PACIFIC BRANDS

20 May 2016

## Scheme Booklet registered with Australian Securities and Investments Commission

Pacific Brands Limited ("Pacific Brands") today announced that the Australian Securities and Investments Commission has registered the Scheme Booklet in relation to the proposed acquisition of Pacific Brands by HBI Australia Acquisition Co. Pty Ltd., a wholly owned subsidiary of Hanesbrands Inc., via a Scheme of Arrangement ("Scheme").

If the Scheme is approved by the requisite majority of Pacific Brands shareholders and all other conditions precedent are satisfied or waived (where capable of waiver), Pacific Brands shareholders will receive total cash payments of A$1.15 cash per share which are currently expected to comprise:

- a fully franked special dividend of $0.094 per share, to be paid on the dividend payment date (currently expected to be on or about Thursday, 7 July 2016); and
- cash consideration under the scheme of $1.056 per share, to be paid on the implementation date (currently expected to be on or about Friday, 15 July 2016)

A copy of the Scheme Booklet, which includes an Independent Expert's Report, a Notice of Scheme Meeting and a copy of the proxy form for the Scheme Meeting, is attached to this announcement.

Copies of the Scheme Booklet will be sent to Pacific Brands shareholders on or about Wednesday 25 May 2016 (and those shareholders who have previously nominated an electronic means of notification to Pacific Brand's share registry will receive an email where they can download the Scheme Booklet and lodge their proxy vote online).

The Pacific Brands Board continues to unanimously recommend that Pacific Brands shareholders vote in favour of the Scheme at the upcoming Scheme Meeting to be held on Friday, 24 June 2016.

For further information contact:


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PACIFIC BRANDS
ACN 106 773 059

# SCHEME BOOKLET

For a scheme of arrangement between Pacific Brands Limited and its shareholders in relation to the proposed acquisition by Hanesbrands Inc. through its wholly owned subsidiary HBI Australia Acquisition Co. Pty Ltd.

## VOTE IN FAVOUR

YOUR DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE SCHEME IN THE ABSENCE OF A SUPERIOR PROPOSAL

**This is an important document and requires your immediate attention.**

**You should read it in its entirety before deciding whether or not to vote in favour of the Scheme.**

**If you are in any doubt about how to deal with this document, you should contact your broker or financial, taxation or legal adviser immediately.**

If you have any questions in relation to this Scheme Booklet or the Transaction, you should call the Pacific Brands Shareholder Information Line on 1300 783 472 (within Australia) or +61 3 9415 4233 (outside Australia) on Business Days between 8.30am and 5.30pm (AEST).

FINANCIAL ADVISER

MACQUARIE

LEGAL ADVISER

HERBERT SMITH FREEHILLS

# *Important notices*

### Nature of this document

This Scheme Booklet provides Pacific Brands Shareholders with information about the proposed acquisition of Pacific Brands by Hanesbrands through its wholly owned subsidiary Hanesbrands Australia. If you have sold all of your Pacific Brands Shares, please ignore this booklet.

### Defined terms

A number of defined terms are used in this Scheme Booklet. These terms are explained in section 9 of this Scheme Booklet.

### No investment advice

The information contained in this Scheme Booklet does not constitute financial product advice and has been prepared without reference to your own investment objectives, financial situation, taxation position and particular needs. It is important that you read this Scheme Booklet in its entirety before making any investment decision and any decision as to whether or not to vote in favour of the Scheme. If you are in any doubt in relation to these matters, you should consult your financial, legal, taxation or other professional adviser.

### Not an offer

This Scheme Booklet does not constitute or contain an offer to Pacific Brands Shareholders, or a solicitation of an offer from Pacific Brands Shareholders, in any jurisdiction.

### Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside of Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

### Regulatory information

This document is the explanatory statement for the scheme of arrangement between Pacific Brands and the holders of its fully paid ordinary shares as at the Scheme Record Date for the purposes of section 412(1) of the Corporations Act. A copy of the proposed Scheme is included in this booklet as Annexure B.

A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2)(b) of the Corporations Act and was lodged with ASIC for registration under section 412(6) of the Corporations Act. It was then registered by ASIC under section 412(6) of the Corporations Act before being sent to Pacific Brands Shareholders.

ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Court hearing to approve the Scheme. Neither ASIC nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

A copy of this Scheme Booklet has been provided to ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Scheme Booklet.

### Notice of Scheme Meeting

The Notice of Meeting is set out in Annexure D.

### Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Pacific Brands Shareholder may appear at the Second Court Hearing, expected to be held at 2.00pm on Monday, 27 June 2016 at the Supreme Court of Victoria, 210 William Street, Melbourne.

Any Pacific Brands Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Pacific Brands a notice of appearance in the prescribed form together with any affidavit that the Pacific Brands Shareholder proposes to rely on.

### Important notice associated with the Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has directed that an explanatory statement accompany the notice of meeting does not mean that the Court:

- has formed any view as to the merits of the proposed scheme or as to how members should vote (on this matter members must reach their own decision); or
- has prepared, or is responsible for, the content of the explanatory statement.

### Disclaimer as to forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "planned", "may", "estimate", "potential", or other similar words. Similarly, statements that describe Pacific Brands' or Hanesbrands' objectives, plans, goals or expectations are or may be forward-looking statements.

Any statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Pacific Brands' operations and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, expressed, projected or implied by these forward-looking statements.

The operations and financial performance of Pacific Brands are subject to various risks, including those summarised in this Scheme Booklet, which may be beyond the control of Pacific Brands and/or Hanesbrands. Pacific Brands Shareholders should note that the historical financial performance of Pacific Brands is no assurance of future financial performance of Pacific Brands (whether the Scheme is implemented or not). Those risks and uncertainties include factors and risks specific to the industry in which Pacific Brands operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Pacific Brands following implementation of the Scheme, as well as the actual advantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Although Pacific Brands believes that the views reflected in any forward-looking statements included in the Pacific Brands Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

Although Hanesbrands believes that the views reflected in any forward-looking statements included in the Hanesbrands Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct.

None of Pacific Brands, Hanesbrands, Pacific Brands' officers, Hanesbrands' officers, any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement.

You should review all of the information in this Scheme Booklet carefully. Section 1.1 sets out the reasons why you should vote in favour of the Scheme and section 1.2 sets out the reasons why you may wish to vote against the Scheme.

All subsequent written and oral forward-looking statements attributable to Pacific Brands or Hanesbrands or any person acting on their behalf are qualified by this cautionary statement.

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, Pacific Brands and Hanesbrands do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

### Responsibility statement

Pacific Brands has been solely responsible for preparing the Pacific Brands Information. The information concerning Pacific Brands and the intentions, views and opinions of Pacific Brands and the Pacific Brands Directors contained in this Scheme Booklet has been prepared by Pacific Brands and the Pacific Brands Directors and is the responsibility of Pacific Brands. Hanesbrands and Hanesbrands' Directors and officers do not assume any responsibility for the accuracy or completeness of any such Pacific Brands Information.

Hanesbrands has been solely responsible for preparing the Hanesbrands Information. The information concerning Hanesbrands and the intentions, views and opinions of Hanesbrands contained in this Scheme Booklet has been prepared by Hanesbrands and is the responsibility of Hanesbrands. Pacific Brands and the Pacific Brands Directors and officers do not assume any responsibility for the accuracy or completeness of any such Hanesbrands Information.

Grant Samuel has prepared the Independent Expert's Report in relation to the Scheme and takes responsibility for that report. The Independent Expert's Report is set out in Annexure A.

Computershare Investor Services Pty Ltd has had no involvement in the preparation of any part of this Scheme Booklet other than being named as the Pacific Brands Registry. Computershare Investor Services Pty Ltd has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Scheme Booklet.

### Privacy

Pacific Brands and Hanesbrands may collect personal information in the process of implementing the Scheme. Such information may include the name, contact details and shareholdings of Pacific Brands Shareholders and the name of persons appointed by those persons to act as a proxy, attorney or corporate representative at the Scheme Meeting. The primary purpose of the collection of personal information is to assist Pacific Brands and Hanesbrands to conduct the Scheme Meeting and implement the Scheme. Personal information of the type described above may be disclosed to the Pacific Brands Registry, print and mail service providers, authorised securities brokers, Related Bodies Corporate of Pacific Brands and Hanesbrands, and Pacific Brands' and Hanesbrands' advisers and service providers. Pacific Brands Shareholders have certain rights to access personal information that has been collected. Pacific Brands Shareholders should contact the Pacific Brands Registry in the first instance, if they wish to access their personal information. Pacific Brands Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

### Date of this Scheme Booklet

This Scheme Booklet is dated 20 May 2016.

### Currency and exchange

Unless otherwise stated, all dollar amounts in this Scheme Booklet are in Australian Dollars and all share prices and trading volumes refer to Pacific Brands Share trading on the ASX.

# *Table of contents*

# Key dates

| EVENT | DATE |
|---|---|
| Date of this Scheme Booklet | **Friday, 20 May 2016** |
| First Court Date | **Friday, 20 May 2016** |
| Latest date and time for receipt of Proxy Forms or powers of attorney for the Scheme Meeting | **10.00am (AEST) on Wednesday, 22 June 2016** |
| Time and date for determining eligibility to vote at the Scheme Meeting | **7.00pm (AEST) on Wednesday, 22 June 2016** |
| Scheme Meeting to be held at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067 | **10.00am (AEST) on Friday, 24 June 2016** |
| **If the Scheme is approved by Pacific Brands Shareholders** | |
| Second Court Date for approval of the Scheme | **Monday, 27 June 2016** |
| Effective Date<br>Court order lodged with ASIC and announcement to ASX and NZX<br>Last day of trading in Pacific Brands Shares – Pacific Brands Shares suspended from trading on ASX and NZX from close of trading | **Tuesday, 28 June 2016** |
| Special Dividend Record Date | **7.00pm (AEST) on Thursday, 30 June 2016** |
| Special Dividend Payment Date | **Thursday, 7 July 2016** |
| Scheme Record Date for determining entitlements to Scheme Consideration | **7.00pm (AEST) on Friday, 8 July 2016** |
| Implementation Date<br>Payment of Scheme Consideration to Scheme Shareholders | **Friday, 15 July 2016** |

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and any other regulatory authority. Any changes to the above timetable (which may include an earlier or later date for the Second Court Hearing) will be announced through ASX and NZX and notified on Pacific Brands' website at www.pacificbrands.com.au/investor-relations/.

All references to time in this Scheme Booklet are references to Australian Eastern Standard Time, unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

# *Letter from the Chairman of Pacific Brands*

20 May 2016

Dear Shareholder

On behalf of the Pacific Brands Board, I am pleased to provide you with this Scheme Booklet, which contains information for your consideration in relation to the proposed acquisition of Pacific Brands by Hanesbrands.

On 28 April 2016, Pacific Brands announced that it had received a proposal from Hanesbrands to acquire all of the shares in Pacific Brands and had entered into a Scheme Implementation Deed. The proposed acquisition will be effected via a scheme of arrangement (which is a commonly used legal procedure to enable one company to acquire another company), subject to Shareholder and Court approval, and certain other conditions.

If the Scheme is approved and implemented, Shareholders will receive total cash payments of $1.15 per Share, which is currently expected to comprise:

- a fully franked special dividend of $0.094 per Share; and
- cash consideration under the Scheme of $1.056 per Share.

The total cash payments of $1.15 per Share, represent an attractive premium to Pacific Brands' share price, including:

- a 22% premium to the closing share price on the most recent trading day prior to the announcement of the Scheme of $0.94 on 27 April 2016;
- a 30% premium to the 5 day volume weighted average price of $0.886;[1] and
- a 26% premium to the 3 month volume weighted average price of $0.915.[1]

Those Shareholders who are able to realise the full benefit of franking credits will receive an additional $0.04 value per Share. Whether you will be able to realise the full benefit of the franking credits will depend on your individual tax circumstances.

## *Directors' recommendation*

Your Directors **unanimously recommend that you vote in favour of the Scheme** in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Shareholders. Subject to those same qualifications, each of your Directors intends to vote all the Shares held or controlled by them in favour of the Scheme.

Your Directors consider that the Scheme proposal is compelling for Shareholders, representing an opportunity for you to realise an attractive value for your Shares and to de-risk future growth opportunities available to the business. Hanesbrands can provide Pacific Brands with unique supply chain benefits and the opportunity to accelerate the growth of iconic brands such as Bonds and Sheridan. If the Scheme proceeds, your Directors believe that it will also deliver positive opportunities for Pacific Brands' staff, customers, and strategic partners.

Your Directors have formed the view that the Scheme is in the best interests of Pacific Brands Shareholders for the following reasons:

- the Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pacific Brands Shareholders in the absence of a Superior Proposal;
- the total cash payments represent a significant premium to comparable transactions in the global underwear and basic apparel sector;
- the total cash payments represent an attractive premium over the 5 day and 3 month volume weighted average Share price, and exceed the highest closing trading price on the ASX since 10 November 2010;
- the total cash payments deliver a 265% total shareholder return for Shareholders since 30 June 2015 (the closing share price on 30 June 2015 was the equal lowest it had been in the five years prior to the date of this booklet);[2] and
- since the announcement of the acquisition proposal, no alternative proposal has emerged.

If the Scheme becomes effective, Shareholders will receive immediate and certain value for their shares and the Scheme will eliminate the uncertainties and risks that would arise if Pacific Brands was to continue as an independent entity.

In forming their view that the Scheme is in the best interest of Shareholders, your Directors considered the disadvantages of the Scheme proceeding. In particular:

- Shareholders will no longer be able to participate in the future financial performance of the Pacific Brands business;
- Shareholders may find it difficult to find an investment interest with a similar profile to that of Pacific Brands; and
- the tax consequences of the Scheme may not suit certain Shareholders.

## *Independent Expert*

Your Directors appointed Grant Samuel & Associates Pty Ltd as the independent expert to assess the merits of the Scheme. The Independent Expert has concluded that the Scheme is fair and reasonable and, is therefore, in the best interests of Shareholders, in the absence of a superior proposal. The Independent Expert has assessed the full underlying value of Pacific Brands at between $1.10 and $1.23 per Share. The total cash payments of $1.15 per Share are within this range. Moreover, Pacific Brands' intention to pay a fully franked special dividend of $0.094 per Share will deliver additional value of up to $0.04 per Share for Shareholders who are able to realise the full benefit of franking credits, reinforcing the Independent Expert's conclusion. A complete copy of the Independent Expert's Report is included as Annexure A to this Scheme Booklet.

## *How to vote*

Your vote is important and I encourage you to vote by completing the Proxy Form accompanying this Scheme Booklet or alternatively by attending the Scheme Meeting to be held at 10.00am on Friday, 24 June 2016 at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067.

If you wish the Scheme to proceed, it is important that you vote in favour of the Scheme and approve the Scheme.

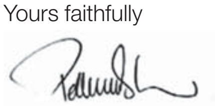
## *Further information*

This Scheme Booklet sets out important information regarding the Scheme, including the reasons for your Directors' recommendation and the Independent Expert's Report. It also sets out some of the reasons why you may wish to vote against the Scheme.

Please read this document carefully and in its entirety as it will assist you in making an informed decision on how to vote. I would also encourage you to seek independent financial, legal and taxation advice before making any investment decision in relation to your Shares.

If you require any further information, please call the Shareholder Information Line on 1300 783 472 (within Australia) or +61 3 9415 4233 (outside Australia).

Yours faithfully



**Peter Bush**
Chairman
Pacific Brands Limited

1 Volume weighted average prices for the relevant periods ended on 27 April 2016, being the most recent trading day prior to the announcement of the Scheme. Based on cumulative trading volume. The 3 month volume weighted average price is calculated from 28 January 2016.

2 Total shareholder return based on the closing Pacific Brands share price of $0.32 on 30 June 2015 and assumes dividends paid are reinvested in Pacific Brands shares on the ex-dividend date of 4 March 2016. The share price as at close of trading on 30 June 2016 was selected as it represents the last trading day for FY15 and approximately 12 months prior to implementation of the Scheme, if approved. The total Shareholder return from 30 June 2015 therefore represents the return for FY16 assuming the Scheme is implemented.

# 1

# KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

# 1 Key considerations relevant to your vote

## 1.1 Why you should vote in favour of the Scheme

The Scheme has a number of advantages and disadvantages which may affect Pacific Brands Shareholders in different ways depending on their individual circumstances. Shareholders should seek professional advice on their particular circumstances, as appropriate.

Section 1.1 provides a summary of some of the reasons why the Pacific Brands Board unanimously recommends shareholders vote in favour of the Scheme. This section should be read in conjunction with section 1.2, which sets out reasons why shareholders may wish to vote against the Scheme. You should read this Scheme Booklet in full, including the Independent Expert's Report, before deciding how to vote at the Scheme Meeting. While the Pacific Brands Directors acknowledge the reasons to vote against the Scheme, they believe the advantages of the Scheme significantly outweigh the disadvantages.

### ✓ Your Directors unanimously recommend that you should vote in favour of the Scheme, in the absence of a Superior Proposal

Your Directors unanimously recommend that, in the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude the Scheme is in the best interests of Pacific Brands Shareholders, you vote in favour of the Scheme at the Scheme Meeting.

In reaching their recommendation, your Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Scheme, as set out in this booklet.

In the absence of a Superior Proposal, and subject to the Independent Expert continuing to conclude the Scheme to be in the best interests of Pacific Brands Shareholders, each of your Directors intends to vote all Pacific Brands Shares held or controlled by them in favour of the Scheme. The interests of Pacific Brands Directors are set out in section 8.1.

### ✓ The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in your best interests

Your Directors appointed Grant Samuel & Associates Pty Ltd to prepare an Independent Expert's Report, including an opinion as to whether the Scheme is in the best interests of Pacific Brands Shareholders.

The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, that the Scheme is in the best interests of Pacific Brands Shareholders, in the absence of a superior proposal.

The basis for this conclusion is that the proposed total cash payments of $1.15 per Share (including the proposed Special Dividend), are within the valuation range (as assessed by the Independent Expert) of $1.10 to $1.23 per Share.

Pacific Brands' intention to pay a fully franked special dividend of $0.094 per Share will deliver additional value of up to $0.04 per Share for Shareholders who are able to realise the full benefit of the franking credits, reinforcing the Independent Expert's conclusion.

A complete copy of the Independent Expert's Report is included as Annexure A of this Scheme Booklet and your Directors encourage you to read this report in full.

### ✓ You will receive certain value for your investment in Pacific Brands

The total cash payments of $1.15 cash per Share provide you with certainty of value for your Pacific Brands Shares (subject to the Scheme becoming effective).

The certainty of these cash payments should be compared with the risks and the uncertainties of remaining a Pacific Brands Shareholder, which include, but are not limited to, the risks set out in section 6.

### ✓ The total cash payments of $1.15 per Share equate to an attractive acquisition multiple which compares favourably to comparable transactions in the global underwear and basic apparel sector

The total cash payments of $1.15 per Share equate to transaction multiples of:

- 28.6x FY15 P / E, 16.2x FY15 EV / EBIT and 13.5x FY15 EV / EBITDA;[3] and
- 21.3x FY16 P / E, 13.9x FY16 EV / EBIT and 12.0x FY16 EV / EBITDA[4] based on broker consensus estimates.

3 Multiples calculated using FY15 EBITDA, FY15 EBIT and FY15 NPAT from continuing operations before significant items and diluted shares on issue.

4 Multiples calculated using FY16 broker consensus EBITDA of $86.3 million, EBIT of $74.7 million and NPAT of $50.3 million comprising Citi, Deutsche Bank, J.P. Morgan, Macquarie, Morningstar and UBS, and diluted shares on issue. Please refer to Appendix 1 of the Independent Expert's Report in Annexure A for further information regarding broker consensus information.

This is at a significant premium to comparable transactions in the global underwear and basic apparel sector such as:

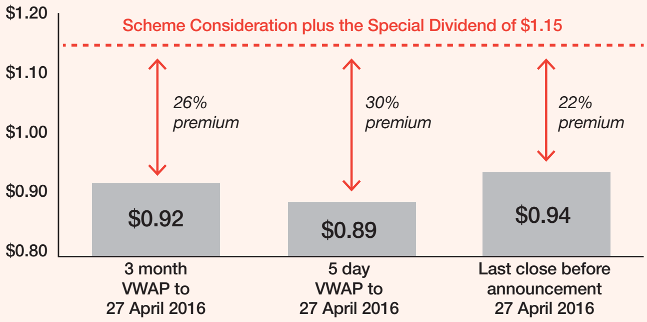
- PVH Corp / Tommy Hilfiger of 8.3x EV / EBITDA;[5]
- Hanesbrands / Maidenform of 9.5x EV / EBITDA;[6]
- PVH Corp / The Warnaco Group of 9.7x EV / EBITDA;[7] and
- Hanesbrands / DBApparel of 7.5x EV / EBITDA.[8]

## ✓ The total cash payments of $1.15 per Share represent an attractive premium over the 5 day volume weighted average price (VWAP) of Pacific Brands Shares

The total cash payments of $1.15 per Share represent an attractive premium of 30% over the 5 day VWAP of Pacific Brands Shares up to and including 27 April 2016 of $0.886.[9]

The graph below shows the total cash payments of $1.15 per Share and VWAP of Pacific Brands Shares before the announcement of the Transaction.

**Figure 1 – Premium of Scheme Consideration plus the Special Dividend over historical trading prices of Pacific Brands Shares**




Source: IRESS, Pacific Brands Shares traded on the ASX

The total cash payments of $1.15 per Share shown above do not include franking credits of $0.04 per Share associated with the Special Dividend. Whether a Shareholder is able to realise the full benefit of the franking credits depends on their individual tax circumstances.

## ✓ Those shareholders who are able to realise the full benefit of franking credits will receive additional value of $0.04 per Share

Those Shareholders who are able to realise the full benefit of franking credits will receive an additional $0.04 value per Share. Whether a Shareholder will be able to realise the full benefit of the franking credits will depend on their individual tax circumstances.

## ✓ The total cash payments of $1.15 per Share deliver a significant total shareholder return for Pacific Brands Shareholders

The total cash payments of $1.15 per Share represent a 265% total shareholder return for Pacific Brands Shareholders since 30 June 2015 (the closing Share price on 30 June 2015 was the equal lowest it had been in the five years prior to the date of this booklet).[10]

Post completion of its strategic review, Pacific Brands is now a higher quality, simplified business with a strong balance sheet. Pacific Brands Directors consider that the Scheme proposal fully recognises the inherent value of Pacific Brands' simplified business structure and growth prospects.

## ✓ The total cash payments of $1.15 per Share exceed the highest closing trading price of Pacific Brands Shares in over 5 years

The total cash payments of $1.15 per Share exceed the highest closing trading price of Pacific Brands Shares since 10 November 2010 up until 27 April 2016 (the last trading day before announcement of the Hanesbrands proposal) of $1.14 and represents a premium to historical trading levels of Pacific Brands Shares over that period.

5 Phillips-Van Heusen Corporation / Tommy Hilfiger Group (announced 15 March 2010) – Enterprise value of EUR2,300 million as announced by Apax Partners on 15 March 2010; Tommy Hilfiger EBITDA of US$380 million for fiscal year ended March 2010 as disclosed in PVH Corp Form 8-K dated 15 March 2010.

6 Hanesbrands, Inc. / Maidenform Brands, Inc. (announced 24 July 2013) – Enterprise value of US$575 million as disclosed in the Hanesbrands announcement dated 24 July 2013; EV / EBITDA (based on 2012 EBITDA) as disclosed in a Hanesbrands investor call on 24 July 2013.

7 Phillips-Van Heusen Corporation / The Warnaco Group, Inc. (announced 31 October 2012) – Enterprise Value of US$2,758 million based on The Warnaco Group Form 10-Q for the quarter ended September 2012 and PVH Corp acquisition announcement dated 31 October 2012; The Warnaco Group adjusted EBITDA of US$285.4 million for the fiscal year ended December 2011 as disclosed in The Warnaco Group Form 10-K. PVH Corp acquired Calvin Klein in 2003 and made formal wear and sportswear under that brand. Warnaco continued to hold the licensing agreements for Calvin Klein jeans and underwear until its acquisition by PVH Corp in 2012.

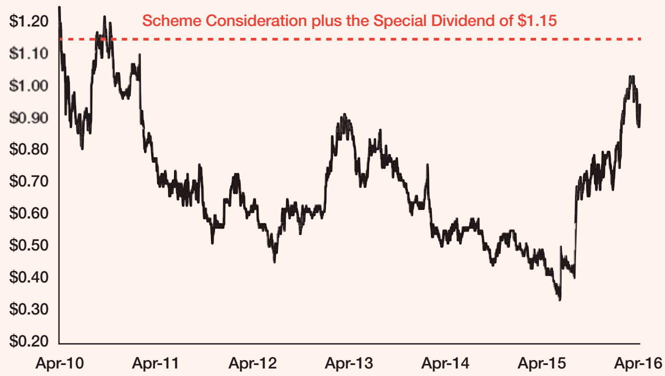
8 Hanesbrands, Inc. / DBApparel (announced 25 June 2014) – Enterprise value of EUR400 million as disclosed in Hanesbrands announcement dated 25 June 2014; EV / EBITDA as disclosed by Hanesbrands in announcement dated 25 June 2014 (fiscal period of earnings not specified).

