R+A

PACIFIC BRANDS REPORT+ACCOUNTS 2005

PACIFIC BRANDS LIMITED AND ITS CONTROLLED ENTITIES
ABN 64 106 773 059

PACIFIC BRANDS

All over Australia and New Zealand people not only wear our brands, they sleep on our brands and accessorise their homes with our brands. They play sport in our brands. They go to work in our brands. They dress their children in our brands. And they relax in our brands. In other words, virtually every aspect of their lifestyle incorporates our brands. Every day. Every week. Every month.

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

Contents>

7.2 million Chesty Bonds singlets a year

26.5 million Dunlop Volleys made since 1939

with a change in design in mid 1970s

Dear Fellow Shareholders,

Our first full financial year since the float was a good, solid year. We continued to improve the performance of your company by focusing on our brand driven strategy of 'everyday essential brands', ongoing operational efficiencies and strong, disciplined financial management.

By every measure, we either met or exceeded our publicly stated goals for the year. Our results show the fundamental strategy of the business is the correct one, especially in a retail environment which is softer than was expected a year ago. The strategy described more fully in this report should continue to see us through this cycle and well into the future.

The results of this year confirm to us that we are consistently demonstrating an improving approach to capturing the potential of our everyday essential brands. This was accomplished by focusing our efforts on innovative product designs as well as delivering better advertising, marketing and distribution. Equally important was our continuing emphasis on operational efficiencies, the effects of which were improved flexibility, speed and ways we take our branded products to market.

Your company is fortunate to have a range of talented, energetic people working together as a team to continually improve the performance for you and our customers. In addition, we are continually striving to make Pacific Brands an exciting place for our employees to build their careers. We have a diverse board of directors where each one brings different levels of skills and expertise to bear on the issues facing us. We also have a depth of experience in our management team and employee base to which all the credit for our performance is due to their combined efforts to serve our customers well.

We also believe our company cannot do well without doing its part in the community. In the past year we have developed long term partnerships with both World Vision and the Breast Cancer Network of Australia. Many of our employees give of themselves in these endeavours and we encourage their involvement.

In preparing this letter, I reflected back to what I wrote to you a year ago. I said Pacific Brands had a wealth of experience to drive a branded strategy. I also said we would continue to grow our category leading positions across 'everyday essential brands'. Both statements were true then and now. In fact, the branded strategy is one of the key elements of our success and is the basis for our optimism for the future.

On behalf of all of us at Pacific Brands, thank you for your continued support.

Pat Handley

Pat Handley
Chairman

A strong year. A successful year. We pushed hard during the year to sharpen our focus on our core strengths that support our long-term direction

A consistent financial performance achieved through growth in branded sales combined with effective management of the costs of doing business

Highlights 2005

This financial year was the first full year that we have traded as a public company. Solid earnings growth was achieved through the focus on branded profitable sales.

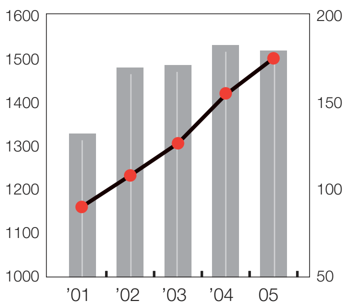
- $176.1 million EBITA, up 13.5% on previous year
- $102.5 million net profit after tax (pre goodwill amortisation) up 16.0%
- Earnings per share (pre goodwill amortisation) up 16.0% to 20.4 cents
- $75.1 million net operating cashflow, $110.5 million generated in second half
- Inventory of $255.4 million in line with expectations after raising levels at the first half in preparation of China entering the World Trade Organisation

Financial Performance 2005

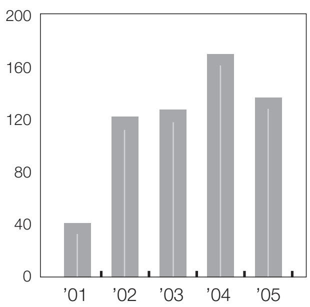
	2005 $m	2004 PF[1] $m	Change %
Branded net sales	**1,381.1**	1,361.3	1.5
Unbranded net sales	**140.6**	173.8	(19.1)
Total sales revenue	**1,521.7**	1,535.1	(0.9)
Gross margin	**630.3**	589.1	7.0
EBITA	**176.1**	155.2	13.5
EBITA margin	**11.6**	10.1	
NPAT (pre-goodwill amortisation)	**102.5**	88.4	16.0
EPS (pre-goodwill amortisation) (cents per share)[2]	**20.4**	17.6	16.0
Dividends declared per share (cents per share)[3]	**15.0**	3.5[4]	

[1] Pro forma 2004. To ensure investors can compare the earnings, these are pro forma results for the year ended 30 June. The company only commenced trading on the ASX/NZX on 6 April 2004.
[2] This has been calculated from an issued capital base of 503,000,003 ordinary shares.
[3] Interim and Final dividend – both franked to 100% for Australian residents on tax paid at 30%.
[4] Dividend only for 3 months as company only commenced trading on the ASX/NZX on 6 April 2004.

Five years financial comparison ($ million)

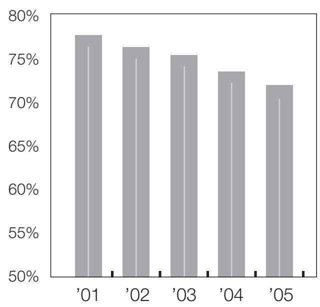


Sales EBITA



Gross Operating Cashflow

(Note – Given change in company structure on listing, this is gross operating cash flow post capital expenditure, but before net borrowing costs and income tax).



Cost of Doing Business to Gross Profit %

(Costs include freight, distribution, IT, sales & marketing, advertising and administration)

Dear fellow investors,

Pacific Brands' strength lies in our ability to create leadership brands and the infrastructure to support them. I am pleased to say that this is again evident in this year's result.

Here's how we measured up

It's been a good year – we've had solid increases in our key measures – and in challenging retail conditions your Pacific Brands' team achieved a significant and respectable performance.
Our achievements for 2005:

- group EBITA was up 13.5% to $176.1 million;
- net profit after tax (pre goodwill amortisation) rose 16.0% to $102.5 million;
- earnings per share (pre-goodwill amortisation) was up 16.0% to 20.4 cents;
- branded net sales grew 1.5% even though total sales declined by 0.9%;
- sales growth in Footwear was up 6.3%; Home Comfort up 4.8%;
- our strong growth in branded net sales and continuing improvements in operational efficiencies, together contributed to EBITA margins of 11.6%;
- our inventory, in line with forecasts, was steady at $255.4 million;

Everyday essential brands – understand the power of this positioning and you understand the value of our brand-driven strategy

- we generated strong net operating cash flows of $75.1 million for the year, with the strong and expected second half result of $110.5 million; and
- our final dividend for the year was 7.5 cents per share.

These are strong results. Our focus on building leadership brands, our people and innovative processes and capabilities, has enabled us to deliver a strong performance.

Our strong business model

How is it that Pacific Brands achieved solid results in what is considered by many to be a challenging environment, an environment of fluctuating retail and consumer confidence?

The foundation lies in our differentiated strategy: ‘everyday essential brands’. Understand this positioning and you understand the value of our brand-driven strategy.

Our strategy is based on the belief that consumers respond to leadership brands. The best in the market. Top of mind awareness brands. Brands that are category leaders.

Our leadership brands are everyday essentials. Brands that are absolutely necessary, basic and fundamental – they are an indispensable part of our daily lives. And leadership brands in any category elicit an emotionally powerful response from consumers. They are sustainable because consumers remain loyal to them.

A focus on profitable, branded sales drives our compelling business model. For our consumers, leadership brands means better brands, better quality. For Pacific Brands, leadership brands means stronger returns because we generate more revenue and better margins from our cost base. And for shareholders it means a higher rate of return. That’s the power of everyday essential brands – our brand-driven strategy.

Building leadership brands

Clearly brands win. Our branded sales are up from 88.7% of sales in 2004 to 90.8% in 2005. In Bonds, Berlei, Jockey, Holeproof, Dunlop, Tontine, KingGee, Hush Puppies and Grosby, we have some of the most compelling brands in Australian retailing.

Our job as professional brand managers, is building and managing leadership brands for the greatest return. Our brands have to be either number 1, or a very close number 2, in their respective categories.

This means focusing our talents, our resources and our processes on the brands that have the greatest potential for return and brand extension.

One of the great strengths of Pacific Brands is our ability to marry innovative design and marketing capabilities with equally strong business processes. It’s good for the brands, good for the business and good for shareholders. Among our efforts in 2005, we achieved:

- strong margin growth in Underwear and Hosiery, which was underpinned by brand investment and excellent category management. Of particular mention was men’s underwear, up 6.9%, with great performances from Holeproof Hunks, new Jockey Performance and Bonds. Bonds Fleece sales up 50%, lifted by the ‘Hoodie’ and ‘Trackie’ campaigns, positive growth in Holeproof socks and a reinvigoration of the Berlei brand with the launch of Barely There;
- excellent growth and operational efficiencies in the Home Comfort division. Highlights included strong Tontine sales in both pillows and quilts; bedding improvements driven by Serta, Simmons and Sleepmaker; the launch of Esprit bed linen; the development of new segments for foam in hospitality, bedding and transport and market share gains in flooring;

- a steady and continuing turnaround in Outerwear and Sport. The new management team has delivered an EBITA increase of 43.9% for the second half of the year and has shifted sourcing for KingGee from Fiji to China. A concentration on branded sales and cost control contributed to this encouraging result; and
- excellent growth in the key brands of the Footwear division – Hush Puppies, Grosby, Julius Marlow and Naturalizer – driven by effective category management, delivering the right brand, the right channel, at the right price point.

What the 2005 divisional results demonstrate is our unique ability to build brands from within. It is this kind of thinking that has seen Pacific Brands grow into a company with branded net sales of nearly $1.4 billion, earning loyalty from our existing consumers and welcoming new ones every day.

I want to take this opportunity to highlight an important point. Investors know brands are powerful. But what they are increasingly realising is that leadership brands managed by professional brand managers are more powerful.

In all things innovate

By innovation, we mean making changes in the way we do things, especially through the introduction of new methods and ideas to develop existing products or introduce new ones.

We've increased our efforts to innovate in all aspects of our business: design, sourcing, supply chain management, marketing, advertising, merchandising and promotions.

We are changing the way we manage our sourcing. We now have over 120 Pacific Brands people based in China, across four offices. And we're set to expand that to around 150 people in the coming year. Key decision makers are now located closer to fewer suppliers, enabling greater flexibility and speed to market.

Brave New Way is transforming the way we manage our business. Since its introduction in September 2002, we have been steadily capturing significant improvements in gross profit contribution, reducing complexity and improving strategic sourcing and business processes.

The more we improve our supply chain the more efficiencies we gain, enabling individual brand teams to spend more time on their core brand building objectives.

There are significant advantages in constantly reviewing processes that improve and ensure better brand execution. Our goal is to have a company-wide recognition that efficiency rules, and although we have achieved a great deal – 65% of our businesses have completed their Brave New Way reviews – there is much still to do.

In the next 12 months, our immediate focus is on category planning to maximise growth, developing a consistent go-to-market approach across the whole business and driving additional operational efficiencies.

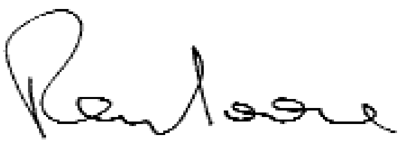
People as a competitive advantage

To grow and manage our business, we need the right people. We have been, and will continue to be, very effective in attracting, retaining and developing the right people. Our formula for success starts and ends with them and I thank them for their energy, spirit and enthusiasm.

On pages 10-11 we introduce to you just a few of those people who make it happen: highly talented, creative people who every day add to our reputation as leadership brand builders, delivering consistent operating results for greater shareholder value.

If you were to come away with only one thought from this annual report, it should be that Pacific Brands has a strong and powerful business model, positioned to perform well in the current environment. Our management team believes it. Our people believe it. And after reading this annual report, I trust you will too.

There's a lot to be optimistic about – that's the power of everyday essential brands.



Paul Moore
CEO

There's a lot to be optimistic about – that's the power of everyday essential brands

A brand-driven strategy

A business model is the essential design of a company. Pacific Brands' model is a powerful strategic platform to create shareholder value. That's the power of everyday essential brands.

The power of everyday essential brands is not in building brand leadership, but rather building leadership brands.

We believe consumers respond to leadership brands, not brand leadership. They respond to the best in the market. Big Brands. Brands with top of mind awareness.

What it takes to build a leadership brand

It takes great skills to build a powerful category retail brand. Once the core of the brand is rigidly defined it's up to the team responsible to execute.

It is intentionally focusing design, sourcing and supply chain management, marketing, display, finance, management time, advertising and promotions, everything, to win the category.

You can't just be competitive. You have to be the best at everything that makes the category important to the customer and consumer. Getting ahead. Being first to market. Leapfrogging the competition. All are important.

But being first isn't an accident. It's deliberate. And well planned. It means being focused, and making your own opportunities. Because retail doesn't wait. It moves. Constantly. And so must our brand teams.

A leadership brand is incredibly close to its consumer, well defined and clearly differentiated. That means supporting it in every way we can, to keep it fresh, with powerful brand-right advertising and promotion. To give you some perspective, our advertising spend in 2005 was $70 million, an increase of $8.1 million on 2004's $61.9 million, and in line with our 12 to 15% year-on-year increase that has occurred for the last three years. But that's only part of the story.

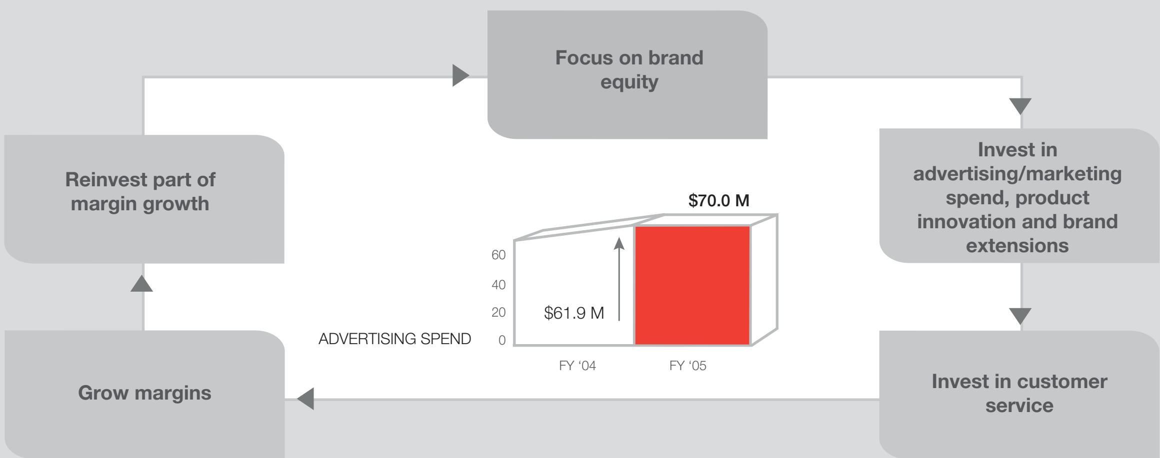
The importance of innovative thinking

The other part of the story is about the invention of new thinking and new ways of doing things. In other words, innovation. Take Bonds for example: starting in 1928, with a range of women's hosiery and gloves, we've added over the years women's sleepwear, swimwear, socks, men's underwear, clothing, socks, children's wear, babywear and Bond's Home, a range of bedding. All are everyday essential brands. All are category leaders. All add value.

Clearly, leadership brands win

Generally the longer a brand name endures, the greater value to investors. One of the important ways brands add value is through increasing the longevity of the product. Most of the world's valuable brands have been around for 30 years or more. Well known brands have longevity because consumers believe in them, they trust them and are more willing to try new versions, often referring them to new generations of consumers. And here at Pacific Brands, we have some of the most enduring names in the Australian marketplace. Get it right and it means potential for growth and increased profitability. Which is all good for shareholder value.

Process for building leadership brands ($ millions)



A STABLE OF LEADERSHIP BRANDS

Our goal is clear: our brands must be NUMBER ONE, or, a close SECOND, in their category.

Highly talented, creative people.

Our competitive advantage is our people.
We are a talent rich organisation.

THE ADVANTAGE OF SCALE

We operate across many categories and design, manufacture and market many products. This gives us the benefit to leverage scale across all areas of the business.

Pauline Whitehead
GENERAL MANAGER TONTINE

WHY INNOVATION IS OUR SECRET WEAPON

We believe in brands but you also need great products to support those brands and need to look for new ranges and market opportunities. That's why, for example, there are over 100 specialists in Bonds just developing new and innovative ideas to extend the brands, taking new ideas to market.

Susie Iser
MARKETING MANAGER

Nic Chamberlain
BRAND MANAGER

ALWAYS THINKING

Building leadership brands takes time and requires thinking around the way we design new anges, how we improve ourcing of raw materials, work with our suppliers and develop effective marketing campaigns.

Christina Mitchell
PRODUCT MANAGER
TONTINE GROUP

EFFICIENCY RULES. EVERYDAY

To improve our margins, we need to continually review the way we do business and get our products to market. Our brand development needs to be supported by systems and processes that continually drive efficiencies through the business. Our Brave New Way Team is leading that charge.

Lucinda Kew, Craig Padoa, Cate Pickett, John Topfer
BRAVE NEW WAY

FOCUS. FOCUS. FOCUS

A focus on the fundamentals of brand development and category management has driven double digit growth in the Hush Puppies brand. It has been about the 'contemporisation' of the brand to make it the number one most recognised brand in women's casual shoes.

Paul Nutbean
PRODUCT MANAGER MEN'S

Mary Vescio
PRODUCT MANAGER WOMEN'S

THE BRAND IS EVERYTHING

It is about finding the market, developing products and being committed to all aspects of brand support. To compete in this retail market – you must have powerful brands.

Juliet Strachen
PRODUCT MANAGER
EVERLAST

WE INVEST MILLIONS TO MAKE MUCH MORE

Around 30% of our products are manufactured locally and we continue to be committed to retaining a local manufacturing base.

Geoff Barras and Darren Butler
MANUFACTURING HOLEPROOF

Talented design teams are now at work in all our businesses, helping differentiate our products around clearly defined brand positions.

Innovation is a journey not a destination

It is not only about having the right brands – we must also continually have the right products and ranges for our consumers. Consumer needs are always changing and to be successful, we must be a step ahead of the competition. We pride ourselves in having the skills to create quality, everyday products.

Getting serious results

Every year approximately 60% of our products are new – that takes continuous commitment from each of our design, marketing and sales teams. Across the business, we have nearly 800 people working across those areas.

Not only do we create new products every year – but we are extremely proud of the icon products that have been in the market for many years – the Bonds Chesty – has had its 90th birthday, Holeproof Explorer socks have been around for over 50 years and Dunlop Volleys over 65 years.

FOOTWEAR

Hush Puppies

Through a strong focus on developing and growing the Hush Puppies brand with a range of stylish yet comfortable products, the brand has achieved double digit sales growth. More contemporary designs that have a core strength in comfort and creative advertising campaigns have broadened the brands' appeal. The range includes both women's and men's styles. Focus stores in key retail locations have also supported the brands' growth.

BONDS

Bonds Youth TVC – 'Mix n Mash' Summer Launch

Bonds welcomed the summer season with a high energy television campaign to capture the spirit of summer and youth. It launched the 'mix n match' fashion trend with a range of fun colours, patterns and styles for the youth women's underwear category. The summer 'Mix n Mash' campaign was one of Bonds' strongest ever due to its fun appeal.

HOLEPROOF

Explorer Socks

Pacific Brands is a leading manufacturer and developer of socks. Holeproof Explorer socks have undoubtedly stood the test of time. Comfortable and durable, they can withstand the most rugged and extreme conditions for work and play. Best practice research and development have driven strong growth in the sock category. The strength of the original Explorer has been extended into fabulous new ranges for Women and Kids.

VOODOO

Sexy Kits

Pacific Brands is dominant within the hosiery industry. The hosiery category has faced its challenges as the trend for bare legs has meant a shift away from hosiery as part of the daily wardrobe. The development of the Voodoo Sexy Kit has re-engaged the consumer, in particular the younger market, and driven a spark back into the category. A new area for growth.

The kits include two pieces, legwear and underwear. Sexy Kits were designed to empower confidence but to also make the consumer feel sexy.

HOME COMFORT

Tontine

Tontine is a known and trusted brand and a clear market leader in pillows and quilts with brand awareness around 80%. The product development team at Tontine scours the world for new technology and innovation in fibres and fillings for quilts, mattress protectors and pillows. Tontine is also developing pillows in conjunction with Australian Chiropractors and Physiotherapists to meet the increasing demands for therapeutic products.

OUTERWEAR & SPORT

Everlast

Everlast sits in a very niche market – known as Ath – Leisure. All the design, marketing and brand development occurs in Australia, so that Everlast can tailor products to suit Australian consumers. This brand has introduced a new range for youth in street, sport and casual wear and is supported by the 'Nothing Soft comes out of the Bronx' campaign.

FOOTWEAR

Grosby

The development of the Grosby 'Fluffy Boot' has not only confirmed Grosby as Australia's number one slipper provider, but also as a leading developer within the slipper category. After extensive research, Grosby developed the Dakota 'Fluffy Boot' as a fashion extension of the very popular ugg style boot. Grosby used a unique soft plush fabric in the creation of this product to make it more popular as an outdoor rather than indoor footwear item. An unbelievable 200,000 pairs were sold during the year.

BERLEI

Barely There

Prior to the Spring Summer retail season, a gap was identified within the Berlei range. There was the need for a contemporary everyday bra that would appeal to the majority of Australian women. 'Barely There', a completely seamless and modern bra in a range of fashion colours sets a new pace for product development in the intimates category. Functional and fashionable – it is now the number one selling bra in department stores.

JOCKEY

Men's Jockey Performance

Jockey Performance has launched men's sport as a category in men's underwear. Jockey is for people who are 'Active in Lifestyle'. This range gives men the freedom to move and the support to perform in any area of their exercise and leisure activities. Each design is a leading innovation in both fibre and design technology. Speed to market has provided an outstanding path for category growth.

New things to come

Launch of Bonds Toddlers now gives the brand coverage across all age groups; tougher workwear for KingGee; new fashion ranges across the Footwear group; Tontine moving into bed linen and Hosiery to launch a new range of bodywear.

