation approach

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following basis.

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable on-market yield having regard to the timing of the cash flows. The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, bank loans, lease liabilities and provision for employee benefits approximate net fair value due to their short term nature.

Net fair values

Recognised financial instruments

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	Consolidated			
	2007		2006	
	Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
Financial assets				
Cash and cash equivalents	138,640	138,640	94,025	94,025
Trade and other receivables	297,813	297,813	211,402	211,402
Interest rate swaps	5,153	5,153	908	908
Foreign exchange contract receivable	39	39	2,682	2,682
Foreign exchange options	1,340	776	610	347
Other financial assets	1,731	1,731	1,979	1,979
Financial liabilities				
Trade and other payables	191,102	191,102	137,265	137,265
Bank loans	936,708	936,708	599,287	599,287
Foreign exchange contract payable	15,199	15,199	3,111	3,111
Lease liabilities	4,152	4,152	3,998	3,998

Cash assets are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

(e) Financing facilities

	Consolidated		The Company	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Unsecured bank overdraft facility, reviewed annually and payable at call:				
Amount used	-	-	-	-
Amount unused	40,000	40,000	-	-
	40,000	40,000	-	-
Secured bank loan facilities with various maturity dates through to 2012 which may be extended by mutual agreements:				
Amount used	936,500	602,200	-	-
Amount unused	113,500	197,800	-	-
	1,050,000	800,000	-	-

Notes to the Financial Statements

24 Commitments

	Consolidated	
	2007	2006
	\$'000	\$'000
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	51,324	29,403
One year or later and no later than five years	135,105	78,009
Later than five years	34,378	12,349
	220,807	119,761

The consolidated entity leases property under non-cancellable operating leases expiring in one to five year(s). Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria. Where the incremental rentals are fixed, they are incurred evenly over the term of the lease. The consolidated entity has provided for these fixed increments (refer Note 17).

Notes to the Financial Statements

25 Controlled Entities

The consolidated entity has a 100 per cent ownership interest in the following entities in the current and prior years except where noted:

Controlled Entity	Place of Incorporation/ Formation	Controlled Entity	Place of Incorporation/ Formation
Pacific Brands (Australia) Pty Ltd	Australia	Shared Apparel Services Pty Ltd	Australia ²
Pacific Brands Holdings Pty Ltd	Australia	Wrights Workwear Pty Ltd	Australia ²
Pacific Brands Footwear Pty Ltd	Australia	Yakka Apparel Solutions Limited	New Zealand ²
Sachi Australia Pty Ltd	Australia	Yakka New Zealand Limited	New Zealand ²
Pacific Brands Sport & Leisure Pty Ltd	Australia	Neat n Trim Uniforms Pty Ltd	Australia ²
Pacific Brands Clothing Pty Ltd	Australia	Neat n Trim Uniforms Ltd	New Zealand ²
Pacific Brands Household Products Pty Ltd	Australia	Dowd Corporation Pty Ltd	Australia ²
Bonds Industries Pty Ltd	Australia	Dowd Corporation (NZ) Limited	New Zealand ²
Sheridan Australia Pty Ltd	Australia	Icon Clothing Pty Ltd	Australia ²
Pacific Brands Services Group Pty Ltd	Australia	Icon Clothing (NZ) Pty Ltd	Australia ²
PT Berlei Indonesia	Indonesia	Yakka (Kingsgrove) Pty Ltd	Australia ²
Pacific Brands Holdings (NZ) Ltd	New Zealand	Yakka (QLD) Pty Ltd	Australia ²
Sheridan NZ Limited	New Zealand	Yakka (Wodonga) Pty Ltd	Australia ²
Pacific Brands Holdings (Hong Kong) Ltd	Hong Kong ¹	Cushen Clothing Company Pty Ltd	Australia ^{2,3}
Grosby (China) Ltd	Hong Kong	Cushen Clothing (Distributors) Pty Ltd	Australia ^{2,3,4}
Pacific Brands (Asia) Ltd	Hong Kong	Cushen Unit Trust	Australia ^{2,3}
Pacific Brands (UK) Ltd	UK	FW Fleming Pty Ltd	Australia ^{2,3}
Sheridan UK Limited	UK	Industrial Workwear Centre Pty Ltd	Australia ^{2,3}
PacBrands USA Inc	USA	Yakka (WA) Pty Ltd	Australia ^{2,3}
Pacific Brands (Fiji) Limited	Fiji	Yakka (SA) Pty Ltd	Australia ^{2,3}
Yakka (Aust) Pty Ltd	Australia ²	Yalee Pty Ltd	Australia ^{2,3}
Yakka Pty Ltd	Australia ²	West End Clothing Pty Ltd	Australia ^{2,3}
CTE Pty Ltd	Australia ²	Yakobi Pty Ltd	Australia ^{2,3}