9 Volume weighted average price based on cumulative trading volume.

10 Total shareholder return based on the closing Pacific Brands Share price of $0.32 on 30 June 2015 and assumes dividends paid are reinvested in Pacific Brands Shares on the ex-dividend date of 4 March 2016. The share price as at close of trading on 30 June 2015 was selected as it represents the last trading day for FY15 and approximately 12 months prior to implementation of the Scheme, if approved. The total Shareholder return from 30 June 2015 therefore represents the return for FY16 assuming the Scheme is implemented.

The graph below shows the 6 year performance of Pacific Brands' Share price before the announcement of the Transaction on 28 April 2016.

**Figure 2 – Historical Pacific Brands Share price performance**




Source: IRESS, Pacific Brands Shares traded on the ASX.

The total cash payments of $1.15 per Share shown above do not include franking credits of $0.04 per Share associated with the Special Dividend. Whether a Shareholder is able to realise the full benefit of the franking credits depends on their individual tax circumstances.

## ✓ Since the announcement of the Scheme, no Superior Proposal has emerged

Since the announcement of the execution of the Scheme Implementation Deed on 28 April 2016 and up to the date of this booklet, no Superior Proposal has emerged and your Directors are not aware, as at the date of this booklet, of any Superior Proposal that is likely to emerge.

## ✓ You will not incur any brokerage charges on the transfer of your Pacific Brands Shares if the Scheme proceeds

You will not incur brokerage on the transfer of your Pacific Brands Shares to Hanesbrands pursuant to the Scheme.

If you sell your Pacific Brands Shares on ASX or NZX (rather than disposing of them via the Scheme), you may incur brokerage charges (and, potentially, GST on those charges).

## ✓ Pacific Brands' share price may fall if the Scheme is not implemented

If the Scheme is not implemented, Pacific Brands Shares will continue to remain quoted on ASX and NZX and will continue to be subject to market volatility, including general stock market movements, the impact of general economic conditions and the demand for listed securities. As such, if the Scheme is not implemented, the price at which Pacific Brands Shares trade may fall, including to a price that is well below the total cash payments of $1.15 per Share.

Over the two years before the announcement of the execution of the Transaction on 28 April 2016, Pacific Brands Shares have traded between a high last close of $1.03 on 31 March 2016 and 1 April 2016 and a low last close of $0.32 on 26, 29 and 30 June 2015. On the last trading day before the announcement of the Transaction, the Pacific Brands Share price closed at $0.94. On the day of announcement of the Transaction, the Pacific Brands Share price closed at $1.155. From the day after the announcement of the Transaction to the last trading day before the date of this Scheme Booklet, the closing price of Pacific Brands Shares has ranged between $1.13 and $1.15.

## ✓ If the Scheme does not proceed, you will continue to be subject to the risks and uncertainties associated with Pacific Brands' business and general market risks

Your Directors consider that Pacific Brands has significant growth opportunities, including current growth initiatives to reshape and expand distribution, as an independent listed company on the ASX and NZX. Nevertheless, these initiatives will take time to fully implement, may require further capital investment, and carry execution risks, some of which are outside the control of Pacific Brands.

Further, Pacific Brands is also exposed to a risk of reduction in wholesale sales and/or margin compression, particularly from discount department stores. This may be caused by factors such as de-ranging or de-listing and key wholesale customers growing their proportion of private label sales.

If the Scheme does not proceed, Pacific Brands Shareholders will continue to be subject to these risks, as well as other specific risks inherent in Pacific Brands' business, including those summarised in more detail in section 6.

The Scheme removes these risks and uncertainties for Pacific Brands Shareholders and allows shareholders to exit their investment in Pacific Brands at a price that your Directors consider is attractive. If the Scheme is approved and implemented, these risks and uncertainties will be assumed by Hanesbrands Australia, as the sole shareholder of Pacific Brands following implementation of the Scheme.

## 1.2 Why you may wish to vote against the Scheme

Although the Scheme is recommended unanimously by your Directors and the Independent Expert has concluded that the Scheme is in the best interests of Pacific Brands Shareholders, factors which may lead you to consider voting against the Scheme include the following:

- ### You may disagree with the Pacific Brands Directors' unanimous recommendation and the Independent Expert's conclusion and believe that the Scheme is not in your best interests

Despite the view of your Directors and the Independent Expert, you may believe that the Scheme is not in the best interests of Pacific Brands Shareholders or not in your individual interest.

- ### You may prefer to participate in the future financial performance of the Pacific Brands business

If the Scheme is approved and implemented, you will cease to be a Pacific Brands Shareholder. As such, you will no longer be able to participate in the future financial performance or future prospects of Pacific Brands' ongoing business, including any benefits that may result from being a Pacific Brands Shareholder. However, there is no guarantee as to Pacific Brands' future performance, as with all investments in listed securities.

- ### You may wish to maintain your investment profile

You may wish to maintain your investment in Pacific Brands in order to have an investment in a publicly listed company with the specific characteristics of Pacific Brands in terms of industry, operational profile, size, capital structure and potential dividend stream.

Implementation of the Scheme may result in a disadvantage to those who wish to maintain their investment profile. Pacific Brands Shareholders who wish to maintain their investment profile may find it difficult to find an investment with a similar profile to that of Pacific Brands and they may incur transaction costs in undertaking any new investment.

- ### The tax consequences of the Scheme for you may not suit your financial position

Implementation of the Scheme may trigger taxation consequences for Pacific Brands Shareholders. A general guide to the taxation implications of the Scheme is set out in section 7. This guide is expressed in general terms only and Pacific Brands Shareholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

- ### You may consider that there is potential for a Superior Proposal to be made in the foreseeable future

It is possible that, if Pacific Brands were to continue as an independent listed entity, a corporate control proposal for Pacific Brands could materialise in the future, such as a takeover bid with a higher price. Implementation of the Scheme will mean that Pacific Brands Shareholders will not receive the benefit of any such proposal.

Since the announcement of the Scheme to ASX and NZX by Pacific Brands on 28 April 2016 and up to the date of this Scheme Booklet, no Superior Proposal has emerged and the Pacific Brands Directors are not aware of any superior or any alternative proposal that is likely to emerge.

The Scheme Implementation Deed prohibits Pacific Brands from soliciting a Competing Transaction. However, Pacific Brands is permitted to respond to any Competing Transaction should the Pacific Brands Directors determine that failing to do so would likely constitute a breach of their fiduciary or statutory duties. Further details of the key terms of the Scheme Implementation Deed are provided in section 8.3.

2

# FREQUENTLY ASKED QUESTIONS

# 2 *Frequently asked questions*

| QUESTION | ANSWER | MORE INFORMATION |
|---|---|---|
| **What is the Scheme?** | The Scheme is a scheme of arrangement, which is a statutory procedure that is commonly used to enable one company to acquire another company.<br>The Scheme is between Pacific Brands and Pacific Brands Shareholders at the Scheme Record Date and will effect the acquisition of Pacific Brands by Hanesbrands Australia, a wholly-owned subsidiary of Hanesbrands.<br>If the Scheme is approved and implemented, Pacific Brands Shareholders at the relevant record dates will receive a cash payment equal to the:<br>• Scheme Consideration, expected to be $1.056 per Share; and<br>• Special Dividend, expected to be $0.094 per Share. | Section 3 contains an overview of the Scheme and a copy of the Scheme is contained in Annexure B. |
| **What do the Pacific Brands Directors recommend and how do they intend to vote?** | Your Directors unanimously recommend that all Pacific Brands Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude the Scheme is in the best interests of Pacific Brands Shareholders.<br>Each Pacific Brands Director who holds Pacific Brands Shares intends to vote all Pacific Brands Shares held or controlled by them in favour of the Scheme subject to the same qualifications. | Section 1.1 provides a summary of some of the reasons why the Pacific Brands Board considers that Pacific Brands Shareholders should vote in favour of the Scheme. |
| **What is the opinion of the Independent Expert?** | The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pacific Brands Shareholders, in the absence of a superior proposal. | A copy of the Independent Expert's Report is contained in Annexure A. |
| **Who is Hanesbrands?** | Hanesbrands, based in the United States and publicly traded on the New York Stock Exchange, is a leading marketer of everyday basic innerwear and activewear apparel in the Americas, Europe and Asia under some of the world's strongest apparel brands, including Hanes, Champion, Playtex, DIM, Bali, Maidenform, JMS/Just My Size, L'eggs, Wonderbra, Nur Die/Nur Der, Lovable, and Gear for Sports.<br>Hanesbrands has approximately 65,300 employees in more than 40 countries. | Section 5 contains further details about Hanesbrands and its group of companies. |
| **Will I receive any further dividends from Pacific Brands?** | Under the Scheme Implementation Deed, Pacific Brands is permitted to pay a fully franked special dividend up to such amount that will reduce the franking account of Pacific Brands as at the Implementation Date to nil. It is currently expected this will equate to $0.094 per Share.<br>No further dividends will be paid if the Scheme is implemented. | N/A |
| **What is the Special Dividend?** | The Special Dividend is a dividend that may be paid if the Scheme is approved by the requisite majorities and a favourable draft Class Ruling from the ATO is obtained. The Special Dividend is currently expected to be $0.094 per Pacific Brands Share, be fully franked and have a record date of 7.00pm (AEST) on Thursday, 30 June 2016.<br>Those Pacific Brands Shareholders who are able to realise the full benefit of franking credits in respect of the Special Dividend will receive an additional $0.04 value per Pacific Brands Share. Whether a Pacific Brands Shareholder will be able to realise the full benefit of the franking credits will depend on their individual tax circumstances.<br>To the extent that a Special Dividend is paid, the Scheme Consideration will be reduced to account for the cash value of the Special Dividend. | Section 3.2(d). |

# 2 *Frequently asked questions*

| QUESTION | ANSWER | MORE INFORMATION |
|---|---|---|
| **What is the ATO tax ruling?** | Pacific Brands has applied to the ATO requesting a Class Ruling to confirm to Pacific Brands the key taxation implications of the Scheme and that the impact of the Special Dividend on Pacific Brands Shareholders is in accordance with the description in section 7 of this Scheme Booklet.<br><br>The Class Ruling has not been finalised as at the date of this booklet. The expected taxation implications for Pacific Brands Shareholders are summarised in section 7 of this booklet. | Section 7.2. |
| **Are there any conditions to be satisfied?** | There are a number of conditions that will need to be satisfied or waived (where capable of waiver) before the Scheme can become effective.<br><br>In summary, as at the date of this Scheme Booklet, the outstanding conditions include:<br>• no restraining order issued by a court in the United States, the United Kingdom, Australia, or New Zealand on the application of a Government Agency;<br>• Court approval;<br>• approval by Pacific Brands Shareholders;<br>• the representations and warranties given by Pacific Brands and Hanesbrands in the Scheme Implementation Deed being true and correct;<br>• no Prescribed Occurrence occurring between 28 April 2016 and 8.00am on the Second Court Date; and<br>• no "material adverse change" occurring or being discovered between 28 April 2016 and 8.00am on the Second Court Date (for a description of what constitutes a material adverse change, see section 8.3(a)).<br><br>Pacific Brands intends to announce on ASX and NZX the satisfaction (or waiver) of the conditions to the Scheme. | Section 8.3(a) contains further information on the conditions to the Scheme.<br><br>Section 8.4 contains further information on the status of the regulatory conditions to the Scheme. |
| **Can I sell my Pacific Brands Shares now?** | You can sell your Pacific Brands Shares on market at any time before close of trading on ASX and NZX on the Effective Date at the then prevailing market price (which may vary from the Scheme Consideration).<br><br>Pacific Brands intends to apply to ASX and NZX for Pacific Brands Shares to be suspended from official quotation on ASX and NZX from close of trading on the Effective Date (which is currently expected to be Tuesday, 28 June 2016). You will not be able to sell your Pacific Brands Shares on market after this time.<br><br>If you sell your Shares before the Special Dividend Record Date, being 7.00pm (AEST) on Thursday, 30 June 2016, then you will not receive the Special Dividend or the additional value of franking credits related to the Special Dividend of up to $0.04 per Pacific Brands Share that may be available depending on your individual tax circumstances. | N/A |
| **What vote is required to approve the Scheme?** | For the Scheme to proceed, the Scheme Resolution must be passed by:<br>• a majority in number of Pacific Brands Shareholders who vote on the Scheme Resolution; and<br>• at least 75% of the votes cast on the Scheme Resolution.<br><br>The Court has the discretion to waive the first of these two requirements if it considers it appropriate to do so. | Section 3.2(a) and the Notice of Meeting contained in Annexure D set out further details on the Scheme approval requirements. |

| QUESTION | ANSWER | MORE INFORMATION |
|---|---|---|
| **Am I entitled to vote?** | Each Pacific Brands Shareholder who is registered on the Register at 7.00pm (AEST) on Wednesday, 22 June 2016 is entitled to vote at the Scheme Meeting. | The Notice of Meeting contained in Annexure D sets out further details on your entitlement to vote. |
| **How do I vote?** | You can vote by appointing a proxy or attorney to attend the Scheme Meeting and vote on your behalf or by attending the Scheme Meeting in person. | The Notice of Meeting contained in Annexure D sets out further details on how to vote at the Scheme Meeting. |
| **When and where will the Scheme Meeting be held?** | The Scheme Meeting will be held on Friday, 24 June 2016 at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067, commencing at 10.00am (AEST). | The Notice of Meeting contained in Annexure D sets out further details on the Scheme Meeting. |
| **When will the result of the Scheme Meeting be known?** | The result of the Scheme Meeting will be available shortly after the conclusion of the meeting and will be announced to ASX and NZX once available. Even if the Scheme Resolution is passed by the Scheme Meeting, the Scheme is subject to approval of the Court. | N/A |
| **What happens to my Pacific Brands Shares if I do not vote, or if I vote against the Scheme, and the Scheme becomes effective?** | If you do not vote, or vote against the Scheme, and the Scheme becomes effective, any Pacific Brands Shares held by you on the Scheme Record Date (currently expected to be Friday, 8 July 2016) will be transferred to Hanesbrands Australia and you will receive the Scheme Consideration, notwithstanding that you may not have voted or voted against the Scheme. | N/A |
| **When will I be paid?** | Payment of the Special Dividend is expected to be made on Thursday, 7 July 2016.<br>Payment of the Scheme Consideration is expected to be made on Friday, 15 July 2016. | Section 3.1 sets out further details on the Scheme Consideration. |
| **How will I be paid?** | All payments (including the Special Dividend) will be made by direct deposit into your nominated bank account, as advised to the Pacific Brands Registry as at the Scheme Record Date.<br>If you have not nominated a bank account, payment will be made by Australian dollar cheque sent by post to your registered address as shown on the Register. | Section 3.1 sets out further details on the Scheme Consideration. |
| **What happens if the Scheme does not proceed?** | If the Scheme is not approved at the Scheme Meeting, or another condition to the Scheme is not satisfied or waived (where capable of waiver), the Scheme will not be implemented.<br>If the Scheme is not implemented, Scheme Shareholders will not receive the Scheme Consideration or the Special Dividend but will retain their Pacific Brands Shares. In these circumstances, Pacific Brands will, in the absence of another proposal, continue to operate as a stand-alone company listed on ASX and NZX. | N/A |
| **Where can I get further information?** | For further information, you can call the Shareholder Information Line on 1300 783 472 (within Australia) or +61 3 9415 4233 (outside Australia). | N/A |

# 3 OVERVIEW OF THE SCHEME

# 3 Overview of the Scheme

## 3.1 Consideration

If the Scheme is approved and implemented, Pacific Brands Shareholders will receive total cash payments of $1.15 per Share, currently expected to comprise:

- a fully franked special dividend of $0.094 in cash per Share; and
- Scheme Consideration of $1.056 in cash per Share.

Those shareholders who are able to realise the full benefit of franking credits will receive an additional $0.04 value per Share. Whether a Pacific Brands Shareholder will be able to realise the full benefit of the franking credits will depend on their individual tax circumstances.

Payments will be made by direct deposit into your nominated bank account, as advised to the Pacific Brands Registry as at the relevant record date. If you have not nominated a bank account, payment will be made by Australian dollar cheque.

If a Pacific Brands Shareholder does not have a registered address, or Pacific Brands considers the Shareholder is not known at its registered address and no bank account has been nominated, payments due to the Pacific Brands Shareholder will be held by Pacific Brands until claimed or applied under the relevant laws dealing with unclaimed money.

Payment of the Special Dividend, if payable, will be made on the Special Dividend Payment Date, currently expected to be 7 July 2016. Payment of the Scheme Consideration will be made on the Implementation Date, currently expected to be 15 July 2016.

## 3.2 Key steps in the Scheme

(a) **Scheme approval requirements**

The Scheme will only become effective and be implemented if it is:

- agreed to by the requisite majorities of Pacific Brands Shareholders at the Scheme Meeting to be held on Friday, 24 June 2016; and
- approved by the Court at the Second Court Hearing.

Agreement by Pacific Brands Shareholders requires the Scheme Resolution to be agreed by:

- a majority in number (more than 50%) of Pacific Brands Shareholders present and entitled to vote at the Scheme Meeting (either by proxy or in person); and
- at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting by Pacific Brands Shareholders present and entitled to vote at the Scheme Meeting (either by proxy or in person).

The Court has the power to waive the first requirement.

In the event that:

- the Scheme is agreed to by the requisite majorities of Pacific Brands Shareholders at the Scheme Meeting; and
- all other conditions (except Court approval of the Scheme) have been satisfied or waived (where capable of waiver),

then Pacific Brands will apply to the Court for orders approving the Scheme.

Each Pacific Brands Shareholder has the right to appear at the Second Court Hearing.

(b) **Effective Date**

If the Court approves the Scheme and all other conditions have been satisfied or waived, where capable of waiver, the Scheme will become effective on the date when a copy of the Court order approving the Scheme is lodged with ASIC. Pacific Brands will, on the Scheme becoming effective, give notice of that event to ASX and NZX.

Pacific Brands intends to apply to ASX and NZX for Pacific Brands Shares to be suspended from official quotation on ASX and NZX from close of trading on the date the Scheme becomes effective.

(c) **Scheme Record Date**

Those Pacific Brands Shareholders on the Register on the Scheme Record Date (currently expected to be Friday, 8 July 2016) will be entitled to receive the Scheme Consideration in respect of the Shares they hold as at the Scheme Record Date.

(1) **Dealings on or prior to the Scheme Record Date**

For the purpose of determining which Pacific Brands Shareholders are eligible to participate in the Scheme, dealings in Pacific Brands Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS (Clearing House Electronic Subregister System), the transferee is registered on the Register as the holder of the relevant Pacific Brands Shares as at 7.00pm (AEST) on the Scheme Record Date (currently expected to be Friday, 8 July 2016); and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Pacific Brands Registry on or before the Scheme Record Date (and the transferee remains registered as at the Scheme Record Date).

For the purposes of determining entitlements under the Scheme, Pacific Brands will not accept for registration or recognise any transfer or transmission applications in respect of Pacific Brands Shares received after the Scheme Record Date.

(2) **Dealings after the Scheme Record Date**

For the purpose of determining entitlements to the Scheme Consideration, Pacific Brands must maintain the Register in its form as at the Scheme Record Date (currently expected to be Friday, 8 July 2016) until the Scheme Consideration has been paid to the Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

After the Scheme Record Date:

- all statements of holding for Pacific Brands Shares will cease to have effect as documents relating to title in respect of such Pacific Brands Shares; and
- each entry on the Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Pacific Brands Shares relating to that entry.

(d) **Special Dividend Record Date and Special Dividend Payment Date**

If the requisite majorities (as outlined in section 3.2(a)) approve the Scheme Resolution, Pacific Brands will confirm the record date to determine those Pacific Brands Shareholders who are eligible to receive the Special Dividend. The Special Dividend Record Date is currently expected to be 7:00pm (AEST) on Thursday, 30 June 2016.

Pacific Brands will pay the Special Dividend to Pacific Brands Shareholders (that are shareholders on the Special Dividend Record Date) on the Special Dividend Payment Date, which is currently expected to be Thursday, 7 July 2016.

(e) **Implementation Date**

The Implementation Date is the fifth Business Day after the Scheme Record Date.

By the Business Day before the Implementation Date, Hanesbrands Australia must pay into a trust account nominated by Pacific Brands the aggregate Scheme Consideration payable to Scheme Shareholders.

On the Implementation Date, which is currently expected to be Friday, 15 July 2016, Pacific Brands will pay the Scheme Consideration received from Hanesbrands Australia to Scheme Shareholders.

Immediately after the Scheme Consideration is sent to Scheme Shareholders, the Scheme Shares will be transferred to Hanesbrands without Scheme Shareholders needing to take any further action.

(f) **Deed Poll**

Hanesbrands and Hanesbrands Australia have executed the Deed Poll pursuant to which Hanesbrands Australia has undertaken in favour of each Scheme Shareholder to provide each Scheme Shareholder with the Scheme Consideration to which they are entitled under the Scheme, subject to the Scheme becoming effective.

A copy of the Deed Poll is contained in Annexure C.

## 3.3 Warranties by Pacific Brands Shareholders

The Scheme provides that each Scheme Shareholder is taken to have warranted to Pacific Brands and Hanesbrands Australia on the Implementation Date, and appointed and authorised Pacific Brands as its attorney and agent to warrant to Hanesbrands Australia on the Implementation Date, that all their Pacific Brands Shares (including any rights and entitlements attaching to those Shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any ‘security interests’ within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Pacific Brands Shares to Hanesbrands Australia together with any rights and entitlements attaching to those Shares.

# 4 INFORMATION ABOUT PACIFIC BRANDS

# 4 Information about Pacific Brands

## 4.1 Overview

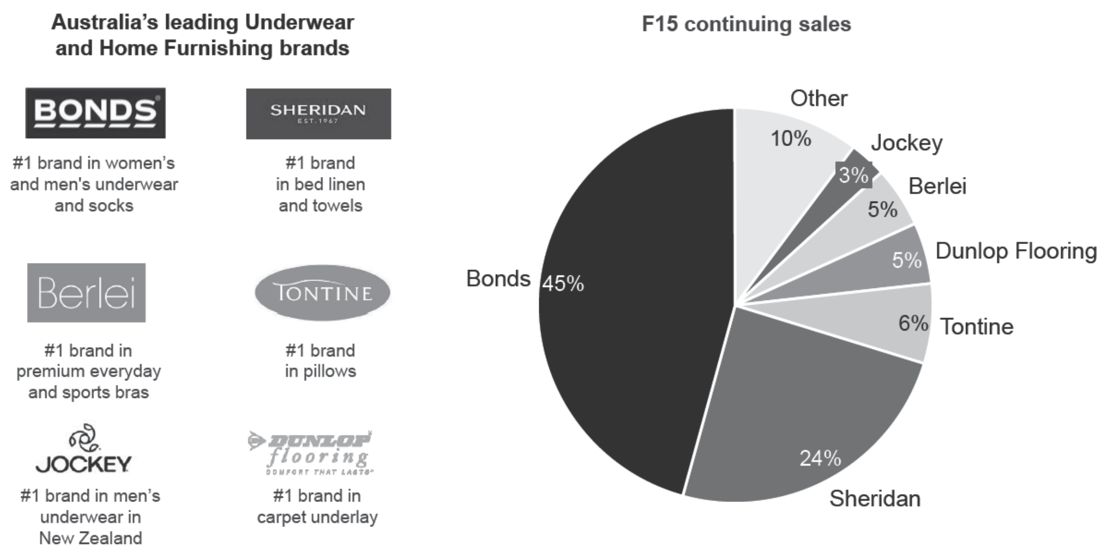
Pacific Brands, headquartered in Melbourne, is an Australian consumer products and retail company that owns a portfolio of iconic brands, including Bonds, Berlei, Explorer, Sheridan, Dunlop Flooring, and Tontine. The company has come a long way from when George Bond started selling imported hosiery to retailers in Sydney in 1915, becoming Australia's leading underwear and home furnishing company.

Pacific Brands is organised into three reportable segments:

- *Underwear:* which supplies underwear, bras, socks, hosiery, babywear, activewear and outerwear categories.
- *Sheridan:* which supplies premium bedding products and accessories, towels and other home lifestyle categories.
- *Tontine and Dunlop Flooring:* which comprises a pillow and quilt business and a flooring products business supplying carpet underlay and hard flooring.

The main brands are summarised below in terms of their market positioning and contribution to sales revenue.

**Pacific Brands key brands by market position and FY15 group continuing sales contribution**




The vast majority of Pacific Brands' sales are from brands which it directly owns. Sales from licensed brands represent 4% of FY15 sales and relate primarily to a long term relationship with Jockey.

Pacific Brands employs c.3,600 people across five countries. The majority of these employees are based in Australia and New Zealand (c.2,100) and in non-manufacturing roles.

Pacific Brands has three strategic priorities:

- be a house of leading brands;
- reshape and expand distribution; and
- develop a sustainable, 'Lean' global supply chain

For the year ended 30 June 2015, Pacific Brands reported sales revenue of $789.7 million and Earnings Before Interest and Tax (EBIT) before significant items of $64.2 million. For the half-year ended 31 December 2015, Pacific Brands reported sales revenue of $425.3 million and EBIT before significant items of $36.2 million.