The scale of Pacific Brands' business demands a more sophisticated, more agile operational model. And in today's competitive environment that means managing for ongoing efficiency gains.

In addition to building leadership brands, improving our innovative thinking, improving our product ranges and lifting customer service, we are pursuing operational efficiencies to help us deliver consistent and solid growth.

Of course, achieving operational efficiencies is really about managing a complex array of interdependencies to achieve a common goal: to do more for less. Everyday.

Under the project name 'Brave New Way', we are redesigning systems and processes to drive out unproductive work and complexity, thus eliminating delays, errors, excessive costs and inflexibility. And we have achieved the following gains:

First, the creation of a shared services infrastructure, delivering value by combining, standardising and executing at a Group level much of our essential transactional work and IT development.

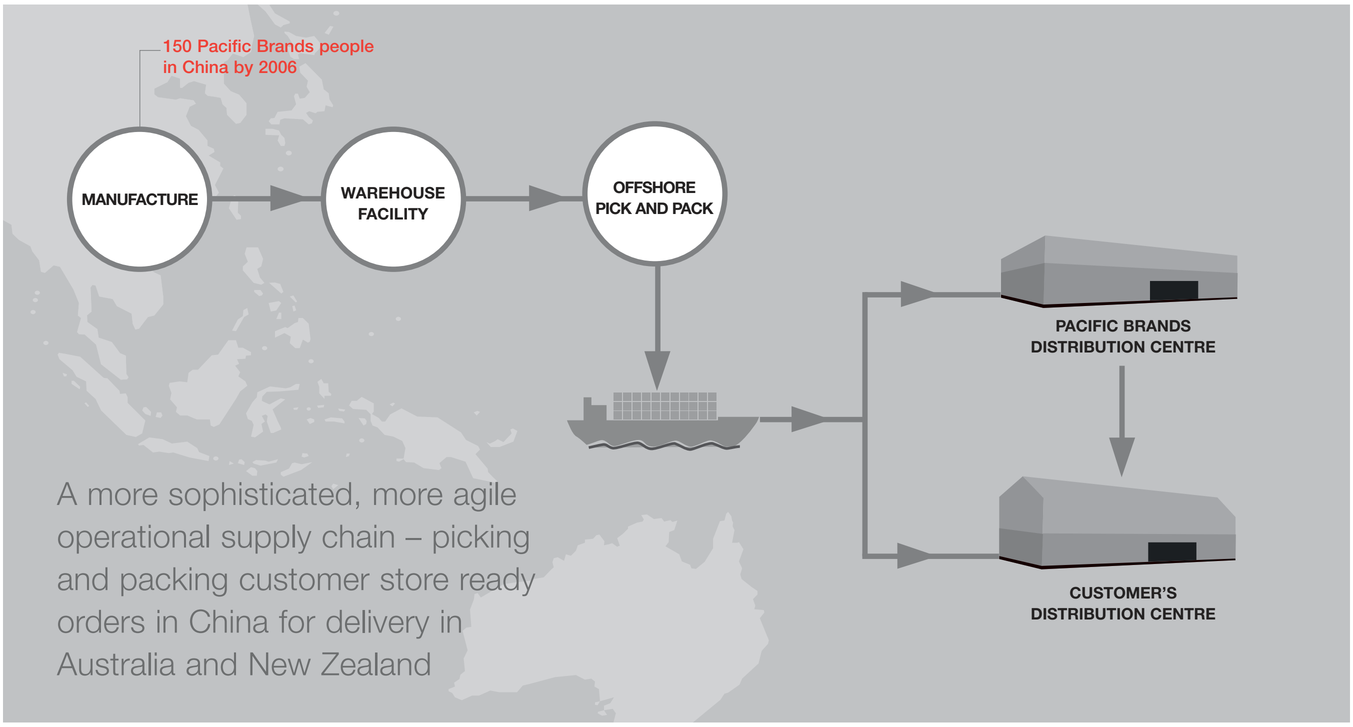
Second, a reduction in the overall range of products we carry. In the last two years we have reduced our overall number of Stock Keeping Units (SKUs) from 180,000 to 160,000, with more to go. We are eliminating underperforming products and rationalising our brands, all of which adds up to greater efficiencies and greater competitive advantage. Although we are still part way through this company wide SKU rationalisation, we expect to deliver consistent and ongoing efficiencies for the next few years.

Third, improved supply chain management and increasing collaboration with our customers and suppliers. For example, our sourcing processes are increasingly shifting to China, where we presently have over 120 people in four locations. That is set to expand to around 150 people in the next 12 months as key decision makers are now located closer to fewer manufacturing supplier factories, enabling greater flexibility and speed to market.

We identified that we had too many distribution centres and since 2002, have reduced 20 to 11. We are collaborating more with our retail customers to achieve direct to store deliveries enabling us to warehouse more cost effectively in China.

Our goal is to improve inventory management, which means better utilisation of existing assets, and since Brave New Way's introduction in September 2002, we have been steadily capturing significant improvements in gross profit contribution, reducing complexity and improving strategic sourcing. But there is still much to do.

The Supply Chain continues to invest in upgrading the availability and visibility of information – with the implementation of a Group Inventory Management System. In September 2005, we will also commence the roll out of a new Purchase Order system.



Review of Operations

Financial Highlights

Pacific Brands Limited and its controlled entities (the Group) had another solid year of strong earnings growth in a changing operating environment. It was led by branded, profitable sales, margin improvement and operational efficiencies. Highlights include:

- $176.1 million EBITA, up 13.5%
- $102.5 million net profit after tax (pre goodwill amortisation), up 16.0%
- Total net sales $1,521.7 million, branded net sales $1,381.1 million, up 1.5%
- Earnings per share (pre goodwill amortisation) up 16.0% to 20.4 cents
- $75.1 million net operating cashflow, $110.5 million generated in the second half

Tax

The effective tax rate on earnings was 28.6 per cent, which was the same as for the year ended 30 June 2004.

Interest

Net interest expense was $32.6 million and interest cover approximately 5.4 times, up from 5.0 times for the prior financial year.

Dividend

The Group has declared a final dividend of 7.5 cents which represents a full year dividend of 15.0 cents. Dividends are fully franked in Australia and it is expected that in future years they will continue to be fully franked.

The Group is committed to a high payout ratio of net profit after tax (pre goodwill amortisation) and this year's dividend represents a 73.6% payout.

Review of Financial Position

There was no significant change in the net assets of the Group over the 2005 financial year. The debt to equity ratio at 30 June 2005 was 31.7%, down slightly from 32.0% at 30 June 2004.

During the year the Group re-financed and extended its debt facilities, taking advantage of the narrowing of credit spreads in the financial markets and added an acquisition facility of $150.0 million.

The Group enters into interest rate swaps to mitigate the risks associated with the floating interest rates on our borrowings. It also enters forward foreign exchange contracts to hedge purchase commitments denominated in foreign currencies, principally USD.

Review of Cash Flow

The Group continues to generate positive cash flows with $75.1 million in cash flow from operations[1] generated during the year, $110.5 million generated in the second half. This was a decrease of 31.9% over the previous year. A $12.1 million increase in trade receivables due to the timing of winter season sales, an $8.3 million decrease in trade creditors and $5.1 million in restructuring costs influenced cash flow.

Cash was used during the year to fund $55.3 million in dividends, acquisitions of $9.6 million and $5.6 million of stamp duty payable in respect of the purchase of Pacific Brands Holdings Pty Ltd. This was part of the restructuring that took place as part of the Group's initial public offering in April, 2004.

Impact of legislative changes

From 1 July 2005, the consolidated entity is required to comply with Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board.

The expected impacts of the resulting changes in accounting policies are disclosed in Note 31 to the financial statements. The main areas of change include cessation of goodwill amortisation and the expensing of performance rights. None of the adjustments are expected to affect the cash flow of the Group.

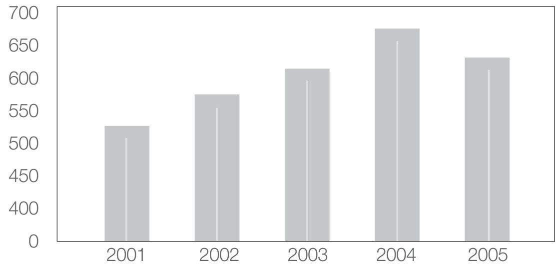
[1] Operating cash flow is defined as net cash from operating activities less interest, tax and capital expenditure.

Underwear & Hosiery

Financial performance

	2005	2004	% Change
Branded sales ($ millions)	**581.6**	581.3	0.1
Total net sales ($ millions)	**647.5**	667.2	(3.0)
EBITA ($ millions)	**99.6**	90.3	10.3
EBITA %	**15.4**	13.5	

Five years total net sales ($ millions)



Underwear & Hosiery – Highlights

- Strong sales performances for Bonds, Berlei, Jockey, Kayser, Love Kylie and Voodoo brands
- Bonds growth driven by brand extensions and product development – the 'Hoodie' and 'Trackie' fleece garments, re-emergence of the Chesty Bonds singlet and babywear
- Strong sales growth in the Berlei brand supported by the launch of 'Barely There'
- Berlei is now the number one selling bra in department stores
- Growth in branded men's underwear of 6.9% through strong performances in Holeproof Hunks, Jockey Performance and Bonds
- Launch of Jockey Performance introduced the men's sports underwear category to the market
- Sales of Holeproof branded socks driven by Computer Socks (using the Donald Trump campaign), Slipper Socks and Explorers
- Manufacturing synergies from hosiery integration fully realised
- Investment in automated hosiery and sock equipment at the Coolaroo and Nunawading plants in Melbourne, Australia
- Acquired TMI Australasia – small bolt-on business that markets licensed products, particularly underwear and sleepwear

What we are doing

- Leading designer, sourcer, manufacturer, marketer and distributor of underwear, intimate apparel, socks and hosiery
- Product development across all categories supported by strong advertising campaigns
- Launching a new Bonds intimates range
- Relaunching Hestia intimates range
- New season campaigns for Antz Pantz and Explorer socks for women and babies
- Using brand ambassadors to further promote our products, including Sarah Murdoch (Bonds), Pat Rafter (Bonds), Sophie Falkiner (Berlei) and Matt Shirvington (Jockey Performance)

Outlook 2006

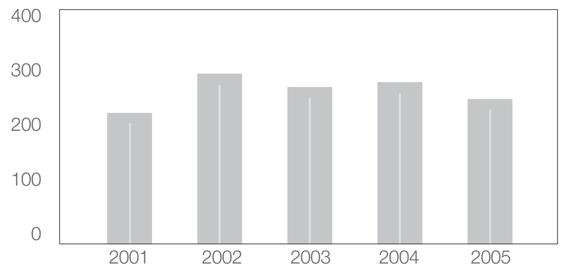
- Brand investment and category management to drive margin growth
- Focus on product development and ranging to provide the right products to consumers
- Everyday essential brands in category leading positions across underwear, socks and hosiery
- New brand ambassadors in Nicollette Sheridan (Hestia), Nicky Hilton and Kimberly Stewart (Antz Pantz)

Outerwear & Sport

Financial performance

	2005	2004	% Change
Branded sales ($ millions)	**237.8**	259.8	(8.5)
Total net sales ($ millions)	**259.4**	289.4	(10.4)
EBITA ($ millions)	**21.4**	24.4	(12.3)
EBITA %	**8.2**	8.4	

Five years total net sales ($ millions)



Outerwear & Sport – Highlights

- Repositioning of casual outerwear business to focus on branded products resulted in sales decline
- Difficult trading conditions remained in the competitive sporting equipment market
- Improved performance by Everlast, KingGee and Stubbies
- Improved second half EBITA performance
- 4th QTR 05 sales up 25% on previous corresponding period

What we are doing

- Leading designer, sourcer, marketer and distributor of casual outerwear, and sporting equipment
- Building leadership position in key outerwear and sporting goods categories
- Core brands of Dunlop, Everlast, Lightning Bolt, KingGee, Slazenger and Stubbies

Outlook 2006

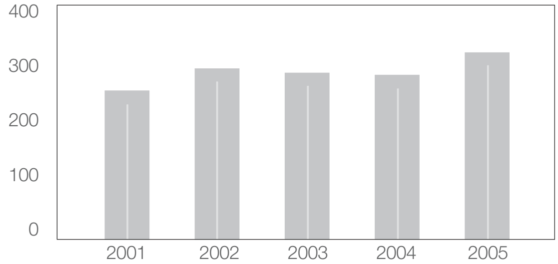
- Brand investment and category management
- Focus on product innovation and speed to market
- Identification of further operational and sourcing improvements

Home Comfort

Financial performance

	2005	2004	% Change
Branded sales ($ millions)	**294.7**	280.4	5.1
Total net sales ($ millions)	**308.8**	294.7	4.8
EBITA ($ millions)	**33.3**	27.7	20.2
EBITA %	**10.8**	9.4	

Five years total net sales ($ millions)



Home Comfort – Highlights

- Branded net sales up 5.1% (total net sales up 4.8%) and EBITA up 20.2%
- Solid performances across each business division (bedding, bedding accessories, flooring and foams)
- Excellent growth in Tontine, Bedding and Dunlop Flooring
- Improved profitability and market share for Flooring group in Australia and New Zealand
- Successful relaunch of the Doona brand
- Launched Esprit bed linen into department and specialty stores
- Serta, Simmons and Sleepmaker drove improved profitability in bedding
- Closed the bedding spring plant in Australia
- Signed a long term spring supply agreement with Leggett & Platt
- Closed Vita Pacific furniture business

What we are doing

- Leading designer, sourcer, manufacturer, marketer and distributor of mattresses, pillows, bedding accessories and foam.
- Expansion of the foam division into other market opportunities – hospitality, transport and packaging
- Continued review of manufacturing processes and sourcing to achieve higher margins
- Focusing on product innovation across all businesses

Outlook 2006

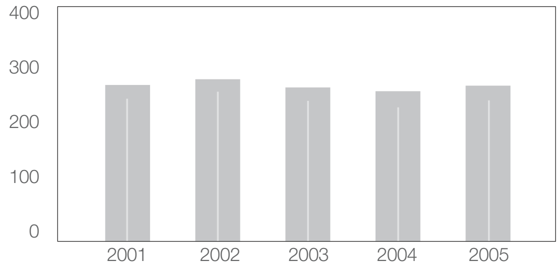
- Continued solid performance across all categories
- Supply of beds, mattresses and bedding accessories for the 2006 Commonwealth Games Athletes Village
- Launch of Tontine bed linen

Footwear

Financial performance

	2005	2004	% Change
Branded sales ($ millions)	**228.3**	207.4	10.1
Total net sales ($ millions)	**267.2**	251.4	6.3
EBITA ($ millions)	**30.6**	22.4	36.6
EBITA %	**11.5**	8.9	

Five years total net sales ($ millions)



Footwear – Highlights

- Excellent year with branded net sales up 10.1% (total net sales up 6.3%) and EBITA up 36.6%
- Double digit sales growth in Hush Puppies, Grosby, Julius Marlow and Naturalizer
- Market leading product development including:
  – best selling Hush Puppies ‘Apache’ shoe
  – Grosby fluffy boot ‘Dakota’
  – Dunlop Volley range
- Focused marketing campaigns in support of brand growth
- Execution of effective magazine campaigns for Hush Puppies, Clarks, Naturalizer and Julius Marlow
- Receipt of Bronze Lion award in Cannes for Grosby ‘Spider’ Television Campaign
- Partnering key retailers in the development of focus stores
- Acquisition of the Merrell footwear license

What we are doing

- Leading designer, sourcer, marketer and distributor of branded women’s, men’s and children’s footwear.
- Effective category management to ensure the right product development and marketing resources are allocated to the right market segment

Outlook 2006

- Continue to set the benchmark for product development in key categories
- Focus on branded sales growth through integrated brand management
- Category management initiatives
- Leverage strategic alliances with international footwear partners – Wolverine and Brown Shoe

Corporate Social Responsibility

Breast Cancer Network

Over 11,500 Australian women and 100 men are diagnosed with breast cancer each year. Under a three year partnership with the Breast Cancer Network of Australia, we are assisting to raise awareness of measures for early detection of breast cancer.

Alongside financial support, we provide a 'My Care Kit' for women recovering from breast surgery. The kit contains a specially designed Berlei crop top bra. We also sponsored 300 employees and family members to participate in the 'Field of Women' at the Melbourne Cricket Ground on 6 May 2005. This event was an outstanding success in raising awareness of breast cancer and the BCNA.

We are developing a community investment programme that enhances our business and the lives of our employees as well as the wider community.

Corporate Social Responsibility

Corporate Social Responsibility at Pacific Brands means a commitment to ethical, responsible and sustainable conduct in all of our operations for all our stakeholders including shareholders, employees, customers, suppliers and the wider community. We are developing a community investment programme that enhances our business and the lives of our employees as well as the wider community.

As a company, we support Australian and New Zealand families facing life's everyday challenges by bringing them a range of quality, value products and trusted brands. We are proud to manufacture and market some of the most recognised 'everyday essential brands' in the market.

In keeping with our brands and values, we aim to deliver

- A safe, healthy, fair and rewarding workplace
- Ethical business practices of which consumers and employees can be proud
- Innovative, reliable and trusted products
- Policies and practices that minimise any environmental impact.

Our People

Pacific Brands is a significant employer, employing over 7,000 people – with the majority in Australia and New Zealand (around 5,000). We have an ongoing commitment to developing our people and making our company a great place to work.

The focus of the learning and development strategy is to ensure that all our people have the necessary skills required to execute their jobs and are learning new skills regularly. We want to ensure that they remain motivated and well equipped to provide the management and leadership talents needed to take the business into the future. During the year, we introduced a number of measures aimed at enhancing our work culture including opportunities for more regular feedback, on-line compliance training and an employee survey about community investment.

Community Investment

Our programme includes a number of strategic partnerships through which we share our resources and competencies. We focus on areas of need which matter to our people, in particular cancer prevention and families at risk.

Some of the things we do are…

>> WASTE WISE ACCREDITATION AWARD

Pauline Whitehead, Ian Coles (CEO EcoRecycle), Domenic Fruci, David Ellis

World Vision

This partnership supports the employment of a number of local residents in Aceh, Indonesia to assist with rehabilitation after the South East Asian tsunami on Boxing Day 2004. It made good sense to support families at risk in a neighbouring country where we manufacture some of our products.

Asthma Foundation

Dunlop foams manufactures and markets a range of foam products created with **Ultra-Fresh,** a proven anti-microbial compound that provides long term control of dust mites, a proven trigger for asthma attacks.

A percentage of sales of these products is donated to the Asthma Foundations of Australia to further asthma education, training and support for people with asthma.

Recycling Innovation at Tontine

The Tontine Group received accreditation from EcoRecycle, Victoria's Waste Wise Business Programme, for an innovative programme that sees an average of 2 tonnes of plastic and over 5 tonnes of cardboard recycled each month, material that was previously sent to landfill. Waste reduction and recycling are essential components of a more efficient and sustainable business. Since January 2005, 6 dumpsters per day of waste have been reduced to 2 dumpsters every second day. Holeproof has also received their accreditation.

Code of Conduct for Suppliers

We have put in place a detailed set of guidelines and compliance standards for all suppliers. Suppliers are regularly audited and the code of conduct includes:

- Not using child labour
- Not using any forced or involuntary labour
- Providing employees with a safe and healthy workplace in compliance with all applicable laws and regulations
- Compliance with applicable environmental laws and regulations
- Product safety and testing practices

BOARD OF Directors

Corporate Values

Accountability – do what you say, take responsibility

Action – make it happen, focus on solutions

Courage – speak up and be counted, challenge

Innovation – to lead the way, explore, dare to try

Integrity – is non-negotiable, if in doubt, 'ask'

Performance – be the best you can be, commit and deliver

Speed – be there first, do it, don't wait

Unity – work as one winning team, collaborate

Pat Handley

Chairman, Independent Non-Executive

BA (Econ), MBA (Finance) Age 60

Pat has been Chairman of Pacific Brands Limited since incorporation in December 2003 and was Chairman of its predecessor, Pacific Brands Holdings Pty Ltd, since December 2001.

Pat brings with him over 30 years of international financial services experience. Pat was appointed a director of Vantage Private Equity Growth Limited in 2005. He has previously been an Executive Director and Chief Financial Officer of Westpac Banking Corporation, Chairman and Chief Executive Officer of Country Savings Bank (USA), Chief Financial Officer of BancOne Corporation (USA) and a director of Suncorp-Metway Limited, AMP Limited (2003 to 2004) and HHG plc.

In addition, Pat is currently a strategic adviser to PricewaterhouseCoopers and Chairman of the Advisory Board of Nomura Securities.

Paul Moore

Chief Executive Officer, Executive Director

BEcon, Age 54

Paul joined Pacific Brands in 1979. Within two years, he was appointed General Manager of Adidas Australia (previously part of Pacific Brands) and since that time has held various leadership roles across all of Pacific Brands' operations. Prior to joining Pacific Brands, Paul held various marketing roles at The Gillette Company and Petersville Sleigh Limited.

In August 1999, Paul was appointed to the role of Managing Director of Pacific Brands (then a division of Pacific Dunlop Limited) where he has facilitated the development of a group-wide business strategy, which included the acquisition of synergy-generating businesses. In November 2001, he was appointed Chief Executive Officer and an executive director of Pacific Brands Holdings Pty Ltd. Paul was appointed to the Board of Pacific Brands Limited in December 2003.

Stephen Tierney

Chief Financial Officer, Executive Director

BComm, CA, Age 47

Stephen joined Pacific Brands in 1990 as Group Accountant after an 11 year career with Touche Ross & Co (now KPMG) specialising in finance, taxation and accounting.

Stephen was appointed to the role of Chief Financial Officer in December 1998. In November 2001, he was appointed an executive director of Pacific Brands Holdings Pty Ltd. Stephen was appointed to the Board of Pacific Brands Limited in December 2003.

Andrew Cummins
Director, Independent Non-Executive
BEng (Hons), MBA (Stanford), GradDip (Bus Studies), MIEAust, Age 56

Andrew joined the Board of Pacific Brands Holdings Pty Ltd in November 2001, bringing with him many years of experience as a senior executive in prominent Australian and international public companies. Andrew was appointed to the Board of Pacific Brands Limited in February 2004.

Currently, Andrew is Senior Managing Director of CVC Asia Pacific Limited. Previously, Andrew has been Chairman of Amatek Holdings Limited, a director of Affinity Health Limited (2003 – 2005), Tech Pacific Holdings, Inchcape plc, Strategy Director of Elders IXL Limited/Foster's Brewing Group Limited and Chief Executive of Elders Investments Limited. Andrew also spent nine years with McKinsey & Company.