¹ Pacific Brands Holdings (Hong Kong) has a 36% interest in Dunlop Slazenger Philippines Inc and a 50% Interest in Pacific Brands Marketing (Hong Kong) Ltd but does not have control of these entities.

² These entities were acquired on 2 April 2007. See Note 26.

³ Following year end, these entities are to be placed into voluntary liquidation.

⁴ Cushen Clothing (Distributors) Pty Ltd is the trustee for Cushen Unit Trust.

Notes to the Financial Statements

25 Controlled Entities (continued)

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

Controlled entity	Place of incorporation	Ordinary share consolidated entity interest 2007	Ordinary share consolidated entity interest 2006
		%	%
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%
World Brands Pty Ltd	Australia ¹	50.1%	0%

¹ A controlling interest in this entity was made on 2 January 2007. See Note 26.

Notes to the Financial Statements

26 Acquisitions

On 2 April 2007, the consolidated entity acquired all of the equity of Yakka (Aust) Pty Ltd for \$266.3 million in cash (net of cash acquired). The company manufactures, imports, distributes and retails industrial, corporate and casual wear in Australia and New Zealand.

On 2 January 2007, the consolidated entity acquired the Australasian streetwear business and a 50.1% controlling interest in World Brands Pty Limited from Globe International Limited for \$42.3 million cash. The streetwear and World Brands businesses' design, develop and distribute youth apparel under both propriety brands and other licensed and distributed brands.

These acquisitions had the following effect on the consolidated entity's assets and liabilities on acquisition date:

	Book value	Adjusted for accounting policies	Provisional fair value adjustments	Provisional fair value
Cash	16,650	–	–	16,650
Trade and other receivables	63,335	–	(612)	62,723
Inventories	88,139	(810)	(11,528)	75,801
Property, plant and Equipment	33,638	–	(660)	32,978
Brandnames	–	–	80,000	80,000
Other Intangibles	–	–	20,672	20,672
Other assets	2,710	–	–	2,710
Deferred tax assets	3,702	1,088	(1,856)	2,934
Trade and other payables	(13,662)	–	–	(13,662)
Other liabilities	(30,437)	–	(2,017)	(32,454)
Provision for taxation	(930)	63	–	(867)
Current provisions	(9,340)	(313)	–	(9,653)
Non-current provisions	(578)	(84)	(5,247)	(5,909)
Lease Liabilities	(668)	–	–	(668)
External debt	(14,810)	–	–	(14,810)
Minority Interest	(382)	–	(26)	(408)
Net assets acquired	137,367	(56)	78,726	216,037
Goodwill				109,265
Consideration				325,302
Less: cash acquired				(16,650)
Consideration (net of cash acquired)				308,652

Since acquisition the acquired businesses have contributed net profit of \$1.5 million to the consolidated profit for the year. If the acquisitions had occurred on 1 July 2006, management estimates that consolidated revenue would have been \$2,079.4 million.

Due to the uncertainty of the impact of changes in the cost and management structures of the combined entities, the Directors' are of the opinion that it is impracticable to determine the pro-forma net profit for the full year had the acquisitions occurred on 1 July 2006.

Effect of prior year acquisitions

On 26 September 2005, the consolidated entity acquired 100% of the equity of Sheridan Australia Pty Ltd, Sheridan NZ Limited and Sheridan UK Limited for \$64.7 million in cash (net of cash acquired) and assumed interest bearing debt of \$28.7 million. These companies design, source and distribute high quality bed linen and towels primarily to the consumer market in Australia, New Zealand and the United Kingdom.