## 4.2 Pacific Brands Board and senior management

(a) **Board**

The Pacific Brands Board comprises the following directors:

| | |
|---|---|
| Peter Bush | Chairman |
| Stephen Goddard | Director, Independent Non-Executive |
| Kiera Grant | Director, Independent Non-Executive |
| James King | Director, Independent Non-Executive |
| Helen Nash | Director, Independent Non-Executive |
| Linda Nicholls AO | Director, Independent Non-Executive |
| David Bortolussi | Director, Chief Executive Officer |

(b) **Executive leadership team**

Members of Pacific Brands' executive leadership team are:

| | |
|---|---|
| David Bortolussi | Chief Executive Officer and Group General Manager, Underwear |
| David Muscat | Chief Financial Officer |
| John Grover | General Counsel & Company Secretary |
| Sandra Blackburn | Group General Manager, Human Resources |
| Tom Dalianis | Group General Manager, IT & Operations |
| David Ellis | Group General Manager, Sourcing & Supply |
| Paul Gould | Group General Manager, Sheridan |
| Ian Shannon | Group General Manager, Tontine & Dunlop Flooring |

## 4.3 Capital structure

(a) **Capital structure**

As at the date of this Scheme Booklet, Pacific Brands had the following securities on issue:

- 917,226,291 Pacific Brands Shares; and
- 15,623,817 Performance Rights.

Refer to section 8.5 of this document in relation to the impact of the Scheme on Pacific Brands Performance Rights.

(b) **Substantial shareholders**

Based on filings to ASX, the substantial holders of Pacific Brands Shares as at 18 May 2016 are:

| *Substantial shareholder* | *Number of shares* | *Percentage* |
|---|---:|---:|
| Allan Gray Australia Pty Ltd | 139,482,671 | 15.21% |
| Dimensional Fund Advisors LP | 56,445,046 | 6.15% |
| Vinva Investment Management | 46,541,583 | 5.07% |

## 4.4 Historical financial information

The information set out below summarises certain historical financial information about Pacific Brands and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. The financial information has been extracted from Pacific Brands' financial results for the half year ended 31 December 2015, and its audited financial statements for the financial years ended 30 June 2015 and 30 June 2014.

(a) **Consolidated statement of comprehensive income**

| | HALF YEAR ENDED 31 DECEMBER 2015 $'000 | YEAR ENDED 30 JUNE 2015 $'000 | YEAR ENDED 30 JUNE 2014 RESTATED[11] $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Sales revenue | 425,350 | **789,681** | 749,250 |
| Cost of sales | (212,990) | **(401,018)** | (374,796) |
| **Gross profit** | 212,360 | **388,663** | 374,454 |
| Other income | 66 | **768** | 11,855 |
| Warehousing and freight expenses | (31,629) | **(64,310)** | (66,053) |
| Sales, retail and marketing expenses | (110,854) | **(194,748)** | (174,130) |
| Administrative expenses | (33,763) | **(66,140)** | (67,784) |
| Other expenses | - | **(149,062)** | (21,162) |
| **Results from operating activities** | 36,180 | **(84,829)** | 57,180 |
| Financial income | 647 | **1,637** | 2,440 |
| Financial expenses | (2,645) | **(14,505)** | (20,220) |
| **Net financing costs** | (1,998) | **(12,868)** | (17,780) |
| **Profit/(loss) before income tax** | 34,182 | **(97,697)** | 39,400 |
| Income tax expense | (9,864) | **(9,258)** | (4,601) |
| **Profit/(loss) from continuing operations** | 24,318 | **(106,955)** | 34,799 |
| **Discontinued operations** | | | |
| Profit/(loss) from discontinued operations (net of tax) | - | **9,221** | (259,267) |
| **Profit/(loss)** | 24,318 | **(97,734)** | (224,468) |
| **Other comprehensive income/(loss)** | | | |
| *Items that may be reclassified to profit and loss* | | | |
| Changes in fair value of cash flow hedges (net of tax) | (6,418) | **15,255** | (28,801) |
| Foreign currency translation differences | 2,080 | **5,540** | 3,630 |
| Transfer of foreign currency differences on disposal of subsidiary | - | **2,806** | - |
| *Items that will not be reclassified to profit and loss* | | | |
| Defined benefit superannuation plan actuarial gains/(losses) (net of tax) | - | **(119)** | 330 |
| **Other comprehensive income/(loss) (net of tax)** | (4,338) | **23,482** | (24,841) |
| **Total comprehensive income/(loss)** | 19,980 | **(74,252)** | (249,309) |
| **Earnings/(loss) per share from continuing operations:** | | | |
| Ordinary shares | 2.7 cents | (11.7) cents | 3.8 cents |
| Diluted shares | 2.6 cents | (11.7) cents | 3.8 cents |

[11] Statement of comprehensive income for FY14 restated in FY15 to reflect continuing operations (as per FY15 annual report).

## (b) Consolidated statement of financial position

| | 31 DECEMBER 2015 $'000 | 30 JUNE 2015 $'000 | 30 JUNE 2014 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 87,362 | **80,111** | 95,657 |
| Trade and other receivables | 84,664 | **93,786** | 145,672 |
| Inventories | 147,197 | **131,147** | 280,044 |
| Other assets | 3,602 | **6,230** | 12,729 |
| Current tax assets | 2,681 | **8,842** | 15,667 |
| **Total current assets** | **325,506** | **320,116** | **549,769** |
| **Non-current assets** | | | |
| Property, plant and equipment | 36,788 | **33,855** | 57,540 |
| Investments accounted for using the equity method | 9,728 | **9,607** | 8,292 |
| Intangible assets | 215,380 | **215,380** | 350,440 |
| Deferred tax assets | 21,435 | **19,575** | 34,968 |
| **Total non-current assets** | 283,331 | **278,417** | 451,240 |
| **Total assets** | **608,837** | **598,533** | **1,001,009** |
| **Current liabilities** | | | |
| Trade and other payables | 108,726 | **92,232** | 129,106 |
| Current tax liabilities | 1,656 | **1,347** | 2,687 |
| Provisions | 27,595 | **32,464** | 52,823 |
| **Total current liabilities** | **137,977** | **126,043** | **184,616** |
| **Non-current liabilities** | | | |
| Trade and other payables | 995 | **990** | 1,392 |
| Interest-bearing loans and borrowings | 54,358 | **79,168** | 344,750 |
| Provisions | 19,389 | **17,354** | 21,434 |
| **Total non-current liabilities** | **74,742** | **97,512** | **367,576** |
| **Total liabilities** | **212,719** | **223,555** | **552,192** |
| **Net assets** | **396,118** | **374,978** | **448,817** |
| **Equity** | | | |
| Share capital | 323,128 | **323,128** | 455,128 |
| Other reserves | 36,150 | **39,328** | 15,433 |
| Retained earnings/(accumulated losses) | 36,840 | **12,522** | (21,744) |
| **Total equity** | **396,118** | **374,978** | **448,817** |

(c) **Consolidated statement of cash flows**

| | HALF YEAR ENDED 31 DECEMBER 2015 $'000 | YEAR ENDED 30 JUNE 2015 $'000 | YEAR ENDED 30 JUNE 2014 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | 466,114 | 1,110,091 | 1,466,553 |
| Cash paid to suppliers and employees | (421,239) | (1,044,720) | (1,449,666) |
| Income taxes received/(paid) | (2,570) | 2,743 | (26,906) |
| Interest paid | (2,452) | (15,403) | (19,826) |
| Interest received | 647 | 1,637 | 2,440 |
| **Net cash from/(used in) operating activities** | **40,500** | **54,348** | **(27,405)** |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of business (net of cash disposed and disposal costs) | (881) | 218,853 | - |
| Proceeds from disposal of property, plant and equipment | 41 | 526 | 22,734 |
| Acquisition of businesses and investments (net of cash acquired) | - | (11,297) | (23,682) |
| Acquisition of property, plant and equipment | (8,657) | (17,717) | (22,188) |
| Distributions received from joint venture | - | 1,233 | 231 |
| **Net cash from/(used in) investing activities** | **(9,497)** | **191,598** | **(22,905)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | - | - | 2,328 |
| Repayments of loans and borrowings (including refinancing costs) | (25,000) | (266,500) | (2,162) |
| Payments for shares bought to allocate to employees | - | - | (595) |
| Dividends paid | - | - | (41,077) |
| **Net cash from/(used in) financial activities** | **(25,000)** | **(266,500)** | **(41,506)** |
| **Net increase/(decrease) in cash and cash equivalents** | 6,003 | (20,554) | (91,816) |
| Cash and cash equivalents at the beginning of the period | 80,111 | 95,657 | 186,884 |
| Effect of exchange rate fluctuations on cash held | 1,248 | 5,008 | 589 |
| **Cash and cash equivalents at the end of the period** | **87,362** | **80,111** | **95,657** |

## 4.5 Pacific Brands Directors' intentions

The Corporations Regulations require a statement by the Pacific Brands Directors of their intentions regarding Pacific Brands' business. If the Scheme is implemented, the current Pacific Brands Directors will resign and an alternate board will be determined by Hanesbrands. It is for the reconstituted Pacific Brands Board to determine its intentions as to:

- the continuation of the business of Pacific Brands;
- any major changes, if any, to be made to the business of Pacific Brands; and
- the future employment of the present employees of Pacific Brands.

If the Scheme is implemented, Hanesbrands will have 100% ownership and control of Pacific Brands. The current intentions of Hanesbrands with respect to these matters are set out in section 5.7.

If the Scheme is not implemented, the Pacific Brands Directors intend to continue to operate the business of Pacific Brands in the ordinary course of the business.

## 4.6 Material changes to Pacific Brands' financial position since 31 December 2015

Other than:

- payment of a 100% franked interim dividend of A$0.016 per Pacific Brands Share on 1 April 2016;
- the accumulation of earnings in the ordinary course of trading;
- as disclosed in this Scheme Booklet or as otherwise disclosed to ASX and NZX by Pacific Brands; and
- in accordance with generally known market conditions,

within the knowledge of the Pacific Brands Board, the financial position of Pacific Brands has not materially changed since 31 December 2015, being the date of the Pacific Brands Half Year Financial Report for the 6 months ended 31 December 2015 (released to the ASX and NZX on 16 February 2016).

## 4.7 Publicly available information about Pacific Brands

As a company listed on the ASX and NZX and a disclosing entity under the Corporations Act, Pacific Brands is subject to regular reporting and disclosure obligations. Broadly, these require Pacific Brands to announce price sensitive information as soon as it becomes aware of the information, subject to exceptions for certain confidential information. ASX maintains files containing publicly disclosed information about all companies listed on the ASX. Information disclosed to ASX by Pacific Brands is available on ASX's website at www.asx.com.au. Further announcements concerning developments at Pacific Brands will continue to be made available on this website after the date of this Scheme Booklet.

Pacific Brands is required to prepare and lodge with ASIC and ASX both annual and half-yearly financial statements accompanied by a statement and report from the Pacific Brands Directors and an audit or review report. Copies of these and other documents lodged with ASIC may be obtained from or inspected at an ASIC office and on the Pacific Brands website http://www.pacificbrands.com.au/investor-relations/.

Pacific Brands Shareholders may also obtain copies of the Pacific Brands Half Year Financial Report for the six months ended 31 December 2015 and the Pacific Brands 2015 Annual Report for the financial year ended 30 June 2015 free of charge by calling the Pacific Brands Shareholder Information Line on 1300 783 472 (in Australia) or +61 (0)3 9415 4233 (outside Australia) Monday to Friday between 8.30am and 5.30pm (AEST).

Further information regarding Pacific Brands' financial performance is also set out in the Independent Expert's Report which forms Annexure A to this Scheme Booklet.

# 5 INFORMATION ABOUT HANESBRANDS

# 5 Information about Hanesbrands

## 5.1 Introduction

The information contained in this section 5 has been prepared by Hanesbrands Inc. ("**Hanesbrands**"). The information concerning Hanesbrands and its group companies and the intentions, views and opinions contained in this section are the responsibility of Hanesbrands. Pacific Brands and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

## 5.2 Overview of Hanesbrands operations

Hanesbrands, headquartered in Winston-Salem, North Carolina, engages in the marketing, design, manufacture, sourcing and sale of basic apparel for men, women and children in the United States and internationally, including Australia. Hanesbrands markets its products under leading brands including Hanes, Maidenform, Champion, Playtex, Bali, DIM and Wonderbra, and sells its products through mass merchants, national chains, department stores and an owned network of retail and outlet stores.

Founded in 1901, Hanesbrands is listed on the New York Stock Exchange where it trades under the symbol HBI and as of 22 April 2016 had a market capitalisation of approximately US$10.8 billion. Hanesbrands has approximately 65,300 employees in more than 40 countries.

In the year ended 2 January 2016, Hanesbrands reported revenue and net income of approximately US$5.7 billion and US$429 million respectively. As at 2 January 2016, Hanesbrands' total assets were approximately US$5.6 billion.

Hanesbrands is managed and reported in four operating segments: Innerwear, Activewear, Direct to Consumer and International. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms.

### (a) Innerwear

The Innerwear segment focuses on core apparel products, such as intimate apparel, men's, women's and children's underwear, socks and hosiery. Hanesbrands is the intimate apparel category leader in the United States with the Hanes, Maidenform, Bali, Playtex, JMS/Just My Size, L'eggs, Wonderbra, Lilyette, Donna Karan and DKNY brands. Hanesbrands is also the leading manufacturer and marketer of men's underwear and children's underwear in the United States under the Hanes, Champion and Polo Ralph Lauren brands and women's sheer hosiery under the L'eggs, Hanes, Maidenform, JMS/Just My Size, Donna Karan and DKNY brands. During 2015, net sales from Hanesbrands' Innerwear segment were US$2.7 billion.

### (b) Activewear

Hanesbrands is a leader in the activewear market through its Champion, Hanes, JMS/Just My Size and Duofold brands, where Hanesbrands sells products such as T-shirts and fleece to both retailers and wholesalers. In addition to activewear for men and women, Champion provides uniforms for athletic programs and includes an apparel program, C9 by Champion, at Target (North American) stores. Hanesbrands also licenses its Champion name for footwear and sports accessories. In addition, Hanesbrands sells licensed logo apparel in the mass retail channel and in collegiate bookstores and other channels under its Gear for Sports and Champion brands and licensed collegiate logo apparel primarily in the mass retail channel under its Knights Apparel brand. During 2015, net sales from Hanesbrands' Activewear segment were US$1.6 billion.

(c) **Direct to Consumer**

Hanesbrands' Direct to Consumer operations include domestic company-operated outlet stores, and website operations that sell branded products directly to consumers in the United States. As of 2 January, 2016, Hanesbrands had 252 outlet stores in the United States. During 2015, net sales from the Direct to Consumer segment were US$341 million.

(d) **International**

The International segment includes products that span across the Innerwear and Activewear reportable segments and are primarily marketed under the DIM, Playtex, Hanes, Champion, Nur Die/Nur Der, Loveable, Wonderbra, Maidenform, Shock Absorber, Abanderado, Zorba, Rinbros, Kendall, Sol y Oro, Lilyette, Polo Ralph Lauren, Fila, Bellinda, Edoo, Track N Field, Ritmo, Donna Karan and DKNY brands. During 2015, net sales from the International segment included sales in Europe, Asia, Latin America, Canada, Australia, the Middle East, Africa and the Caribbean and were US$1.1 billion. On 7 April, 2016, Hanesbrands announced it had entered into a definitive purchase agreement to acquire Champion Europe S.p.A., which owns the trademark for the Champion brand in Europe, the Middle East and Africa.

## 5.3 Hanesbrands' board of directors

Hanesbrands' Board of Directors as at the date of this Scheme Booklet is comprised of the following members:

**Richard A. Noll**
*Chairman & Chief Executive Officer*

Mr. Noll has served as Chairman of the Hanesbrands Board of Directors since January 2009 and as Hanesbrands' Chief Executive Officer since April 2006. Previously in his career, Mr. Noll led the turnarounds of several Sara Lee Corporation ("Sara Lee") bakery and apparel businesses, consulted for Strategic Planning Associates, and began his career as a systems programmer. Mr. Noll is also a member of the Business Roundtable.

**Bobby J. Griffin**
*Director*

Mr. Griffin served as President, International Operations of Ryder System, Inc., a global leader in transportation and supply chain management solutions, from 2005 to 2007. Beginning in 1986, Mr. Griffin served in various other management positions with Ryder System, Inc., including as Executive Vice President, International Operations from 2003 to 2005 and Executive Vice President, Global Supply Chain Operations from 2001 to 2003.

**James C. Johnson**
*Director*

Mr. Johnson served as General Counsel of Loop Capital Markets LLC, a provider of a broad range of integrated capital solutions for corporate, governmental and institutional entities, from 2010 to 2013. Mr. Johnson previously served as Vice President and Assistant General Counsel of the Boeing Commercial Airplanes division of The Boeing Company, one of the world's major aerospace firms, from 2007 to 2009. From 1998 to 2007, Mr. Johnson served as Vice President, Corporate Secretary and Assistant General Counsel of The Boeing Company. He currently serves as a trustee of the University of Pennsylvania and a Member of the Board of Overseers of the College of Arts and Sciences.

**Jessica T. Mathews**
*Director*

Ms. Mathews has served as a Distinguished Fellow at the Carnegie Endowment for International Peace, a foreign policy think tank dedicated to advancing cooperation between nations and promoting active international engagement by the United States, since 2015. From 1997 to 2015, Ms. Mathews served as President of the Carnegie Endowment for International Peace. She also served as Deputy to the Undersecretary of State for Global Affairs in the Department of State in 1993, and in other senior governmental and non-governmental positions earlier in her career. Ms. Mathews was Director of the Washington Office of the Council on Foreign Relations from 1994 to 1997. She serves as a trustee of Harvard University and several other nonprofit organizations.

**Franck J. Moison**
*Director*

Mr. Moison has served as Vice Chairman of the Colgate-Palmolive Company where he oversees the company's business in Asia-Pacific and Latin America, as well as its business development efforts since 2016. He has served as Chief Operating Officer of Emerging Markets & Business Development for the Colgate-Palmolive Company since 2010. Beginning in 1978, Mr. Moison served in various management positions with the Colgate-Palmolive Company, including as Chief Operating Officer of Emerging Markets & Business Development from 2010, President, Global Marketing, Supply Chain & R&D from 2007 to 2010, and President, Western Europe, Central Europe and South Pacific from 2005 to 2007. He serves as a member of the board of directors of the French American Chamber of Commerce, as Chairman of the International Advisory Board of the EDHEC Business School (Paris, London, Singapore) and as a member of the International Board of the McDonough School of Business at Georgetown University.

**Robert F. Moran**
*Director*

Mr. Moran served as Chairman of the Board of PetSmart, Inc. ("PetSmart"), a leading specialty provider of pet care products and services, from 2012 to 2013 and as Chief Executive Officer of PetSmart from 2009 to 2013. He joined PetSmart as President of North American Stores in 1999, and in 2001 he was appointed President and Chief Operating Officer. From 1998 to 1999, Mr. Moran was President of Toys "R" Us (Canada) Ltd., a subsidiary of specialty toy retailer Toys "R" Us, Inc. Prior to 1991 and from 1993 to 1998, for a total of 20 years, Mr. Moran was employed by retailer Sears, Roebuck and Company in a variety of financial and merchandising positions, including as President and Chief Executive Officer of Sears de Mexico. He was also Chief Financial Officer and Executive Vice President of Galerias Preciados of Madrid, Spain, a leading department store, from 1991 to 1993. Mr. Moran also serves as a director of the USA Track and Field Foundation.

**Ronald L. Nelson**
*Director*

Mr. Nelson has served as Executive Chairman of Avis Budget Group, Inc. ("Avis Budget Group"), which operates two major brands in the global vehicle rental industry through Avis and Budget, since January 1, 2016. From 2006 to 2015, Mr. Nelson served as Chairman and Chief Executive Officer of Avis Budget Group. Mr. Nelson was a director of Cendant Corporation (the predecessor of Avis Budget Group) from 2003 to 2006, Chief Financial Officer from 2003 to 2006 and President from 2004 to 2006. Mr. Nelson was also Chairman and Chief Executive Officer of Cendant Corporation's Vehicle Rental business from January 2006 to August 2006. From 2005 to 2006, Mr. Nelson was interim Chief Executive Officer of Cendant Corporation's former Travel Distribution Division.

**Andrew J. Schindler**
*Director*

From 1974 to 2004, Mr. Schindler served in various management positions with R.J. Reynolds Tobacco Holdings, Inc., a holding company whose operating subsidiaries included R. J. Reynolds Tobacco Company, the second largest cigarette manufacturer in the United States, including as Chairman and Chief Executive Officer from 1999 to 2004. He served as Chairman of Reynolds American Inc., a company formed in 2004 by the merger of R.J. Reynolds Tobacco Holdings, Inc. and the U.S. operations of British American Tobacco PLC, from 2004 to 2005.

**David V. Singer**
*Director*

From 2010 to 2013, Mr. Singer served as Chief Executive Officer of Snyder's-Lance, Inc., a manufacturer and marketer of snack foods throughout the United States and internationally. He also served as the President and Chief Executive Officer of Lance, Inc. from 2005 until its merger with Snyder's of Hanover, Inc. in 2010. From 1987 to 2005, Mr. Singer served as Chief Financial Officer of Coca-Cola Bottling Co. Consolidated, a beverage manufacturer and distributor. Prior to 1987, Mr. Singer was Vice President of Mellon Bank, N.A.

**Ann. E Ziegler**
*Director*

Ms. Ziegler has served as Senior Vice President and Chief Financial Officer and a member of the executive committee of CDW Corporation, a leading provider of technology solutions for business, government, healthcare and education, since 2008. From 2005 to 2008, Ms. Ziegler served as Senior Vice President, Administration and Chief Financial Officer of Sara Lee Food and Beverage. From 2003 to 2005, she served as Chief Financial Officer of Sara Lee Bakery Group. From 2000 to 2003, she served as Senior Vice President, Corporate Development of Sara Lee.

## 5.4 Overview of Hanesbrands Australia

Hanesbrands Australia Acquisition Co. Pty Ltd. ("**Hanesbrands Australia**") is an Australian proprietary company established for the sole purpose of acquiring all of the Pacific Brands Shares if the Scheme is implemented, and it does not currently have any other activities. Hanesbrands Australia was incorporated on 3 May 2016 and is a wholly-owned indirect subsidiary of Hanesbrands.

Hanesbrands Australia's Board of Directors as at the date of this Scheme Booklet is comprised of the following members:

**Joia M. Johnson**

*Director*

Ms. Johnson has served as Hanesbrands' Chief Legal Officer, General Counsel and Corporate Secretary since January 2007. From May 2000 to January 2007, Ms. Johnson served as Executive Vice President, General Counsel and Corporate Secretary of RARE Hospitality International, Inc. Ms. Johnson currently serves on the Board of Directors of Crawford & Company.

**Donald F. Cook**

*Director*

Since 2011, Mr. Cook has served as Hanesbrands' Treasurer. Mr. Cook joined Hanesbrands in 2006 as Hanesbrands' Assistant Treasurer and Director of Pensions & Benefits finance.

**Mark J. O'Sullivan**

*Director*

Mr O'Sullivan is a former global professional services firm partner of 17 years, who embarked on a consulting and directorship career in 2014. Mr O'Sullivan has overseen in excess of 30 transactions, both as an advisor and key member of the team, both acquisition and disposal. Possessing a strong financial, risk and governance pedigree, Mr O'Sullivan presently also has several independent director type roles, including with the NSW Government Department of Finance, Services & Innovation.

## 5.5 Rationale for Hanesbrands' proposed acquisition of Pacific Brands

Hanesbrands' business strategy has been to expand through both organic growth and strategic acquisitions, including in international markets. Hanesbrands believes expansion in Australia and New Zealand via an acquisition of Pacific Brands allows Hanesbrands to extend its geographic footprint and brand portfolio in a core segment in which it is highly experienced. In particular:

(a) **Core Category**

Pacific Brands is the leading innerwear apparel company in Australia, a category that is in the core of Hanesbrands' global business.

(b) **Potential to enhance Pacific Brands' business**

Hanesbrands believes its continued investment in brand building and supply chain management can further enhance Pacific Brands' already existing suite of brands and further expand its revenue and profitability, including through leveraging Hanesbrands' large scale, low-cost global supply chain.

(c) **Complementary Geography**

Pacific Brands' leading presence in Australia and New Zealand is attractive to Hanesbrands since it currently has a limited business in the region and Hanesbrands views it as an attractive economic geography and growth area.

## 5.6 Funding arrangements for the Scheme Consideration

The Scheme Consideration is 100% cash.

Under the terms of the Deed Poll, each of Hanesbrands and Hanesbrands Australia have undertaken in favour of each Scheme Shareholder to pay the Scheme Consideration into a trust account for the benefit of the Scheme Shareholders no later than the Business Day before the Implementation Date, conditional upon the Scheme becoming effective.

If the Scheme is implemented, Scheme Shareholders will become entitled to receive the Scheme Consideration of A$1.15 per Scheme Share (reduced by the cash amount of any Special Dividend paid), which will be payable by Hanesbrands Australia.

Based on Pacific Brands' total issued share capital as at the date of this Scheme Booklet, the total amount of cash required to be paid by Hanesbrands Australia to Scheme Shareholders under the Scheme (assuming the Special Dividend is not paid) is A$1,054,810,234. Applying an AUD/USD exchange rate of 0.7325, as at 12 May 2016, this equals approximately US$773 million.