Helen Lynch AM
Deputy Chairman, Independent Non-Executive
Age 62

Helen joined the Board of Pacific Brands Holdings Pty Ltd in November 2003 and brings extensive experience as a non-executive director of companies in the retail and financial services industries. Helen was appointed to the Board of Pacific Brands Limited in February 2004.

Helen is currently a director of Westpac Banking Corporation (since 1997). She is Chairman of Westpac Staff Superannuation Plan Pty Limited. Previously, Helen was a director of Southcorp Limited (1996 to 2005) and Coles Myer Ltd (1995 to 2004) and Chair of OPSM Group Limited and Sydney Symphony Holdings Limited. Helen has had 35 years experience at Westpac Banking Corporation, including membership of its executive team, before retiring in 1994. In addition Helen is a member of the external advisory boards of The Caliburn Partnership and of Mallesons, Stephen Jaques, Lawyers.

Max Ould
Director, Independent Non-Executive
BEcon, Age 58

Max joined the Board of Pacific Brands Holdings Pty Ltd in September 2003, bringing leadership expertise in the consumer goods industry. Max was appointed to the Board of Pacific Brands Limited in February 2004.

Max is currently a director of Foster's Group Limited (since 2004) and The Australian Gas Light Company (since 2004) and has considerable experience in the Australian food industry, including previous roles as Managing Director of the East Asiatic Company, Chief Executive Officer of Peters Foods and Managing Director of National Foods Limited from 1996 to 2003.

Maureen Plavsic
Director, Independent Non-Executive
Age 49

Maureen joined the Board of Pacific Brands Limited in May 2004, bringing a wealth of experience in advertising, media buying and brand marketing.

Maureen is currently a trustee of National Gallery of Victoria and was appointed as a director of Macquarie Radio Network Limited in 2005. Maureen has previously been a director of Seven Network Limited (1998 to 2003) and Opera Australia. Maureen previously spent 14 years in various executive roles at the Seven Network including five years as a Board member. Her roles at the Seven Network included Chief Executive of Broadcast Television and prior to that Director of Sales and Corporate Marketing. Maureen also held various roles in the advertising industry including a senior regional media role at Unilever for nearly three years.

John Grover
Company Secretary
LLB, BComm, FCIS, Age 43

John was appointed to the position of Legal Counsel & Company Secretary in December 2003 having held the same role with the Company's predecessor, Pacific Brands Holdings Pty Ltd, since December 2001. Prior to joining Pacific Brands, he held senior corporate legal roles with Ansell Limited (formerly Pacific Dunlop Limited) and RTZ Limited (formerly CRA Limited), which followed an eight year career with major Australian law firm, Freehills.

Senior management

A key business driver is our people. Without the right people – we cannot deliver on our strategy. We have a strong, committed management team – some recent and some who have been with the business through its transformation.

Through our Talent Development Programme, we are ensuring that we have effective leadership across all senior roles in the business.

We are working hard to attract, develop and retain our people, we know our customers want to do business with experienced people who they know and trust.

Sue Morphet
Group General Manager, Underwear & Hosiery (Bonds & The Berlei Group)
Sue joined Pacific Brands in 1996 as General Manager, Tontine Group having had extensive experience gained in both the food and textile industries.

In September 1999, Sue was appointed to the role of General Manager, Bonds. Since June 2003, Sue has also been responsible for The Berlei Group.

Malcolm Ford
Group General Manager, Footwear
Malcolm joined Pacific Brands in 1991 after 20 years in product development, sales, marketing and general management within the footwear industry.

Malcolm has been instrumental in developing a brand focussed footwear business, with the acquisition of brands including Clarks, Hush Puppies, Sachi and Merrell.

Ian Barton
Group General Manager, Home Comfort
Ian joined Pacific Brands in 1978 as an accountant at Adidas. He spent 13 years as a Financial Controller across several parts of the business including Adidas and Holeproof.

Ian spent some time as General Manager Pacific Brands Clothing New Zealand and was appointed to his current role in July 2002.

Steve Audsley
Group General Manager, Underwear & Hosiery (Holeproof, Jockey, Hosiery, TMI and Clothing New Zealand)
Steve joined Pacific Brands in 1991 after 13 years in consumer goods companies, including Southcorp and Nissan.

In his 14 years with the Company, Steve has worked across a number of Operating Groups including Footwear and Outerwear & Sport, prior to his appointment as Group General Manager, Underwear & Hosiery in February 2002.

PACIFIC B

Rick Rostolis
Group General Manager, Outerwear & Sport
Rick joined Pacific Brands in 1998, as Financial Controller, Shared Services after a 12 year career with KPMG. In December 1999, he was appointed to the role of Corporate Development Manager, responsible for strategy and acquisitions.

Rick was appointed to his current role in October 2004.

Ross Taylor
General Manager, Strategic Support
Ross joined Pacific Brands in December 1991 as National Sales and Marketing Manager of Dunlop Sport Equipment. In his 14 years with the Company he has worked across various areas of the business including General Manager, KingGee and Group General Manager, Outerwear & Sport.

He was appointed to his current role in March 2005. His role encompasses strategic projects across the group and the implementation of 'Brandsource'.

Mary Keely
General Manager, People and Performance
Mary joined Pacific Brands in 1999, after spending six years in senior human resources roles at Coca-Cola Amatil and prior to that Westpac.

Mary's role encompasses safety, health and environment, corporate social responsibility, community investment, employee relations, learning and development, remuneration and benefits, recruitment and organisational development.

Mark Daniel
General Manager, Supply Chain
Mark joined Pacific Brands in 2002. Mark has worked both domestically and internationally in supply chain and manufacturing with companies including Coca-Cola Amatil, Coles Myer, Dairy Farmers and Linfox.

His role encompasses the sourcing, logistics and inventory management across the Company.

Tom Dalianis
General Manager, Integrated Services
Tom joined Pacific Brands in 1989 and has held senior roles including General Manager Information Technology and managing the introduction of Brave New Way into the Company.

Tom was appointed to his current role in July 2005. He runs the integrated services group which is responsible for accounting services, accounts payable, accounts receivable, payroll and information technology across the Company.

Robert Macmillan
Group Corporate Development Manager
Robert joined Pacific Brands in 2004. Prior to this, he held senior commercial, financial and legal roles at Foster's Group, both domestically and internationally, across all its operating divisions.

Robert is responsible for corporate strategy, mergers & acquisitions and Group communications.

Susan Tonks
Group Manager Brave New Way
Susan joined Pacific Brands in 2002 in the supply chain area. Prior to this, she held various leadership positions across the retail and fast moving consumer goods industries in human resources and supply chain in both operational and strategic roles.

Susan's role encompasses the leadership of the Brave New Way team including the prioritisation of projects and measurement of the realised benefits across the total Company.

Corporate Governance Statement

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

This statement describes Pacific Brands' approach to corporate governance. The Board believes that the Company's policies and practices comply in all substantial respects with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. A checklist summarising this is found in section 17 of this Corporate Governance Statement.

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

1 | Role and responsibilities of the Board

The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining a stable of recognisable and successful brands.

In conducting business in line with these objectives, the Board is concerned to ensure that the Company is properly managed to protect and enhance shareholder interests, and that the Company, its directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has adopted corporate governance policies and practices designed to promote responsible management and conduct of the Company. The Board (together with management) regularly reviews these policies and practices to ensure the Company maintains or improves its corporate governance standards in a changing environment.

The Board has ultimate responsibility for establishing policies regarding the business and affairs of the Company for the benefit of its shareholders and other stakeholders. The Board's key responsibilities include appointing, and reviewing the performance of, the Chief Executive Officer, ensuring executive and Board succession planning, approving budgets and strategic plans, evaluating the performance of the Company against strategies and business plans, approving the Company's risk management strategy and monitoring its effectiveness, approving significant acquisitions or divestments, overseeing relations with shareholders, and approving accounting policies and annual accounts.

The Board delegates management of the Company's resources to senior management, under the leadership of the Chief Executive Officer, to deliver the strategic direction and goals determined by the Board. A key function of the Board is to monitor the performance of senior management in this function. The Board's charter can be found on the Company's website.

2 | Board appointment and composition

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

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

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

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

The Board is currently made up of seven directors, the Company's two executive directors and five independent non-executive directors. Details of the directors as at the date of this Annual Report, including their qualifications and experience, are set out on pages 24 and 25 of the Annual Report.

In making recommendations to the Board regarding the appointment of directors, the Nomination and Remuneration Committee periodically assesses the appropriate mix of skills, experience and expertise required by the Board, and assesses the extent to which the required skills and experience are represented on the Board. Nominations for appointment are then approved by the Board as a whole. An induction program is provided for new members of the Board.

Under the Company's Constitution and the Australian Stock Exchange (ASX) Listing Rules, all directors other than the Chief Executive Officer are subject to shareholder re-election every three years. It is the Board's current policy that, in general, directors do not hold office beyond a maximum term of nine years.

The Company's Constitution requires directors to hold a minimum number of shares in the Company as determined by the Board from time to time, which is currently 500 shares, so that directors' interests are aligned with those of shareholders.

Directors' shareholdings are shown on page 36 of the Annual Report.

3 | Board processes

The Board currently schedules nine meetings per year. In addition, the Board meets whenever necessary to deal with specific matters requiring attention between the scheduled meetings. During the 2005 financial year, the Board met nine times. Extraordinary meetings take place at such other times as may be necessary to address any specific significant matters that may arise.

The table on page 36 of the Annual Report shows the number of Board meetings held in the 2005 financial year and the attendance of each director.

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

The directors have adopted the practice of meeting without senior executives present (other than the Company Secretary) at the commencement of each meeting. In addition, on two occasions during the year, the non-executive directors met without the presence of management.

To assist the Board in the execution of its responsibilities, the Board has established an Audit, Business Risk and Compliance Committee and a Nomination and Remuneration Committee. Any issues of corporate governance which are not dealt with specifically by either committee are the responsibility of the full Board.

4 | Audit, Business Risk and Compliance Committee

The Audit, Business Risk and Compliance Committee monitors and reviews the effectiveness of the Company's controls in the areas of operational and balance sheet risk, legal and regulatory compliance, and financial reporting.

The committee discharges these responsibilities by:

- overseeing the adequacy of the controls established by senior management to identify and manage areas of potential risk, and to safeguard the assets of the Company;
- overseeing the Company's relationships with the external auditor and the external audit function generally; and
- evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements, and that financial information provided to investors and the Board is accurate and reliable.

A copy of the committee's charter is available on the Company's website at www.pacificbrands.com.au.

The committee has also adopted a policy on the provision of non-audit services and the rotation of external audit personnel. Subject to some limited exceptions, unless the committee determines otherwise, the auditor is prohibited from providing valuation and fairness opinions, internal audit services, advice on deal structuring, tax planning advice, IT systems services, executive recruitment services, material human resources functions or legal services, or from acting as a broker, promoter or underwriter. The policy also requires the partner managing the Company's audit to be rotated within five years from the date of appointment. A copy of this policy is also available on the Company's website.

The committee's charter provides that the committee will comprise a majority of independent directors. The committee's charter also requires that the Chairman of the Board must not chair the committee. The current members of the committee are:

- Max Ould (Chair);
- Andrew Cummins; and
- Pat Handley.

Details of the committee members' qualifications are set out on pages 24 and 25.

The committee is scheduled to meet five times in the 2006 financial year. The table on page 36 shows the number of committee meetings held in the 2005 financial year and the attendance of each director.

The Chief Financial Officer and the Company's auditor have standing invitations to attend meetings of the Audit, Business Risk and Compliance Committee. Other members of management may also attend meetings of the committee by invitation. The committee has access to financial and legal advisers, in accordance with the Board's general policy.

5 | Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for matters relating to succession planning, recruitment and the appointment and remuneration of the directors and the Chief Executive Officer. The committee also oversees succession planning, selection and appointment practices, and remuneration guidelines for other management and employees.

The responsibilities of the committee include:

- assessing Board composition, strategic function and size;
- establishing processes for the review of the performance of individual non-executive directors, the Board as a whole, and the operation of Board committees;

- overseeing the effectiveness of the Board, its committees and individual directors;
- overseeing the selection and appointment practices for non-executive directors and senior management of the Company;
- developing succession plans for the Board and overseeing the development of succession planning in relation to the Chief Executive Officer and senior management;
- making recommendations to the Board on the Chief Executive Officer's remuneration (including short and long term incentive plans); and
- reviewing and approving recommendations from the Chief Executive Officer on total levels of remuneration, and performance targets, for senior executives reporting to the Chief Executive Officer.

In making recommendations to the Board regarding the appointment of directors, the committee periodically assesses the appropriate mix of skills, experience and expertise required on the Board, and assesses the extent to which the required skills and experience are represented on the Board.

The committee may obtain information from, and consult with, management and external advisers, as it considers appropriate.

A copy of the committee's charter is available on the Company's website at www.pacificbrands.com.au.

The committee's charter provides that the majority of the committee members will be independent directors. The committee presently consists of three non-executive directors as follows:

- Helen Lynch (Chair);
- Andrew Cummins; and
- Maureen Plavsic.

The General Manager, People and Performance and the Chief Executive Officer have standing invitations to attend meetings of the committee on an ex-officio basis.

The committee is scheduled to meet three times in the 2006 financial year. The table on page 36 of the Annual Report shows the number of committee meetings held in the 2005 financial year and the attendance of each director.

6 | Review of Board performance

The performance of the Board is reviewed bi-annually by the Board with the assistance of the Nomination and Remuneration Committee.

The evaluation includes a review of:

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

During the 2005 financial year, directors were surveyed by an independent consultant with respect to the effectiveness of the Board. The senior executive team was also surveyed with respect to the effectiveness of the Board. The results of these surveys were collated and then the assessment of the review was shared with the Board as a whole. The Board reviewed the results of the survey in conjunction with the consultant, and concluded that the Board was functioning effectively. A number of opportunities to improve Board practices were identified which will be explored by the Board during the coming year.

In addition, a review of each director's performance is also undertaken by the Chairman, after consultation with the other directors, prior to a director standing for re-election. This occurred during 2005 in respect of the proposed re-election of Mr S.J. Tierney and Mr A.D. Cummins.

7 | Access to information and independent advice

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

8 | Risk management

The Company is committed to the proper identification and management of risk. The Company has in place a process to identify and measure business risk, including regular review of results from its risk identification procedures. The Audit, Business Risk and Compliance Committee is charged with oversight of this process.

The Board receives regular reports about the financial condition and operational results of the Company. The Chief Executive Officer and Chief Financial Officer provide formal statements to the Board that in all material respects:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results, and comply with relevant accounting standards; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

The Company regularly undertakes reviews of its risk management procedures which include implementation of a system of internal sign-offs to ensure not only that the Company complies with its legal obligations but that the Board, and ultimately shareholders, can take comfort that an appropriate system of checks and balances is in place regarding those areas of the business which present financial or operating risks.

The committee reviews the appropriateness of the framework adopted by the Company for managing operational risk issues, and action plans to strengthen and improve risk control practices.

Details of the Company's policies relating to interest rate management, foreign exchange risk management and credit risk management are included in Notes 1 and 23 to the financial statements for the 2005 financial year.

The Company has also adopted a code of conduct which sets out the Company's commitment to maintaining the highest level of integrity and ethical standards in all business practices. The code of conduct sets out for all directors, management and employees, the standards of behaviour expected of them, and the steps that should be taken in the event of uncertainty or a suspected breach by a colleague. The code of conduct is discussed in more detail in section 11 of this statement.

9 | Continuous disclosure and keeping shareholders informed

The Company aims to ensure that shareholders are well informed of all major developments affecting the state of affairs of the Company. To achieve this, the Company has implemented the following procedures:

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

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

The Company is fully aware of the obligations under the Corporations Act 2001, and the ASX and NZX listing rules, to keep the market fully informed of information which is not generally available, and which may have a material effect on the price or value of the Company's securities. The Company has adopted a policy which establishes procedures to ensure that directors and management are aware of, and fulfil their obligations, in relation to the timely disclosure of material price-sensitive information. Information must not be selectively disclosed prior to being announced to the ASX and NZX. Directors and senior management must notify the Company Secretary as soon as they become aware of information that should be considered for release to the market. The Company Secretary is the person responsible for communication with the ASX and NZX. A copy of the Company's Continuous Disclosure Policy may be found on the Company's website at www.pacificbrands.com.au.

10 | Trading in shares by directors and employees

The Company has adopted guidelines for dealing in securities which provide a summary of prohibited conduct in relation to dealings in securities under the Corporations Act 2001 and the Securities Markets Act 1988 (NZ). The guidelines also establish a best practice procedure in relation to directors', management's and employees' dealings in the Company's shares.

Subject to the overriding restriction that persons may not deal in shares while they are in possession of material price-sensitive information, directors, management and employees will only be permitted to deal in shares during certain 'window periods', being within 31 days following release of the Company's full and half year financial results, and the holding of the Company's Annual General Meeting. Outside of these periods, directors, management and employees must receive clearance from the person stated in the guidelines for any proposed dealing in shares, with such clearance only to be granted in exceptional circumstances. A separate procedure has been adopted for dealings by directors, management and employees on the NZX or off-market in New Zealand.

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

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

11 | Ethical standards

The Board believes it is important to provide employees with a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct. Accordingly, the Company adopted a code of conduct which outlines how the Company expects directors and employees to behave and conduct business in a range of circumstances. In particular, the code requires:

- awareness of, and compliance with, laws and regulations relevant to the Company's operations including environmental laws and the Trade Practices Act 1974, and equivalent overseas legislation;

- all business transactions to be conducted solely in the best interests of the Company, and for directors and employees to avoid situations where their personal interest could conflict with interests of the Company;
- employees and directors to protect any Company assets under their control, and not to use Company assets for personal purposes, without prior Company approval;
- employees and directors to respect the privacy of others and comply with the Company's privacy policy;
- employees and directors not to disclose or use in any improper manner confidential information about the Company, its customers or affairs.

A copy of the code of conduct is available on the Company's website at www.pacificbrands.com.au.

Employees are encouraged to bring to the attention of their manager, their People and Performance Manager, or members of senior management any behaviour or activity occurring in the business which they believe to be inappropriate or inconsistent with the Company's code of conduct. For those employees who are concerned about directly raising such matters with their superiors, the Company has established a 'freecall' telephone line to enable employees to report matters of concern on a confidential basis. The service, known as 'Faircall', is operated by an independent third party to ensure that calls can be made in total confidence. Callers may also elect to remain anonymous. The third party provides reports on each call to the General Manager, People and Performance. A summary of all calls and the subsequent actions undertaken are periodically reported to the Nomination and Remuneration Committee.

The Company also has in place an Occupational Health and Safety Policy which outlines the methods and practices that the Company requires to be observed to provide a working environment which is free, as far as practicable, from risk of injury or disease for the Company's employees, visitors and contractors. Occupational health and safety key performance indicators are reported to the Board on a regular basis to assist the Board in monitoring compliance with the Company's Occupational Health and Safety Policy.

12 | Code of conduct for suppliers

The Company is committed to ethical and responsible conduct in all of its operations, and respect for the rights of all individuals and the environment. The Company expects these same commitments to be shared by all suppliers of its products, and seeks to enforce this policy through a formal code of conduct which includes:

- not using child labour;
- not using any forced or involuntary labour; and
- providing employees with a safe and healthy workplace in compliance with all applicable laws and regulations.

The Company periodically conducts audits of its suppliers, and in the event that a supplier is unable or unwilling to achieve compliance, the Company reserves the right to terminate or suspend the relevant supply contract.

13 | Environment

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

The Company has procedures in place designed to ensure compliance with all environmental regulatory requirements. In particular, the Company has developed a system, know as the 'Brandsafe Environmental Management System', for identifying and assessing the environmental hazards which arise from its activities, and effectively managing those risks by applying best practice principles to the prevention of pollution, and disposal and minimisation of waste.

14 | Non-executive director remuneration

Non-executive directors are paid an annual fee for their service on the Board and all Board committees, within the maximum aggregate sum for such directors approved from time to time by shareholders (currently $1,000,000 per annum). The Board policy for determining the nature and amount of remuneration paid to non-executive directors, and the relationship between such policy and performance, are discussed in detail in section 2 of the Remuneration Report which forms part of the Directors' Report. Section 2 of the Remuneration Report details the remuneration of non-executive directors in relation to the 2005 financial year.

15 | Remuneration of executive directors and senior executives

The remuneration of senior executives, and the performance targets for senior executives reporting to the Chief Executive Officer, are reviewed by the Nomination and Remuneration Committee (the composition of which is discussed on page 30 of the Annual Report). This committee is also responsible for both reviewing and making recommendations to the Board on the remuneration for the Chief Executive Officer, including short term and long term incentives.

The Board policy, adopted by the Board upon the recommendation of the Nomination and Remuneration Committee, for determining the nature and amount of remuneration paid to executive directors and senior executives, and the relationship between such policy and performance, are discussed in detail in section 3 of the Remuneration Report which forms part of the Directors' Report. Section 3 of the Remuneration Report details the remuneration of executive directors and senior executives in relation to the 2005 financial year, including a discussion of fixed remuneration, short term incentives, and long term incentive components.

16 | Comparison of NZX and ASX corporate governance rules

The following statement is included in compliance with NZX Listing Rule 5.1.6(d), which requires the Company, as an 'Overseas Listed Issuer' on the NZX, to include a statement in its Annual Report of any ASX corporate governance rules and principles ('ASX corporate governance rules') that materially differ from NZX's corporate governance rules and principles in the NZX Corporate Governance Best Practice Code ('NZX corporate governance rules').

As a general matter, the Australian equivalent of a number of the NZX corporate governance rules are contained in the Australian Corporations Act 2001, rather than the ASX Listing Rules.

Some differences arise between the corporate governance rules of the ASX and NZX because the relevant matters are mandatory under the NZX corporate governance rules, but only best practice recommendations under the ASX corporate governance rules (requiring disclosure of non-compliance in the issuer's Annual Report). The Company has determined to adopt these ASX best practice recommendations in relation to corporate governance. However, for completeness the following differences may be considered material:

- the NZX Listing Rules require that a board consist of at least two independent directors or, if there are eight or more directors, three or one third (rounded down, to the nearest whole number) of the total number of directors, whichever is the greater. The ASX Listing Rules contain no equivalent requirement, however, the ASX corporate governance rules recommend that the board of a listed issuer consist of a majority of independent directors. The Board of the Company does consist of a majority of independent directors; and
- the NZX Listing Rules also require the board to make determinations periodically as to the independence of directors, and to make appropriate releases to the market. The ASX corporate governance rules require disclosure in the Annual Report only; and
- the ASX corporate governance rules specifically address additional corporate governance matters in relation to risk management, internal controls and stakeholder interest, and require public disclosure of policies and procedures. The NZX corporate governance rules do not specifically address these matters, or require the same level of public disclosure.