On 30 November 2005, the consolidated entity acquired from Arthur Ellis Limited its Bedwares and the Everwarm/Survival businesses for \$11.5 million in cash. The Bedwares business manufactures, supplies and distributes pillows, quilts and mattress protectors to major retailers in New Zealand whilst the Everwarm/Survival business supply and distribute thermalwear products.

During June 2006, the consolidated entity acquired the Peri bed linen business and Foam Products Australia's foam manufacturing business for \$0.7 million and \$3.0 million in cash respectively.

Notes to the Financial Statements

26 Acquisitions (continued)

Effect of prior year acquisitions (continued)

These acquisitions had the following effect on the consolidated entity's assets and liabilities:

	Book value \$'000	Adjustment for accounting policies \$'000	Fair value adjustments \$'000	Fair value \$'000
Inventories	48,854	(845)	(14,018)	33,991
Trade and other receivables	13,155	(705)	(2,434)	10,016
Property, plant and equipment	11,768	–	(2,244)	9,524
Brandnames	30,561	–	–	30,561
Other assets	1,781	(253)	(196)	1,332
Deferred tax assets	1,906	771	2,335	5,012
Trade and other payables	(12,452)	–	(2,036)	(14,488)
Interest bearing liabilities	(1)	–	–	(1)
Current provisions	(6,019)	(1,356)	(3,134)	(10,509)
Non-current provisions	(200)	–	–	(200)
Net assets acquired	89,353	(2,388)	(21,727)	65,238
Goodwill				43,355
Consideration				108,593
Less: Interest bearing debt assumed				(28,675)
Total Cash				79,918

Notes to the Financial Statements

27 Notes to the Cash Flow Statements

(a) Reconciliation of cash

For the purposes of the Cash Flow Statements, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the year as shown in the Cash Flow Statements is reconciled to the related items in the Balance Sheets as follows:

	Note	Consolidated		The Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash and cash equivalents	8	138,640	94,025	568	487

(b) Reconciliation of profit for the year to net cash from operating activities

Profit for the year		106,136	101,366	97,806	74,833
Add/(less) non-cash items:					
Share based payments		1,836	1,565	1,836	1,565
Net gain on disposal of non-current assets		–	(1,561)	–	–
Amounts set aside to allow for doubtful debts, rebates, claims and settlement discounts	3	127,014	102,877	–	–
Amounts set aside to allow for employee benefits		29,297	25,309	–	(384)
Depreciation and amortisation	3	24,107	19,303	–	–
Increase/(decrease) in income taxes payable		3,191	(6,286)	(861)	(2,646)
Decrease/(increase) in current and deferred tax assets		5,559	4,530	2,643	3,097
Net cash provided by operating activities before change in assets and liabilities		297,140	247,103	101,424	76,465
Change in assets and liabilities:					
Increase in trade and other receivables		(151,633)	(105,505)	–	(2,970)
Decrease/(increase) in inventories		10,733	(12,931)	–	–
(Increase)/decrease in prepayments		(2,572)	1,607	2	2
Increase/(decrease) in trade and other payables		11,364	(11,627)	992	118
(Decrease)/increase in provisions		(26,737)	(30,228)	–	–
Net cash from operating activities		138,295	88,419	102,418	73,615

Notes to the Financial Statements

28 Non-key management personnel disclosures

All transactions with non-key management personnel are on normal terms and conditions, except for the interest free loan of \$1,204 million shown below. This loan was made from Pacific Brands Limited 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.

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

From time to time, directors of related parties or their director related entities may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by consolidated entity employees or customers and are immaterial or domestic in nature.

	The Company	
	2007	2006
	\$'000	\$'000
The aggregate amounts included in the profit from ordinary activities before income tax expense/(benefit) that resulted from transactions with controlled entities are:		
Dividend revenue		
Wholly-owned controlled entities	100,000	77,500
Aggregate amounts receivable from controlled entities:		
Amounts receivable other than trade receivables		
Current		
Wholly-owned controlled entity	48,618	26,068
Non-current		
Wholly-owned controlled entity (interest free)	1,203,714	1,203,714

29 Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial periods.

Dividends

For dividends declared after 30 June 2007, refer Note 21.