As at 6 May 2016, Hanesbrands (on a consolidated basis) had cash reserves of approximately US$380 million or approximately A$519 million (based on an AUD/USD exchange rate of 0.7325, as at 12 May 2016).

In addition, as at 6 May, 2016, Hanesbrands had available undrawn borrowing capacity under its revolving credit facility of approximately US$810 million or approximately A$1,166 million (based on an AUD/USD exchange rate of 0.7325, as at 12 May 2016). The revolving credit facility is provided by a syndicate of lenders comprising various financial institutions, including the lead syndicate agent JPMorgan Chase Bank, N.A. The availability of funds under the revolving credit facility are subject to customary conditions to borrowing, none of which relate to the Scheme.

The total of cash reserves and undrawn borrowing capacity under the revolving credit facility is US$1,190 million or approximately A$1,625 million (based on an AUD/USD exchange rate of 0.7325 as at 12 May 2016), which exceeds the maximum total Scheme Consideration payable by Hanesbrands.

On the basis of the arrangements described above, Hanesbrands is of the opinion that it has a reasonable basis for forming the view, and it holds the view, that it will be able to satisfy its payment obligations under the Scheme, as well as the costs associated with the Scheme.

## 5.7 Hanesbrands' intentions if the Scheme is implemented

This section sets out Hanesbrands' current intentions on the basis of facts and information concerning Pacific Brands and the general business environment which are known to Hanesbrands at the time of the preparation of this Scheme Booklet.

If the Scheme is implemented, Hanesbrands intends to undertake a detailed review of Pacific Brands' operations covering strategic, financial and commercial operating matters to determine the optimum manner of operating and managing the business.

Final decisions about any major changes to the future commercial operating plan and management organisation for Pacific Brands, will be made by Hanesbrands following the completion of the post-acquisition review described above and will be based on all material facts and circumstances at the relevant time.

Accordingly, other than where the disclosure below expressly states that Hanesbrands has determined to do something, the statements set out in this section are statements of current intention only and may change as new information becomes available or as circumstances change.

(a) **Operations**

Based on the information available to Hanesbrands at the date of this Scheme Booklet, Hanesbrands believes that it can realise value by:

- integrating Pacific Brands' supply chain with Hanesbrands' large scale, low-cost global supply chain; and
- leveraging the combined Hanesbrands' business with that of Pacific Brands' to expand sales and accelerate growth of Pacific Brands' and Hanesbrands' products in Australia and New Zealand.

(b) **Pacific Brands to be delisted**

If the Scheme is implemented, Hanesbrands will procure that Pacific Brands apply to the ASX and NZX for Pacific Brands to be removed from the official list of both ASX and NZX after implementation of the Scheme.

(c) **Board of directors**

If the Scheme is implemented, Hanesbrands will replace the board members of Pacific Brands and its subsidiaries with nominees of Hanesbrands (who are yet to be identified).

(d) **Business continuity and major changes**

The Tontine pillow business and Dunlop Flooring business account for a relatively small percentage of Pacific Brands' sales and profits. Hanesbrands considers these businesses as having limited strategic fit with Hanesbrands' principal business as a leading manufacturer and marketer of everyday basic apparel. Consequently, Hanesbrands intends to attempt to divest these businesses following implementation of the Scheme. Prior to any such potential sale, Hanesbrands' intention is to continue to operate the Tontine and Dunlop Flooring businesses in substantially the same manner as they are currently conducted.

Other than these potential divestitures, Hanesbrands' present intention is to maintain the Pacific Brands Group's existing business structure and to carry on the Pacific Brands Group's core businesses in substantially the same manner as it is currently conducted.

Hanesbrands currently expects that the focus of its business planning will be on expanding sales in Australia and New Zealand and on integrating Pacific Brands with Hanesbrands' large scale, low-cost global supply chain such that apparel currently sourced by Pacific Brands offshore (from third parties), will over time be sourced through the Hanesbrands supply chain. Hanesbrands does not expect this to result in a significant contraction of activities conducted by Pacific Brands in Australia.

(e) **Management and employees**

The Hanesbrands Group considers Pacific Brands' employees to be an integral part of the past and future success of the business. It is Hanesbrands' current intention to leave Pacific Brands' management structure substantially intact post implementation. Other than changes which result from Pacific Brands ceasing to be a public listed company, Hanesbrands currently does not have any definitive plans in relation to Pacific Brands employees more generally.

(f) **Head office**

If the Scheme is implemented, it is currently intended that Pacific Brands' head office will remain in Melbourne, Australia.

## 5.8 Hanesbrands' interests in Pacific Brands Shares

(a) **Interest in Pacific Brands Shares**

As at the date of this Scheme Booklet, none of Hanesbrands or any of its Associates has any Relevant Interest or voting power in any Pacific Brands Shares.

(b) **Dealing in Pacific Brands Shares in previous four months**

None of Hanesbrands or any of its Associates has provided or agreed to provide consideration for any Pacific Brands Shares under any other transaction during the period of four months before the date of this Scheme Booklet.

(c) **Benefits to holders of Pacific Brands Shares**

During the four months before the date of this Scheme Booklet, none of Hanesbrands or any of its Associates has given or offered to give or agreed to give a benefit to another person where the benefit was likely to induce the other person or an Associate to:

- vote in favour of the Scheme; or
- dispose of Pacific Brands Shares,

where the benefit was not offered to all Pacific Brands Shareholders.

(d) **Benefits to Pacific Brands officers**

None of Hanesbrands and its Associates will be making any payment or giving any benefit to any current officers of Pacific Brands as compensation or consideration for, or otherwise in connection with, their resignation from their respective offices if the Scheme is implemented.

# 6 RISKS

# 6 Risks

## 6.1 Introduction

The Pacific Brands Board considers that it is appropriate for Pacific Brands Shareholders, in considering the Scheme, to be aware that there are a number of risk factors which could materially adversely affect the future operating and financial performance of Pacific Brands, as well as the value of Pacific Brands and its dividends.

This section outlines:

- general investment risks (refer to section 6.2); and
- risks associated with your current investment in Pacific Brands Shares (refer to section 6.3).

This section 6 is a summary only and does not purport to list every risk that may be associated with an investment in Pacific Brands now or in the future.

If the Scheme is implemented you will receive the Scheme Consideration, will cease to be a Pacific Brands Shareholder and will also no longer be exposed to the risks set out below. If the Scheme does not proceed, you will continue to hold your Pacific Brands Shares and continue to be exposed to risks associated with that investment.

In making your decision to vote on the Scheme Resolution, you should read this Scheme Booklet carefully. You should carefully consider the risk factors outlined below and your individual circumstances. This section 6 is general in nature only and does not take into account your individual objectives, financial situation, taxation position or particular needs.

## 6.2 General investment risks

The market price of Pacific Brands Shares and future distributions made to shareholders are influenced by a number of factors in each of the countries and regions in which Pacific Brands operates, including the following:

- changes in investor sentiment and overall performance of the Australian and international stock markets;
- changes in general business, industry cycles and economic conditions including inflation, interest rates, exchange rates, commodity prices, employment levels and consumer demand;
- changes in government fiscal, monetary and regulatory policies, including foreign investment;
- government or political intervention in export and import markets (including sanction controls and import duties) and the disruptions this causes to supply and demand dynamics;
- loss of key personnel;
- interruptions at Pacific Brands' workplaces arising from industrial disputes, work stoppages and accidents, which may result in business operations delays;
- natural disasters and catastrophes, whether on a global, regional or local scale; and
- accounting standards which affect the financial performance and position reported by Pacific Brands.

## 6.3 Risks associated with your current investment in Pacific Brands Shares

### (a) FX depreciation

The majority of Pacific Brands cost of goods sold is foreign currency denominated so currency depreciation increases local currency product costs and places pressure on gross margins to the extent that they can't be mitigated by cost reduction or price increases. Price increases for wholesale and retail customers may adversely impact sales. Pacific Brands' Treasury policy requires hedging of up to 80% of expected purchases up to 12 months in advance. Currency hedging locks in seasonal and basics product margins and allows for time to take action to address margin pressures. Pacific Brands' retail channel offers greater ability to influence pricing, relative to wholesale channels.

### (b) Wholesale sales and margin

Pacific Brands is exposed to a risk of reduction in sales and/or margin compression. This may be caused by factors such as de-ranging or de-listing and key wholesale customers growing their proportion of private label sales. Pacific Brands' lower equity portfolio brands are at the greatest risk, including Rio, Hestia and hosiery brands. Following recent divestments, Pacific Brands has a higher major customer concentration, and the top five customers collectively represented 46.2% of sales in FY15. As such, Pacific Brands is exposed to changes in the strategy or performance of these customers. A significant proportion of wholesale sales relate to the discount department store channel, which is facing challenges. Moreover, Big W and Target have recently changed leadership and have informed Pacific Brands that they are currently reviewing their strategy and operations. The outcome of these reviews may have a material adverse impact on Pacific Brands' distribution in these channels. Whilst Pacific Brands' trading with Big W and Target in the second half of FY16 has been adversely impacted relative to the previous corresponding period due to a number of factors including these reviews, the longer-term impact of these reviews is yet to be determined, and each of Big W and Target have expressed a desire to continue their trading relationship with Pacific Brands. To mitigate this risk, Pacific Brands has increased senior management engagement on key accounts and is partnering with customers to improve category management, retailer stock availability and in store shopping experience. Other actions undertaken by the company to mitigate this risk include managing customer pricing and economics, including trade spend and promotional effectiveness, investing in key brands, including design, innovation and marketing, developing adjacent category and segment opportunities and exploring further concession opportunities.

### (c) Retail performance

Pacific Brands' retail stores may fail to perform at an acceptable level to cover fixed costs of operation and provide the required rate of return on invested capital due to store traffic, sales density, margin structures, rental rates, and staff costs. Additionally, there may also be lost growth opportunities due to changes in availability of suitable retail sites. To mitigate this risk, Pacific Brands employs disciplined site selection which requires a robust business case for each store, recruits and seeks to retain experienced retail talent, has strong systems and processes in place to monitor and manage performance of each retail store and limits its retail store lease terms to five years.

### (d) Working capital position

There may be increases in working capital due to the inflationary impact of currency depreciation, growth initiatives, sales volatility and forecast inaccuracy. In light of this risk, Pacific Brands undertakes ongoing review of sales and operations planning process, including controls over stock purchasing, exercises discipline around clearance and promotional activity and focuses on supplier terms and debtor collections.

(e) **Product cost inflation**

Input prices may increase as a result of changes in commodity prices, labour inflation or other impacts and the resulting higher costs may not be readily and/or fully passed on to customers. Pacific Brands undertakes product engineering, has a process for engaging suppliers to identify mutual cost reduction opportunities, implements 'Lean' manufacturing programs with targeted suppliers and implements alternative strategies to address margin pressures such as pricing, trade spend, product mix, product design and costs of doing business.

(f) **Quality**

A product quality issue could adversely impact the brand reputation and brand equity of products sold by Pacific Brands. Quality controls are embedded in the company, from material sourcing and product design through to manufacturing and distribution, including quality control checks in the country of origin and on arrival to distribution centres.

(g) **Cost of doing business escalation**

Many of Pacific Brands' costs are fixed or semi-fixed and subject to inflationary pressures. Profitability could be eroded if costs are not managed in line with growth in sales and gross margin. Pacific Brands has an extensive cost reduction program and strong cost control culture. Other actions taken by the company to reduce this risk include rigorous target setting processes and controls, monthly financial performance reviews and the rollout of Lean disciplines.

(h) **Sustainability**

Pacific Brands' supplier or internal practices may result in unethical labour or workplace practices in the factories from which Pacific Brands sources its products or result in negative impacts on the environment, which could adversely impact Pacific Brands' reputation, brand equity and sales. Pacific Brands has a Supplier and Manufacturer Code of Conduct in place covering social, environmental and ethical business practices. Pacific Brands also has in place policies and framework to carefully screen and qualify new suppliers, a supplier audit program (internal and external) to monitor and assess ongoing compliance with the code of conduct, an active Ethical Trading Initiative membership and a Corporate Social Responsibility program. Pacific Brands is also a signatory to the Bangladesh Accord on Fire and Building Safety (notwithstanding that the Pacific Brands does not currently source from Bangladesh).

(i) **Business continuity**

Pacific Brands' sales and profit could be significantly impacted by a major disruption to critical points in the company's end-to-end supply chain or IT systems. To mitigate this risk Pacific Brands has diversified its suppliers (to limit monopoly supply risk) and where high supplier concentration exists, developed plans for alternative sources of supply. Pacific Brands engages in disciplined supplier selection, effective sales and operational planning and quality control and assurance processes. The company also has disaster recovery plans in place for key processes and IT systems and has business interruption insurance cover as part of its industrial special risks insurance coverage of physical assets.

(j) **Cyber security**

As with all e-commerce businesses Pacific Brands is heavily reliant on the security of its websites and associated payment systems to ensure that customers are confident of transacting online. Breaches of security could impact customer satisfaction and confidence in Pacific Brands and could impact the financial performance of Pacific Brands and/or its Share price. Pacific Brands has an IT security strategy in place, IT disaster recovery plans, and uses reputable third party secure payment gateways and service providers. Pacific Brands also performs regular risk assessments in consultation with its insurance providers and supplements these through independent audits of security.

7

# TAXATION IMPLICATIONS

# 7 Taxation implications

## 7.1 Introduction

The following is a general description of the Australian tax consequences of the Scheme (assuming it becomes effective) for Pacific Brands Shareholders who participate in the Scheme. It does not constitute tax advice and should not be relied upon as such. The comments set out below are relevant only to those Pacific Brands Shareholders who hold their Pacific Brands Shares on capital account.

The description is based upon the Australian law and administrative practice in effect at the date of this Scheme Booklet, but is general in nature and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of a Pacific Brands Shareholder. **Pacific Brands Shareholders should seek independent professional advice in relation to their own particular circumstances.**

The description does not address the Australian tax consequences for Pacific Brands Shareholders who:

- hold their Pacific Brands Shares for the purposes of speculation or a business of dealing in securities (e.g. as trading stock);
- acquired their Pacific Brands Shares pursuant to an employee share, option or rights plan; or
- are subject to the taxation of financial arrangements rules in Division 230 of *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Pacific Brands Shares.

Pacific Brands Shareholders who are tax residents of a country other than Australia (whether or not they are also residents, or are temporary residents, of Australia for tax purposes) should take into account the tax consequences of the Scheme under the laws of their country of residence, as well as under Australian law.

## 7.2 ATO class ruling

Pacific Brands has applied to the ATO requesting a class ruling to confirm the key taxation implications of the Scheme and the Special Dividend for Pacific Brands Shareholders as noted below (**Class Ruling**).

The Class Ruling has not been finalised as at the date of the Scheme Booklet. Pacific Brands anticipates that the ATO will provide a draft of the Class Ruling prior to the Effective Date. Pacific Brands will make an announcement to ASX if it receives a draft of the Class Ruling which is reasonably satisfactory to Pacific Brands before the Scheme Meeting or the Second Court Hearing.

When the final Class Ruling is published by the ATO, it will be available on the ATO website at www.law.ato.gov.au. It is anticipated that the Commissioner's views in the Class Ruling will be generally consistent with this taxation report. However, it is possible that the Commissioner may reach a different conclusion. Accordingly, it is important that this taxation report be read in conjunction with the class ruling issued by the ATO.

## 7.3 Australian resident shareholders

### (a) Capital Gains Tax (CGT)

Under the Scheme, Pacific Brands Shareholders will dispose of their Pacific Brands Shares to Hanesbrands Australia. This disposal will constitute a CGT event A1 for Australian CGT purposes for Pacific Brands Shareholders.

The time of the CGT event will be the date the Scheme is implemented.

(b) **Calculation of capital gain or capital loss**

Pacific Brands Shareholders may make a capital gain on the disposal of Pacific Brands Shares to the extent that the capital proceeds from the disposal of the Pacific Brands Shares are more than the cost base of those Pacific Brands Shares. Conversely, Pacific Brands Shareholders will make a capital loss to the extent that the capital proceeds are less than their reduced cost base of those Pacific Brands Shares.

(1) **Cost base**

The cost base of the Pacific Brands Shares generally includes the cost of acquisition and certain non-deductible incidental costs of their acquisition and disposal. The reduced cost base of the Pacific Brands Shares is usually determined in a similar, but not identical, manner.

(2) **Capital proceeds**

The capital proceeds received in respect of the disposal of each Pacific Brands Share will be the amount of the Scheme Consideration, being $1.15 less the amount of the Special Dividend, if paid. On that basis, the capital proceeds are expected to be $1.056 per Pacific Brands Share.

(3) **CGT discount**

Individuals, complying superannuation entities or trustees that have held Pacific Brands Shares for at least 12 months but do not index the cost base of the Pacific Brands Shares (refer above) may be entitled to discount the amount of the capital gain (after application of capital losses) from the disposal of Pacific Brands Shares by 50% in the case of individuals and trustees or by 33⅓% for complying superannuation entities. For trustees, the ultimate availability of the discount for beneficiaries of the trusts will depend on the particular circumstances of the beneficiaries.

Capital gains (prior to any CGT discount) and capital losses of a taxpayer in an income year are aggregated to determine whether there is a net capital gain. Any net capital gain is included in assessable income and is subject to income tax. Capital losses may not be deducted against other income for income tax purposes, but may be carried forward to offset against future capital gains (subject to satisfaction of loss recoupment tests for certain taxpayers).

(4) **Taxation consequences of the Special Dividend**

It is considered that the Special Dividend will not form part of the capital proceeds received in respect of the disposal of each Pacific Brands Share under the Scheme. In particular, the Scheme is not conditional on payment of the Special Dividend and the Special Dividend will be funded from Pacific Brands' own resources without any participation of Hanesbrands or its Related Bodies Corporate. This conclusion is consistent with the reasoning of the Australian Taxation Office in Tax Ruling TR 2010/4.

Pacific Brands Shareholders who are Australian tax residents and who receive the Special Dividend should include the amount of the Special Dividend in their assessable income in the income year in which it is paid. It is expected that the Special Dividend will be fully franked.

If certain requirements are met, the Pacific Brands Shareholders who receive the Special Dividend will be:

- required to include the amount of the attached franking credits in their assessable income; and
- entitled to a tax offset equal to the amount of the franking credits attached to the Special Dividend.

These requirements include:

- the Pacific Brands Shareholder being a 'qualified person' in relation to the Special Dividend; and
- whether certain dividend franking integrity measures apply.

In order for a Pacific Brands Shareholder to be a 'qualified person' they must hold their Pacific Brands Shares 'at-risk' for a continuous period of not less than 45 days (not including the day of the share's acquisition or disposal) during a prescribed period. The prescribed period is expected to be from 17 May 2016 to 7 July 2016 (inclusive). Accordingly, to ensure a Pacific Brands Shareholder satisfies this requirement, the Pacific Brands Shareholder must be on the Register no later than 22 May 2016. The Class Ruling will outline in further detail the ATO's views as to when a Pacific Brands Shareholder will satisfy the relevant holding period test with respect to the Special Dividend. However, this rule does not apply to a Pacific Brands Shareholder in some special cases, including where the Pacific Brands Shareholder is an individual whose tax offset entitlement (on all shares and interests in shares held) does not exceed $5,000 for the income year ending 30 June 2017.

If you are an individual or complying superannuation fund and your tax liability for the income year is less than the amount of the franking credits attached to the Special Dividend, you may be entitled to a refund for the excess franking credits. This does not extend to companies, except in very limited circumstances.

The Class Ruling request lodged by Pacific Brands also seeks the ATO confirmation that the other integrity provisions which may operate to prevent a Pacific Brands Shareholder from being entitled to a tax offset for the franking credits attached to the Special Dividend will not apply.

## 7.4 Non-resident shareholders

For a Pacific Brands Shareholder who:

- is not a resident of Australia for Australian tax purposes; and
- does not hold their Pacific Brands Shares in carrying on a business through a permanent establishment in Australia,

the disposal of Pacific Brands Shares will generally only result in Australian CGT implications if:

- that Pacific Brands Shareholder together with its associates held 10% or more of the Pacific Brands Shares at the time of the CGT event or for any continuous 12 month period within 2 years preceding the CGT event (referred to as a 'non-portfolio interest'); and
- more than 50% of Pacific Brands' value is due to direct or indirect interests in Australian real property (as defined in the income tax legislation).

If you are a non-resident who holds a 'non-portfolio interest' in Pacific Brands, you should obtain independent advice as to the tax implications of sale, and whether any protection will be available under a relevant double tax treaty.

A non-resident individual Pacific Brands Shareholder who has previously been a resident of Australia and chose to disregard a capital gain or loss on ceasing to be a resident will be subject to Australian CGT consequences on disposal of the Pacific Brands Shares as set out in section 7.3.

## 7.5 Goods and services tax (GST)

Pacific Brands Shareholders should not be liable to GST in respect of a disposal of those Pacific Brands Shares.

Pacific Brands Shareholders may be charged GST on costs (such as adviser fees relating to their participation in the Scheme) that relate to the Scheme. Pacific Brands Shareholders may be entitled to input tax credits or reduced input tax credits for such costs, but should seek independent advice in relation to their individual circumstances.

# 8 ADDITIONAL INFORMATION

# 8 Additional information

## 8.1 Interests of Pacific Brands Directors in Pacific Brands

As at the date of this Scheme Booklet, the number of Pacific Brands Shares held by or on behalf of the Pacific Brands Directors is as follows:

| Director | Number of Pacific Brands Shares |
|---|---|
| P H Bush | 10,000 |
| S T Goddard | 25,000 |
| K L Grant | 19,500 |
| J S King | 25,000 |
| H E C Nash | 20,000 |
| L B Nicholls AO | 25,925 |
| D L Bortolussi | 200,000 |
| **TOTAL** | **325,425** |

No director of Pacific Brands has acquired or disposed of a Relevant Interest in any Pacific Brands Shares in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

In addition, as at the date of this Scheme Booklet, Mr David Bortolussi also holds 8,667,897 Performance Rights, which are on the terms described in section 8.5.

## 8.2 Interests of Pacific Brands Directors in Hanesbrands

No director of Pacific Brands has a Relevant Interest in any shares in Hanesbrands.

No director of Pacific Brands acquired or disposed of a Relevant Interest in any shares in Hanesbrands in the 4 month period ending on the date immediately before the date of this Scheme Booklet.

## 8.3 Summary of Scheme Implementation Deed

On 28 April 2016, Pacific Brands and Hanesbrands entered into a Scheme Implementation Deed under which Pacific Brands agreed to propose the Scheme. The Scheme Implementation Deed contains terms and conditions that are standard for these types of agreements, including in relation to the parties' obligations to implement the Scheme and Pacific Brands' obligation to conduct its business in the ordinary course during the Scheme process.

A summary of the key elements of the Scheme Implementation Deed is set out below. A full copy of the Scheme Implementation Deed was lodged with ASX and NZX on 28 April 2016 and can be obtained from www.asx.com.au or from http://www.pacificbrands.com.au/investor-relations/.

(a) **Conditions**

Implementation of the Scheme is subject to the following conditions which must be satisfied or waived (where capable of waiver) before the Scheme can be implemented:

- **FIRB approval**: notice is received by or on behalf of the Federal Treasurer advising Hanesbrands that the Commonwealth of Australia has no objections to Hanesbrands acquiring Pacific Brands;

- **Regulatory intervention**: no order preventing or delaying the Scheme is issued by a court in the United States, the United Kingdom, Australia or New Zealand in a proceeding brought by a Government Agency;
- **Executive incentive arrangements**: Pacific Brands has taken all necessary steps prior to the date of this Scheme Booklet to ensure that all Performance Rights are dealt with as described in section 8.5;
- **Court approval**: the Court approves the Scheme;
- **Shareholder approval**: Pacific Brands Shareholders approve the Scheme;
- **Representations and warranties**: the representations and warranties given by Pacific Brands and Hanesbrands to each other are true and correct in all material respects as at the date of the Scheme Implementation Deed and as at 8.00am on the Second Court Date;
- **No Prescribed Occurrence**: no Prescribed Occurrence occurs before 8.00am on the Second Court Date; and
- **No material adverse change:** no 'material adverse change' (described below) occurs or is discovered before 8.00am on the Second Court Date.

A material adverse change is a matter which has, has had, or is reasonably likely to have, the effect (whether individually or in aggregate with matters of a related kind) of diminishing the consolidated net assets of the Pacific Brands Group by at least $59.4 million or diminishing the consolidated earnings before interest, tax, depreciation and amortisation of the Pacific Brands Group for the financial years ending 30 June 2017 and 30 June 2018 by at least $14.2 million per year. The definition of material adverse change is subject to certain exceptions, including for matters fairly disclosed to the ASX prior to the date of the Scheme Implementation Deed or to Hanesbrands in the materials made available to Hanesbrands during its due diligence investigation.

Full details of the conditions and the ability of Pacific Brands and Hanesbrands to rely on the various conditions and the provisions relating to satisfaction or waiver of these conditions are set out in clause 3 of the Scheme Implementation Deed. As at the date of this booklet, Pacific Brands is not aware of any reason why the conditions will not be satisfied.