17 | ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations

	ASX Principle	Reference[1]	Compliance
Principle 1:	**Lay solid foundations for management and oversight**		
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	1	Comply
Principle 2:	**Structure the board to add value**		
2.1	A majority of the board should be independent directors.	2	Comply
2.2	The chairperson should be an independent director.	2	Comply
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	2	Comply
2.4	The board should establish a nomination committee.	5	Comply
2.5	Provide the information indicated in Guide to reporting on Principle 2.	1, 2, 5, 7, Board Members (pages 24 and 25), Directors' Report (page 36)	Comply
Principle 3:	**Promote ethical and responsible decision-making**		
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity; and 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	11	Comply
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	10	Comply
3.3	Provide the information indicated in Guide to reporting on Principle 3.	10, 11	Comply

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

17 | ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (continued)

	ASX Principle	Reference[1]	Compliance
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results, and are in accordance with relevant accounting standards.	8	Comply
4.2	The board should establish an audit committee.	4	Comply
4.3	Structure the audit committee so that it consists of:	4	Comply
	• only non-executive directors;		
	• a majority of independent directors;		
	• an independent chairperson, who is not chairperson of the board; and		
	• at least three members.	4	
4.4	The audit committee should have a formal charter.	4	Comply
4.5	Provide the information indicated in Guide to reporting on Principle 4.	4, Directors' Report (page 36)	Comply
Principle 5:	**Make timely and balanced disclosure**		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	9	Comply
5.2	Provide the information indicated in Guide to reporting on Principle 5.	9	Comply
Principle 6:	**Respect the rights of shareholders**		
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	9	Comply
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	9	Comply
Principle 7:	**Recognise and manage risk**		
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	8	Comply
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:	8	Comply
	7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.		
	7.2.2 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board		
7.3	Provide the information indicated in Guide to reporting on Principle 7.	4, 8	Comply
Principle 8:	**Encourage enhanced performance**		
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	5, 6	Comply

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

17 | ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (continued)

	ASX Principle	Reference[1]	Compliance
Principle 9:	**Remunerate fairly and responsibly**		
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	Remuneration Report	Comply
9.2	The board should establish a remuneration committee.	5	Comply
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Remuneration Report	Comply
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	Remuneration Report	Comply
9.5	Provide the information indicated in Guide to reporting on Principle 9.	5, 14, 15, Directors' Report (page 36) and Remuneration Report	Comply
Principle 10:	**Recognise the legitimate interests of stakeholders**		
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations.	11	Comply

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

Directors' Report

The directors of Pacific Brands Limited (the 'Company') present their report together with the financial report of the Company and its controlled entities (collectively the 'consolidated entity') for the year ended 30 June 2005 and the auditor's report thereon. The information set out below is to be read in conjunction with the Remuneration Report set out on pages 40 to 50 which forms part of this directors' report.

Directors

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

- R.P. Handley, Chairman
- A.D. Cummins
- H.A. Lynch, Deputy Chair
- M.G. Ould
- P.R. Moore, Chief Executive Officer
- M.A. Plavsic
- S.J. Tierney, Chief Financial Officer

Particulars of directors' age, qualifications, other listed company directorships, experience and special responsibilities are detailed on pages 24 to 25 of the Annual Report.

No officers are former auditors

No officer of the consolidated entity has been a partner of an audit firm or a director of an audit company that is or was an auditor of the consolidated entity during the 2005 financial year.

Directors' interests in share capital

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

	Fully paid ordinary shares	Performance Rights[1]
R.P. Handley	1,338,190	
H.A. Lynch	67,325	
P.R. Moore	1,320,001	500,000
S.J. Tierney	400,001	300,000
A.D. Cummins	126,325	
M.G. Ould	59,201	
M.A. Plavsic	32,450	

1 Details of the terms and conditions of issue of the Performance Rights granted to Mr Moore and Mr Tierney are set out on page 46 of this directors' report.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the 2005 financial year are:

Director	Board		Audit, Business Risk and Compliance Committee		Nomination and Remuneration Committee	
	Held(1)	Attended(2)	Held[1]	Attended[2]	Held[1]	Attended[2]
R.P. Handley	9	9	6	6		
H.A. Lynch	9	8			3	3
P.R. Moore(3)	9	8			2	2
S.J. Tierney	9	9				
A.D. Cummins	9	9	6	6	3	3
M.G. Ould	9	9	6	6		
M.A. Plavsic	9	9			3	3

1 This column shows the number of meetings held during the period the director was a member of the Board or Committee.

2 This column shows the number of meetings attended.

3 Mr Moore ceased to be a member of the Nomination and Remuneration Committee on 23 May 2005.

State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

Principal activities

The principal activities of the consolidated entity during the course of the 2005 financial year were the manufacturing, sourcing, marketing and distribution of everyday essential brands across the underwear, socks, hosiery, intimate apparel, footwear, pillows, bedding and sporting goods markets. All products are sold predominantly throughout the Asia-Pacific region. The consolidated entity also markets and distributes underwear, intimate apparel and footwear in the UK, Europe and the United States.

There has been no significant change in the nature of principal activities during the year.

Strategy and Future Prospects

The company's key strategies, which have driven solid earnings growth during the year, are:

- building brand equity through advertising, product development and innovation;
- driving operational efficiencies; and
- growth through acquisition.

These strategies have been applied to drive profitable, branded sales growth and demonstrate the power of 'Everyday Essential Brands'. The Company focused on profitable sales, margin and earnings growth. This strategy has generated a 13.5% increase in EBITA and improved shareholder returns.

In the 2006 financial year, the Company will continue to be focused on profit improvement via:

- profitable, branded sales growth;
- brand investment and product development;
- category planning;
- continued emphasis on gross profit improvement;
- supply chain and operational efficiencies;
- increased direct shipments of products from overseas;
- management of working capital and cash flow; and
- ongoing review of potential acquisitions.

Our brands have gained strong momentum and we are well positioned to drive profitable growth in FY2006.

Disclosure of information relating to developments in the business strategies and prospects for the consolidated entity for future financial years which would not, in the opinion of the directors, be unreasonably prejudicial to the consolidated entity is contained in the Chairman's review, the Chief Executive Officer's report to shareholders and the review of operations.

Review and results of operations

A review of the operations of the consolidated entity during the 2005 financial year and of the results of those operations is contained on pages 17 to 21 of the Annual Report.

The 2005 financial year is the first full year that the Company has traded as a listed entity. To ensure that investors and other users of the Annual Report are able to compare the financial information against the comparative financial information for the prior year, pro-forma results for the year ended 30 June 2004 have been prepared to reflect the full year impact of the same corporate and capital structures, as if they had been in place at 1 July 2003.

Dividends

An interim dividend of 7.5 cents per share, amounting to $37.7 million was paid on 1 April 2005.

The directors have declared a final dividend of $37.7 million to be paid at the rate of 7.5 cents per share on 503,000,003 ordinary shares. The dividend is expected to be paid on 3 October 2005 to shareholders on the register at the record date of 1 September 2005. This dividend will be fully franked at the 30% corporate tax rate in Australia.

Events subsequent to reporting date

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

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in note 31 to the financial statements.

Likely developments

Likely developments in the operations of the consolidated entity and the expected results of those operations are covered generally in the review of operations of the consolidated entity on pages 17 to 21 of the Annual Report.

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

Non-audit services

During the 2005 financial year, KPMG, the Company's auditor, performed certain other services in addition to its statutory duties.

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

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit, Business Risk and Compliance Committee to ensure they did not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is included on page 51 this report.

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

	Consolidated	
	2005 $	2004[1] $
Statutory audit:		
Auditors of the Company		
– audit and review of financial reports (KPMG Australia)	1,040,000	505,000
– audit and review of financial reports (overseas KPMG firms)	195,000	95,000
	1,235,000	600,000
Services other than statutory audit:		
Other assurance services		
– other assurance services (KPMG Australia)	65,148	286,000
– other assurance services (overseas KPMG firms)	36,510	2,661
Other services		
– taxation compliance services (KPMG Australia)	131,765	27,729
– taxation compliance services (overseas KPMG firms)	24,987	21,012
	258,410	337,402

1 The comparative 2004 financial period is from 12 December 2003 to 30 June 2004.

Indemnification and insurance of officers

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

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

The Company holds a directors' and officers' liability insurance policy on behalf of current and former Directors and Officers of the Company and its controlled entities. The period of the policy extends from 5 April, 2004 to 30 November, 2005 and the premium was paid on 20 April, 2004. Due to confidentiality obligations and undertakings of the policy, no further details in respect of the premium or policy can be disclosed.

Environmental regulation

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

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

Rounding off

The Company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 (as in force on 30 June 2005) and in accordance with that class order, amounts in the financial report and this directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Company performance

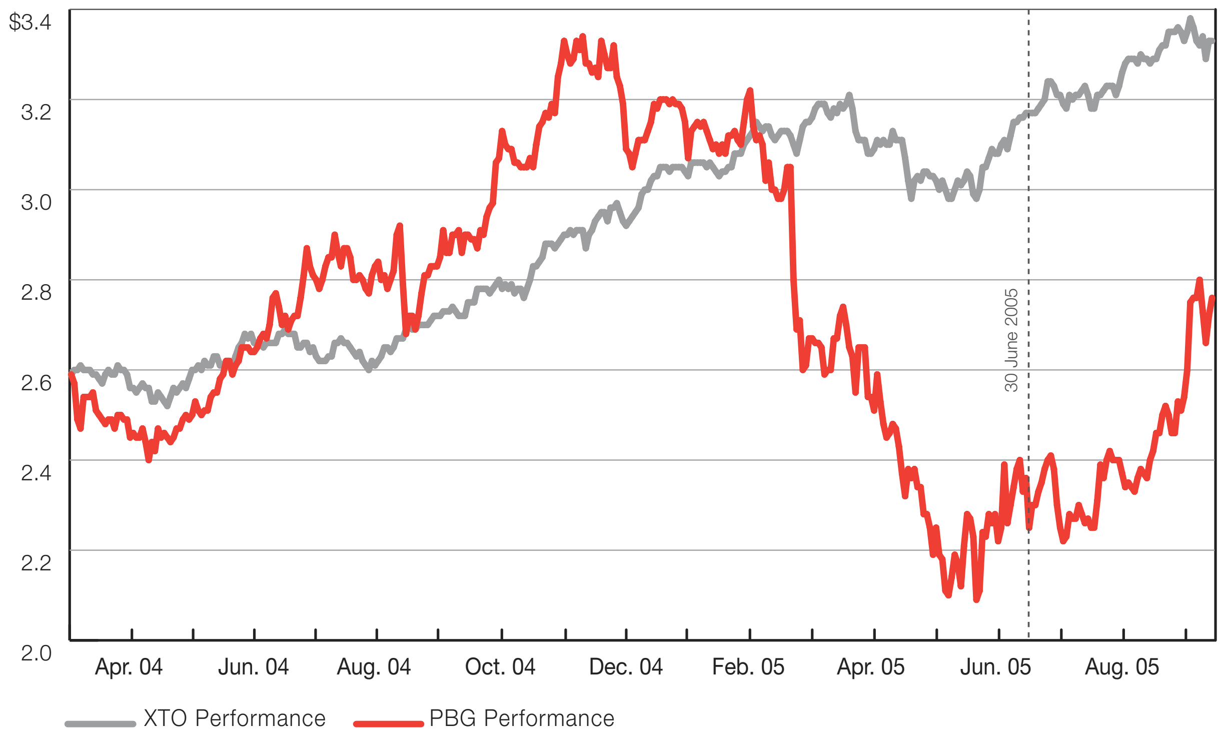
The consolidated entity generated $176.1 million in EBITA for the year ended 30 June 2005, a 13.5% increase over the previous year's result of $155.2 million (calculated on a pro-forma basis as the Company only commenced trading on 6 April 2004).

This represents a solid performance growth in earnings since listing on the Australian and New Zealand stock exchanges. Net profit after tax of $102.5 million pre-amortisation has generated earnings per share of 20.4, a 16.0% improvement over the previous year (calculated on a pro-forma basis).

A fully franked final dividend of 7.5 cents has been declared. This results in a fully franked 15.0 cent full year dividend which is 11.9% greater than prospectus forecast and represents a 73.6% payout ratio to shareholders.

The graph below illustrates the impact of the Company's performance on shareholder wealth, which has been measured by reference to total shareholder returns ('TSR') since the Company's listing on the Australian and New Zealand stock exchanges. TSR is, broadly, a measure of the return to shareholders provided by movements in the Company's share price plus any dividends paid or declared in respect of the relevant financial period, expressed as a percentage of investment.

PBG Performance (2 April 2004-31 August 2005)



Non-executive directors' remuneration

Board Policy on remuneration

The focus of the Board is on long term strategic direction and the overall performance of the Company. As a consequence non-executive director remuneration is not directly related to short term results but is, through participation in the Non-Executive Director Share Plan (see discussion below), related to long term performance.

Non-executive directors' fees, including committee fees, are set by the Board within the maximum aggregate amount of $1,000,000 per annum, as disclosed in the Company's prospectus lodged with the Australian Securities and Investments Commission as part of the Company's initial public offering in April, 2004. The maximum aggregate amount which can be paid to non-executive directors was set above the level required to meet current requirements to provide the Board with scope to appoint additional directors in the future. The fees paid to non-executive directors are set at levels which reflect both the responsibilities of, and the time commitments required from, each director to discharge their duties. The remuneration of the non-executive directors is not directly linked to the performance of the Company, in order to maintain their independence and impartiality.

The Nomination and Remuneration Committee makes recommendations to the Board on the total level of remuneration of the Chairman and other non-executive directors, including any additional fees payable to directors for membership of Board committees. The Chairman is not present at discussions relating to his own remuneration.

In setting fee levels, the Nomination and Remuneration Committee takes into account:

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

Details of the membership of the Nomination and Remuneration Committee and its responsibilities are set out in section 5 of the Corporate Governance Statement.

The aggregate fees paid to the non-executive directors, including the Chairman, during the 2005 financial year was $720,000.

The Company does not currently pay additional fees for membership of the Board's committees.

Superannuation contributions are made on behalf of the non-executive directors in accordance with the Company's statutory superannuation obligations. The sum of $720,000 in respect of directors' fees is inclusive of superannuation contributions.

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

The Board, through the auspices of the Nomination and Remuneration Committee, reviews annually its approach to non-executive director remuneration to ensure it remains in line with general industry practice and best practice principles of corporate governance.

In order to better align the interests of non-executive directors and shareholders, in terms of long term performance, a minimum of 25% of each non-executive director's annual fee must be taken in the form of shares in the Company pursuant to the terms of the Non-Executive Director Share Plan. The plan enables non-executive directors to elect to apply up to 100% of their fees in acquiring shares in the Company. The Non-Executive Director Share Plan is not a performance based share plan. Nor is it intended as an incentive component of non-executive director remuneration. Shares acquired under the Non-Executive Director Share Plan must, in general, be held for the period the director holds office as a director.

Shares will usually be purchased on-market at the prevailing market price by applying an amount equal to the amount of fees a non-executive director has elected to sacrifice to acquire shares. Shares are acquired monthly at the end of each calendar month.

The Board has determined that retirement benefits are not payable to non-executive directors upon their retirement.

Remuneration

Details of non-executive directors' remuneration for the 2005 financial year are set out in the following table:

	Directors' Fees	Superannuation Contributions[1]	Non-Monetary Benefits[2]	Total
	$	$	$	$
R.P. Handley (Chairman)	166,858	20,642	62,500	250,000
A.D. Cummins	43,830	8,670	52,500	105,000
H.A. Lynch (Deputy Chair)	85,115	12,385	52,500	150,000
M.G. Ould	64,617	9,083	36,300	110,000
M.A. Plavsic	70,080	8,670	26,250	105,000
Total	430,500	59,450	230,050	720,000

1 Superannuation contributions made on behalf of non-executive directors to satisfy the Company's obligations under applicable Superannuation Guarantee Charge legislation.
2 Non-cash benefits relate solely to the purchase of shares under the Non-executive Director Share Plan.

Executive director and senior executive remuneration

Board policy on remuneration

The Nomination and Remuneration Committee has recommended, and the Board has adopted, a policy that remuneration will:

- reinforce the short and long term objectives of the Company as set out in the strategic business plans endorsed by the Board;
- provide a common interest between employees and shareholders by linking the rewards that accrue to management to the creation of value for shareholders;
- be competitive in the markets in which the Company operates in order to attract, motivate and retain high calibre employees; and
- be fully costed on a 'cost to company' basis including all applicable fringe benefits and other taxes. The remuneration of executive directors and senior management is set to attract, retain and motivate appropriately qualified and experienced senior executives. The Board recognises that it is necessary for remuneration packages of senior executives (including executive directors) to include both a fixed component and an incentive or performance related component. The Nomination and Remuneration Committee obtains independent advice from external specialists on the appropriateness of remuneration packages when compared with remuneration packages offered by comparable companies.

The Board believes that the balance between fixed and performance related components of remuneration, as summarised below, reflect market conditions and the ability of the relevant executives to influence the performance of the Company. It is important to note that a company's remuneration policy needs to be contemporary and as such must be capable of adjustment over time to reflect changes in market conditions. The Board recognises that market conditions applicable to overseas based executives may vary materially from market conditions in Australia and that the remuneration policies applicable to such executives must reflect matters such as differences in the cost of living and regulatory restrictions on the issue of rights in relation to securities in the Company to employees resident outside Australia.

The relative proportion of executive directors and senior management's total remuneration packages that is performance based is set out in the table below:

	% of total target remuneration (annualised)		
	Fixed remuneration	Performance based remuneration	
		STI	LTI
Chief Executive Officer	41%	47%	12%
Chief Financial Officer	48%	36%	16%
Other specified Australian resident executives[1]	58%	25%	17%
Other specified executives resident outside Australia	83%	17%	0%

1 percentages based on average remuneration for the relevant executives.

Fixed remuneration

The terms of employment for all executive management contain a fixed remuneration component comprising a base salary, car allowance and superannuation contributions. The Company utilises the Hay points rating system to value individual roles.

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

Short term incentives ('STI')

Both executive directors and all other members of the senior executive team participate in a STI program which involves linking specific targets (predominantly financial) with the opportunity to earn cash incentives based on a percentage of the executive's base salary. In respect of the 2005 financial year the Chief Executive Officer had the opportunity to earn a bonus equivalent to 150% of his base salary. In the case of the Chief Financial Officer, in respect of the 2005 financial year, the opportunity was to earn a bonus equivalent to 100% of his base salary. In relation to other Australian members of the senior executive team, the opportunity generally comprised an amount equal to between 40% and 75% of their base salary for target performance.

In general, the performance conditions are related to the profit after tax ('PAT') performance of the consolidated entity, occupational health and safety targets for the businesses for which the relative executive has accountability and other specified targets as determined by the Chief Executive Officer (and, in the case of the Chief Executive Officer by the Board) according to the roles and responsibilities of the relevant executive. These targets have been approved by the Board because they are regarded as metrics, partially or wholly within the control of the executive and having a direct impact on performance. The actual amount of any STI incentive award is determined based on achievement of annual performance conditions. Performance is tested at the end of each financial year.

The payment of a STI to the Chief Executive Officer is subject to the discretion of the Board notwithstanding achievement of the performance hurdles. Similarly, in the case of all other senior executives the payment of any STI can be withdrawn individually or collectively, at the discretion of the Chief Executive Officer, in consultation with the Board, to take account of other material circumstances within the Company or the business environment.

The employment contracts for the Chief Executive Officer and Chief Financial Officer, provide that a percentage of any STI to which they may become entitled is to be applied to acquiring shares ('Deferred Shares'). Specifically, the Chief Executive Officer is required to apply half of any annual incentive to acquiring Deferred Shares, while the Chief Financial Officer is required to apply one third of any incentive towards the acquisition of Deferred Shares. The executives may elect to apply a greater percentage of any incentive to acquiring shares which are subject to the 'restriction' condition described below.

In the case of the Chief Executive Officer and the Chief Financial Officer the Deferred Shares are subject to a vesting period of two years from the date of allocation. Once acquired the Deferred Shares are held on trust, subject to a further restriction on dealing for a period of three years after the date of allocation of the Deferred Shares. If the executive is terminated for cause prior to the end of the two year vesting period, any entitlement to the Deferred Shares ceases. If the employment of the executive ceases in other circumstances, the executive will, in general, be entitled to receive their Deferred Shares. Deferred shares allocated under this arrangement will generally be acquired on-market. The balance of any annual incentive award will be paid to the executive in cash.

The employment contracts of certain other senior executives also provide for one third of any annual incentive to which they become entitled to be applied in acquiring Deferred Shares, however there is no vesting period, nor are there any restrictions as to the disposal of the Deferred Shares allocated to these executives (other than the Company's policy on dealing in securities in the Company).

The Company's policy is that all STIs must be fully provided for in the Company's consolidated financial statements before payment of a STI can occur. The Company's PAT performance, after providing for the potential payment of bonuses, is measured against the PAT targets set for participants in the STI program. Performance against these targets was determined following the finalisation of the Company's full year profit results. Not all specified performance conditions attaching to the STIs were satisfied and, as such, the Company did not pay any STI to the Chief Executive Officer, Chief Financial Officer or any of the specified executives of the Company resident in Australia.