(b) **Exclusivity**

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of Hanesbrands. These arrangements are in line with market practice in this regard and may be summarised as follows:

- **No Talk:** Pacific Brands must not participate in discussions or provide information that may encourage or lead to a Competing Transaction.
- **No Shop:** Pacific Brands must not solicit any enquiries, discussions or proposals that may encourage or lead to a Competing Transaction.
- **Notification:** If Pacific Brands is approached in relation to a Competing Transaction, or a proposed or potential Competing Transaction, Pacific Brands must notify Hanesbrands of any such approach within two Business Days, and provide the identity of the relevant person making or proposing the Competing Transaction.
- **Matching Right:** Pacific Brands is prohibited from entering into an agreement to undertake a Competing Transaction and must use its best endeavours to ensure that none of the Pacific Brands Directors recommend a Competing Transaction unless Pacific Brands has given Hanesbrands at least three Business Days to provide a matching or Superior Proposal to the terms of the Competing Transaction.

However, Pacific Brands is not required to comply with its obligations under the No Talk and Notification provisions in the Scheme Implementation Deed if the Pacific Brands

Board determines that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the Pacific Brands Board.

These exclusivity arrangements are set out in full in clause 10 of the Scheme Implementation Deed.

(c) **Reimbursement Fee**

Pacific Brands has agreed to pay Hanesbrands a cash reimbursement fee of $10,550,000 (excluding GST) (**Reimbursement Fee**) in certain circumstances. Those circumstances are:

- **Change of recommendation or recommendation of Competing Transaction:** any member of the Pacific Brands Board fails to recommend or withdraws or adversely modifies his or her support of the Scheme or his or her recommendation that Pacific Brands Shareholders vote in favour of the Scheme, or makes a public statement indicating that they no longer support the Scheme or that they support a Competing Transaction, other than as a result of:

  (1) the Independent Expert opining that the Scheme is not in the best interests of Scheme Shareholders (other than as a result of a Competing Transaction);

  (2) Hanesbrands is in material breach of the Scheme Implementation Deed and that breach is not remedied to Pacific Brands' reasonable satisfaction within 5 Business Days of notice being given; or

  (3) a failure of a condition precedent relating to FIRB approval, regulatory intervention, Court or shareholder approvals, or the representations and warranties given by Hanesbrands to Pacific Brands other than as a result of a breach by Pacific Brands of its obligations to use its best endeavours to procure that the conditions are satisfied;

- **Change of control of Pacific Brands:** a Competing Transaction is announced prior to the earlier of termination of the Scheme Implementation Deed, the End Date and the Effective Date and, within 9 months of the date of such announcement, the person announcing or making the Competing Transaction:

  (1) acquires a Relevant Interest in, becomes the holder of, or otherwise acquires, directly or indirectly, 30% or more of Pacific Brands' Shares and that acquisition is unconditional and free of defeating conditions;

  (2) acquires or becomes the holder of, or otherwise, acquires an economic interest in or control of 20% or more by value of the business of the Pacific Brands Group;

  (3) acquires control (as determined in accordance with section 50AA of the Corporations Act, disregarding sub-section 50AA(4)) of Pacific Brands or a subsidiary which represents 20% or more of the economic value of the Pacific Brands Group; or

  (4) otherwise acquires or merges with Pacific Brands or a subsidiary which represents 20% or more of the economic value of the Pacific Brands Group; or

- **Material breach:** Hanesbrands terminates the Scheme Implementation Deed due to:

  (1) a breach of certain warranties given by Pacific Brands to Hanesbrands in respect of the securities on issue in Pacific Brands as at the date of the Scheme Implementation Deed and 8:00am on the Second Court Date;

  (2) Pacific Brands being in material breach of any clause of the Scheme Implementation Deed where that breach either cannot be remedied or

is not remedied to the reasonable satisfaction of Hanesbrands within 5 Business Days' notice;

(3) Pacific Brands taking an action in breach of certain agreed restrictions on the Pacific Brands Group in conducting its business set out in the Scheme Implementation Deed;

(4) Pacific Brands entering into a definitive agreement to implement a Competing Transaction; or

(5) the failure of the no Prescribed Occurrence condition.

The Pacific Brands Directors consider the Reimbursement Fee is reasonable and appropriate in amount, structure and effect. The fee is not payable if the Scheme does not proceed merely because Pacific Brands Shareholders do not vote in favour of the Scheme in sufficient numbers to satisfy the legal requirements.

For full details of the Reimbursement Fee, see clause 11 of the Scheme Implementation Deed.

(d) **Termination**

Either party can terminate the Scheme Implementation Deed:

- in certain circumstances where an event occurs which would, or does, prevent a condition being satisfied;
- where the other party is in material breach of that deed and that breach either cannot be remedied or is not remedied to the reasonable satisfaction of the non-breaching party within 5 Business Days' notice; or
- where a Pacific Brands Director changes or withdraws his or her recommendation to Pacific Brands Shareholders to vote in favour of the Scheme, or recommends a Competing Transaction.

Hanesbrands may also terminate the Scheme Implementation Deed in the event of:

- a breach of certain warranties given by Pacific Brands to Hanesbrands in respect of the securities on issue in Pacific Brands as at the date of the Scheme Implementation Deed and 8:00am on the Second Court Date;
- Pacific Brands taking an action in breach of certain agreed restrictions on the Pacific Brands Group in conducting its business set out in the Scheme Implementation Deed; or
- Pacific Brands entering into a definitive agreement to implement a Competing Transaction.

## 8.4 Status of regulatory condition

As at the date of this Scheme Booklet, the Federal Treasurer has confirmed that the Commonwealth of Australia has no objection to the Scheme under Australia's foreign investment policies. Accordingly, the FIRB approval condition has been satisfied.

## 8.5 Pacific Brands executive incentive arrangements

As detailed in Pacific Brands' annual report for the year ended 30 June 2015, Pacific Brands operates a long term incentive plan under which Performance Rights are offered to senior executives as an incentive and reward.

As at the date of this Scheme Booklet, there are on issue 15,623,817 Performance Rights which entitle the holder to acquire one Pacific Brands Share, subject to the satisfaction of certain performance conditions which are referrable to Pacific Brands' financial performance over a set time period. Page 42 of the FY15 Annual Report contains a summary of the performance conditions that apply in respect of all grants of the

Performance Rights currently on issue. Set out below are the current Performance Rights holdings:

| **Holder** | **Financial year of issue** | **Number** |
|---|---|---|
| Sandra Blackburn | 2014 | 171,451 |
| | 2015 | 273,141 |
| | 2016 | 489,406 |
| David Bortolussi | 2013 | 651,527 |
| | 2014 | 693,538 |
| | 2015 | 2,845,220 |
| | 2016 | 4,477,612 |
| Tom Dalianis | 2014 | 228,254 |
| | 2015 | 322,458 |
| | 2016 | 507,311 |
| Paul Gould | 2014 | 369,282 |
| | 2015 | 485,747 |
| | 2016 | 764,209 |
| John Grover | 2014 | 260,116 |
| | 2015 | 341,426 |
| | 2016 | 537,153 |
| David Muscat | 2015 | 481,696 |
| | 2016 | 757,833 |
| Ian Shannon | 2015 | 375,569 |
| | 2016 | 590,868 |

A condition precedent of the Scheme proceeding is that Hanesbrands is satisfied that Pacific Brands has taken all the steps agreed with Hanesbrands to cancel and/or vest all Performance Rights on issue. This condition has been satisfied as at the date of this booklet.

All Performance Right holders have entered into agreements with Pacific Brands pursuant to which each holder has agreed that, subject to the Scheme becoming effective, all Performance Rights they hold will be cancelled in exchange for a cash payment equal to the Scheme Consideration plus the Special Dividend and a cash amount equal to the franking credit attached to the special dividend.[12] In the case of Mr Bortolussi's Performance Rights, this would amount to a payment of approximately $10.3 million. The payment to Performance Rights holders was negotiated with Hanesbrands after Hanesbrands submitted its offer price, thereby not impacting the total consideration offered to Pacific Brands Shareholders in relation to the Scheme.

## 8.6 Benefits and agreements

### (a) Benefits in connection with retirement from office

There is no payment or other benefit that is proposed to be made or given to any director, secretary or executive officer of Pacific Brands (or any of its Related Bodies Corporate)

[12] A cash amount equal to the franking credit is to be included as part of the consideration for cancellation of the Performance Rights in order to align the value received by Performance Rights holders with the value they could potentially have received had they held Shares at the date of the Scheme Implementation Deed.

as compensation for the loss of, or consideration for or in connection with his or her retirement from, office in Pacific Brands (or any of its Related Bodies Corporate) in connection with the Scheme.

(b) **Agreements connected with or conditional on the Scheme**

Other than as set out in section 8.5 of this booklet in relation to Mr Bortolussi's cancellation of Performance Rights, there are no agreements or arrangements made between any Pacific Brands Director and any other person in connection with, or conditional on, the outcome of the Scheme.

Hanesbrands has agreed to indemnify each Pacific Brands Director from any claim, action, damage, loss, liability, cost, expense or payment of whatever nature and however arising out of any breach of any of the representations and warranties given by Hanesbrands (as applicable) in Schedule 2 of the Scheme Implementation Deed.

(c) **Interests of Pacific Brands Directors in contracts with Hanesbrands**

None of the Pacific Brands Directors have any interest in any contract entered into by Hanesbrands.

(d) **Benefits under the Scheme or from Hanesbrands**

None of the Pacific Brands Directors have agreed to receive, or are entitled to receive, any benefit from Hanesbrands which is conditional on, or is related to, the Scheme, other than as set out in clause 8.6(b).

## 8.7 ASIC and ASX relief

(a) **ASIC relief**

Paragraph 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations requires an explanatory statement to set out whether, within the knowledge of the Pacific Brands Directors, the financial position of Pacific Brands has materially changed since the date of the last balance sheet laid before Pacific Brands Shareholders in accordance with sections 314 or 317 of the Corporations Act, being 30 June 2015. ASIC has granted Pacific Brands relief from this requirement so that this Scheme Booklet only need set out whether, within the knowledge of the Pacific Brands Directors, the financial position of Pacific Brands has materially changed since 31 December 2015 (being the last date of the period to which the financial statements for the half-year ended 31 December 2015 relate).

(b) **ASX relief**

ASX has granted Pacific Brands a waiver of ASX Listing Rule 6.23.2 to the extent necessary to permit the treatment of the Pacific Brands Performance Rights as set out in section 8.5.

## 8.8 Consents and disclosures

(a) **Consents**

This Scheme Booklet contains statements made by, or statements said to be based on statements made by:

- Hanesbrands in respect of the Hanesbrands Information only; and
- Grant Samuel & Associates Pty Limited as the Independent Expert.

Each of those persons named above has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Scheme Booklet.

The following parties have given and have not, before the time of registration of this Scheme Booklet with ASIC, withdrawn their consent to be named in this Scheme Booklet in the form and context in which they are named:

- Macquarie Capital (Australia) Limited as financial adviser to Pacific Brands;
- Herbert Smith Freehills as legal adviser to Pacific Brands; and
- Computershare Investor Services Pty Ltd as the Pacific Brands Registry.

(b) **Disclosures and responsibility**

Further, each party named in section 8.8(a):

- has not authorised or caused the issue of this Scheme Booklet;
- does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than:
  - Hanesbrands in respect of the Hanesbrands Information only; and
  - Grant Samuel, in relation to its Independent Expert's Report, and
- to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Scheme Booklet other than a reference to its name and the statement (if any) included in this Scheme Booklet with the consent of that party as specified in this section 8.8(b).

## 8.9 No unacceptable circumstances

The Pacific Brands Directors believe that the Scheme does not involve any circumstances in relation to the affairs of Pacific Brands that could reasonably be characterised as constituting 'unacceptable circumstances' for the purposes of section 657A of the Corporations Act.

## 8.10 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme, being information that is within the knowledge of any Pacific Brands Director, at the time of lodging this Scheme Booklet with ASIC for registration, which has not previously been disclosed to Pacific Brands Shareholders.

## 8.11 Supplementary information

If, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, Pacific Brands becomes aware that:

- a material statement in this Scheme Booklet is false or misleading;
- there is a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet has occurred; or
- a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC,

Pacific Brands will prepare a supplementary document to this Scheme Booklet.

The form which the supplementary document may take, and whether a copy will be sent to each Pacific Brands Shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from Pacific Brands' website at http://www.pacificbrands.com.au/investor-relations/ and from the ASX website at www.asx.com.au.

# 9 GLOSSARY AND INTERPRETATION

# 9 Glossary and interpretation

## 9.1 Glossary

The meanings of the terms used in this Scheme Booklet are set out below:

| Term | Meaning |
|---|---|
| **AEST** | Australian Eastern Standard Time. |
| **ASIC** | Australian Securities and Investments Commission. |
| **Associate** | has the same meaning as in section 12 of the Corporations Act. |
| **ASX** | ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates. |
| **Business Day** | a weekday in which trading banks are open for business in Melbourne, Victoria, Australia. |
| **Class Ruling** | has the meaning given in section 7.2 of this booklet. |
| **Competing Transaction** | an agreement, transaction or arrangement pursuant to which a third party (either alone or together with any one or more of its associates) will, if the agreement, transaction or arrangement is entered into or completed:<br>1 acquire a Relevant Interest in, become the holder of, or otherwise acquire, have a right to acquire or have an economic interest, directly or indirectly, in 20% or more of Pacific Brands Shares;<br>2 acquire (whether directly or indirectly) or become the holder of, or otherwise acquire, have a right to acquire or have a legal, beneficial or economic interest in or control of 20% or more by value of the business of the Pacific Brands Group;<br>3 acquire control (as determined in accordance with section 50AA of the Corporations Act, disregarding sub-section 50AA(4)) of Pacific Brands or a subsidiary which represents 20% or more of the economic value of the Pacific Brands Group;<br>4 otherwise directly or indirectly acquire or merge with Pacific Brands or a subsidiary which represents 20% or more of the economic value of the Pacific Brands Group; or<br>5 require Pacific Brands to abandon, or otherwise fail to proceed with, the Scheme,<br>whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction or buy-back, sale or purchase of shares or assets, joint venture, dual-listed company structure (or other synthetic merger), or other transaction or arrangement. |

| Term | Meaning |
|---|---|
| **Corporations Act** | the *Corporations Act 2001* (Cth). |
| **Corporations Regulations** | the *Corporations Regulations 2001* (Cth). |
| **Court** | the Supreme Court of Victoria or such other Court of competent jurisdiction under the Corporations Act agreed to in writing by Pacific Brands and Hanesbrands. |
| **Deed Poll** | the deed poll executed by Hanesbrands Australia and Hanesbrands on 12 May 2016 pursuant to which Hanesbrands acknowledges and confirms its obligations under the Scheme. A copy of the Deed Poll is contained in Annexure C. |
| **EBIT** | earnings before interest and tax. |
| **EBITDA** | earnings before interest, tax, depreciation and amortisation. |
| **Effective Date** | the date on which the Scheme comes into effect pursuant to section 411(10) of the Corporations Act. |
| **End Date** | 30 October 2016, unless extended in accordance with the Scheme Implementation Deed. |
| **EV** | enterprise value. |
| **FY15** | financial year ended 30 June 2015. |
| **FY16** | financial year ended 30 June 2016. |
| **FIRB** | the Foreign Investment Review Board of Australia. |
| **Government Agency** | any foreign or Australian Government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity or minister of the Crown in right of the Commonwealth of Australia or any state. |
| **Hanesbrands** | Hanesbrands Inc. of 1000 East Hanes Mill Road, Winston-Salem, North Carolina 27105 United States of America. |

# 9 Glossary and interpretation

| Term | Meaning |
|---|---|
| **Hanesbrands Australia** | HBI Australia Acquisition Co. Pty Ltd. ACN 612 185 476. |
| **Hanesbrands Information** | the information contained in:<br>• the paragraph commencing "Although Hanesbrands believes the views reflected in" in the subsection headed 'Disclaimer as to forward-looking statements' in the Important Notices;<br>• the answer to the question "Who is Hanesbrands?" in section 2; and<br>• section 5. |
| **Implementation Date** | the fifth Business Day after the Scheme Record Date. |
| **Independent Expert** | Grant Samuel & Associates Pty Limited ACN 050 036 372. |
| **Independent Expert's Report** | the report prepared by the Independent Expert dated 20 May 2016 set out in Annexure A. |
| **Listing Rules** | the official listing rules of the ASX. |
| **Notice of Meeting** | the notice of meeting relating to the Scheme Meeting which is contained in Annexure D. |
| **NZX** | NZX Limited (company number 1266120) and, where the context requires, the financial market that it operates. |
| **P / E** | market capitalisation divided by net income. |
| **Pacific Brands** | Pacific Brands Limited ABN 64 106 773 059. |
| **Pacific Brands Board** | the board of directors of Pacific Brands. |
| **Pacific Brands Director** or **Your Director** | a member of the Pacific Brands Board. |
| **Pacific Brands Group** | Pacific Brands and each of its Related Bodies Corporate and a reference to a "Pacific Brands Group Member" or a "member of the Pacific Brands Group" is to Pacific Brands or any of its Related Bodies Corporate. |

| Term | Meaning |
|---|---|
| **Pacific Brands Information** | the information contained in this Scheme Booklet, other than the Hanesbrands Information and the information contained in Annexure A. |
| **Pacific Brands Registry** | Computershare Investor Services Pty Limited ACN 078 279 277. |
| **Pacific Brands Share** or **Share** | a fully paid ordinary share in the capital of Pacific Brands. |
| **Pacific Brands Shareholder** or **Shareholder** | each person registered in the Register as a holder of Pacific Brands Shares. |
| **Performance Rights** | the performance rights issued by Pacific Brands to certain senior executives under Pacific Brands' performance share plan. |
| **Prescribed Occurrence** | other than:<br>1 as expressly required or permitted by the Scheme Implementation Deed or the Scheme;<br>2 as fairly disclosed to ASX prior to the date of the Scheme Implementation Deed;<br>3 as fairly disclosed to Hanesbrands in the materials made available to Hanesbrands during its due diligence investigation;<br>4 any buy-back or share issue carried out by bodies corporate wholly-owned by a Pacific Brands Group Member for the purposes of facilitating payment of the Special Dividend; or<br>5 with the prior written consent of Hanesbrands (such consent not to be unreasonably withheld),<br>the occurrence of any of the following between 28 April 2016 and 8.00am on the Second Court Date:<br>1 a member of the Pacific Brands Group converting all or any of its shares into a larger or smaller number of shares;<br>2 a member of the Pacific Brands Group resolving to reduce its share capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its shares;<br>3 a member of the Pacific Brands Group:<br>– entering into a buy back agreement; or<br>– resolving to approve the terms of a buy back agreement under the Corporations Act;<br>4 a member of the Pacific Brands Group issuing shares, or granting a performance right or an option over an unissued share, or agreeing to make such an issue or grant such a right or an option other than on vesting or exercise of, or in respect of, a Performance Right existing as at 28 April 2016;<br>5 a member of the Pacific Brands Group issuing, or agreeing to issue, securities |

| Term | Meaning |
|---|---|
| | convertible into shares or debt securities;<br>6 Pacific Brands ceases to be listed on the ASX;<br>7 Pacific Brands declaring, paying or distributing any dividend, bonus or other share of its profits or assets or returning or agreeing to return any capital to its member, or announcing an intention to do any of the above, other than a Special Dividend;<br>8 a member of the Pacific Brands Group disposing, or agreeing to dispose, of the whole or a substantial part, of the Pacific Brands Group's business or property;<br>9 a member of the Pacific Brands Group granting a security interest, or agreeing to grant a security interest, the whole or a substantial part, of the Pacific Brands Group's business or property;<br>10 a member of the Pacific Brands Group making any change to its constitution;<br>11 a member of the Pacific Brands Group resolving that it be wound up;<br>12 a liquidator or provisional liquidator of a member of the Pacific Brands Group being appointed;<br>13 a court making an order for the winding up of a member of the Pacific Brands Group;<br>14 an administrator of a member of the Pacific Brands Group being appointed under the Corporations Act;<br>15 a member of the Pacific Brands Group executing a deed of company arrangement; or<br>16 a receiver, or a receiver and manager, being appointed in relation to the whole, or a substantial part, of the property of the Pacific Brands Group. |
| **Proxy Form** | the proxy form which accompanies this Scheme Booklet. |
| **Register** | the share register of Pacific Brands. |
| **Reimbursement Fee** | has the meaning given in section 8.3(c). |
| **Related Body Corporate** | has the same meaning given to it in the Corporations Act. |
| **Relevant Interest** | has the same meaning as given by sections 608 and 609 of the Corporations Act. |
| **Scheme or Scheme of Arrangement** | the scheme of arrangement between Pacific Brands and the Scheme Shareholders under which all Scheme Shares will be transferred to Hanesbrands Australia in accordance with Part 5.1 of the Corporations Act, substantially in the form in Annexure B, together with any amendment or modification made pursuant to section 411(6) of the Corporations Act. |

| Term | Meaning |
|---|---|
| **Scheme Booklet** | this document. |
| **Scheme Consideration** | in respect of each Scheme Share, $1.15 cash, subject to an adjustment for the payment of the Special Dividend. |
| **Scheme Implementation Deed** | the Scheme Implementation Deed between Pacific Brands and Hanesbrands dated 28 April 2016. A summary is set out in section 8.3, and a full copy can be obtained from Pacific Brands' website http://www.pacificbrands.com.au/investor-relations/. |
| **Scheme Meeting** | the meeting of Pacific Brands Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act. |
| **Scheme Record Date** | 7.00pm (AEST) on the fifth Business Day after the Effective Date. |
| **Scheme Resolution** | the resolution to agree to the terms of the Scheme. |
| **Scheme Share** | a Pacific Brands Share held by a Scheme Shareholder as at the Scheme Record Date. |
| **Scheme Shareholder** | each person who is a Pacific Brands Shareholder at the Scheme Record Date. |
| **Second Court Date** | the first day on which an application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme is heard, or if the application is adjourned for any reason, the first day on which the adjourned application is heard. |
| **Second Court Hearing** | the hearing of the application made to the Court for an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme. |
| **Shareholder Information Line** | 1300 783 472 from within Australia and +61 3 9415 4233 from outside Australia. |
| **Special Dividend** | a fully franked cash dividend currently expected to be $0.094 per Pacific Brands Share, that the Pacific Brands Board resolves for Pacific Brands to pay, conditional on the Scheme becoming effective, to Shareholders registered on the Special Dividend Record Date. |
| **Special Dividend Payment Date** | Thursday, 7 July 2016, or such other date as notified by Pacific Brands to ASX. |

| Term | Meaning |
|---|---|
| **Special Dividend Record Date** | 7.00pm (AEST) on Thursday, 30 June 2016, or such other date as notified by Pacific Brands to ASX. |
| **Superior Proposal** | a Competing Transaction of the kind referred to in any of paragraphs 2, 3 or 4 of the definition of Competing Transaction which the Pacific Brands Board, acting in good faith, and after receiving written advice from its financial advisor and its external legal advisers, determines:<br>1 is reasonably capable of being valued and completed in a timely fashion taking into account all aspects of the Competing Transaction including any timing considerations, conditions precedent and the identity of the proponent; and<br>2 would, if completed substantially in accordance with its terms, be more favourable to Pacific Brands Shareholders (as a whole) than the Transaction taking into account all terms and conditions of the Competing Transaction (including consideration, conditionality, funding, certainty and timing). |
| **Transaction** | the acquisition of Pacific Brands by Hanesbrands through its wholly owned subsidiary, Hanesbrands Australia, through implementation of the Scheme. |
| **VWAP** | volume weighted average price. |

## 9.2 Interpretation

In this Scheme Booklet:

(a) words of any gender include all genders;

(b) words importing the singular include the plural and vice versa;

(c) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;

(d) a reference to a section or annexure, is a reference to a section of or annexure of, to this Scheme Booklet as relevant;

(e) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;

(f) headings and bold type are for convenience only and do not affect the interpretation of this Scheme Booklet;

(g) a reference to time is a reference to AEST;

(h) a reference to dollars, $, A$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia;

(i) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and

(j) the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

# ANNEXURE A

## INDEPENDENT EXPERT'S REPORT

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20 May 2016

The Directors
Pacific Brands Limited
1096 Toorak Road
Hartwell VIC 3124

Dear Directors

**Proposal from HanesBrands**

## 1 Introduction

On 28 April 2016, Pacific Brands Limited ("Pacific Brands") announced that it had entered into a Scheme Implementation Agreement with Hanesbrands Inc, ("HanesBrands") under which HanesBrands proposes to acquire all the issued share capital in Pacific Brands (the "Proposal") by way of a scheme of arrangement (the "Scheme"). If the Scheme is implemented, Pacific Brands shareholders will receive cash consideration of $1.15 per share (the "Consideration"). Pacific Brands proposes to pay a fully franked special dividend of $0.094 (the "Special Dividend"). The amount payable under the Scheme will be reduced by the amount of the Special Dividend.

Pacific Brands is a wholesaler and retailer of underwear and related branded apparel, principally under the Bonds brand, and of bedlinen and related products under the Sheridan brand. In addition, it owns the smaller Tontine and Dunlop Flooring businesses. Tontine manufactures and sells pillows, quilts and other bedding accessories (including under the Dunlopillo and Fairydown brands), while Dunlop Flooring manufactures and sells foam carpet underlay and is a supplier of hard flooring products. Pacific Brands' operations are concentrated in Australia and New Zealand, with modest offshore sales.