Current STI programs relevant to Specified Directors and Specified Executives

	Nature of short term incentive arrangement	Date of grant	Percentage of STI payable (%)	Percentage of STI not awarded (%)	Future financial years that STI (F'05 bonus) will be payable	Minimum total value of STI ($)	Maximum total value of STI ($)
Specified Directors							
P.R. Moore, Chief Executive Officer	Cash bonus in respect of 2005 financial year[1]	24/02/2004	0%	100%	not applicable	$0	1,004,345
S.J. Tierney, Chief Financial Officer	Cash bonus in respect of 2005 financial year[1]	24/02/2004	0%	100%	not applicable	$0	362,044
Specified Executives							
S.W. Audsley, Group General Manager Underwear &Hosiery	Cash bonus in respect of 2005 financial year[1]	21/07/2004	0%	100%	not applicable	$0	150,000
I.C. Barton, Group General Manager Home Comfort	Cash bonus in respect of 2005 financial year	21/07/2004	0%	100%	not applicable	$0	127,500
M.J. Ford, Group General Manager Footwear	Cash bonus in respect of 2005 financial year	21/07/2004	0%	100%	not applicable	$0	127,500
S.M. Morphet, Group General Manager, Bonds & The Berlei Group	Cash bonus in respect of 2005 financial year[1]	21/07/2004	0%	100%	not applicable	$0	150,000
G.R. Nurse, Group Director Pacific Brands Holdings (HK) Limited	Cash bonus in respect of 2005 financial year	03/09/2004	100%	0%	not applicable	$0	100,000
R.C. Rostolis, Group General Manager, Outerwear & Sport	Cash bonus in respect of 2005 financial year	21/07/2004	0%	100%	not applicable	$0	115,000

1 As discussed on page 43, the bonus arrangements for the Chief Executive Officer and the Chief Financial Officer and certain senior executives require a certain percentage of any bonus paid to the relevant individual to be applied to acquiring shares in the Company.

Long term incentives ('LTI')

The Company's LTI arrangements are designed to link executive reward with the key performance drivers which underpin sustainable growth in shareholder value – which comprises both share price and returns to shareholders.

Participation in the LTI arrangements is only offered to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant performance hurdles.

The Company's present LTI arrangement is its Performance Rights Plan ('PRP').

Under the PRP, eligible executives (including the executive directors, as disclosed in the Company's prospectus lodged with the Australian Securities and Investments Commission as part of the Company's initial public offering in April 2004) have been granted performance rights (each being an entitlement to a share in the Company, subject to the satisfaction of vesting conditions). The grant date for all performance rights issued by the Company to date is 1 July 2004. The rules of the PRP provide that the Board may determine a price that is payable upon allocation of a share following vesting of a performance right, or that no amount is payable upon allocation of a share once a performance right vests. In respect of the performance rights granted to date, the Board has determined that no amount is payable by the relevant executive on vesting of their initial grant of rights.

In relation to the current grants, the relevant performance hurdle under the PRP is tied to total shareholder return ('TSR'). TSR is, broadly, a measure of the return to shareholders provided by movements in the Company's share price plus any dividends paid or declared in respect of the relevant financial period, expressed as a percentage of investment.

At the time of the grant, the use of a TSR based hurdle was regarded by the Company as appropriate as it ensures an alignment between comparative shareholder return and reward for the executive. It provides an external market performance measure in respect of share price growth and dividends. The Company's TSR performance relative to the peer group of companies was chosen as the most effective way to measure and reward the extent to which shareholder returns are generated relative to the performance of those companies with which the Company competes for capital, customers and talent. The Board also considers that TSR is an appropriate performance condition for the PRP, as executives only receive a benefit where there is a corresponding direct benefit to shareholders.

The Company's performance is given a percentile ranking having regard to its performance compared with the performance of other companies in the ASX 100 (the highest ranking company being ranked at the 100th percentile).

The TSR performance conditions in relation to the initial grant are:

Target	Percentage of shares available in given year that vests
The Company's annual TSR does not meet performance of the median company in ASX 100	0%
The Company's annual TSR equals or exceeds performance of the median company in ASX 100	50%
The Company's annual TSR ranks in third quartile of companies in ASX 100	Pro rata between 50% and 100% (2% increase for each higher ranking)
The Company's annual TSR ranks in fourth quartile of companies in ASX 100	100%

The maximum percentage of the performance rights granted to date which may vest in favour of the executives in any one year are set out in the table below: However, under the terms of grant, any performance rights which do not vest in a financial year will be added to the performance rights otherwise available in the next vesting year and tested against the performance condition applicable to that subsequent year.

Vesting date	% Vesting
1 July 2006	35%[1]
1 July 2007	25%
1 July 2008	40%
Maximum	**100%**

1 the percentage of performance rights which may vest on 1 July 2006 includes 15% of the performance rights granted which did not vest on 1 July 2005 and which therefore carried forward to the next possible vesting date.

In relation to the grants to date, performance conditions were tested at the end of the 2005 financial year and will be tested at the end of the following three financial years. Based on TSR of the Company for the 2005 financial year when measured against the TSR of other companies in the ASX 100, no performance rights vested on 1 July 2005.

In general, executives are not entitled to trade in shares allocated on vesting of the performance rights until the earlier to occur of:

- three years after the date of grant of the shares allocated on vesting; or
- 12 months following the date of cessation of employment with the consolidated entity.

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

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

A detailed discussion of the Company's performance, specifically against the Company's earnings and the consequences of the Company's performance on shareholder wealth in the 2005 financial year and the period from 2 April 2004 to 30 June 2004, is set out in Section 1 of this report.

Vesting of rights

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

Equity grants made to specified directors and specified executives

	Nature of compensation instrument granted	Date of grant	Percentage of grant paid/ vested (%)	Percentage of grant forfeited (%)	Future financial years that grant will be payable	Minimum total value of grant ($)	Maximum total value of grant[1]($)
Specified Directors							
P.R. Moore, Chief Executive Officer	500,000 performance rights	01/07/2004	Nil	Nil	2006 – 2008	$0	800,000
S.J. Tierney, Chief Financial Officer	300,000 performance rights	01/07/2004	Nil	Nil	2006 – 2008	$0	480,000
Specified Executives							
S.W. Audsley	250,000 performance rights	01/07/2004	Nil	Nil	2006 – 2008	$0	400,000
I. C. Barton	200,000 performance rights	01/07/2004	Nil	Nil	2006 – 2008	$0	320,000
M.J. Ford	200,000 performance rights	01/07/2004	Nil	Nil	2006 – 2008	$0	320,000
S.M. Morphet	250,000 performance rights	01/07/2004	Nil	Nil	2006 – 2008	$0	400,000
G.R. Nurse	Nil	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
R.C. Rostolis	200,000 performance rights	01/07/2004	Nil	Nil	2006 – 2008	$0	320,000

1 The notional value of performance rights as at the date of their grant has been determined in accordance with AASB 1046 applying AASB 2 Valuation Guidelines and Guidance Note GN510 issued by the Institute of Actuaries of Australia (further details of the valuation methodology can be found in note 28(f) to the financial statements).

During the year, the Company has not granted any options or rights in addition to the performance rights granted on 1 July 2004 (and summarised in the previous table).

The following table set out details of any movement in performance rights currently on issue to the Chief Executive Officer, Chief Financial Officer and the specified executives and the number of performance rights held by such executives during the reporting period.

Number and value of performance rights held by specified directors and executives

							Vested at 30/06/2005		
	Balance at 01/07/2004	Granted	Exercised	Lapsed/ forfeited	Balance at 30/06/2005	Aggregate Value at 30/06/2005	Vested and exercisable	Vested but not exercisable	Total vested
Specified Directors									
P.R. Moore									
Number	500,000	Nil	Nil	Nil	500,000		Nil	Nil	Nil
Value	$800,000					$800,000			
S.J. Tierney									
Number	300,000	Nil	Nil	Nil	300,000		Nil	Nil	Nil
Value	$480,000					$480,000			
Specified Executives									
S.W. Audsley									
Number	250,000	Nil	Nil	Nil	250,000		Nil	Nil	Nil
Value	$400,000					$400,000			
I.C. Barton									
Number	200,000	Nil	Nil	Nil	200,000		Nil	Nil	Nil
Value	$320,000					$320,000			
M.J. Ford									
Number	200,000	Nil	Nil	Nil	200,000		Nil	Nil	Nil
Value						$320,000			
S.M. Morphet									
Number	250,000	Nil	Nil	Nil	250,000		Nil	Nil	Nil
Value						$400,000			
R.C. Rostolis									
Number	200,000	Nil	Nil	Nil	200,000		Nil	Nil	Nil
Value						$320,000			
Total – specified directors and executives									
Number	1,900,000	Nil	Nil	Nil	1,900,000		Nil	Nil	Nil
Value	$3,040,000					$3,040,000			

Service agreements

The remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer and the specified senior executives are formalised in service agreements. Each of these agreements provides for the payment of a fixed annual remuneration component comprising of a base salary, car allowance and superannuation contributions, the provision of performance related cash bonuses (as disclosed on page 43 of this report), and, except in the case of the executive resident outside Australia, participation, in the Company's employee long term incentive scheme (as disclosed on page 44 of this report). In the case of the executive resident outside Australia a housing allowance is paid, but no car allowance.

General information regarding the duration of the agreement, the periods of notice required to terminate the agreement and the termination payments provided for under the service agreements are summarised in the discussion below. Further specific information relating to the terms of the Service Agreements of the Chief Executive Officer, the Chief Financial Officer and the six named executives of the Company and the Group with the highest remuneration are set out in the table below.

Duration of service agreement

The Chief Executive Officer and the Chief Financial Officer are employed under fixed term agreement of five years and three years respectively. Under the terms of the Service Agreements, each executive's employment will terminate on the expiry date of the agreement unless terminated earlier or renewed. All other specified executives are employed under agreements which are ongoing unless terminated by either party.

Notice periods and payments on termination

The service agreements provide for termination payments to be made in certain circumstances. In particular, the Company may terminate the employment of the Chief Executive Officer, Chief Financial Officer or any of the other specified executives on giving three months' notice. The Company may make a payment in lieu of notice. In general, the Chief Executive Officer, Chief Financial Officer and other executives must give the Company at least three months notice of resignation. In the event that the Chief Executive Officer ceases to be the most senior executive in the consolidated entity or the Company ceases to be listed on the Australian Stock Exchange, the Company will be deemed to have terminated the employment of the Chief Executive Officer and will be liable to make compensation payments.

Termination payments payable to the Chief Executive Officer, Chief Financial Officer and other executives do not exceed 12 months' fixed annual remuneration plus a pro-rated annual cash incentive for the year the agreement was terminated (subject to the relevant performance hurdles having been satisfied). The Company makes provision for employee benefits in accordance with applicable Australian Accounting Standards. In addition, upon termination of employment for any reason, the Chief Executive Officer and the Chief Financial Officer are both prohibited from engaging in any activity that would compete with the Company for a period of one year, in order to protect the Company's business interests. In order to ensure that the restraint is enforceable by the Company, both the Chief Executive Officer and the Chief Financial Officer are entitled to an amount equal to one year of their fixed annual remuneration as at the time of termination of their employment.

Sign-on payments

No payment was made to the Chief Executive Officer, the Chief Financial Officer or any of the six named executives of the Company and the consolidated entity before they took office as part consideration for them agreeing to hold office.

Summary of specific terms

The major provisions of the service agreements of the Chief Executive Officer and the six named executives of the Company and the Group with the highest remuneration are as follows:

	P.R. Moore Chief Executive Officer	**S.J. Tierney** Chief Financial Officer	**S.W. Audsley**	**I.C. Barton**	**M.J. Ford**	**S.M. Morphet**	**G.R. Nurse**	**R.C. Rostolis**
Date of Agreement	24/02/2004	24/02/2004	03/03/2004	03/03/2004	03/03/2004	03/03/2004	19/08/2005	03/03/2004
Term of Agreement	5 years	3 years	1 year	1 year	1 year	1 year	no fixed term	1 year
Renewal of Agreement	Not applicable	Not applicable	Automatic extension of agreement on 1 year anniversary of agreement	Automatic extension of agreement on 1 year anniversary of agreement	Automatic extension of agreement on 1 year anniversary of agreement	Automatic extension of agreement on 1 year anniversary of agreement	Ongoing until terminated	Automatic extension of agreement on 1 year anniversary of agreement

Remuneration paid and other specific disclosures

Details of the remuneration paid to the Chief Executive Officer, the Chief Financial Officer and each of the six named executives of the Company and the consolidated entity with the highest remuneration during the 2005 financial year are set out in the following table. All values are in A$ unless otherwise stated.

Remuneration for 2005 financial year

Chief Executive Officer, Chief Financial Officer and specified executives of the Company and the consolidated entity

	Primary				Post Employment			Equity	Other Benefits			Total
	Fixed salary[1] $	Fees $	Incentive payments $	Non-Monetary benefits $	Superannuation benefits $	Retirement payments $	Other $	Performance Rights[2] $	Termination benefits $	Prescribed benefits $	Other $	$
P.R. Moore, Chief Executive Officer	696,230			46,357	160,729			302,053				1,205,369
S.J. Tierney, Chief Financial Officer	362,044			31,350	84,204			181,232				658,830
S.W. Audsley, Group General Manager, Underwear & Hosiery	320,843			30,772	57,951			151,027				560,593
I.C. Barton, Group General Manager, Home Comfort	277,108			30,250	60,725			120,821				488,904
M.J. Ford, Group General Manager, Footwear	261,408			36,350	60,538			120,821				479,117
S.M. Morphet, Group General Manager, Bonds & The Berlei Group	312,795			62,667	57,835			151,027				584,324
G.R. Nurse, Group Director, Pacific Brands Holdings (HK) Limited	356,084		100,000	70,000	64,298							590,382
R.C. Rostolis, Group General Manager, Outerwear & Sport	231,116			23,981	42,754			120,821				418,672
Total remuneration – Specified Executives	2,817,628		100,000	331,727	589,034			1,147,802				4,986,191

1 Includes movements in annual leave and long service leave provisions.

2 To the extent required by the Australian Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the financial year. The notional value of equity instruments which do not vest during the reporting period is required to be determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individual executives may ultimately realise should the equity instruments vest. The notional value of performance rights as at the date of their grant has been determined in accordance with AASB 1046 applying AASB 2 Valuation Guidelines and Guidance Note GN510 issued by the Institute of Actuaries of Australia. None of the Chief Executive Officer's, Chief Financial Officer's or specified executives' remuneration for the financial year ended 30 June 2005 consisted of performance rights which vested in the relevant executive.

Dated at Melbourne this 22nd day of August 2005.
Signed in accordance with a resolution of the directors:

Pat Handley
Chairman

Paul Moore
Director

Lead Auditor's Independence Declaration

under Section 307C of the Corporation Act 2001 to the Directors of Pacific Brands Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

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

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

KPMG

Don Pasquariello
Partner

Melbourne
22 August 2005

Statements of Financial Performance

for the year ended 30 June 2005

		Consolidated		The Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Revenue from sale of goods	2	1,521,724	363,367	–	–
Other revenues from ordinary activities	2	20,858	6,404	62,709	1,545
Total revenue from ordinary activities	2	1,542,582	369,771	62,709	1,545
Cost of goods sold		(910,400)	(218,802)	–	–
Freight and distribution expenses		(97,146)	(22,661)	–	–
Sales, marketing and advertising expenses		(257,954)	(64,493)	–	–
Information technology expenses		(19,537)	(4,555)	–	–
Administrative expenses		(79,558)	(19,405)	(2,791)	(344)
Borrowing expenses	3	(34,471)	(8,683)	–	–
Goodwill amortisation	3	(41,376)	(10,347)	–	–
Profit from ordinary activities before income tax (expense)/benefit		102,140	20,825	59,918	1,201
Income tax (expense)/benefit relating to profit from ordinary activities	5	(41,037)	(8,927)	750	(360)
Net profit		61,103	11,898	60,668	841
Net profit attributable to outside equity interests	22	(113)	(106)	–	–
Net profit attributable to members of the parent entity	20	60,990	11,792	60,668	841
Net exchange difference relating to self-sustaining foreign operations	19	(4,548)	1,693	–	–
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		56,442	13,485	60,668	841
Basic earnings per share					
Ordinary shares	6	12.1 cents	2.3 cents		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 56 to 92.

Statements of Financial Position

as at 30 June 2005

		Consolidated		The Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current assets					
Cash assets	8	101,106	99,273	2,365	13,586
Receivables	9	191,435	174,350	1,046	769
Inventories	10	255,396	253,632	–	–
Current tax assets		–	–	–	2,967
Other	12	7,339	8,158	2	–
Total current assets		555,276	535,413	3,413	17,322
Non-current assets					
Receivables	9	–	41	1,203,714	1,203,714
Other financial assets	11	1,926	2,134	–	–
Property, plant and equipment	13	173,999	171,850	–	–
Intangible assets	14	1,163,991	1,199,783	–	–
Deferred tax assets		30,633	44,279	31,121	11,928
Other	12	3,515	3,482	–	–
Total non-current assets		1,374,064	1,421,569	1,234,835	1,215,642
Total assets		1,929,340	1,956,982	1,238,248	1,232,964
Current liabilities					
Payables	15	115,486	127,795	22	11,677
Interest bearing liabilities	16	638	2,014	–	–
Current tax liabilities		10,203	14,314	11,231	–
Provisions	17	53,341	61,960	384	–
Total current liabilities		179,668	206,083	11,637	11,677
Non-current liabilities					
Payables	15	11,106	12,451	–	–
Interest bearing liabilities	16	491,926	491,514	–	–
Provisions	17	7,281	8,326	–	–
Total non-current liabilities		510,313	512,291	–	–
Total liabilities		689,981	718,374	11,637	11,677
Net assets		1,239,359	1,238,608	1,226,611	1,221,287
Equity					
Contributed equity	18	1,220,446	1,220,446	1,220,446	1,220,446
Reserves	19	(2,855)	1,693	–	–
Retained profits	20	17,438	11,792	6,165	841
Total parent entity interest		1,235,029	1,233,931	1,226,611	1,221,287
Outside equity interests	22	4,330	4,677	–	–
Total equity		1,239,359	1,238,608	1,226,611	1,221,287

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 56 to 92.

Statements of Cash Flows

for the year ended 30 June 2005

		Consolidated		The Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Cash flows from operating activities					
Cash receipts in the course of operations		1,442,267	380,861	766	–
Cash payments in the course of operations		(1,291,179)	(316,033)	(22,314)	(239)
Dividends received		–	–	62,417	–
Interest received		1,701	1,835	287	1,545
Borrowing costs paid		(31,741)	(8,465)	–	–
Income taxes (paid)/received		(31,277)	(6,259)	2,967	–
Net cash provided by operating activities	26(b)	89,771	51,939	44,123	1,306
Cash flows from investing activities					
Payments for acquisition of businesses (net of cash acquired)	26(c)	(6,492)	–	–	–
Payments for controlled entities (net of cash acquired)	26(d)	(5,611)	(1,157,910)	–	–
Payments for property, plant and equipment		(18,903)	(3,959)	–	–
Proceeds from sale of property, plant and equipment		1,920	339	–	–
Loans to controlled entities		–	–	–	(1,203,714)
Loans from controlled entities		–	–	–	11,574
Net cash used in investing activities		(29,086)	(1,161,530)	–	(1,192,140)
Cash flows from financing activities					
Proceeds from issue of shares		–	1,257,500	–	1,257,500
Transaction costs from issue of shares		–	(53,080)	–	(53,080)
Dividends paid by parent entity		(55,344)	–	(55,344)	–
Proceeds from borrowings		396	3,046	–	–
Finance lease payments		(770)	(152)	–	–
Net cash (used in)/provided by financing activities		(55,718)	1,207,314	(55,344)	1,204,420
Net increase/(decrease) in cash held		4,967	97,723	(11,221)	13,586
Cash at the beginning of the year		97,723	–	13,586	–
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(1,584)	–	–	–
Cash at the end of the year	26(a)	101,106	97,723	2,365	13,586

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 56 to 92.

Notes to the Financial Statements

For the year ended 30 June 2005

1 | Statement of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. It has been prepared on the basis of historical costs and except where stated, does not take into account the changing money values or fair values of assets. These accounting policies have been consistently applied by each entity in the consolidated entity during the year and are consistent with those of the previous financial period.

(b) Comparatives

Pacific Brands Limited was registered in Victoria, Australia on 12 December 2003 as a public company. On 6 April 2004, the consolidated entity acquired Pacific Brands Holdings Pty Ltd and its associated international operations. Operating activities of the consolidated entity commenced from this date. Refer Note 26(c).

The comparative financial information contained within this Annual Report was prepared for the Company and its controlled entities including the performance of the Company and its controlled entities since the Company's incorporation on 12 December 2003, with trading commencing on 6 April 2004 through to 30 June 2004.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(c) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases. Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between entities comprising the consolidated entity are eliminated in full on consolidation.

(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 sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to customers outside the consolidated entity. For sale of goods, control passes when the goods are shipped to the customer.

Interest revenue

Interest revenue is recognised as it accrues.

Government grants

Revenue from government grants received is recognised as revenue when the consolidated entity receives the cash.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue of the consolidated entity and are 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.

Dividends

Dividend revenue is recognised net of any franking credits. Revenue from distributions from controlled entities is recognised by the parent entity 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.

(e) Borrowing costs

Borrowing costs include interest and amortisation of premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, finance charges in respect of finance leases and other related charges.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

(f) Goods and services tax

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

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

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

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant tax authority are classified as operating cash flows.

1 | Statement of significant accounting policies (continued)

(g) Income tax

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on profit from ordinary activities adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

Tax consolidation

The Company elected to consolidate with its wholly-owned Australian controlled companies for income tax purposes from 1 April 2004. The Company is the head entity in the tax consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 25. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions).

The tax consolidated group has entered into a funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

Under the tax funding agreement, the contributions are calculated on a 'stand-alone basis' so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

(h) Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to members of the parent entity 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 debtors are recognised as at the date goods are shipped to the customer and are principally on 30 day terms. The collectibility of debts is assessed at reporting date and specific allowance is made when collection is no longer probable.

(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 cost 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 to Note 1(n).

Other entities

Investments in other entities are carried at the lower of cost and recoverable amount.

(l) Property, plant and equipment

Acquisition

Items of property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. The cost of property, plant and equipment constructed by the consolidated entity includes the cost of materials and direct labour.

Depreciation and amortisation

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

Depreciation and amortisation is 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 are as follows:
- freehold buildings: 40 years;
- leasehold improvements: life of lease; and
- owned and leased plant and equipment: 3 to 10 years.

1 | Statement of significant accounting policies (continued)

(m) Leased assets

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

Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

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

(n) Recoverable amount of non-current assets valued on the cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(o) Payables

Trade and other creditors

Trade and other creditors are recognised for amounts to be paid in the future for goods and services received. Trade liabilities are normally settled on terms up to 60 days.

(p) Interest bearing liabilities

Bank loans are carried at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in other creditors and accruals. Refer to Note 15.

(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.

(r) Provisions

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

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

A provision for restructuring, including employee termination benefits, relating to an acquired entity or operation is recognised at the date of acquisition where:

- a detailed formal plan is developed by the earlier of three months after the date of the acquisition and the completion of this consolidated financial report; and
- the main features of the restructuring were announced, implementation of the restructuring commenced, or contracts were entered by the date of acquisition.

The provision only relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired. The provision includes liabilities for termination benefits that will be paid to employees of the acquired entity as a result of the restructuring.

1 | Statement of significant accounting policies (continued)

(r) Provisions (continued)

Restructuring and employee termination benefits (continued)

Other 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. The liabilities for termination benefits that will be paid as a result of such restructurings are included in the provision for restructuring or termination benefits.

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.

(s) Accounting for acquisitions

Acquired businesses are accounted for on the basis of the cost method. Fair values are assigned at the date of acquisition to all the identifiable underlying assets acquired and to the liabilities assumed. Specific assessment is undertaken at the date of the acquisition of any appropriate additional costs to be incurred.

A liability for restructuring costs is only recognised as at the date of acquisition when there is a demonstrable commitment to restructuring together with a detailed plan. Further, the liability is only recognised when there is little or no discretion to avoid payment to other parties to settle such costs and a reliable estimate of the amount of the liability can be made.

(t) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Acquired goodwill is capitalised and amortised to the statement of financial performance on a straight line basis over 20 years.

The benefits from the goodwill acquired may exceed 20 years but the goodwill is written off over periods not exceeding 20 years in compliance with Australian Accounting Standards. The unamortised balance of goodwill is reviewed at least at each reporting date to determine whether it is 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 statement of financial performance.

(u) Brandnames

Brandnames acquired on 6 April 2004 are recorded in the financial statements at cost based upon an independent valuation conducted by Interbrand. 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 which are likely to become commercially or technically obsolete.

The carrying value of brandnames is reviewed at least at each reporting date to determine whether it is 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 statement of financial performance.

(v) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates thereof.

Amounts payable and receivable in foreign currencies at the reporting date are restated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial period in which the exchange rates change, except where:

- hedging specific anticipated transactions or net investments in self-sustaining operations (see Note 1(w)); and
- amounts payable or receivable in foreign currency form part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.

Translation of controlled foreign operations

The assets and liabilities of foreign operations within the consolidated entity that are self-sustaining are translated at the rates of exchange ruling on the reporting date. Equity items are translated at historical rates. The statement of financial performance is translated at a weighted average rate for the relevant period. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

(w) Derivatives

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: interest rate swaps, forward foreign exchange contracts and foreign currency options. Derivative financial instruments are not held for speculative purposes.

1 | Statement of significant accounting policies (continued)

(w) Derivatives (continued)

Hedges

Anticipated transactions

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services or purchase of qualifying assets, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts payable or receivable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net payable or receivable is revalued using the foreign currency rates current at reporting date. Refer to Note 23.

The net amounts payable or receivable under interest rate and foreign currency options and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised, the net payable or receivable is revalued using the interest or foreign currency rates current at reporting date. Refer to Note 23.

Option premiums are recorded in other assets when paid and included in the measurement of the transaction when it occurs.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

Net investment in foreign operation

Foreign exchange differences relating to foreign currency transactions hedging a net investment in a self-sustaining foreign operation, together with any related income tax expense/revenue, are transferred to the foreign currency translation reserve on consolidation.

Other hedges

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the rates ruling on that date and any gains or losses are brought to account in the statement of financial performance.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

(x) Use and revision of accounting estimates

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.

2 | Revenue from ordinary activities

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Sale of goods revenue from operating activities	1,521,724	363,367	–	–
Other revenues				
From operating activities				
Interest – other parties	1,839	1,835	287	1,545
Royalties – other parties	643	103	–	–
Dividends – related parties	–	–	62,417	–
Gross proceeds from sale of non-current assets	1,920	355	–	–
Sundry income	16,456	4,111	5	–
Total other revenues	20,858	6,404	62,709	1,545
Total revenue from ordinary activities	1,542,582	369,771	62,709	1,545

3 | Profit from ordinary activities before income tax (expense)/benefit

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Profit from ordinary activities before income tax (expense)/benefit has been arrived at after charging the following items:				
Depreciation of:				
Buildings	1,446	418	–	–
Plant and equipment	13,158	3,463	–	–
	14,604	3,881	–	–
Amortisation of:				
Goodwill	41,376	10,347	–	–
Leased plant and equipment	551	108	–	–
	41,927	10,455	–	–
Total depreciation and amortisation	56,531	14,336	–	–
Borrowing costs:				
Interest on bank loans and overdraft	33,404	8,430	–	–
Amortisation of debt establishment costs	902	218	–	–
Finance charges on capitalised leases	165	35	–	–
	34,471	8,683	–	–
Bad debts written off in relation to trade debtors	546	214	–	–
Amounts set aside to allow for:				
Doubtful debts	434	143	–	–
Rebates, claims, allowances and settlement discounts	79,310	20,077	–	–
Employee benefits	26,924	10,966	384	–
Net foreign exchange (gain)/losses	(193)	211	–	–
Net (gain) on disposal of non-current assets	(161)	(16)	–	–
Operating lease rental expense: minimum lease payments	23,461	5,800	–	–

4 | Auditors' remuneration

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Audit services				
Auditors of the Company				
KPMG Australia				
Audit of financial reports	1,040,000	505,000	50,000	–
Overseas KPMG firms				
Audit of financial reports	195,000	95,000	–	–
	1,235,000	600,000	50,000	–
Other services				
Auditors of the Company				
KPMG Australia				
Other assurance services	65,148	286,000	–	286,000
Taxation services	131,765	27,729	–	–
Overseas KPMG firms				
Taxation services	24,987	21,012	–	–
Other assurance services	36,510	2,661	–	–
	258,410	337,402	–	286,000

5 | Income tax expense/(benefit)

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Prima facie income tax expense calculated at 30% on the profit from ordinary activities	30,642	6,248	17,975	360
Increase/(decrease) in income tax expense due to:				
Amortisation of goodwill	12,413	3,104	–	–
Dividend income not assessable	–	–	(18,725)	–
Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax consolidated group	–	–	9,315	–
Recovery of income tax expense under a tax funding agreement	–	–	(9,315)	–
Sundry items	(54)	(425)	–	–
Income tax expense on the profit from ordinary activities before individually significant income tax items	43,001	8,927	(750)	360
Individually significant income tax items:				
Net deferred tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidated group upon implementation of tax consolidation	–	–	(16,528)	–
Recovery of income tax expense under a tax funding agreement at transition	–	–	16,528	–
Income tax under/(over) provided in prior year	(1,964)	–	–	–
Income tax expense/(benefit) attributable to profit from ordinary activities	41,037	8,927	(750)	360
Income tax expense/(benefit) attributable to profit from ordinary activities is made up of:				
Current income tax provision	29,355	11,399	11,230	360
Deferred tax assets	13,646	(2,472)	(19,193)	–
Tax related payable to wholly-owned subsidiary	–	–	7,213	–
Income tax over provided in prior financial period	(1,964)	–	–	–
	41,037	8,927	(750)	360

6 | Earnings per share

	Consolidated 2005 $'000	Consolidated 2004 $'000
Earnings reconciliation		
Profit from ordinary activities after income tax expense	61,103	11,898
Less outside equity interests	(113)	(106)
Basic earnings	60,990	11,792
	Number	Number
Weighted average number of shares used as the denominator		
Number for basic earnings per share		
Ordinary shares	503,000,003	503,000,003

There are no dilutive potential ordinary shares, therefore, diluted earnings per share has not been calculated or disclosed.

7 | Segment reporting

Inter-segment 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 period to acquire segment assets that are expected to be used for more than one period.

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, manufacturer and importer of mattresses, pillows, 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 goodwill amortisation.

2005	Underwear & Hosiery $'000	Outerwear & Sport $'000	Home Comfort $'000	Footwear $'000	Other $'000	Eliminations[1] $'000	Consolidated $'000
Revenue							
External segment revenue	652,862	259,903	309,377	271,005	49,435	–	1,542,582
Inter-segment revenue	–	108	–	1,815	–	(1,923)	–
Total segment revenue	652,862	260,011	309,377	272,820	49,435	(1,923)	1,542,582
Result							
Segment result	72,671	9,389	25,714	25,180	(30,814)	–	102,140
Income tax expense	(21,712)	(2,380)	(6,972)	(7,564)	(2,409)	–	(41,037)
Net profit/(loss)	50,959	7,009	18,742	17,616	(33,223)	–	61,103
Depreciation and amortisation	5,882	1,098	3,973	1,055	44,523	–	56,531
Non-cash expenses other than depreciation and amortisation	49,170	16,554	23,424	15,502	2,018	–	106,668
Segment assets	492,423	102,927	260,195	87,667	1,369,705	(383,577)	1,929,340
Segment liabilities	246,841	30,019	238,992	33,365	524,341	(383,577)	689,981
Acquisitions of non-current assets	9,798	1,672	6,035	1,298	1,061	–	19,864

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.

7 | Segment reporting (continued)

Primary reporting: Business segments (continued)

2004	Underwear & Hosiery $'000	Outerwear & Sport $'000	Home Comfort $'000	Footwear $'000	Other $'000	Eliminations[1] $'000	Consolidated $'000
Revenue							
External segment revenue	172,653	55,676	73,534	54,691	13,217	–	369,771
Inter-segment revenue	–	1,191	–	172	–	(1,363)	–
Total segment revenue	172,653	56,867	73,534	54,863	13,217	(1,363)	369,771
Result							
Segment result	22,584	(1,725)	5,950	2,796	(8,780)	–	20,825
Income tax (expense)/benefit	(6,923)	168	(1,668)	(922)	418	–	(8,927)
Net profit/(loss)	15,661	(1,557)	4,282	1,874	(8,362)	–	11,898
Depreciation and amortisation	1,520	300	1,691	345	10,480	–	14,336
Non-cash expenses other than depreciation and amortisation	12,536	4,566	5,461	4,999	3,624	–	31,186
Segment assets	424,938	203,757	122,672	82,600	1,443,857	(320,842)	1,956,982
Segment liabilities	215,531	178,063	79,106	42,348	524,168	(320,842)	718,374
Acquisitions of non-current assets	882	1,321	1,351	98	307	–	3,959

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.

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
2005				
External segment revenue by location of customers	1,316,275	141,038	85,269	1,542,582
Segment assets by location of assets	1,685,348	178,666	65,326	1,929,340
Acquisitions of non-current assets	17,605	1,643	616	19,864
2004				
External segment revenue by location of customers	312,259	34,113	23,399	369,771
Segment assets by location of assets	1,709,755	180,865	66,362	1,956,982
Acquisitions of non-current assets	3,455	175	329	3,959

8 | Cash assets

		Consolidated		The Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Cash on hand		162	174	–	–
Cash at bank		37,014	56,788	2,365	13,586
Bank short-term deposit		63,930	42,311	–	–
	26(a)	101,106	99,273	2,365	13,586

The cash on deposit matures within 45 days and interest is paid at a weighted average interest rate of 5.4% per annum. (2004: 4.6% per annum)

9 | Receivables

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Current					
Trade debtors		195,903	185,264	–	–
Less provision for doubtful trade debtors		(2,310)	(3,131)	–	–
Less provision for rebates, allowances, claims and settlement discounts		(18,866)	(20,554)	–	–
		174,727	161,579	–	–
Amounts owing by controlled entities		–	–	1,043	–
Other debtors		16,708	12,771	3	769
		191,435	174,350	1,046	769
Non-current					
Amounts owing by controlled entities	29	–	–	1,203,714	1,203,714
Other debtors		–	41	–	–
		–	41	1,203,714	1,203,714

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

10 | Inventories

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Raw materials and stores				
At cost	43,283	52,670	–	–
Less provision for inventory obsolescence	(1,271)	(1,820)	–	–
	42,012	50,850	–	–
Work in progress – at cost	14,867	16,921	–	–
Finished goods				
At cost	213,971	201,913	–	–
Less provision for inventory obsolescence	(15,454)	(16,052)	–	–
	198,517	185,861	–	–
	255,396	253,632	–	–

11 | Other financial assets

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Non-current				
Investments in associated entities – at cost	1,926	2,134	–	–

12 | Other assets

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Current				
Prepayments	7,339	8,158	2	–
Non-current				
Deferred debt establishment costs	4,635	3,700	–	–
Accumulated amortisation	(1,120)	(218)	–	–
	3,515	3,482	–	–

13 | Property, plant and equipment

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Freehold land				
At cost	29,916	30,008	–	–
Freehold buildings				
At cost	30,423	30,461	–	–
Accumulated depreciation	(931)	(211)	–	–
	29,492	30,250	–	–
Leasehold improvements				
At cost	7,899	7,192	–	–
Accumulated amortisation	(853)	(374)	–	–
	7,046	6,818	–	–
Plant and equipment				
At cost	113,099	103,533	–	–
Accumulated depreciation	(15,854)	(4,295)	–	–
	97,245	99,238	–	–
Leased plant and equipment				
At capitalised cost	2,669	2,053	–	–
Accumulated amortisation	(601)	(95)	–	–
	2,068	1,958	–	–
Capital works in progress	8,232	3,578	–	–
Total property, plant and equipment at net book value	173,999	171,850	–	–

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 improve-ments $'000	Plant and equipment $'000	Leased plant and equipment $'000	Capital works in progress $'000	Total $'000
Consolidated 2005							
Carrying amount at the beginning of the financial year	30,008	30,250	6,818	99,238	1,958	3,578	171,850
Acquisitions through entities acquired	–	–	–	–	–	–	–
Additions	–	–	–	615	961	18,288	19,864
Transfer from/(to) capital works in progress	–	122	1,263	12,362	(113)	(13,634)	–
Disposals	–	–	–	(1,578)	(181)	–	(1,759)
Depreciation/amortisation	–	(756)	(690)	(13,158)	(551)	–	(15,155)
Net foreign currency differences on translation of self-sustaining operations	(92)	(124)	(345)	(234)	(6)	–	(801)
Carrying amount at the end of the financial year	29,916	29,492	7,046	97,245	2,068	8,232	173,999

13 | 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 2004							
Carrying amount at the beginning of the financial period	–	–	–	–	–	–	–
Acquisitions through entities acquired	29,825	30,156	6,540	99,551	2,125	2,719	170,916
Additions	–	–	–	–	–	3,959	3,959
Transfer from/(to) capital works in progress	–	46	113	2,963	–	(3,122)	–
Disposals	–	–	(31)	(215)	(93)	–	(339)
Depreciation/amortisation	–	(227)	(191)	(3,463)	(108)	–	(3,989)
Net foreign currency differences on translation of self-sustaining operations	183	275	387	402	34	22	1,303
Carrying amount at the end of the financial period	30,008	30,250	6,818	99,238	1,958	3,578	171,850

14 | Intangible assets

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Goodwill – at cost		840,699	835,321	–	–
Accumulated amortisation		(51,708)	(10,538)	–	–
		788,991	824,783	–	–
Brandnames – at cost		375,000	375,000	–	–
Total net book value of intangibles		1,163,991	1,199,783	–	–

15 | Payables

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Current					
Trade creditors		102,358	110,686	22	104
Amounts owing to controlled entities	29	–	–	–	11,573
Other creditors and accruals		13,128	17,109	–	–
		115,486	127,795	22	11,677
Non-current					
Other creditors		11,106	12,451	–	–

16 | Interest bearing liabilities

		Consolidated		The Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current					
Bank overdrafts – secured	26(a)	–	1,550	–	–
Lease liabilities	24	638	464	–	–
		638	2,014	–	–
Non-current					
Bank loans – secured		490,396	490,000	–	–
Lease liabilities	24	1,530	1,514	–	–
		491,926	491,514	–	–

Bank overdrafts

The bank overdraft of a controlled entity is secured by a guarantee from the Company.

Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts as at 30 June 2005 is 6.6% per annum (2004: 6.9% per annum).

The total bank overdraft is also secured by a floating charge over the assets of the Australian and New Zealand controlled entities with a carrying amount of $1,864 million (2004: $1,891 million). The bank overdrafts are payable on demand and are subject to annual review.

Finance lease liability

The consolidated entity's lease liabilities are secured by the leased assets of $2 million as in the event of default, the assets revert to the lessor.

Bank loans

All bank loans are denominated in Australian dollars.

The bank loans are secured by a floating charge over the assets of the Australian and New Zealand controlled entities with a carrying amount of $1,864 million (2004: $1,891 million). The consolidated entity is also required to comply with various financial covenants which it has met.

In addition, 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 2005, this arrangement was drawn to $150 million (2004: $150 million). The gross trade debtors which have been securitised have been presented as trade debtors (see Note 9) with the secured borrowing included as a component of bank loans – secured.

17 | Provisions

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Current					
Employee benefits	27	50,660	56,634	384	–
Restructuring and employee termination benefits		–	1,526	–	–
Surplus leased premises		2,681	3,800	–	–
		53,341	61,960	384	–
Non-current					
Employee benefits	27	7,281	8,326	–	–

Reconciliation

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

	Restructuring and employee termination benefits 2005 $'000	Restructuring and employee termination benefits 2004 $'000	Surplus leased premises 2005 $'000	Surplus leased premises 2004 $'000
Carrying amount at the beginning of the financial period	1,526	–	3,800	–
Increase through acquisition of entities	–	1,723	–	3,800
Additional provisions recognised during financial period	–	113	–	–
Payments	(1,526)	(310)	(1,119)	–
Carrying amount at the end of the financial period	–	1,526	2,681	3,800

18 | Contributed equity

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Share capital				
503,000,003 ordinary shares, fully paid	1,220,446	1,220,446	1,220,446	1,220,446
Movements during the financial period				
Balance at the beginning of the financial period	1,220,446	–	1,220,446	–
Shares issued:				
3 for cash on incorporation	–	–	–	–
503,000,000 for cash pursuant to a prospectus	–	1,257,500	–	1,257,500
Net transaction costs arising from issue for cash pursuant to prospectus, recognised directly in equity	–	(37,054)	–	(37,054)
Balance at the end of the financial period	1,220,446	1,220,446	1,220,446	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 winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

19 | Reserves

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Foreign currency translation reserve	(2,855)	1,693	–	–
Foreign currency translation reserve				
Movements during the financial period				
Balance at the beginning of the financial period	1,693	–	–	–
Translation of overseas controlled entities at the end of the financial period	(4,548)	1,693	–	–
Balance at the end of the financial period	(2,855)	1,693	–	–

Nature and purpose of reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining 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 self-sustaining operation. Refer to accounting policy Note 1(v).

20 | Retained profits

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Balance at the beginning of the financial period	11,792	–	841	–
Net profit attributable to members of the parent entity	60,990	11,792	60,668	841
Dividends recognised during the financial period	(55,344)	–	(55,344)	–
Balance at the end of the financial period	17,438	11,792	6,165	841

21 | Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payments
2005				
Interim 2005 ordinary	7.5	37,733	franked	1 April 2005
Final 2004 ordinary	3.5	17,611	franked	30 September 2004
		55,344		

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:

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payments
Final 2005 ordinary	7.5	37,725	franked	3 October 2005

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in subsequent financial reports.

	The Company 2005 $'000	The Company 2004 $'000
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years	15,503	2,924

The above available amounts are based on the balance of the dividend franking account at financial year end adjusted for franking credits that will arise from the payment of the current tax liability.

22 | Outside equity interests

The outside equity interests relate to the 50% interest in Restonic (M) Sdn Bhd which is not held by the Company nor by one of its controlled entities.

	Consolidated 2005 $'000	Consolidated 2004 $'000
Outside equity interests in controlled entities comprise:		
Interest in accumulated losses at the beginning of the financial period	(139)	(245)
Net profit attributable to outside equity interests	113	106
Interest in accumulated losses at the end of the financial period	(26)	(139)
Interest in share capital	4,293	4,293
Interest in reserves	63	523
Total outside equity interests	4,330	4,677

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:

	Weighted average interest rate pa	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	1 to 5 year(s) $'000	Non-interest bearing $'000	Total $'000
2005						
Financial assets						
Cash assets	5.4%	101,106	–	–	–	101,106
Receivables		–	–	–	191,435	191,435
Other financial assets		–	–	–	1,926	1,926
		101,106	–	–	193,361	294,467
Financial liabilities						
Payables		–	–	–	126,592	126,592
Bank overdrafts and loans	6.6%[1]	490,396	–	–	–	490,396
Lease liabilities	6.6%	–	638	1,530	–	2,168
Provision for employee benefits	5.5%	57,941	–	–	–	57,941
		548,337	638	1,530	126,592	677,097
Interest rate swaps[2]		(470,036)	–	470,036	–	–

1 After incorporating the effect of interest rate swaps, forward agreements and options.
2 Notional principal amounts.

23 | Additional financial instruments disclosure (continued)

(a) Interest rate risk (continued)

	Weighted average interest rate pa	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	Fixed interest maturing in: 1 to 5 year(s) $'000	Non-interest bearing $'000	Total $'000
2004						
Financial assets						
Cash assets	4.6%	99,273	–	–	–	99,273
Receivables		–	–	–	174,391	174,391
Other financial assets		–	–	–	2,134	2,134
		99,273	–	–	176,525	275,798
Financial liabilities						
Payables		–	–	–	140,246	140,246
Bank overdrafts and loans	6.9%[1]	491,550	–	–	–	491,550
Lease liabilities	6.5%	–	464	1,514	–	1,978
Provision for employee benefits	5.5%	64,960	–	–	–	64,960
		556,510	464	1,514	140,246	698,734
Interest rate swaps[2]		(390,000)	–	390,000	–	–

1 After incorporating the effect of interest rate swaps, forward agreements and options.
2 Notional principal amounts.

(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 2005 Weighted average rate	Consolidated 2005 Australian dollar equivalent $'000	Consolidated 2004 Weighted average rate	Consolidated 2004 Australian dollar equivalent $'000
Not later than one year				
Buy US dollars	0.77	154,574	0.71	161,761
Buy Hong Kong dollars	5.97	32,359	5.38	30,227
Buy sterling pounds	0.46	290	0.38	2,045
Buy euros	0.61	1,169	0.57	1,460
Buy Japanese yen	80.33	2,822	74.83	558
Buy New Zealand dollars	–	–	1.10	89

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 2005 $'000	Consolidated Net gains 2004 $'000
Within six months	487	894

23 | Additional financial instruments disclosure (continued)

(c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets, excluding investments, of the consolidated entity, which have been recognised in the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

Unrecognised financial instruments

Credit risk on derivative contracts, which have not been recognised in the statement of financial position, is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Interest rate swaps are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The credit risk on swap contracts is limited to the net amount to be received from counterparties on contracts that are favourable to the consolidated entity. The accrued amount due to the consolidated entity at 30 June 2005 amounted to $2,201,904 (2004: $4,893,904).