Shares in Pacific Brands are listed on the Australian Securities Exchange ("ASX") and the New Zealand Stock Exchange ("NZX"). At close of business on 27 April 2016, immediately prior to the announcement of the Proposal, Pacific Brands shares closed at $0.94, which gave the company a market capitalisation of $862 million.

HanesBrands, a US incorporated company, is a global marketer of underwear, intimate apparel and activewear, including under the Hanes, Champion, Playtex, Maidenform and Wonderbra brands. Headquartered in Winston-Salem, North Carolina, HanesBrands has grown its business internationally over the past three years through a number of acquisitions and now has operations in the Americas, Europe, Asia and South Africa. With its shares listed on the New York Stock Exchange, HanesBrands had a market capitalisation of US$10.5 billion (approximately A$13.8 billion) as at 27 April 2016.

The Proposal is subject to a number of conditions that are set out in full in the Notice of Meeting and Explanatory Memorandum ("Scheme Booklet") to be sent by Pacific Brands to its shareholders.

Subject to an independent expert determining that the Proposal is in the best interests of shareholders and in the absence of a superior proposal, the directors of Pacific Brands have unanimously recommended that shareholders vote in favour of the Proposal and intend to vote all shares held or controlled by them in favour of the Proposal.

The directors of Pacific Brands have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposal is in the best interests of shareholders. A copy of the report (including this letter) will accompany the Scheme Booklet to be sent to shareholders by Pacific Brands. This letter contains a summary of Grant Samuel's opinion and main conclusions.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372 AFS LICENCE NO 240985

## 2 Opinion

**In Grant Samuel's opinion, the Proposal is fair and reasonable and, therefore, in the best interests of Pacific Brands shareholders, in the absence of a superior proposal.**

## 3 Key Conclusions

- **Pacific Brands has completed a highly successful turnaround.**

  Pacific Brands has completed a highly successful turnaround of its business over the past two years. In particular, it has:

  - simplified its activities through the divestment of non-core businesses;
  - restructured its supply chain and materially reduced its product sourcing costs;
  - substantially reduced corporate and other business support costs;
  - continued to invest in its key Bonds and Sheridan brands; and
  - delivered very strong retail growth, primarily through the ongoing development of the Bonds retail chain.

  The result has been a significant improvement in Pacific Brands' financial performance, particularly in the six months ended 31 December 2015, and an increase in Pacific Brands' share price from a low of $0.315 on 1 July 2015 to a closing share price of $0.94 immediately before the announcement of the Proposal.

- **The key issue for Pacific Brands shareholders in considering the merits of the Proposal is to balance the prospects for continued growth in Pacific Brands' revenues and earnings against the risks facing the business.**

  Given the successful restructuring of its business, the strength of its brands and its positive earnings trajectory, Pacific Brands is well placed to deliver continued growth in earnings. In particular, Pacific Brands believes that its Bonds retail business has substantial upside, with sales and earnings growth expected to be underpinned by expansion of the Bonds store network, refinement of the instore retail offering and continued success in the on-line channel.

  On the other hand, Pacific Brands is exposed to a range of real risks. Notwithstanding the growth in the Bonds retail business, wholesaling continues to represent the bulk of Pacific Brands' underwear business, both in terms of revenue and EBIT contribution. The wholesaling business is critically dependent on a limited number of department store, discount department store and supermarket customers. As a result, Pacific Brands is exposed to the impact of changes in the trading performance and strategy of these key customers. Notwithstanding the strong retail growth achieved over the last two years, retail roll-out strategies as planned for Bonds and Sheridan are inherently risky. Almost all of Pacific Brands' product is sourced from offshore, principally from China. While Pacific Brands does hedge some of its currency exposure, Australian dollar/US dollar depreciation or volatility could have a material adverse impact on Pacific Brands' earnings.

  Accordingly, while there are good grounds to expect that Pacific Brands will continue to generate meaningful growth in revenue and earnings, any assessment of the merits of the Proposal also needs to take into account the risks facing the business.

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- **Grant Samuel has estimated that the full underlying value of Pacific Brands is in the range $1.10-1.23 per share.**

  Grant Samuel has valued Pacific Brands in the range $1,009-1,124 million, which corresponds to a value of $1.10-1.23 per share. The valuation is summarised below:

| Pacific Brands - Valuation Summary ($ millions) | | |
|---|---|---|
| | Value Range | |
| | Low | High |
| Underwear | 775 | 850 |
| Sheridan | 225 | 250 |
| Tontine and Dunlop Flooring | 60 | 70 |
| Unallocated corporate costs | (65) | (60) |
| **Enterprise value** | **995** | **1,110** |
| Net cash at 31 December 2015 (adjusted) | 14 | 14 |
| **Value of equity** | **1,009** | **1,124** |
| Shares on issue (millions) | 917 | 917 |
| **Value per share ($)** | **$1.10** | **$1.23** |

  The valuation represents the estimated full underlying value of Pacific Brands and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Pacific Brands shares to trade on the ASX in the absence of a takeover offer.

  The values attributed to Pacific Brands overall and to each of the business operations represent overall judgements having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA[1], EBIT[2] and NPAT[3]) and discounted cash flow analysis. The valuation takes into account synergies that would generally be available to acquirers of Pacific Brands, including the opportunity for acquirers to save listed company costs.

1 EBITDA is earnings before finance costs, depreciation and amortisation, tax, share of profits of equity accounted associates and significant and non-recurring items.
2 EBIT is earnings before finance costs, tax, share of profits of equity accounted associates and significant and non-recurring items.
3 NPAT is net profit after tax.

- **The earnings multiples implied by the valuation are relatively high. In Grant Samuel's view, the multiples appropriately reflect both the opportunities and risks facing Pacific Brands.**

  The earnings multiples implied by the valuation of Pacific Brands' business operations and the value of the equity in Pacific Brands are summarised below:

| Pacific Brands – Implied Valuation Parameters | | | |
|---|---|---|---|
| | Variable ($ million) | Range of Parameters | |
| | | Low | High |
| **Multiple of EBITDA (times) – Business Operations** | | | |
| Year ended 30 June 2015 | 77.3 | 12.9 | 14.4 |
| Year ending 30 June 2016[4] | 86.3 | 11.5 | 12.9 |
| Year ending 30 June 2017[4] | 96.4 | 10.3 | 11.5 |
| **Multiple of EBIT (times) – Business Operations** | | | |
| Year ended 30 June 2015 | 64.2 | 15.5 | 17.3 |
| Year ending 30 June 2016[4] | 74.7 | 13.3 | 14.9 |
| Year ending 30 June 2017[4] | 82.8 | 12.0 | 13.4 |
| **Multiple of NPAT (times) - Equity** | | | |
| Year ended 30 June 2015 | 37.5[5] | 26.9 | 30.0 |
| Year ending 30 June 2016[4] | 50.3 | 20.1 | 22.3 |
| Year ending 30 June 2017[4] | 57.0 | 17.7 | 19.7 |

In Grant Samuel's view, the multiples implied by its valuation of Pacific Brands are appropriate. In forming this view, the following factors have been taken into account:

- given the unique position of the Bonds business in the Australian market place and Pacific Brands' overall business mix, there is no precisely comparable market based evidence to provide direct valuation guidance for Pacific Brands. Nevertheless, the available evidence from share prices and transaction values for companies focussed on the distribution of branded underwear and related apparel is broadly consistent with the multiples set out above;
- the Bonds brand has a leading position in the Australian underwear market, with considerable potential for growth in related apparel areas;
- Bonds' retail business has grown very strongly in recent years and there are good grounds to expect continued significant retail growth (although the rate of growth will slow over time);
- Sheridan is Australia's leading bedlinen and towel brand. After two years of sub-par performance, the Sheridan business is expected to produce improved financial performance over the short to medium term; and
- Pacific Brands has a strong balance sheet and the financial and management resources required to support meaningful growth.

4 The directors of Pacific Brands have decided not to include forecasts of earnings for the years ending 30 June 2016 ("FY16") and 30 June 2017 ("FY17") in the Scheme Booklet. To provide an indication of the expected financial performance, Grant Samuel has considered brokers' forecasts for Pacific Brands (see Appendix 1). However, Grant Samuel has not relied on these forecasts for the purposes of this report.

5 NPAT before significant items sourced from Pacific Brands' FY15 Annual Report.

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On the other hand:

- Pacific Brands' underwear business remains, predominantly, a wholesaling business. On a best case "business as usual" basis, the wholesaling business will face continued pressure on volumes and margins, with a flat to slowly declining earnings profile a likely outcome. However, a less favourable outcome, with more significant declines in volumes and/or margins, is also possible. Given the business' reliance on a limited number of major department store, discount department store and supermarket customers, there is an ongoing possibility that adverse trading or a change in strategic direction on the part of a major customer (e.g. in relation to the stocking of branded vs private label product) could materially affect wholesale profitability;
- while the strong growth of the Bonds retail business suggests that it is reasonable to expect further growth in retail sales and earnings, the retail roll-out planned for Bonds and Sheridan is not without risk. These risks will be accentuated as the store network increases in size, with site selection, format development and store management requiring increasing focus;
- Pacific Brands is exposed to currency risk, given that it sources almost all its product offshore on a US$-denominated basis. Australian dollar/US dollar depreciation or volatility could put pressure on Pacific Brands' earnings; and
- more broadly, Pacific Brands is exposed, both directly and indirectly, to apparel retailing/fashion risk. While Bonds is a "basics" brand, there is always the risk that changes in consumer preferences, fashion shifts or other retail developments will adversely affect the business.

- **The Consideration of $1.15 per share falls within Grant Samuel's valuation range for Pacific Brands and, therefore, the Proposal is fair.**

  Grant Samuel has estimated that the full underlying value of Pacific Brands, including a premium for control, is in the range $1.10-1.23 per share. The Consideration of $1.15 per share falls well within the range. Accordingly, the Proposal is fair.

  Moreover, Pacific Brands intends to pay 9.4 cents of the total Consideration of $1.15 per share as a fully franked dividend, with the amount payable under the Scheme being reduced by the amount of this dividend. For shareholders who can use the attached franking credits, this dividend will deliver additional value of up to 4 cents per share.

  Grant Samuel's valuation of Pacific Brands implicitly reflects assumptions of robust earnings growth. For the Proposal to be "not fair", shareholders would need to have considerable confidence that Pacific Brands will deliver high rates of growth and would need to be prepared to effectively discount the major risks facing the business, including those associated with the Company's wholesale exposure, exchange rates and broader apparel/fashion risk. It is of course conceivable that Pacific Brands could deliver high rates of growth for an extended period of time. On balance, however, Grant Samuel believes that it is appropriate to adopt a valuation range that reflects meaningful, but not stellar, growth rates, and implicitly gives some weighting to the possibility that the risks facing the business will over time have some impact on earnings performance. On this basis, in Grant Samuel's view, the Proposal is clearly fair.

- **As the Scheme is fair, it is also reasonable.**

  As the Scheme is fair, it is also reasonable. In any event, there are a number of factors that support the reasonableness of the Scheme:

  - the consideration of $1.15 per share represents a meaningful premium over the Pacific Brands share price immediately prior to the announcement of the Scheme:

| Pacific Brands – Premiums Implied by the Scheme Consideration | | |
|---|---|---|
| Period | Pacific Brands Price/VWAP[6] | Premium |
| Last closing price – 27 April 2016 | 94.0¢ | 22.3% |
| 5 days prior to 27 April 2016 (VWAP) | 88.6¢ | 29.8% |
| 1 month prior to 27 April 2016 (VWAP) | 94.1¢ | 22.2% |
| 3 months prior to 27 April 2016 (VWAP) | 91.5¢ | 25.6% |
| 6 months prior to 27 April 2016 (VWAP) | 85.2¢ | 34.9% |
| 12 months prior to 27 April 2016 (VWAP) | 68.7¢ | 67.4% |

Source: IRESS and Grant Samuel analysis

  The premiums implied by the Scheme consideration relative to Pacific Brands share prices for the periods set out above are generally consistent with those normally seen in takeover offers. However, premium analysis should be approached with some caution in the case of Pacific Brands.

  The Pacific Brands share price fluctuated significantly in the period prior to the announcement of the Proposal, notwithstanding that there were no releases from the Company that would have been expected to affect the market's views of Pacific Brands' prospects. Following the announcement of Pacific Brands' half year results on 16 February 2016, Pacific Brands shares traded at around $0.90 until the end of February, following which the share price strengthened to levels around $1.00. In mid-April, the share price fell sharply, reaching prices around $0.85, before gaining $0.08 in the last two days before the Proposal was announced, to close at $0.94. In the context of these share price movements, it is not clear what share price or share trading period provides the most appropriate reference point for the calculation of takeover premiums. Nor is it obvious that the most recent share prices (including the last closing price before the announcement of the Proposal) provide the best indication of an informed market based view on value. Accordingly, while the calculated premiums are generally consistent with those observed in takeovers of listed companies, the premium analysis provides only general support for the conclusion that the Proposal is reasonable. In any event, premium analysis is not determinative of value, but is rather an outcome of a valuation or transaction process;

  - it is likely that, in the absence of the Proposal or market speculation regarding a similar transaction and under current market conditions, Pacific Brands shares would trade at prices below $1.15 per share, at least in the short term. Given Pacific Brands' recent trading performance, it is conceivable that its shares could trade at prices around the levels at which the shares were trading prior to the announcement of the Proposal (circa $0.85-$0.95); and

  - there is no indication that there is a realistic prospect of a competing bid by any third party. In any event, there will continue to be an opportunity for any third party that is interested to put forward a superior proposal until the Scheme meeting.

6 VWAP is volume weighted average price

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- **There are few issues with a cash offer other than price.**

  Other factors that shareholders should take into consideration are:

  - shareholders will be treated as having disposed of their Pacific Brands shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the Pacific Brands shares, the length of time the shares were held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes;
  - if the Proposal is not implemented, Pacific Brands will incur transaction costs of around $2-3 million (0.2-0.3 cents per share). In certain circumstances, if the Proposal did not proceed, Pacific Brands would also be liable to pay HanesBrands a $10.55 million break fee; and
  - Pacific Brands shares have generally traded at around $1.15 since the announcement of the Proposal. Shareholders who sell their shares on market will incur transaction costs. In addition, they will lose the opportunity to realise value from franking credits (in the event that Pacific Brands declares a special dividend as planned and shareholders' individual tax positions allow them to utilise the franking credits) and will forego any possibility of receiving any higher price that might be offered.

- **The Proposal is in shareholders' best interests.**

  In Grant Samuel's view the Proposal is clearly fair and, therefore, reasonable. Accordingly, Grant Samuel has concluded that the Proposal is in the best interests of Pacific Brands shareholders, in the absence of a superior proposal.

## 4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Pacific Brands shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Pacific Brands in relation to the Scheme.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposal, the responsibility for which lies with the directors of Pacific Brands. In any event, the decision whether to vote for or against the Proposal is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Pacific Brands. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision to vote for or against the Proposal. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
**GRANT SAMUEL & ASSOCIATES PTY LIMITED**

Grant Samuel & Associates

7

PACIFIC BRANDS

# Financial Services Guide and Independent Expert's Report in relation to the Proposal by Hanesbrands Inc.


**Grant Samuel & Associates Pty Limited**
**(ABN 28 050 036 372)**


**20 May 2016**

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GRANT SAMUEL & ASSOCIATES

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## Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Pacific Brands Limited ("Pacific Brands") in relation to the acquisition of Pacific Brands by Hanesbrands Inc. (the "Pacific Brands Report"), Grant Samuel will receive a fixed fee of $525,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 6.3 of the Pacific Brands Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Pacific Brands Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 6.3 of the Pacific Brands Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Pacific Brands or HanesBrands or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal.*
>
> *Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of $525,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Pacific Brands Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Pacific Brands Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

ABN 28 050 036 372 AFS LICENCE NO 240985

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## 1 Terms of the Proposal

On 28 April 2016, Pacific Brands Limited ("Pacific Brands") announced that it had entered into a Scheme Implementation Deed with Hanesbrands Inc. ("HanesBrands") under which it is proposed that HanesBrands will acquire all the shares in Pacific Brands by way of a Scheme of Arrangement (the "Scheme") under Australian law (the "Proposal"). Under the Proposal, HanesBrands will acquire all the shares in Pacific Brands for $1.15 per share (the "Consideration"). If the Scheme is implemented, Pacific Brands proposes to pay a fully franked special dividend of $0.094 (the "Special Dividend"). The amount payable under the Scheme will be reduced by the amount of the Special Dividend.

Each holder of performance rights in Pacific Brands has agreed to the cancellation of its rights in exchange for the payment of the cash consideration set out in the Scheme Booklet and to be provided for by Pacific Brands, subject to the Scheme becoming effective.[1]

HanesBrands, a US incorporated company headquartered in Winston-Salem, North Carolina, is a global marketer of underwear, intimate apparel and activewear, including under the Hanes, Champion, Playtex, Maidenform and Wonderbra brands. With its shares listed on the New York Stock Exchange, HanesBrands had a market capitalisation of US$10.5 billion (approximately A$13.8 billion) as at 27 April 2016.

The Proposal is subject to the satisfaction of a number of conditions which are set out in full in the Scheme Implementation Deed. In summary, the key conditions include:

- approval of the Scheme by Pacific Brands shareholders under section 411 of the Australian Corporations Act;
- approval of the Scheme by the Supreme Court of Victoria at a hearing following the shareholder approval referred to above;
- the satisfaction before the second court hearing of regulatory requirements in relation to the Australian Foreign Investment Review Board ("FIRB"). Pacific Brands announced on 6 May 2016 that it had received FIRB approval;
- no prescribed occurrences for Pacific Brands (which are defined in the Scheme Implementation Deed to cover standard prescribed events, such as changes to capital structure, share issues and insolvency events); and
- no "material adverse change" (as defined in the Scheme Implementation Deed).

The Scheme Implementation Deed includes no shop and no talk provisions. Under the no shop provision, Pacific Brands may not solicit or encourage any competing proposals or transactions. The no talk provision provides that Pacific Brands may not enter into or permit any negotiations or discussions in relation to any competing proposal for Pacific Brands or provide any information to a third party that may lead to a competing proposal, subject to an exception for a bona fide competing proposal in respect of which the directors of Pacific Brands determine that failure to respond may constitute a breach of their fiduciary or statutory duties. Pacific Brands is also required to notify HanesBrands if it becomes aware of a competing proposal (subject to a fiduciary exception) and HanesBrands has a right (within three business days) to submit a counter-proposal.

A break fee of A$10.55 million (being approximately 1% of the Consideration) is payable by Pacific Brands to HanesBrands in certain circumstances, including where a competing proposal is announced and completed within nine months or where any Pacific Brands director either recommends a competing proposal or changes their recommendation of the Scheme (other than as a result of the independent expert concluding that the Proposal is not in the best interests of Pacific Brands shareholders, HanesBrands breaching the Scheme Implementation Deed or certain conditions not being satisfied), or if the Scheme Implementation Deed is terminated because of a material breach by Pacific Brands.

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[1] Excluding 651,527 performance rights issued to the Chief Executive Officer in FY13 which will vest in accordance with his employment contract (as disclosed to ASX).

## 2 Scope of the Report

### 2.1 Purpose of the Report

The Proposal is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act, 2001 ("Corporations Act") between Pacific Brands and its shareholders. Under Section 411, the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by Pacific Brands shareholders, the Scheme will then be subject to approval by the Supreme Court of Victoria.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert's report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

Although there is no requirement in the present circumstances for an independent expert's report pursuant to the Corporations Act or the Australian Securities Exchange ("ASX") Listing Rules, the directors of Pacific Brands have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Proposal is in the best interests of Pacific Brands shareholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by Pacific Brands.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Pacific Brands shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Scheme Booklet issued by Pacific Brands in relation to the Proposal.

Voting for or against the Proposal is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Pacific Brands. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Proposal. Shareholders should consult their own professional adviser in this regard.

### 2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". However, the Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders. For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

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The Proposal is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Proposal as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable".

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Proposal is fair by comparing the estimated value of Pacific Brands with the Consideration. The Proposal will be fair if the value of the Consideration falls within the range of underlying value estimated for Pacific Brands. In considering whether the Proposal is reasonable, the factors that have been considered include:

- the estimated value of Pacific Brands compared to the Consideration;
- the existing shareholding structure of Pacific Brands;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Pacific Brands shares in the absence of the Proposal; and
- other advantages and disadvantages for Pacific Brands shareholders of approving the Proposal.

### 2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

***Publicly Available Information***

- the Scheme Booklet including earlier drafts;
- annual reports of Pacific Brands for the three years ended 30 June 2015;
- half year announcement of Pacific Brands for the six months ended 31 December 2015;
- press releases, public announcements, media and analyst presentation material and other public filings by Pacific Brands including information available on its website;

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- brokers' reports and recent press articles on Pacific Brands; and
- sharemarket data and related information on Australian and international listed companies engaged in the branded apparel and consumer products industries and on acquisitions of companies and businesses in these industries.

***Non Public Information provided by Pacific Brands***

- management accounts for Pacific Brands for the two years ended 30 June 2015 and the half year ended 31 December 2015;
- forecast for the year ending 30 June 2016 prepared by management and adopted by the directors of Pacific Brands and updated forecasts reflecting actuals to 29 February 2016;
- preliminary forecasts for the year ending 30 June 2017 prepared by management;
- detailed cash flow model including projections for Pacific Brands' business operations. The model was prepared by Pacific Brands and reviewed by its advisers for mathematical accuracy; and
- other confidential documents, presentations, Board papers and working papers.

In preparing this report, Grant Samuel has also held discussions with, and obtained information from, senior management of Pacific Brands.

### 2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Pacific Brands and its advisers. Grant Samuel has considered and relied upon this information. Pacific Brands has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Proposal is in the best interests of Pacific Brands shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was

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also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Pacific Brands. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- updated forecast for the year ending 30 June 2016;
- preliminary forecast for the year ending 30 June 2017; and
- a detailed cash flow model for Pacific Brands.

Pacific Brands is responsible for the information contained in the forecasts and cash flow model (the "forward looking information"). Grant Samuel has considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis. In relation to the cash flow models, Grant Samuel has made adjustments to reflect its judgement on certain matters and to ensure consistent application of assumptions. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant's examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- the forecasts were reviewed in detail by senior management;
- the forecast for the year ending 30 June 2016 is based on actual operating results for Pacific Brands for the eight months ended 29 February 2016; and
- Pacific Brands has robust management and financial reporting processes. For the year ending 30 June 2016, the prospective financial information has been prepared through the preparation of "ground up" forecasts by the management of each of Pacific Brands' businesses combined with a top down review by senior management, and is subject to ongoing analysis and revision to reflect the impact of actual performance or assessments of likely future performance.

While Pacific Brands has made guidance statements about earnings before interest and tax for the year ending 30 June 2016, the directors of Pacific Brands have decided not to include the forecast for the year ending 30 June 2016 and subsequent years in the Scheme Booklet and therefore this information has not been disclosed in this report.

In order to provide an indication of the expected financial performance of Pacific Brands, Grant Samuel has considered brokers' forecasts for Pacific Brands (see Appendix 1). Grant Samuel has used the brokers' consensus forecast to review the parameters implied by its valuation of Pacific Brands. These forecasts are sufficiently close to Pacific Brands' forecasts to be useful for analytical purposes.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forecasts is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Pacific Brands and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Scheme Booklet sent by Pacific Brands to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

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## 3 Profile of Pacific Brands

### 3.1 Overview

***Background***

Pacific Brands focusses on the wholesaling and retailing of underwear and related apparel (principally under the Bonds brand), Sheridan bed linen and related products and a variety of branded bedding and flooring products. The majority of the company's products are sold in Australia (approximately 90%) and New Zealand, with modest sales in the United Kingdom, Europe, the Middle East and Asia.

The origins of Pacific Brands date back to 1893, when the Dunlop Pneumatic Tyre Company opened an office and factory in Melbourne. Pacific Brands was formed as the consumer goods division of the Australian company Pacific Dunlop (now Ansell Limited) in 1985. It was acquired by CVC Asia Pacific and Catalyst Investment Managers in November 2001. Through the early 2000s, Pacific Brands established itself as one of the leading managers of consumer brands in Australia and New Zealand. In April 2004, Pacific Brands listed on the ASX, issuing 503 million shares at $2.50 per share for a market capitalisation of around $1.3 billion. The company is also listed on the New Zealand Stock Exchange.

Following the company's listing, Pacific Brands made a number of acquisitions including Sheridan, the Yakka Group (which included Hard Yakka) and Brand Collective (the streetwear division of Globe International). These acquisitions contributed to an increase in sales from around $1.5 billion in FY2005 to $2.0 billion in FY2009. Despite this sales growth, the underlying business was in decline. Pacific Brands was faced with challenging market conditions, with a decline in consumer confidence and spending following the global financial crisis, cost pressures at its domestic manufacturing operations and a highly leveraged balance sheet. The company's share price fell from a high of $3.35 in July 2007 to a low of $0.13 in March 2009.

In 2009, Pacific Brands announced that it was implementing measures to reduce costs and complexity by closing its domestic manufacturing operations, discontinuing small brands, divesting non-core businesses, selling properties and driving efficiencies and corporate savings through the business. While the share price partially recovered to around $1.40 at the beginning of 2010, the company posted significant losses over subsequent years with major asset write downs, structural changes within the industry, increasing debt levels and significant changes at the executive level. Following a strategic review in 2014, the company commenced a process of further simplification and rationalisation. This included the divestment of the Workwear and Brand Collective divisions, owners of well-known brands such as Dunlop (footwear), Slazenger, KingGee and Hard Yakka, in November 2014.

Today, Pacific Brands is a vastly different company to the one that listed in 2004, with simplified operations, a significantly rationalised brand portfolio, growing and profitable retail operations, supply chain arrangements based on offshore product sourcing, and a robust balance sheet. However, the core focus on market leading brands remains.

***Business***

Pacific Brands owns a portfolio of leading brands that it manages through three segments:

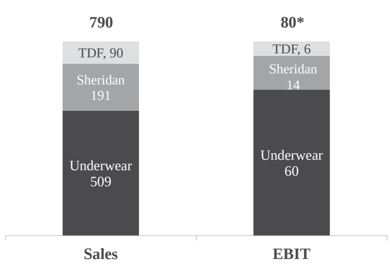
- **Underwear**: underwear, bras, socks, hosiery, babywear, active wear and outerwear;
- **Sheridan**: premium bedding products and accessories, towels and other home lifestyle products; and
- **Tontine and Dunlop Flooring**: pillows and quilts (Tontine), carpet underlay and hard flooring (Dunlop Flooring).

| Pacific Brands - Main Brands | |
|---|---|
| Underwear | Berlei, Explorer |
| Sheridan | SHERIDAN EST.1967, ACTIL |
| Tontine and Dunlop Flooring | FAIRYDOWN, Dunlopillo |

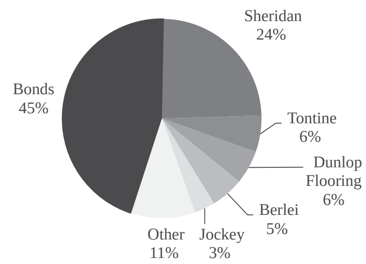
Source: Pacific Brands
Note: Jockey is a licensed brand

The company generated sales of $790 million and EBIT[2] of $64 million in the 2015 financial year. Underwear accounted for approximately 64% of sales and 75% of EBIT (before unallocated corporate costs). The Bonds and Sheridan brands together accounted for approximately 69% of total sales:

**Sales and EBIT by Segment (FY15, $m)**




**Sales by Brand and Business (FY15)[3]**




Source: Pacific Brands
Note *: Reflects EBIT pre unallocated corporate and other costs of $16 million.

Pacific Brands sells its products through wholesale and retail (online and in store) channels. The company's five largest wholesale customers by sales and in alphabetical order are Farmers, Myer, Pepkor (Best & Less and Harris Scarfe), Wesfarmers (Coles and Target) and Woolworths (Big W and Woolworths supermarkets). Over recent years, Pacific Brands has actively increased retail sales, primarily through the roll out of new retail stores and growth in its online platforms. As a consequence, the share of retail revenue has increased from around 30% in 2014 to 36% in 2015 and 39% in the first half of the 2016 financial year.

Over 95% of the company's products are sold in the Asia Pacific region, with the vast majority sold in Australia and New Zealand. Certain products are also distributed in the United Kingdom, Europe, the Middle East and Asia and there are further opportunities for international expansion. For example, Pacific Brands plans to leverage its sponsorship arrangement with Serena Williams to take the Berlei sports bra to the European and United States markets.

[2] EBIT is earnings before net interest and tax. References to EBIT within this document relate to EBIT pre-significant items and relate to continuing operations unless otherwise stated.

[3] The breakdown of the brands differs from the amounts presented in the company's 2015 annual report due to rounding.

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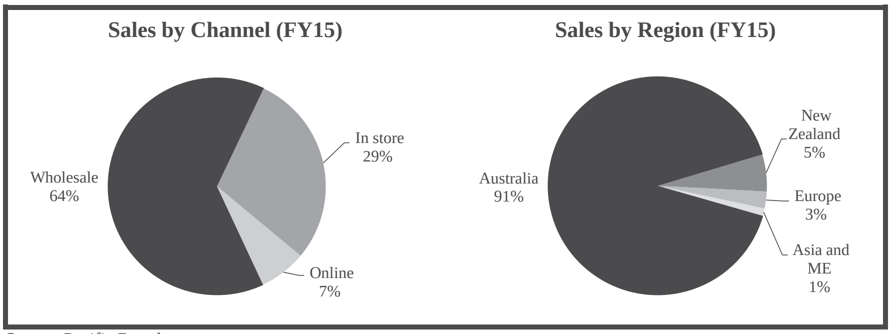



Source: Pacific Brands

Pacific Brands continues to face challenges relating to the Australian dollar depreciation or volatility against the United States dollar and reliance on wholesaling to large retailers. However, it has significantly simplified its business, restored balance sheet strength, focussed its strategy around maximising market leading brands such as Bonds and Sheridan, and actively increased retail sales both instore and online.

Pacific Brands employs approximately 3,600 people across five countries, predominantly in non-manufacturing roles. It had a market capitalisation of $862 million immediately prior to the announcement of the Proposal.

***Strategy***

Pacific Brands' strategy reflects the key issues that the company has faced in recent years and that will continue to represent challenges for the business in the foreseeable future:

- Pacific Brands' wholesale operations, which represent a major part of its business, are largely dependent on a limited number of significant retailers (principally department stores, discount department stores and supermarkets). Pacific Brands will continue to be exposed to the risk of loss of business or profitability as the result of potential changes to the strategy, operations and long term success of its major wholesale customers; and
- the vast majority of Pacific Brands' product is sourced from Asia, principally on a US$ denominated basis. Accordingly, Pacific Brands continues to be exposed to the risk of material exchange rate shifts. In particular, depreciation of the Australian dollar and its impact on sourcing costs can have a material effect on profitability.

In this context, Pacific Brands has developed a strategy focused on delivering the following three initiatives:

- *Be a house of leading brands*: greater brand focus with new ranges and campaigns launched in every operating group and expansion into adjacent categories;
- *Reshape and expand distribution*: reshape and grow wholesale channels, maximise retail potential (online, stores and concessions) and progressively grow international business in Bonds, Sheridan and Berlei; and
- *Develop a sustainable, lean global supply chain*: reduce product and logistics costs, increase forecast accuracy and service levels, enhance sustainability and ethical trading outcomes and improve development and manufacturing lead times including by investing in a world class warehouse picking system and reshaping and improving the supply chain.

## 3.2 Business Operations

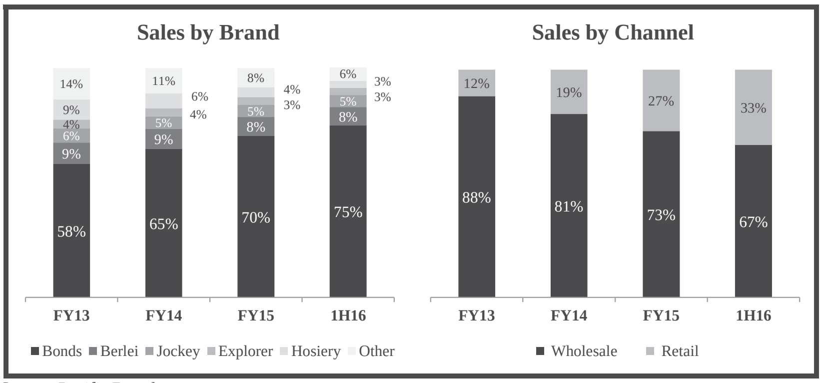
### 3.2.1 Underwear

***Overview***

Pacific Brands is the leading underwear company in Australia and New Zealand. It owns the iconic Bonds brand, Berlei (bras), Explorer (socks), a number of hosiery brands (Razzamatazz, Voodoo, Sheer Relief, Kayser), Rio (underwear and socks) and Hestia (bras) and it licenses the Jockey (underwear) brand. Pacific Brands has a leading market share and the highest level of brand loyalty in most of the categories in which it operates. Pacific Brands' positioning is supported by strong design and product development and significant investment in marketing.

Pacific Brands distributes its products through department stores, independents, discount department stores and supermarkets, through its own network of Bonds retail outlets and through two Bonds online stores, a Berlei online store and Jockey online store. Pacific Brands is the number one supplier of apparel to most major discount department stores, department stores and supermarkets.

As a result of strong growth in retail sales for Bonds and flat or declining sales for the other brands, Bonds accounted for 75% of Pacific Brands' Underwear business in the six months ended 31 December 2015, compared with 58% in the 2013 financial year. Retail sales accounted for 33% of sales in the half year ended 31 December 2015, compared with 12% in the 2013 financial year:




Source: Pacific Brands

Underwear accounts for nearly half of sales, followed by socks, bras, babywear, outerwear and hosiery.

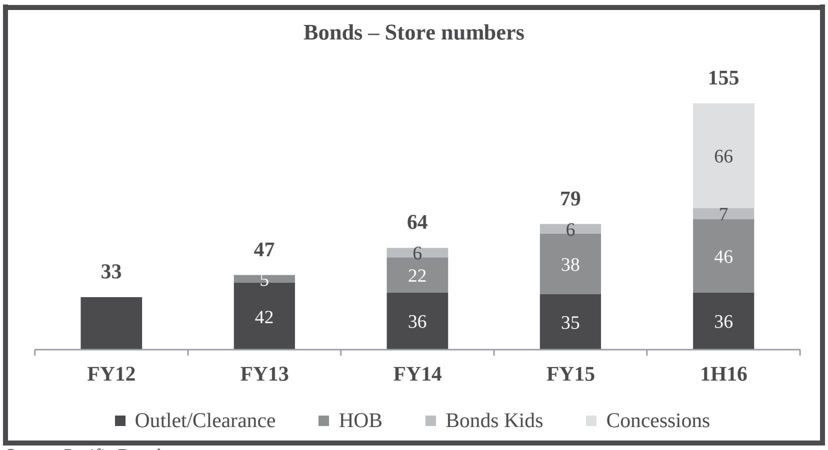
***Bonds***

Bonds is the company's cornerstone brand and by far the most important in its portfolio. It represented approximately 47% of Pacific Brands' total sales and 75% of the Underwear business' sales in the six months ended 31 December 2015.

Bonds was established by George A Bond in 1915 in Sydney, as an importer of women's hosiery and gloves. The product range now includes men's, women's and children's underwear, outerwear, socks, babywear, bras and hosiery. Bonds has established itself as an iconic Australian brand. It has significant market share and market leading brand loyalty in most of the product segments in which it operates. More recently, Bonds has launched a sports range sold primarily through concession stores established for that purpose at Myer. Underwear currently accounts for approximately 45% of Bonds sales, with men's and women's underwear each accounting for approximately 20% and children's underwear for the balance. The baby, outerwear and socks categories each generated approximately 10-15% of Bonds sales and bras and hosiery accounted for the balance.

Bonds is a significant and consistent investor in marketing. Over the years, it has partnered with well-known Australian personalities such as Sarah Murdoch, Pat Rafter, Rachael Taylor and, more recently, Iggy Azalea, further developing its Australian icon brand status.

Bonds has been operating outlet stores for many years but only opened its first online store in 2011 and its first full priced House of Bonds ("HOB") store in 2012. Myer concession stores were launched in November 2015. As at 31 December 2015, Bonds operated a total of 155 physical stores throughout Australia and New Zealand:




Source: Pacific Brands

Pacific Brands expects that the Bonds retail network will continue to expand at rates commensurate with recent years.

The Bonds international business is of modest scale. Bonds product is distributed through retailers in the UK, China and Singapore. Bonds has recently entered into a licence agreement with Alhokair, the largest franchise retailer in the Middle East, North Africa and Central Asia, under which Alhokair will open a number of stores in its regions. While the international business provides longer term growth opportunities, Pacific Brands' focus in the short to medium term will be on growing the Bonds retail business in Australia.

***Berlei***

Berlei was established almost 100 years ago in Australia as a maker of bras and briefs. Today, Berlei is the number one everyday bra brand and the number one sports bra brand in Australia. Berlei products are sold through retailers mostly in Australia and the Berlei on-line store, which was established in 2012.

Berlei produces the only sports bra that has been tested and approved by the Australian Institute of Sports. In August 2015, Berlei launched The Sensation bra, with brand ambassador Jessica Marais targeting a younger consumer. This was Berlei's first launch of an everyday bra since the Barely There bra was launched in 2004.

Berlei sales have been flat over the past three and a half years, but growth in the international business and the resolution of supply issues that have affected sales of The Sensation are expected to result in moderate growth. Pacific Brands has entered into a joint venture agreement with Courtaulds, a Britain-based producer of lingerie and underwear, for the development and distribution of the brand overseas[4]. The brand has been launched in the UK and continental Europe and will be launched in the US this year with the help of Serena Williams, the world's number one tennis player, who has been an ambassador for the Berlei sports bra since 2013.

***Other Brands***

The other brands in the Underwear portfolio accounted for less than 20% of the business' sales in the December 2015 half. Some of these brands have a long history and remain a meaningful part of the Underwear business. In particular, the Jockey underwear brand, dating back to 1876, and the Explorer socks brand, dating back to 1929, continue to generate stable sales. Other brands, such as Hestia (a bras brand that dates back to 1940), Razzamatazz (hosiery), Voodoo (hosiery) and Rio (socks and underwear) are of less significance. The hosiery brands in particular have declined, reflecting evolving consumer preferences. This trend is expected to continue.

***Sourcing and Logistics***

The majority of Berlei products and elements of women's underwear are manufactured at a company-owned factory in Indonesia. All other underwear and related apparel products sold by Pacific Brands are sourced from suppliers in Asia, mostly China. The business operates distribution centres in Truganina, Victoria and in East Tamaki, New Zealand.

***Financial Performance***

Overall sales of the Underwear business have grown in recent years. However, the sales performance of the business has been mixed across brands and channels, with strong sales growth for Bonds, particularly in the retail channel, offset by flat or declining sales for other brands and continuing pressure on the wholesale channel:

| Underwear – Sales by Brand ($ millions) | | | | | |
|---|---|---|---|---|---|
| | Year to 30 June | | | Six months to 31 Dec. | |
| | 2013 | 2014 | 2015 | 2014 | 2015 |
| **Sales - $m** | | | | | |
| - Bonds | 264 | 317 | 358 | 176 | 200 |
| - Berlei | 42 | 43 | 42 | 21 | 22 |
| - Jockey | 28 | 27 | 27 | 13 | 14 |
| - Explorer | 18 | 17 | 18 | 9 | 9 |
| - Hosiery brands | 40 | 31 | 22 | 10 | 8 |
| - Other | 62 | 54 | 42 | 23 | 17 |
| **Total** | **454** | **489** | **509** | **253** | **269** |
| ***Sales – Growth rates*** | | | | | |
| *- Bonds* | *n.a.* | *19.9* | *13.0* | *n.a.* | *13.6* |
| *- Berlei* | *n.a.* | *2.5* | *(2.7)* | *n.a.* | *0.6* |
| *- Jockey* | *n.a.* | *(4.3)* | *(0.2)* | *n.a.* | *5.1* |
| *- Explorer* | *n.a.* | *(2.5)* | *2.8* | *n.a.* | *(0.7)* |
| *- Hosiery brands* | *n.a.* | *(21.5)* | *(29.2)* | *n.a.* | *(17.3)* |
| *- Other* | *n.a.* | *(13.4)* | *(22.0)* | *n.a.* | *(27.3)* |
| ***Total*** | *n.a.* | ***7.8*** | ***4.0*** | *n.a.* | ***6.7*** |

Source: Pacific Brands

4 Pacific Brands retains the full rights to the brand in Australia and New Zealand and Courtaulds retains the full rights in China and Japan.

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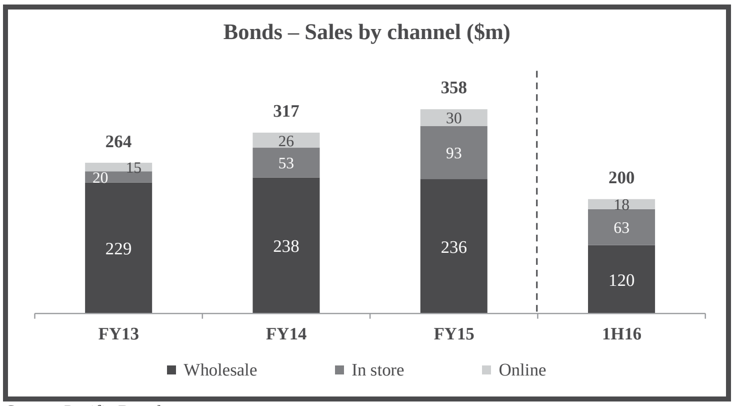
In particular:

- Bonds sales growth has largely reflected growth in retail sales as a result of same store sales growth and the expansion of the store network:
  - in store and online sales have consistently grown over the past two and half years while wholesale sales have stagnated. As a result, the share of in store sales grew from 8% of total sales in FY13 to 32% in the December 2015 half and online sales from 6% to 9% over the same period:




Source: Pacific Brands

  - expansion of the retail network has focused on the full-priced House of Bonds stores and, to a lesser extent, Bonds Kids stores. Pacific Brands has opened 46 House of Bonds stores since the first store was opened at Doncaster in 2012. More recently, Bonds has opened 66 concession sites at Myer, from which it distributes Bonds activewear and outerwear;
  - Pacific Brands is continuously improving the productivity and profitability of its House of Bonds retail network and a further revised store format is now being developed. Same store sales for the whole retail network have grown at an average of over 20% over the past two and a half years, reflecting improvements in stock density, product mix and the overall customer experience;
  - good performance in the supermarket channel resulted in modest growth in wholesale sales in 2014. In 2015 and the first half of the 2016 financial year, however, wholesale sales have been flat, as underperformance in the discount department store channel has offset growth in supermarkets; and
  - Bonds sales margins have improved as a result of the optimisation of the product mix, improvements in the gross margins of the maturing retail business, an ongoing shift in the overall sales mix away from wholesale sales to higher margin retail sales, and economies of scale in relation to overheads;
- sales of Berlei, Jockey and Explorer have been largely flat in recent years, although Berlei sales were supported by the launch of The Sensation range in August 2015;
- Hosiery sales have been sharply down, reflecting changes in consumer habits and the launch of Bonds Tights in FY15 which have cannibalised some sales of the Hosiery brands but helped to stabilise the trajectory of the category; and
- the Rio, Hestia and other brands, which are predominantly distributed through discount department stores, have been affected by increased competition, range rationalisation and other issues.

13

The financial performance of the Underwear business for the three years ended 30 June 2015 and the half years ended 31 December 2014 and 31 December 2015 is set out below:

| Underwear - Financial Performance ($ millions) | | | | | |
|---|---|---|---|---|---|
| | Year to 30 June[5] | | | Six months to 31 Dec | |
| | 2013 | 2014 | 2015 | 2014 | 2015 |
| Sales | 453.9 | 489.2 | 508.6 | 252.6 | 268.7 |
| EBIT (pre-significant items) | 78.1 | 61.3 | 60.2 | 26.7 | 30.0 |
| EBIT (post-significant items) | 78.1 | 69.6 | (24.7) | (57.0) | 30.0 |
| ***Statistics*** | | | | | |
| *Sales revenue growth* | *n.a.* | *7.8* | *4.0* | *n.a.* | *6.3* |
| *EBIT growth (pre significant items)* | *n.a.* | *(21.5)* | *(1.8)* | *n.a.* | *12.3* |
| *EBIT margin (pre significant items)* | *17.2* | *12.5* | *11.8* | *10.6* | *11.1* |

Source: Pacific Brands

The profitability of the Underwear group fell sharply in 2014. Strong performance in the retail channel was more than offset by increased spending in promotional and clearance activities, a change in the product mix and the impact of the depreciation of the Australian dollar on product sourcing costs. In 2015, a decline in wholesale gross margins in the first half was only partially offset by a recovery in the wholesale segment in the second half and a strong contribution from the retail segment. Strong sales performance in the retail channel underpinned the growth in earnings for the six months ended 31 December 2015.

The major significant item in the 2014 financial year was a $10.8 million net gain on the sale of a property. Significant items in 2015 included a net expense of $81 million, as Pacific Brands wrote down the carrying value of the hosiery brands and the portfolio brands (viz. Rio, Hestia, Razzamatazz, Holeproof).

***Outlook***

Sales growth is expected to be driven by growth in retail sales, from existing stores, new stores and the Bonds and Berlei online stores.

Same store sales are expected to continue to grow as Pacific Brands further optimises store formats and product mix and enhances the customer experience. Further growth is expected from the sport range launched for the Myer concessions in November 2015. Pacific Brands expects to continue to open new House of Bonds stores at rates commensurate with recent years. The Bonds and Berlei online stores are expected to benefit from improved user experience, omni-channel capabilities, enhanced warehousing and fulfilment services, and other initiatives. Conversely, the wholesale channel is expected to continue to be challenging with changes in leadership at major customers, continued focus on direct sourcing and uncertainty around future strategic direction.

Pacific Brands expects that ongoing sourcing initiatives will allow for a continued reduction in product costs (before any impact of movements in exchange rates). The implementation of an automated Goods to Person ("GTP") warehouse picking system at the distribution centre in Truganina[6] and other optimisations of the supply chain should also have a positive impact on margins, as well as improving stock turns, reducing working capital requirements, and enhancing the customer experience. The phasing out of import duties by 2017, following the signing of the Free Trade Agreement with China in September 2015, should also contribute to a reduction in cost of goods sold. Conversely,

5 2013 data sourced from the 2014 results presentation. 2014 and 2015 data sourced from the 2015 results presentation

6 See section 3.3 for more detail.

inflationary pressures in China and potential further devaluation of the Australian dollar could adversely affect margins.

### 3.2.2 Sheridan

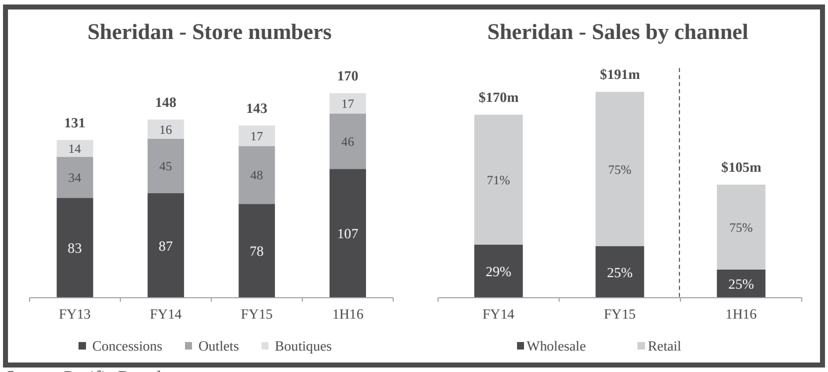
Sheridan was established in 1967 by Claudio Alcorso and is based in Sydney. While Sheridan's core offering is luxurious linen and bath towels, it has an expanding range of lifestyle products such as bedding (quilt covers, pillows), decorative (cushions, throws), lifestyle (candles, diffusers), loungewear (pyjamas and robes) and babywear.

The brand health of Sheridan is extremely strong, with the brand consistently associated with premium quality products. It is Australia's leading bed linen brand, with approximately 8% of the relatively fragmented $1.4 billion domestic bed linen market.[7] It also commands a market share of approximately 12% of the $330 million bathe market.[7] Sheridan's products are generally priced at price points materially higher than those of its competitors, including Laura Ashley, Country Road, Adairs and Target.

Sheridan's target market has typically been consumers residing in the inner city, predominantly female and with above average disposable income. The Sheridan brand is well-known for its traditional designs, largely based around white sheets and charcoal towels. However, Sheridan is broadening its target market by introducing contemporary styles, "debundling" its product offering and increasing accessibility through the introduction of new products at lower price points. Sheridan plans to continue to extend its range of products into adjacent lifestyle categories.

Retail sales account for around 75% of total revenue. In Australia, Sheridan's retail business operates 16 boutique stores, 38 concession stores at David Jones, 40 outlets and two online platforms.[8] The outlet stores, which operate under the banner Sheridan Outlet, facilitate the sale of Sheridan premium clearance stock but also generate a large proportion of sales from lower priced products developed specifically for the channel. Recently, Sheridan launched a Kids & Baby range in 34 David Jones concessions. Sheridan also wholesales its products to customers including Myer, various independents and Harris Scarfe, which is also a major distributor of Sheridan's portfolio brand, Actil. The business sources its entire product range offshore (mainly from China).

The majority of sales are generated within Australia (in excess of 80%). Sheridan also has a presence in the United Kingdom, with concession stores in House of Fraser and Debenhams, the Middle East, through Debenhams, New Zealand and Asia.




Source: Pacific Brands

[7] Source: Roy Morgan research

[8] As at 31 December 2015

Despite strong sales growth, Sheridan earnings for the 2014 and 2015 financial years were well down on prior years, reflecting factors such as currency depreciation, lower margins through increased promotional activity, poor performances in the wholesale channel and underperformance in the United Kingdom as a result of poorly conceived and executed growth initiatives. During 2015, Sheridan responded by announcing a number of initiatives to improve profitability:

- the consolidation of Sheridan's warehousing and logistics operations into the Underwear distribution centre in Melbourne;
- the transitioning of product sourcing from an agent sourcing arrangement to direct sourcing, with Sheridan Asia to coordinate overseas production directly;
- the use of various shared services across the business to reduce overhead and administrative costs; and
- a rationalisation of the United Kingdom business to focus on profitable concessions and online, and to reduce overhead and administrative costs. Sheridan withdrew from 11 retail sites during the six months to 31 December 2015 and plans to withdraw from a further 8 sites (concessions and outlet stores) in the second half of 2016.