(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 bases.

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 bank deposits, trade debtors, other debtors, bank overdrafts, accounts payable, bank loans, lease liabilities and 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			
	2005		2004	
	Carrying Amount $'000	Net Fair Value $'000	Carrying Amount $'000	Net Fair Value $'000
Financial assets				
Cash assets	101,106	101,106	99,273	99,273
Receivables	191,435	191,435	174,391	174,391
Investments – associated entities	1,926	1,926	2,134	2,134
Financial liabilities				
Payables	126,592	126,592	140,246	140,246
Bank overdrafts and loans	490,396	490,396	491,550	491,550
Lease liabilities	2,168	2,168	1,978	1,978
Provision for employee benefits	57,941	57,941	64,960	64,960

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.

Unrecognised financial instruments

The net fair value of financial instruments not recognised on the statement of financial position held as at the reporting date is:

	Consolidated	
	2005 $'000	2004 $'000
Interest rate swaps	(5,354)	2,703

24 | Commitments

	Consolidated 2005 $'000	Consolidated 2004 $'000
Non-cancellable operating lease expense commitments		
Future operating lease commitments not provided for in the financial statements and payable:		
Within one year	25,402	20,630
One year or later and no later than five years	53,576	49,689
Later than five years	9,704	16,777
	88,682	87,096

The consolidated entity leases property under non-cancellable operating leases expiring in one to five years. 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.

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Finance lease payment commitments					
Finance lease commitments are payable:					
Within one year		725	576	–	–
One year or later and no later than five years		1,715	1,672	–	–
		2,440	2,248	–	–
Less future lease finance charges		(272)	(270)	–	–
		2,168	1,978	–	–
Lease liabilities provided for in the financial statements:					
Current	16	638	464	–	–
Non-current	16	1,530	1,514	–	–
Total lease liability		2,168	1,978	–	–

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 vehicle at the agreed residual value.

25 | Controlled entities

The following table outlines the particulars in relation to controlled entities:

Name	Place of incorporation	Ordinary share consolidated entity interest 2005 %	Ordinary share consolidated entity interest 2004 %
Parent entity			
Pacific Brands Limited			
Controlled entities			
Pacific Brands (Australia) Pty Ltd	Australia	100%	100%
Pacific Brands Holdings Pty Ltd	Australia[1]	100%	100%
Pacific Brands Footwear Pty Ltd	Australia	100%	100%
Sachi Australia Pty Ltd	Australia	100%	100%
Pacific Brands Sport & Leisure Pty Ltd	Australia	100%	100%
Pacific Brands Clothing Pty Ltd	Australia	100%	100%
Pacific Brands Household Products Pty Ltd	Australia	100%	100%
Bonds Industries Pty Ltd	Australia	100%	100%
Pacific Brands Services Group Pty Ltd	Australia	100%	100%
PT Berlei Indonesia	Indonesia	100%	100%
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%
Pacific Brands Holdings (NZ) Ltd	New Zealand[2]	100%	100%
Pacific Brands Holdings (Hong Kong) Ltd	Hong Kong[2,3]	100%	100%
Grosby (China) Ltd	Hong Kong	100%	100%
Pacific Brands (Asia) Ltd	Hong Kong	100%	100%
Pacific Brands (UK) Ltd	UK[2]	100%	100%
PacBrands USA Inc	USA[2]	100%	100%
Pacific Brands (Fiji) Limited	Fiji[2]	100%	100%

1 Acquired by Pacific Brands (Australia) Pty Ltd on 6 April 2004.
2 Acquired by Pacific Brands (Australia) Pty Ltd on 6 April 2004 – comprising entities that make up 'associated international operations'.
3 Pacific Brands Holdings (Hong Kong) Ltd 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.

26 | Notes to the statements of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

		Consolidated		The Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Cash assets	8	101,106	99,273	2,365	13,586
Bank overdrafts	16	–	(1,550)	–	–
		101,106	97,723	2,365	13,586

(b) Reconciliation of net profit to net cash provided by operating activities

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Net profit		61,103	11,898	60,668	841
Add/(less) non-cash items:					
Amortisation of goodwill	3	41,376	10,347	–	–
Amortisation of debt establishment costs	3	902	218	–	–
Amounts set aside to provisions for doubtful debts, rebates, claims, allowances and settlement discounts	3	79,744	20,220	–	–
Amounts set aside to provisions for employee entitlements	3	26,924	10,966	384	–
Depreciation and amortisation of property, plant and equipment	3	15,155	3,989	–	–
Unrealised foreign exchange loss		980	3,151	–	–
(Decrease)/increase in income taxes payable		(4,111)	7,707	11,231	361
Decrease/(increase) in current and deferred tax assets		13,870	(5,039)	(16,226)	–
Net cash provided by operating activities before change in assets and liabilities		235,943	63,457	56,057	1,202
Change in assets and liabilities:					
(Increase)/decrease in receivables		(98,613)	7,891	(277)	–
Increase in inventories		(2,601)	(12,037)	–	–
Increase in prepayments		(162)	(685)	(2)	–
Increase in deferred borrowing costs		(935)	–	–	–
(Decrease)/increase in payables		(6,524)	(2,995)	(11,655)	104
Decrease in provisions		(37,337)	(3,692)	–	–
Net cash provided by operating activities		89,771	51,939	44,123	1,306

(c) Acquisition of businesses

During the year ended 30 June 2005 the consolidated entity acquired the businesses of TMI Australasia and Merrell Footwear (Australian licence). Details of the acquisitions are as follows:

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Fair value of net assets acquired:				
Inventories	1,026	–	–	–
Other assets	375	–	–	–
Deferred tax assets	224	–	–	–
Payables	(50)	–	–	–
Provisions	(747)	–	–	–
Net assets acquired	828	–	–	–
Goodwill on acquisition	5,664	–	–	–
Consideration (cash)	6,492	–	–	–

26 | Notes to the statements of cash flows (continued)

(d) Acquisition of controlled entities

During the year ended 30 June 2005 the consolidated entity paid $5,611,000 of stamp duty in relation to the acquisition of Pacific Brands Holdings Pty Ltd. The consolidated entity acquired Pacific Brands Holdings Pty Ltd and its associated international operations on 6 April 2004. Details of the acquisition are as follows:

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Consideration		5,611	1,203,714	–	–
Cash acquired		–	(45,804)	–	–
Outflow of cash		**5,611**	**1,157,910**	**–**	**–**
Fair value of net assets acquired:					
Cash assets		–	45,804	–	–
Receivables		–	201,732	–	–
Inventories		–	241,100	–	–
Other assets		–	14,323	–	–
Investments		–	1,936	–	–
Property, plant and equipment		–	170,916	–	–
Brandnames		–	375,000	–	–
Deferred tax assets		–	27,312	–	–
Payables		5,611	(148,027)	–	–
Current tax liabilities		–	(9,934)	–	–
Provisions		–	(58,229)	–	–
Interest bearing liabilities		–	(489,083)	–	–
Outside equity interests		–	(4,145)	–	–
Net assets acquired		**5,611**	**368,705**	**–**	**–**
Goodwill on acquisition		–	835,009	–	–
Consideration (cash)		**5,611**	**1,203,714**	**–**	**–**

27 | Employee benefits

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Aggregate liability for employee benefits, including on-costs:					
Current	17	50,660	56,634	384	–
Non-current	17	7,281	8,326	–	–
		57,941	**64,960**	**384**	**–**

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

	Consolidated 2005 $'000	Consolidated 2004 $'000
Assumed rate of increase in wage and salary rates (pa)	4.0%	4.0%
Discount rate (pa)	5.5%	5.5%
Settlement term (period)	10 years	10 years
Number of employees		
Number of employees at the end of the financial period	7,334	7,172

27 | Employee benefits (continued)

Superannuation plans

The consolidated entity contributes to the Pacific Brands Superannuation Plan, various industry superannuation funds and a number of employee nominated superannuation funds.

Pacific Brands Superannuation Plan

The consolidated entity contributes to the Pacific Brands Superannuation Plan ('Plan'), which is a plan in the Mercer Super Trust, at rates advised from time to time by the Plan's actuary. The consolidated entity has been contributing at the rates set out in the previous actuarial review, as at 1 December 2001.

The actuarial assessments of the Plan as at both 1 July 2005 and 1 July 2004 were carried out by Mr D.A. Scott, Fellow of the Institute of Actuaries of Australia on behalf of Mercer Human Resource Consulting Pty Ltd. The results of the valuations were provided in reports dated August 2004 and August 2005. The actuary concluded that the assets of the Plan were sufficient to meet all benefits payable in the event of the Plan's termination, or the voluntary or compulsory termination of employment of each employee of the Company.

The Plan provides both defined benefits, based on years of service and final average salary, and accumulation benefits. With respect to the defined benefits component of the Plan, the accrued benefits, Plan assets at net market value and vested benefits are:

	1 July 2005 $'000	1 July 2004 $'000
Accrued benefits[1]	43,072	42,386
Plan assets at net market value	48,118	43,410
Excess	5,046	1,024
Vested benefits[2]	43,072	42,386

1 Accrued benefits have been determined based on the amount calculated by the actuary at the date of the most recent review. Accrued benefits are benefits which the Plan is presently obliged to pay at some future date, as a result of membership of the Plan.

2 Vested benefits are benefits which are not conditional upon the continued membership of the Plan or any factor, other than resignation from the Plan.

The Company is under no legal obligation to make up any shortfall in the Plan's assets to meet payments due to employees. Details of contributions to the defined benefits component of the Plan during the year ended 30 June 2005 and the financial period from 12 December 2003 to 30 June 2004 and contributions payable at reporting date are as follows:

	2005 $'000	2004 $'000
Employer contributions to the Plan	2,897	1,063
Employer contributions payable to the Plan at reporting date	–	–

28 | Director and executive disclosures

(a) Directors' and specific executives' interests in share capital

The following table provides the relevant interest in the number of ordinary shares of the Company as at 30 June 2005 of all directors of the Company ('specified directors') and the five or more executives of the consolidated entity with the greatest authority ('specified executives'):

	Title	Held at 1 July 2004	Purchases	Held at 30 June 2005
Specified directors				
R.P. Handley	Chairman	1,211,178	124,842	1,336,020
H.A. Lynch	Deputy Chair	46,189	19,313	65,502
P.R. Moore	Chief Executive Officer	1,220,001	100,000	1,320,001
S.J. Tierney	Chief Financial Officer	400,001	–	400,001
A.D. Cummins	Non-executive director	212,689	81,072	293,761
M.G. Ould	Non-executive director	44,588	13,353	57,941
M.A. Plavsic	Non-executive director	1,690	29,849	31,539
Specified executives				
S.W. Audsley	Group General Manager, Underwear & Hosiery (Holeproof, Jockey, Hosiery and Clothing New Zealand)	201,800	–	201,800
I.C. Barton	Group General Manager, Home Comfort	120,400	–	120,400
M.J. Ford	Group General Manager, Footwear	200,400	9,461	209,861
S.M. Morphet	Group General Manager, Underwear & Hosiery (Bonds and The Berlei Group)	200,400	–	200,400
R.C. Rostolis	Group General Manager, Outerwear & Sport	200,400	–	200,400

(b) Non-executive director remuneration

Non-executive directors are paid an annual fee for their service on the Board and all committees of the Board within the maximum aggregate sum for such directors approved from time to time by shareholders. The current maximum aggregate sum is $1 million per annum, which is intended to provide the Board with scope to appoint new directors in the future.

Directors are paid a fee for their contribution to the Board and committees of the Board. The Nomination and Remuneration Committee makes recommendations to the Board on the total level of remuneration of non-executive directors and individual fees for non-executive directors (including the Chairman), including any additional fees payable to directors for membership of Board committees. In order to ensure the objectivity and independence of non-executive directors, these fees are not performance based.

A minimum of 25% of a non-executive director's annual fee must be taken in the form of shares pursuant to the Non-Executive Director Share Plan. Shares acquired under the Non-Executive Director Share Plan must, in general, be held for the period the director holds office as a director. The Board has determined that, at present, retirement benefits are not payable to non-executive directors upon their retirement.

Bonuses are not payable to non-executive directors.

(c) Remuneration of executive directors and senior executives

Remuneration of executive directors and senior executives comprises a base component together with an incentive component which is 'at risk'. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Nomination and Remuneration Committee obtains independent advice from external specialists on the appropriateness of remuneration packages in the context of remuneration packages offered by comparable companies.

The remuneration of senior executives, and the performance targets for senior executives reporting to the Chief Executive Officer, are reviewed by the Nomination and Remuneration Committee. This committee is also responsible for both reviewing and making recommendations to the Board on the remuneration for the Chief Executive Officer, including short term and long term incentives.

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are based on the achievement of growth targets in the consolidated entity's profit after tax performance and other performance criteria partially or wholly within the control of the executive. The payment of bonuses can be cancelled, individually or collectively, at the discretion of the Chief Executive Officer, to take account of other material circumstances within the Company or the business environment. Further details in respect of the Company's remuneration practices are found in the Remuneration Report which forms part of the Directors Report.

28 | Director and executive disclosures (continued)

(c) Remuneration of executive directors and senior executives (continued)

The Company has also established a long term incentive scheme for selected key senior executives, referred to as the Performance Rights Plan. The rules of the Performance Rights Plan provide that the Board may determine a price that is payable upon allocation of a share following vesting of a performance right, or that no amount is payable by the executive upon allocation of a share once a performance right vests. The Board has determined that no amount is payable by the Chief Executive Officer, the Chief Financial Officer and other senior management on the vesting of their initial grant of rights.

The Company has paid a premium to maintain directors' and officers' insurance for all current and former directors and officers of the Company and its controlled entities.

(d) Remuneration of specified directors and specified executives by the consolidated entity

The following table provides the details of the specified directors and the specified executives and the nature and amount of the elements of their remuneration for the financial year ended 30 June 2005 with respect to service provided to the consolidated entity or its predecessors:

		Primary			Post-employment	Equity Compensation	
	Year[1]	Base remuneration (salary and fees)[2] $	Bonuses $	Non-monetary benefits $	Super-annuation contributions $	Value of Performance Rights $	Total $
Specified directors							
Non-executive[3]							
R.P. Handley	2005	166,858	–	62,500	20,642	–	250,000
	2004	41,714	–	15,625	5,161	–	62,500
A.D. Cummins	2005	43,830	–	52,500	8,670	–	105,000
	2004	10,958	–	13,125	2,167	–	26,250
H.A. Lynch	2005	85,115	–	52,500	12,385	–	150,000
	2004	22,329	–	12,075	3,096	–	37,500
M.G. Ould	2005	64,617	–	36,300	9,083	–	110,000
	2004	16,154	–	9,075	2,271	–	27,500
M.A. Plavsic	2005	70,080	–	26,250	8,670	–	105,000
	2004	11,680	–	4,375	1,445	–	17,500
Executive							
P.R. Moore	2005	696,230	–	46,357	160,729	302,053	1,205,369
	2004	172,791	83,713	11,589	48,553	–	316,646
S.J. Tierney	2005	362,044	–	31,350	84,204	181,232	658,830
	2004	89,175	43,856	7,838	25,437	–	166,306
Total directors	**2005**	**1,488,774**	**–**	**307,757**	**304,383**	**483,285**	**2,584,199**
	2004	**364,801**	**127,569**	**73,702**	**88,130**	**–**	**654,202**
Specified executives							
S.W. Audsley	2005	320,843	–	30,772	57,951	151,027	560,593
	2004	75,678	35,390	7,693	17,341	–	136,102
I.C. Barton	2005	277,108	–	30,250	60,725	120,821	488,904
	2004	66,468	30,391	7,563	17,627	–	122,049
M.J. Ford	2005	261,408	–	36,350	60,538	120,821	479,117
	2004	59,463	29,808	9,088	17,289	–	115,648
S.M. Morphet	2005	312,795	–	62,667	57,835	151,027	584,324
	2004	61,366	34,942	14,488	17,121	–	127,917
R.C. Rostolis	2005	231,116	–	23,981	42,754	120,821	418,672
M.S. Daniel	2004	78,462	37,500	6,249	6,750	–	128,961
Total specified executives	**2005**	**1,403,270**	**–**	**184,020**	**279,803**	**664,517**	**2,531,610**
	2004	**341,437**	**168,031**	**45,081**	**76,128**	**–**	**630,677**

1 The comparative 30 June 2004 disclosures represent remuneration paid or payable from 6 April 2004, when trading by Pacific Brands Limited commenced.
2 Includes movements in annual leave and long service leave provisions.
3 Non-cash benefits in relation to non-executive directors relate to the purchase of shares under the Non-Executive Director Share Plan

28 | Director and executive disclosures (continued)

(e) Deferred Shares

The employment contracts for the Chief Executive Officer and Chief Financial Officer, provide that a percentage of any annual incentive award to which they may become entitled is to be applied in acquiring shares ('Deferred Shares'), effective from 1 July 2004. The executives may elect to apply more of any incentive to acquiring shares which are subject to the 'restriction' condition described below.

The actual amount of the annual incentive award is determined by the Board based on achievement of annual performance conditions. Performance was tested at the end of the year ended 30 June 2005 and will be tested at the end of each subsequent financial year of the executive's employment. The Chief Executive Officer is required to apply half of any annual incentive in acquiring Deferred Shares, while the Chief Financial Officer is required to apply one third of any incentive towards the acquisition of Deferred Shares.

In general, Deferred Shares are subject to a vesting period, which requires the executive to be employed by the consolidated entity for a period of two years from the date of allocation (1 July 2004). If the executive is terminated for cause prior to the end of the two year vesting period, entitlement to the Deferred Shares ceases. If the employment of the executive ceases in other circumstances, the executive will, in general, be entitled to receive their Deferred Shares.

Deferred Shares allocated under this arrangement will be acquired on-market and will be held on trust for the executive subject to a restriction on dealing for a further period of three years after the date of allocation of the Deferred Shares.

The balance of any annual incentive award will be paid to the executive in cash.

(f) Senior executive and director share plans

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

- the Performance Rights Plan (which is open to executive directors and selected senior executives); and
- the Non-Executive Director Share Plan (which applies to all non-executive directors).

Performance Rights Plan ('PRP')

General

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

The performance rights were valued at $1.60 each as at the grant date, 1 July 2004.

The fair value of the performance rights was calculated at the date of grant using a Monte-Carlo simulation model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed in the table in Note 28(d) is the portion of the fair value of the performance rights allocated to this reporting period. In valuing the performance rights market conditions have been taken into account.

Grant of performance rights

The Board has approved the following grants of performance rights to specified executives, at no cost to the executive, under the PRP, effective 1 July 2004:

- 500,000 performance rights to P.R. Moore;
- 300,000 performance rights to S.J. Tierney;
- 250,000 performance rights to S.W. Audsley;
- 200,000 performance rights to I.C. Barton;
- 200,000 performance rights to M.J. Ford;
- 250,000 performance rights to S.M. Morphet; and
- 200,000 performance rights to R.C. Rostolis.

The Board has granted a further 600,000 performance rights (in aggregate) to 'non-specified' executives.

Allocation of shares

In respect of the above grants the performance conditions are based on the relative total shareholder return ('TSR') of the Company, measured against other companies in the ASX 100. TSR is, broadly, a measure of the return to shareholders provided by share price appreciation, plus reinvested dividends, expressed as a percentage of investment. In addition, the price of the Company's shares must, as at the relevant date, exceed the price at which the shares listed on the Australian Stock Exchange on 6 April 2004 ($2.50) prior to any performance rights vesting, subject to the operation of the PRP rules.

28 | Director and executive disclosures (continued)

(f) Senior executive and director share plans (continued)

Performance Rights Plan (continued)

The TSR performance conditions in relation to the initial grant are:

Target	Percentage of shares available in given year that vests
The Company's annual TSR does not meet performance of the median company in ASX 100	0%
The Company's annual TSR equals or exceeds performance of the median company in ASX 100	50%
The Company's annual TSR ranks in third quartile of companies in ASX 100	Pro rata between 50% and 100% (2% increase for each higher ranking)
The Company's annual TSR ranks in fourth quartile of companies in ASX 100	100%

In relation to the grants to date, performance conditions were tested at the end of the financial year ending 30 June 2005 and will be tested at the end of the next three financial years. At 30 June 2005 the performance rights were not exercised as the annual performance conditions were not met. The percentage of the maximum performance rights granted to date vest in favour of the executives as follows:

Vesting date	% Vesting
1 July 2006[1]	35%
1 July 2007	25%
1 July 2008	40%
Maximum	100%

1 Includes 15% due to vest 1 July 2005 where performance conditions were not met.

Any performance rights which do not vest in a financial year will be added to the performance rights otherwise available in the next vesting year and tested against the performance condition applicable to that subsequent year.

In general, the executives are not entitled to trade in shares allocated on vesting of the performance rights until the earlier to occur of:

- three years after the date of grant of the shares allocated on vesting; or
- 12 months following the date of cessation of employment with the consolidated entity.

Non-Executive Director Share Plan

Under the Non-Executive Director Share Plan, non-executive directors are required to sacrifice at least 25% (or such other minimum percentage determined by the Board from time to time) of their annual directors' fees. Non-executive directors are not able to sell or otherwise dispose of the shares until the earliest of 10 years after acquisition, the non-executive director ceasing to be a director of the Company, or the non-executive director applying to the Board and the Board determining (in exceptional circumstances) that any or all restrictions applying to the shares cease. Shares will usually be purchased on-market at the prevailing market price of shares by applying an amount equal to the amount of fees a non-executive director has elected to sacrifice to acquire shares. Shares are acquired monthly at the end of each calendar month.

(g) Other transactions with specified directors and specified executives

From time to time, specified directors and specified executives of the Company or its controlled 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.

29 | Non-director related parties

(a) Non-director related parties

The classes of non-director related parties are:

- wholly-owned controlled entities; and
- directors of related parties and their director related entities.

(b) Transactions

All transactions with non-director related parties 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	
	2005 $'000	2004 $'000
The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions with non-director related parties are:		
Dividend Revenue		
Wholly-owned controlled entities	62,417	–
Aggregate amounts receivable or payable from non-director related parties:		
Amounts receivable other than trade debts		
Current		
Wholly-owned controlled entity	1,043	–
Non-current		
Wholly-owned controlled entity (interest free)	1,203,714	1,203,714
Amounts payable other than trade creditors		
Current		
Wholly-owned controlled entity	–	11,573

30 | Events subsequent to reporting date

(a) Dividends

For dividends declared after 30 June 2005, see Note 21.

(b) International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards ('AIFRS') as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 31.

31 | Impact of adopting AIFRS

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with AIFRS as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements 'Australian GAAP' applicable for reporting periods ended 30 June 2005.

The Company has established a formal implementation project, monitored by the Audit, Business Risk and Compliance Committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

(a) Planning phase

The planning phase has been completed and provided a high level overview of the impacts of conversion to AIFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

(b) Design phase

The design phase has been completed and provided details of the changes required to existing accounting policies, procedures and systems and processes in order to transition to AIFRS.

(c) Implementation phase

The implementation phase has been completed and has identified the necessary changes to accounting and business procedures, processes and systems and operational training for staff. It has enabled the Company to generate the required disclosures of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards ('AASB 1') as it progresses through its transition of AIFRS.

(d) Impact of transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS that management expects to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary; therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS; consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction; or
- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

The rules for first time adoption of AIFRS are set out in AASB 1. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

Reclassifications

AASB 101 Presentation of Financial Statements prohibits the presentation of items of income or expense as extraordinary, either on the face of the Statement of Financial Performance (Income Statement) or in the notes. The nature and amount of material items will be disclosed separately in the notes to the financial statements.

Property, plant and equipment

Property, plant and equipment will be measured at cost under AIFRS.

No adjustments are expected for either the consolidated entity or the Company on transition to AIFRS.

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Leased assets

Make good provisions

The consolidated entity has certain operating leases that require the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls.

Under current Australian GAAP, the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

No adjustments are expected for either the consolidated entity or the Company on transition to AIFRS.

Business combinations

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1, as discussed.

Business combinations that occurred on or after 1 July 2004 will be restated to comply with AIFRS.

Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of its deemed cost, which represents the amount recorded under Australian GAAP, adjusted for reclassifications of other intangible assets not meeting the AIFRS recognition criteria. No reclassifications are expected.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment (refer 'Impairment' below for further details on impairment testing).

Negative goodwill arising on acquisition will be recognised directly in the Statement of Financial Performance unless it is deemed to be a transaction with owners. Under current Australian GAAP, negative goodwill is allocated to the non-monetary assets acquired. As business combinations have not been restated (refer 'Business combinations' above), there is no expected impact of this change in treatment on transition.

Other intangible assets (including brandnames)

Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses. On transition other intangible assets are being reviewed to ensure they are capable of recognition under AASB 138 Intangible Assets and tested for impairment. No reclassifications or impairment losses are expected on transition to AIFRS.

Software assets developed for internal use will be reclassified from property, plant and equipment to intangible assets on transition to AIFRS. This is expected to result in a reclassification of $24,549,112 for the consolidated entity as at 1 July 2004 and $21,702,003 as at 30 June 2005.

Amortisation

Amortisation will be recognised on a straight line basis over the estimated useful lives of the intangible assets (software), unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested for impairment annually. Other intangible assets will be amortised from the date they are available for use.

Changes in useful life on transition to AIFRS will be accounted for prospectively. The estimated useful lives for 1 July 2004 are expected to be as follows:

	AIFRS	Current AGAAP
Goodwill	indefinite	20 years
Brandnames	indefinite	indefinite
Software	useful life	useful life

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Intangibles assets (continued)

The impact on the results for the year ended 30 June 2005 is expected to be an increase of $41,376,000 from the reversal of the goodwill amortisation for the consolidated entity. No adjustments are expected for the Company on transition to AIFRS.

Impairment

Under current Australian GAAP, the carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount, with the write-down recognised in the Statement of Financial Performance in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under current Australian GAAP, the collectibility of receivables is assessed at each reporting date and a provision is raised based on the age of the outstanding overdue balance to allow for doubtful accounts.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding investment property, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS (refer 'Intangible assets' above), intangible assets that have an indefinite useful life and intangible assets not yet ready for use are tested for impairment annually.

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets; each cash generating unit must be no larger than a segment.

Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

No adjustments are expected for either the consolidated entity or the Company on transition to AIFRS.

Reversals of impairment

Under current Australian GAAP, impairment losses have not been reversed.

Under AIFRS, an impairment loss in respect of goodwill must not be reversed. In respect of other assets, an impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be 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.

There is no expected impact of this change in treatment on transition to AIFRS.

Taxation

On transition to AIFRS, the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP. Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be 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 will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

No adjustments are expected for either the consolidated entity or the Company on transition to AIFRS.

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Tax consolidation

As set out in Note 1(g), the Company is the head entity in a tax consolidated group. Under current Australian GAAP, the head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intragroup transactions). Assets and liabilities arising under tax funding arrangements are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/benefit.

Under AIRFS, accounting for the impact of the tax consolidated system in the separate financial statements of the members of a tax consolidated group is addressed by UIG 1052 Tax Consolidation Accounting. Wholly owned subsidiaries in a tax consolidated group must recognise their own tax amounts directly, and the current tax liability (asset) and any deferred tax asset relating to tax losses are assumed by the head entity.

The expected impact of the adoption of UIG 1052 is an increase in intercompany receivables of $22,060,000 and a decrease in deferred tax assets of $22,060,000.

Employee benefits

Defined benefit plans

Under AIFRS, the consolidated entity's net obligation in respect of defined benefit superannuation plans will be 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 periods; that benefit will be discounted to determine its present value, and the fair value of any plan assets will be deducted.

The discount rate will be the rate attaching to AAA credit rated bonds that have maturity dates which most closely match the terms of maturity of the related liabilities. Where AAA credit rated bonds are not available, and specifically for all Australian dollar denominated obligations, the discount rate will be the rate attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

When the employee benefits under the plan are improved, the proportion of the increased benefit relating to past service by employees will be 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 will be recognised immediately in the income statement.

Where the calculation results in a net benefit to the consolidated entity, the recognised asset will be 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.

Under Australian GAAP, defined benefit plans are accounted for on a cash basis, with no defined benefit obligation or plan assets recognised in the Statement of Financial Position.

On transition the consolidated entity has elected to adopt the corridor approach. Actuarial gains and losses that arise subsequent to transition date will be recognised in accordance with this corridor approach.

No adjustments are expected for either the consolidated entity or the Company on transition to AIFRS.

Share-based payments

Under current Australian GAAP, no expense is recognised for the performance rights issued to employees.

Under AIFRS, the fair value of the performance rights granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the performance rights. The fair value of the performance rights granted will be measured using the binomial method, taking into account the terms and conditions attached to the performance rights. The amount recognised as an expense will be adjusted to reflect the actual number of performance rights that vest except where forfeiture is due to market related conditions.

For the financial year ended 30 June 2005, employee benefits expense and retained profits are expected to be increased by $1,510,267 in the consolidated entity and the Company representing the performance rights expense for the period.

Foreign currency

Under current Australian GAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained profits.

The assets and liabilities of operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated at rates of exchange at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Under AIFRS, each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Foreign currency (continued)

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the Company or its subsidiaries on transition to AIFRS.

All foreign operations are translated into Australian dollars using the method described above; the concepts of 'self-sustaining' and 'integrated' operations do not exist in the AIFRS framework.

On disposal of a foreign operation, the amount recognised in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of gain or loss on disposal and recognised through the current year income statement.

The AASB 1 election to reset existing foreign currency translation reserve balance to nil is not expected to be adopted. Foreign currency translation differences that have arisen prior to the date of transition are expected to continue to be presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of foreign operations prior to transition date continue to be translated at historical rates as permitted by AASB 1; therefore, there is no impact on transition in respect of this change.

No adjustments are expected for either the consolidated entity or the Company on transition to AIFRS.

Financial instruments

The consolidated entity expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation ('AASB 132'), and AASB 139 Financial Instruments: Recognition and Measurement ('AASB 139'). There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The consolidated entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1Statement of significant accounting policies.

As at 1 July 2005 the expected adjustments are:

- under current Australian GAAP not all derivatives were recognised on the Statement of Financial Position (interest rate swaps and revaluation impact of foreign exchange contracts). On adoption of AASB 139 all derivatives will be recognised at fair value on the Statement of Financial Position. The effect on the consolidated entity is an increase in other debtors of $893,145, an increase in other creditors and accruals of $4,866,709, an increase in the deferred tax asset of $1,192,069 and a decrease in the hedging reserve of $2,781,495. No adjustment is expected for the Company; and
- recognition of debt establishment costs as part of the liability. This is expected to result in a decrease in other assets of $3,515,242 and a decrease in financial liabilities of $3,515,242 in the consolidated entity. No adjustment is expected for the Company.

Impact of change in accounting policy on prior periods

The nature of the main adjustments to the transitional AIFRS balance sheet as at 1 July 2004 and the statement of financial performance for the financial year ended 30 June 2005 to achieve full compliance with AIFRS had AASB 132 and AASB 139. Recognition and Measurement been applied from 1 July 2004 are expected be:

- recognition of all derivatives on the balance sheet at fair value and the recognition of the movement in the fair value of derivatives through the Statement of Financial Performance. For the year ended 30 June 2005, the adjustment that would have been required at 1 July 2004 and the impact on the Statement of Financial Performance for the year ended 30 June 2005 that would have resulted from the change in fair value of the derivatives over the year have not been quantified as it is impracticable to do so; and
- recognition of debt establishment costs as part of the liability. The adjustment that would have been required at 1 July 2004 is expected to be a decrease in other assets of $3,482,353 and a decrease in financial liabilities of $3,482,353.

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Summary of transitional adjustments

Consolidated entity

The following table sets out the expected adjustments to the Statement of Financial Performance of the consolidated entity for the year ended 30 June 2005:

	For the year ended 30 June 2005		
	AGAAP $'000	Transition impact $'000	AIFRS $'000
Revenue from sale of goods	1,521,724	–	1,521,724
Other revenues from ordinary activities	20,858	–	20,858
Total revenue from ordinary activities	1,542,582	–	1,542,582
Cost of goods sold	(910,400)	–	(910,400)
Freight and distribution expenses	(97,146)	–	(97,146)
Sales, marketing and advertising expenses	(257,954)	–	(257,954)
Information technology expenses	(19,537)	–	(19,537)
Administrative expenses	(79,558)	(1,510)	(81,068)
Borrowing expenses	(34,471)	–	(34,471)
Goodwill amortisation	(41,376)	41,376	–
Profit from ordinary activities before income tax (expense)/benefit	102,140	39,866	142,006
Income tax (expense)/benefit relating to ordinary activities	(41,037)	–	(41,037)
Net profit	61,103	39,866	100,969
Net profit attributable to outside equity interests	(113)	–	(113)
Net profit attributable to members of the parent entity	60,990	39,866	100,856
Net exchange difference relating to self-sustaining foreign operations	(4,548)	–	(4,548)
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	56,442	39,866	96,308

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Summary of transitional adjustments (continued)

Consolidated entity (continued)

The following table sets out the expected adjustments to the Statements of Financial Position of the consolidated entity at transition to AIFRS as at 1 July 2004 and for the AIFRS comparative period Statement of Financial Position as at 30 June 2005:

	1 July 2004			30 June 2005		
	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000
Current assets						
Cash assets	99,273	–	99,273	101,106	–	101,106
Receivables	174,350	–	174,350	191,435	–	191,435
Inventories	253,632	–	253,632	255,396	–	255,396
Other	8,158	–	8,158	7,339	–	7,339
Total current assets	535,413	–	535,413	555,276	–	555,276
Non-current assets						
Receivables	41	–	41	–	–	–
Other financial assets	2,134	–	2,134	1,926	–	1,926
Property, plant and equipment	171,850	(24,549)	147,301	173,999	(21,702)	152,297
Intangible assets	1,199,783	24,549	1,224,332	1,163,991	63,078	1,227,069
Deferred tax assets	44,279	–	44,279	30,633	–	30,633
Other	3,482	–	3,482	3,515	–	3,515
Total non-current assets	1,421,569	–	1,421,569	1,374,064	41,376	1,415,440
Total assets	1,956,982	–	1,956,982	1,929,340	41,376	1,970,716
Current liabilities						
Payables	127,795	–	127,795	115,486	–	115,486
Interest bearing liabilities	2,014	–	2,014	638	–	638
Current tax liabilities	14,314	–	14,314	10,203	–	10,203
Provisions	61,960	–	61,960	53,341	–	53,341
Total current liabilities	206,083	–	206,083	179,668	–	179,668
Non-current liabilities						
Payables	12,451	–	12,451	11,106	–	11,106
Interest bearing liabilities	491,514	–	491,514	491,926	–	491,926
Provisions	8,326	–	8,326	7,281	–	7,281
Total non-current liabilities	512,291	–	512,291	510,313	–	510,313
Total liabilities	718,374	–	718,374	689,981	–	689,981
Net assets	1,238,608	–	1,238,608	1,239,359	41,376	1,280,735
Equity						
Contributed equity	1,220,446	–	1,220,446	1,220,446	–	1,220,446
Reserves	1,693	–	1,693	(2,855)	1,510	(1,345)
Retained profits	11,792	–	11,792	17,438	39,866	57,304
Total parent entity interest	1,233,931	–	1,233,931	1,235,029	41,376	1,276,405
Outside equity interests	4,677	–	4,677	4,330	–	4,330
Total equity	1,238,608	–	1,238,608	1,239,359	41,376	1,280,735

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Summary of transitional adjustments (continued)

The Company

The following table sets out the expected adjustments to the Statement of Financial Performance of the Company for the year ended 30 June 2005:

	30 June 2005		
	AGAAP $'000	Transition impact $'000	AIFRS $'000
Revenue from sale of goods	–	–	–
Other revenues from ordinary activities	62,709	–	62,709
Total revenue from ordinary activities	62,709	–	62,709
Cost of goods sold	–	–	–
Freight and distribution expenses	–	–	–
Sales, marketing and advertising expenses	–	–	–
Information technology expenses	–	–	–
Administrative expenses	(2,791)	(1,510)	(4,301)
Borrowing expenses	–	–	–
Goodwill amortisation	–	–	–
Profit from ordinary activities before income tax (expense)/benefit	59,918	(1,510)	58,408
Income tax (expense)/benefit relating to ordinary activities	750	–	750
Net profit	60,668	(1,510)	59,158
Net profit attributable to outside equity interests	–	–	–
Net profit attributable to members of the parent entity	60,668	(1,510)	59,158
Net exchange difference relating to self-sustaining foreign operations	–	–	–
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	60,668	(1,510)	59,158

31 | Impact of adopting AIFRS (continued)

(d) Impact of transition to AIFRS (continued)

Summary of transitional adjustments (continued)

The Company (continued)

The following table sets out the expected adjustments to the Statements of Financial Position of the Company at transition to AIFRS as at 1 July 2004 and for the AIFRS comparative period Statement of Financial Position as at 30 June 2005:

	1 July 2004			30 June 2005		
	AGAAP $'000	Transition impact $'000	AIFRS $'000	AGAAP $'000	Transition impact $'000	AIFRS $'000
Current assets						
Cash assets	13,586	–	13,586	2,365	–	2,365
Receivables	769	–	769	1,046	22,060	23,106
Inventories	–	–	–	–	–	–
Current tax assets	2,967	–	2,967	–	–	–
Other	–	–	–	2	–	2
Total current assets	17,322	–	17,322	3,413	22,060	25,473
Non-current assets						
Receivables	1,203,714	–	1,203,714	1,203,714	–	1,203,714
Other financial assets	–	–	–	–	–	–
Property, plant and equipment	–	–	–	–	–	–
Intangible assets	–	–	–	–	–	–
Deferred tax assets	11,928	–	11,928	31,121	(22,060)	9,061
Other	–	–	–	–	–	–
Total non-current assets	1,215,642	–	1,215,642	1,234,835	(22,060)	1,212,775
Total assets	1,232,964	–	1,232,964	1,238,248	–	1,238,248
Current liabilities						
Payables	11,677	–	11,677	22	–	22
Interest bearing liabilities	–	–	–	–	–	–
Current tax liabilities	–	–	–	11,231	–	11,231
Provisions	–	–	–	384	–	384
Total current liabilities	11,677	–	11,677	11,637	–	11,637
Non-current liabilities						
Payables	–	–	–	–	–	–
Interest bearing liabilities	–	–	–	–	–	–
Provisions	–	–	–	–	–	–
Total non-current liabilities	–	–	–	–	–	–
Total liabilities	11,677	–	11,677	11,637	–	11,637
Net assets	1,221,287	–	1,221,287	1,226,611	–	1,226,611
Equity						
Contributed equity	1,220,446	–	1,220,446	1,220,446	–	1,220,446
Reserves	–	–	–	–	1,510	1,510
Retained profits	841	–	841	6,165	(1,510)	4,655
Total parent entity interest	1,221,287	–	1,221,287	1,226,611	–	1,226,611
Outside equity interests	–	–	–	–	–	–
Total equity	1,221,287	–	1,221,287	1,226,611	–	1,226,611

Pacific Brands Limited
Directors' declaration

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

(a) the financial statements and notes, set out on pages 52 to 92, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

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

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2005.

Dated at Melbourne this 22nd day of August 2005.

Signed in accordance with a resolution of the directors:

Pat Handley
Chairman

Paul Moore
Director

Independent Audit Report to the Members of Pacific Brands Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes (52 to 93) to the financial statements, and the directors' declaration for both Pacific Brands Limited (the 'Company') and Pacific Brands Limited and its controlled entities (the 'consolidated entity'), for the year ended 30 June 2005. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of Pacific Brands Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Don Pasquariello

Don Pasquariello
Partner

Melbourne
22 August 2005

Shareholders' Statistics

as at 31 August 2005

Distribution of ordinary shareholders and shareholdings

Size of holding			Number of holders		Number of shares	
1	to	1,000	9,611	25.9%	6,276,379	1.2%
1,001	to	5,000	21,560	58.1%	49,737,096	9.9%
5,001	to	10,000	4,013	10.8%	30,514,948	6.1%
10,001	to	100,000	1,792	4.9%	36,699,666	7.3%
100,001 and over			122	0.3%	379,771,914	75.5%
Total				100.0%	503,000,003	100.0%

Included in the above total are 564 shareholders holding less than a marketable parcel of 182 shares.

Twenty largest ordinary fully paid shareholders

	Shares	% of total
Westpac Custodian Nominees Limited	73,569,818	14.63%
J P Morgan Nominees Australia Limited	62,469,388	12.42%
National Nominees Limited	43,581,885	8.66%
Citicorp Nominees Pty Limited	25,677,212	5.10%
RBC Global Services Australia Nominees Pty Limited <Plpooled A/C>	23,541,759	4.68%
Citicorp Nominees Pty Limited <Cfs Wsle Geared Shr Fnd A/C>	15,092,848	3.00%
Cogent Nominees Pty Limited	14,149,862	2.81%
ANZ Nominees Limited <Cash Income A/C>	11,774,468	2.34%
Westpac Financial Services Limited	9,541,478	1.90%
Citicorp Nominees Pty Limited <Cfs Wsle Imputation Fnd A/C>	9,479,127	1.88%
Citicorp Nominees Pty Limited <Cfs Wsle 452 Aust Share A/C>	7,373,556	1.47%
Citicorp Nominees Pty Limited <Cfs Wsle Aust Share Fnd A/C>	7,085,528	1.41%
Citicorp Nominees Pty Limited <Cfs Imputation Fund A/C>	6,311,893	1.25%
Citicorp Nominees Pty Limited <Cfs Wsle Industrial Shr A/C>	4,822,887	0.96%
Queensland Investment Corporation	4,791,867	0.95%
RBC Global Services Australia Nominees Pty Limited <PIIC A/C>	4,421,990	0.88%
UBS Private Clients Australia Nominees Pty Ltd	4,244,748	0.84%
AMP Life Limited	2,574,983	0.51%
Citicorp Nominees Pty Limited <CFSIL CWLTH Aust Shs 18 A/C>	2,236,422	0.44%
HSBC Custody Nominees (Australia) Limited	2,124,055	0.42%
	334,865,774	66.57%

Substantial shareholders

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

23 May 2005	Commonwealth Bank of Australia	49,547,733	9.85%
23 March 2005	Perennial Value Management	48,377,843	9.62%
30 November 2004	J P Morgan Chase & Co	42,323,087	8.41%
5 July 2005	452 Capital Pty Limited	39,028,242	7.76%
25 August 2005	Perpetual Trustees Australia Limited	38,159,075	7.59%
26 August 2005	Westpac Banking Corporation	31,396,284	6.24%

Shareholder Information

Annual General Meeting

10.00am Tuesday 25 October 2005.
Crown Towers, 8 Whiteman Street,
Southbank, Melbourne Victoria
Australia.

Stock exchange listing

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

Pacific Brands Share Registry

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

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

Telephone:

Australia:	1300 132 632
New Zealand:	(09) 488 8777
International:	+61 3 9415 4184
Facsimile:	+61 3 9473 2500

Email: web.queries@computershare.com.au

Tax and dividend payments

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

Dividend payments

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

Dividend Reinvestment Plan

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

Consolidation of multiple holdings

If you have multiple issuer-sponsored holdings that you wish to consolidate into a single account, please notify the Share Registrar in writing, quoting your fully registered names and Sharehoder Reference Number (SRN) for these accounts and nominating the account to which the holdings are to be consolidated.

Change of name and/or address

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

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

Share enquiries

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

Pacific Brands' communications

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

Registered office

ABN 64 106 773 059
Pacific Brands Limited
Level 3, 290 Burwood Road
Hawthorn Victoria 3122
Telephone: (03) 9947 4900
Fascimile: (03) 9947 4951
Email: enquiries@pacbrands.com.au
Website: www.pacificbrands.com.au

Investor relations

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

Auditors

KPMG
161 Collins Street
Melbourne Victoria 3000

Company Directory

Chairman
Pat Handley

Chief Executive Officer
Paul Moore

Chief Financial Officer
Stephen Tierney

Non- Executive Directors
Andrew Cummins
Helen Lynch AM
Max Ould
Maureen Plavsic

Company Secretary
John Grover

Access your Annual Report on the web
Pacific Brands offers the option for shareholders to be advised of the availability of the Annual Report through the Company's website via an email notification (refer instructions below).

By providing us with your email address through our website, shareholders will be notified by email when the Annual Report is available together with a direct link to the Annual Report. You will also be notified by email of other major Pacific Brands announcements.

Email notification
Enter Pacific Brands website
www.pacificbrands.com.au and click onto 'Investor Relations' then select 'Shareholder Services'.
Under the heading Share Registry, click on the link to Computershare. You will be requested to enter your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode. This process is a security validation prior to entering your Email address under 'Electronic Shareholder Communication'.

Pacific Brands Limited Registered Office
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