The financial performance of the Sheridan business for the two years ended 30 June 2015 and the half years ended 31 December 2014 and 31 December 2015 is set out below:

**Sheridan - Financial Performance ($ millions)**

| | Year to 30 June | | Six months to 31 Dec | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| Sales | 169.7 | 191.3 | 95.3 | 105.0 |
| EBIT (pre-significant items) | 12.8 | 13.9 | 8.7 | 9.2 |
| EBIT (post-significant items) | 12.3 | (21.1) | (26.3) | 9.2 |
| ***Statistics*** | | | | |
| *Sales revenue growth* | *n.a.* | *12.8* | *n.a.* | *10.2* |
| *EBIT growth (pre significant items)* | *n.a.* | *9.2* | *n.a.* | *5.0* |
| *EBIT margin (pre significant items)* | *7.5* | *7.3* | *9.1* | *8.8* |

Source: Pacific Brands

In the financial year 2015, sales grew by 12.8% to $191 million. The retail performance was strong, with sales from comparable stores increasing by approximately 13% overall.

For the half year ended 31 December 2015, sales increased by around 10% to $105 million, reflecting strong retail sales growth (approximately 14%). In particular, the retail sales growth was the result of strong performance in existing stores and concessions in Australia, growth in outlet sales as a result of improved execution and clearance, and increasing contributions from the new Kids and Baby categories. EBIT (pre-significant items) increased by around 5% to $9 million, with the strong retail performance partially offset by costs associated with the profit improvement program, particularly restructuring costs relating to the United Kingdom business.

Significant items for the 2015 financial year entirely related to the impairment of goodwill following adverse movements in foreign exchange.

Sheridan is expected to continue to focus on improving business efficiency, expanding its Australian store network, implementing concession arrangements with wholesale partners where possible and improving range management in the United Kingdom business. Earnings for the 2016 financial year are expected to be materially higher than for 2015, as sales continue to grow and Sheridan realises the benefits of its profit improvement initiatives.

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### 3.2.3 Tontine and Dunlop Flooring

The Tontine and Dunlop Flooring group comprises the Tontine bedding accessories business and the Dunlop Flooring carpet underlay and hard flooring business.

***Tontine***

Tontine is the largest wholesaler of pillows, quilts and mattress protectors in Australia and New Zealand. It sells products under the following brands:

- **Tontine**: pillows (polyester, latex, memory foam), duvets (polyester and wool), mattress protectors, pillow protectors and underlays;
- **Dunlopillo**: premium and therapeutic pillows (latex and memory foam);
- **Fairydown**: premium duvets (feather and down, cotton, polyester), pillows, mattress protectors and toppers, blankets; and
- **Other** (Crestell, BioZone, Dream-a-way and Natures Dream): budget pillows, duvets, bedding accessories, towels and cushions acquired through the acquisition of Crestell in June 2015.

The Tontine brand is number one in Australia for pillows and number two for quilts. The Dunlopillo brand, which Pacific Brands owns in Australia and New Zealand, is number one in Australia for premium and therapeutic pillows. Fairydown is the number one brand in New Zealand for its product range.

The bedding accessories wholesale market in Australia is estimated at $300 million per annum with average annual growth rates of 2-3%.[9] Following the collapse of Sleepmaster in August 2013 and the acquisition of Crestell by Tontine in June 2015, Tontine commands a market share of approximately 20% by value. It has only two major competitors in the Australian and New Zealand markets, Easyrest and Jaspa, both of which supply largely unbranded products to retailers. There are a number of other players with strong brand equity but they are relatively small.

Tontine manufactures most of its range of pillows and quilts at its plant in Campbellfield, Victoria. The plant has a daily production capacity of 20,000 pillows and 2,000 quilts and sources its raw materials from Australia and several countries in Asia. Tontine imports the balance of the finished products (largely its premium products) from manufacturers in China. Approximately 60% of Tontine's cost of goods sold is incurred in US dollars.

Tontine distributes its products mostly through discount department stores, supermarkets, specialty stores and department stores. Tontine is a key supplier to most major retailers. Its lower value polyester products account for approximately two thirds of revenue, while the premium cotton and wool products account for the balance.

Tontine employs approximately 100 employees, including 70 at its manufacturing facilities.

Tontine generated sales of approximately $49 million in the year ended 30 June 2014. Challenging retail conditions, in particular in the discount department store segment, resulted in sales falling to $47 million in the year ended 30 June 2015.

Pacific Brands expects that Tontine will deliver a significant improvement in sales and earnings in 2016. Against a backdrop of improved retail conditions, Tontine is projecting earnings growth as a result of strong performance by Dunlopillo and Fairydown in department stores, growth of the value category in discount department stores, contribution from the Crestell acquisition, price increases implemented during the year and the

[9] Source: Roy Morgan research

realisation of cost reductions. Sales for the first half of the 2016 financial year were $27 million compared to $22 million in the previous corresponding period.

In 2017, modest sales growth combined with further reductions in the cost of sales and other cost reductions are expected to result in further growth in earnings. Overall, Tontine is expected to continue to perform strongly as the business pursues a range of alternatives such as:

- growth into new product lines such as organic and natural fibres, children's products and home style products;
- growth of the online business;
- export of woollen duvets to overseas markets;
- savings on the cost of materials and switch to more economical raw materials; and
- operational efficiency initiatives resulting in a reduction in the cost of doing business.

***Dunlop Flooring***

Dunlop Flooring is Australia's largest manufacturer and wholesaler of foam carpet underlay. It is also a distributer of timber, laminate and vinyl hard flooring. The hard flooring business was launched in 2015 and, although it is expected to grow in significance, it only accounted for approximately 6% of total sales of the Dunlop Flooring business in the December 2015 half.

The business sells products under the following brands:

- **Dunlop Flooring**: number one brand of PU foam carpet underlay in Australia;
- **Heartridge**: engineered wood, laminate and vinyl plank flooring;
- **Castleton**: vinyl plank flooring sold exclusively at Carpet Call; and
- **Oak Trends and Other**: timber plank flooring sold exclusively at Harvey Norman.

Dunlop Flooring has a major share of the Australian carpet underlay market, which is estimated at $80 million per annum. It manufactures the carpet underlay at production sites in Sunshine, Victoria, and Wetherill Park in New South Wales. The company sources 60% of the foam scrap it consumes from Australia and the balance from overseas. Dunlop Flooring is a direct supplier of carpet underlay to all major carpet retailing groups.

The Australian hard flooring market is valued at approximately $300 million per annum, with growth exceeding GDP growth rates. Dunlop Flooring sources its finished hard floor products from suppliers in China. As the products are sold through the same channels as Dunlop Flooring's carpet underlay products, the company expects to be able to leverage its strong relationships and its existing distribution system to grow its hard flooring business.

Dunlop Flooring generated sales of approximately $41 million in the year ended 30 June 2014 and $43 million in the year ended 30 June 2015. The business is expected to continue to perform strongly as a result of favourable conditions in the dwelling building sector, the business' market leadership and growth in its hard flooring business. Sales in the half year ended 31 December 2015 were $25 million, compared to $22 million in the previous corresponding period, largely as a result of the launch of new hard flooring products and continued growth in sales of carpet underlay. Strong production performance and raw material cost reductions contributed to growth in earnings.

In 2017 and beyond, sales are expected to grow significantly as the hard flooring business matures and the range is expanded, although investment in that business may affect earnings in the medium term. Opportunities for continued reductions in manufacturing costs should support longer term growth in earnings.

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*Financial Performance*

The financial performance of the Tontine and Dunlop Flooring business for the two years ended 30 June 2015 and the half years ended 31 December 2014 and 31 December 2015 is set out below:

| Tontine and Dunlop Flooring - Financial Performance ($ millions) | Year to 30 June | | Six months to 31 Dec | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| *Tontine* | *49.3* | *46.5* | *21.9* | *26.6* |
| *Dunlop Flooring* | *41.1* | *43.3* | *21.9* | *25.1* |
| Total sales | 90.4 | 89.7 | 43.8 | 51.7 |
| EBIT[10] (pre-significant items) | 5.0 | 5.9 | 2.9 | 5.0 |
| EBIT (post-significant items) | 3.7 | (19.7) | (16.7) | 5.0 |
| ***Statistics*** | | | | |
| *Sales revenue growth* | *n.a.* | *(0.8)* | *n.a.* | *18.1* |
| *EBIT growth (pre significant items)* | *n.a.* | *16.3* | *n.a.* | *71.6* |
| *EBIT margin (pre significant items)* | *5.5* | *6.6* | *6.6* | *9.7* |

Source: Pacific Brands and Grant Samuel analysis

The depreciation of the Australian dollar has put significant pressure on the cost of imports, although price increases, a reduction in import duty fees and other optimisation initiatives have largely mitigated the impact.

All plant and equipment, goodwill and brand names were fully impaired during the 2015 financial year, resulting in a $19.7 million loss at the EBIT line (post-significant items). The consequent reduction in depreciation and amortisation will improve annual EBIT by approximately $0.5 million on a full year basis net of maintenance capital expenditure expensed directly to the income statement.

*Outlook*

Sales are expected to be materially higher in 2016 than in 2015 and EBIT is expected to be much higher in relative terms. In the first half of the year, sales increased 18% and EBIT 72% on the previous corresponding period. The Dunlop Flooring business has been supported by the strength in the housing construction market and will be exposed to any significant slowdown in new housing starts.

### 3.3 Supply Chain

Pacific Brands is facing a number of challenges: the business is transitioning from a traditional two-season, wholesale business to a faster paced, omni-channel model; competition from branded products and private labels is increasing; the devaluation of the Australian dollar and inflationary pressures in China are affecting margins; and there is a growing focus from consumers and organisations on ethical and sustainable sourcing. To respond to these challenges, Pacific Brands is continuing to optimise its supply chain to increase its speed to market, control costs and ensure the values of Pacific Brands' suppliers and other partners are aligned with those of the company.

[10] EBIT is earnings before net interest and tax.

Pacific Brands sources approximately 85% of its raw materials and products from overseas. Two thirds are sourced from China and the balance from various countries, mostly in Asia. Pacific Brands is progressively rolling out the LEAN philosophy in-house and at selected suppliers. The programme results in substantial reductions in product and logistics costs, shorter lead times in product development and manufacturing, improvements in service levels and reduction in stock levels. The company has also been optimising its portfolio of suppliers to reduce complexity and generate cost efficiencies and has recently brought certain (agent delivered) sourcing services in-house.

Pacific Brands is currently installing an automated warehouse picking system at its main distribution centre in Truganina in Victoria. This GTP system allows fulfilment of orders from wholesale clients, company owned stores and online sales to be largely automated. The system will significantly increase capacity, improve capability, lower costs of doing business and increase pick speed and speed to market for wholesale and retail channels. It will be able to handle approximately 80% of the order volume that the company manages in its Australian Underwear and Sheridan businesses. The total cost of the system has been estimated at $18 million, of which $12 million will be spent in the six months ending June 2016 and the balance in the December 2016 half, with an attractive return on investment. The project is expected to be fully operational during the December 2016 quarter. In addition to direct cost reductions, the new picking system will allow the distribution centre to be more responsive to demand, reduce stock and improve service levels.

Pacific Brands' IT systems are mature and only relatively modest development is planned, principally to support the company's omni-channel offering (for example, click and collect and in-store returns of products bought online).

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### 3.4 Financial Performance

The financial performance of Pacific Brands for the two years ended 30 June 2015 and the six months ended 31 December 2015 is summarised below:

| Pacific Brands - Financial Performance ($ millions)[11] | Year to 30 June | | Six months to 31 Dec | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| **Sales revenue** | **749.2** | **789.7** | **391.8** | **425.3** |
| Cost of goods sold | (374.7) | (401.0) | (202.1) | (213.0) |
| Other income | 1.0 | 0.8 | 0.5 | 0.1 |
| **Gross profit** | **375.5** | **389.4** | **190.1** | **212.4** |
| Cost of doing business | (294.8) | (312.1) | (151.3) | (170.3) |
| **EBITDA[12]** | **80.7** | **77.3** | **38.8** | **42.1** |
| Depreciation and amortisation | (13.1) | (13.1) | (7.3) | (5.9) |
| **EBIT[13]** | **67.5** | **64.2** | **31.5** | **36.2** |
| Net interest expense | (17.8) | (12.9) | (8.4) | (2.0) |
| Significant and non-recurring items | (10.3) | (149.1) | (138.5) | - |
| **Profit before tax from continuing operations** | **39.4** | **(97.7)** | **(115.4)** | **34.2** |
| Income tax expense from continuing operations | (4.6) | (9.3) | (4.4) | (9.9) |
| **Profit after tax from continuing operations** | **34.8** | **(107.0)** | **(119.8)** | **24.3** |
| Profit/(loss) from discontinued operations – post tax | (259.3) | 9.2 | 11.1 | - |
| **NPAT[14] attributable to Pacific Brands shareholders** | **(224.5)** | **(97.7)** | **(108.7)** | **24.3** |
| ***Statistics*** | | | | |
| *Basic earnings per share (normalised) (cents)* | *3.9* | *4.1* | *(13.1)* | *2.7* |
| *Dividends per share (cents)* | *2.0* | *-* | *1.8* | *1.6* |
| *Dividend payout ratio* | *51%* | *0%* | *0%* | *60%* |
| *Amount of dividend franked* | *100%* | *n.a.* | *n.a.* | *100%* |
| *Sales revenue growth* | *-* | *5.4%* | *-* | *8.6%[15]* |
| *EBITDA growth* | *-* | *(4.1%)* | *-* | *8.5%[15]* |
| *EBIT growth* | *-* | *(4.8%)* | *-* | *14.9%[15]* |
| *Gross margin* | *50.1%* | *49.3%* | *48.5%* | *49.9%* |
| *EBITDA margin* | *10.8%* | *9.7%* | *9.9%* | *9.9%* |
| *EBIT margin* | *9.0%* | *8.1%* | *8.0%* | *8.5%* |

Source: Pacific Brands and Grant Samuel analysis.

The financial performance for the year ended 30 June 2014 has been restated by the company to reflect the sale of the Workwear and Brand Collective businesses and focus on continuing businesses only.

Pacific Brands' financial performance generally improved from FY14 to FY15, reflecting:

- strong performance in the retail channel, as a result of growth in online sales, new store rollouts and significant instore sales growth in Bonds and Sheridan;

11 Number may not add to total due to rounding

12 EBITDA is earnings before interest, tax, depreciation and amortisation. References to EBITDA within this document relate to EBITDA pre-significant items and relate to continuing operations unless otherwise stated.

13 EBIT is earnings before net interest and tax. References to EBIT within this document relate to EBIT pre-significant items and relate to continuing operations unless otherwise stated.

14 NPAT is net profit after tax.

15 Growth rates calculated with reference to the six months ended 31 December 2014.

- a reduction in product sourcing costs through the implementation of optimisation initiatives throughout the supply chain; and
- only modest increases in the cost of doing business, despite increased investment in retail. Cost reductions were achieved following the sale of the Brand Collective and Workwear businesses, the Hong Kong sourcing office was closed, corporate headcount was reduced and other cost reduction initiatives were implemented.

This strong performance was partly offset by:

- a decline in the Underwear wholesale gross margin as a result of increased promotional activity, associated trade spend and higher clearance sales;
- a reduction in sales volumes in the wholesale channel as major customers focussed on private label rather than branded products; and
- sourcing cost pressures reflecting the depreciation of the Australian dollar against the US dollar and wages inflation in China.

For the half year ended 31 December 2015, continued strong instore and online retail growth underpinned overall sales growth. Sales for all the company's major brands grew despite poor performance in the wholesale channel. Gross margins increased, mainly due to the increasing proportion of higher margin retail sales and optimisation of the product mix. The company increased prices, particularly for the Bonds retail business, and implemented further cost savings initiatives. Pacific Brands' cost of doing business increased, mainly due to investment in retail and brand marketing. Net profit increased around 44% on the prior corresponding period, reflecting growth in underlying earnings, lower interest costs and the absence of impairments. After suspending dividends for two years, Pacific Brands declared an interim dividend of 1.6 cents per share.

Pacific Brands' reported earnings in recent years have been significantly affected by impairment losses. Significant items for the 2014 financial year mainly related to cash restructuring costs and a gain on the sale of the Bonds site in Wentworthville. The impairment charges in 2015 primarily comprise an $81 million write down of Underwear portfolio and hosiery brand names and a $35 million write down of the Sheridan goodwill.

**Pacific Brands – Significant items[16] ($ millions)**

| | Year ended 30 June | | Six months to |
|---|---|---|---|
| | **2014** | **2015** | **31 Dec 2015** |
| Profit on sale of properties | 10.8 | - | - |
| Impairment of goodwill and brand names | - | (132.7) | - |
| Other asset impairments and write downs | (2.1) | (16.4) | - |
| Restructuring costs | (19.1) | - | - |
| **Total** | **(10.3)** | **(149.1)** | **-** |

Source: Pacific Brands

***Outlook***

On 16 February 2016, Pacific Brands confirmed its EBIT guidance for the year ending 30 June 2016 to be approximately $73-75 million. The company has not released earnings forecasts for the year ending 30 June 2017 or beyond.

[16] The 2014 numbers have been restated to reflect continuing operations and exclude the Workwear and Brand Collective segments

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In order to provide an indication of the expected future financial performance of Pacific Brands, Grant Samuel has considered brokers' forecasts for Pacific Brands (see Appendix 1) as follows:

| Pacific Brands – Financial Performance ($ millions) | | | |
|---|---|---|---|
| | Year end 30 June | | |
| | 2015 actual | Broker Consensus 2016 | Broker Consensus 2017 |
| Sales revenue | 789.7 | 865.4 | 911.3 |
| EBITDA | 77.3 | 86.3 | 96.4 |
| EBIT | 64.2 | 74.7 | 82.8 |
| NPAT | 37.5[17] | 50.3 | 57.0 |
| Earnings per share (cents) | 4.1 | 5.6 | 6.2 |
| Dividends per share (cents) | - | 3.2 | 4.0 |

Source: Grant Samuel analysis (see Appendix 1).

The projected increase in revenue and earnings reflects a number of factors, including expectations of continued strong growth in the retail business as a result of further growth in online, existing comparable store growth and new store rollouts, effective management of business challenges such as foreign exchange and weakness in the wholesale channel with costs savings and price rises keeping margins stable, and an improvement in the profitability of Sheridan.

However, brokers remain cautious, particularly in relation to:

- the possible impact of currency movements on margins;
- weakness in the wholesale channel reflecting Pacific Brands' limited bargaining power, competition from private label products and limited ability to push through price rises; and
- international expansion opportunities, given the low levels of brand awareness of the company's brands in offshore markets.

While there has been some recent strengthening in the Australian dollar against the US dollar, the company's current hedging position means that any consequential benefit will generally be limited until the financial year 2018. Further, any currency revaluation would need to be sustained for there to be a meaningful impact.

[17] NPAT before significant items sourced from Pacific Brands' FY15 Annual Report.

### 3.5 Financial Position

The financial position of Pacific Brands as at 30 June 2015 and 31 December 2015 is summarised below:

| Pacific Brands - Financial Position ($ millions)[18] | | |
|---|---|---|
| | **As at 30 June 2015** | **As at 31 December 2015** |
| Debtors and prepayments | 86.9 | 86.1 |
| Inventories | 131.1 | 147.2 |
| Trade and other payables | (93.2) | (109.7) |
| Provisions - Current | (23.4) | (21.7) |
| **Net working capital** | **101.5** | **101.9** |
| Property, plant and equipment (net) | 33.9 | 36.8 |
| Intangible assets (net) | 215.4 | 215.4 |
| Investments accounted for using the equity method | 9.6 | 9.7 |
| Current tax assets / (liabilities) (net) | 7.5 | 1.0 |
| Deferred tax assets / (liabilities) (net) | 19.6 | 21.4 |
| Hedge receivable / (payable) | 13.1 | 2.2 |
| Restructuring provisions (current) | (9.1) | (5.9) |
| Provisions - Non-current | (17.4) | (19.4) |
| **Total funds employed** | **374.0** | **363.1** |
| Cash and deposits | 80.1 | 87.4 |
| Bank loans, other loans and finance leases | (79.2) | (54.4) |
| **Net cash / (borrowings)** | 0.9 | 33.0 |
| **Net assets** | **375.0** | **396.1** |
| Outside equity interests | - | - |
| **Equity attributable to Pacific Brands shareholders** | **375.0** | **396.1** |
| ***Statistics*** | | |
| *Number of shares at the end of the period (million)* | *917.2* | *917.2* |
| *Net assets per share ($)* | *0.41* | *0.43* |
| *NTA[19] per share ($)* | *0.17* | *0.20* |
| *Gearing (%)* | *n.a.* | *n.a.* |

Source: Pacific Brands and Grant Samuel analysis

The following should be noted in relation to Pacific Brands' financial position:

- recent divestments and working capital initiatives have resulted in a positive net cash position ($33 million) for the first time in the company's history;
- intangible assets of $215 million relate to the Bonds, Berlei and Sheridan brand names only, following the full impairment of the other brands;
- the inventory balance of $147 million increased as a result of the depreciation in the Australian dollar, an early Chinese New Year that affected shipment timing and an increase in stock to provide for retail growth. Payables increased as a result of the depreciation of the Australian dollar and the payment terms for its suppliers in the Underwear segment increasing from 60 days to 90 days;
- the investment accounted for using the equity method relates to Pacific Brands' 50% interest in the Berlei joint venture; and

18 Numbers may not add to total due to rounding.

19 NTA is net tangible assets, which is calculated as net assets less intangible assets.

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- 75-80% of Pacific Brands' cost of goods sold is settled in US dollars. The company hedges up to 80% of its projected cost of goods sold up to 12 months in advance. The value of these hedges is reflected separately on the face of the statement of financial position.

As at 31 December 2015, Pacific Brands had the following financing facilities in place:

- a $25 million bank overdraft, which was undrawn as at 31 December 2015;
- a $125 million revolving credit facility maturing on 31 January 2019, which was undrawn as at 31 December 2015; and
- a $90 million securitisation facility secured against the company's receivables and maturing on 31 January 2018. The facility was drawn to $55 million as at 31 December 2015.

Under the Australian tax consolidation regime, Pacific Brands and its wholly owned Australian resident entities have elected to be taxed as a single entity. At 31 December 2015, Pacific Brands had no Australian carried forward income tax losses and minimal Hong Kong carried forward income tax losses. Pacific Brands had carried forward Australian capital losses of approximately $383 million. At 31 December 2015, Pacific Brands had $49 million of accumulated franking credits.

Pacific Brands has no other material assets or liabilities not reflected in the company's financial position as at 31 December 2015.

### 3.6 Cash Flow

Pacific Brands' cash flow for the two years ended 30 June 2015 and the six months ended 31 December 2015 is summarised below:

**Pacific Brands - Cash Flow ($ millions)**[20]

| | Year to 30 June | | Six months to |
|---|---|---|---|
| | **2014** | **2015** | **31 Dec 2015** |
| **EBITDA** | **108.5** | **77.3** | **42.1** |
| Changes in working capital and other adjustments | (91.6) | (11.9) | 2.8 |
| (Acquisition) / Disposal of PPE (net) | 0.5 | (17.2) | (8.7) |
| **Operating cash flow** | **17.4** | **48.2** | **36.2** |
| Tax (paid) / received | (26.9) | 2.7 | (2.6) |
| Net interest paid | (17.4) | (13.8) | (1.8) |
| Dividends paid | (41.1) | - | - |
| Dividends received from joint ventures | 0.2 | 1.2 | - |
| (Acquisition) / Disposal of businesses (net) | (23.7) | 207.6 | (0.9) |
| Proceeds from share issues (net of expenses) | 1.7 | - | - |
| Proceeds from / (Repayments of) borrowings (net) | (2.2) | (266.5) | (25.0) |
| **Net cash generated (used)** | **(91.8)** | **(20.6)** | **6.0** |
| *Cash – opening* | *186.9* | *95.7* | *80.1* |
| *Effects of exchange rate movements* | *0.6* | *5.0* | *1.2* |
| *Cash – closing* | *95.7* | *80.1* | *87.4* |

Source: Pacific Brands and Grant Samuel analysis

Cash flows for 2014 and 2015 reflect Pacific Brands' operations including Workwear and Brand Collective. The 2015 cash flows reflect the sale of the Workwear and Brand Collective businesses. The strong operating performance in the six months ended 31 December 2015 resulted in the generation of significant cash from operations.

[20] Numbers may not add to total due to rounding

25

### 3.7 Capital Structure and Ownership

As at 5 May 2016, Pacific Brands had the following securities on issue:

- 917,226,291 ordinary shares; and
- 15,623,817 performance share rights over unissued ordinary shares.

At 5 May 2016, there were approximately 20,000 registered shareholders in Pacific Brands. The top 20 beneficial owners accounted for around 63% of the ordinary shares on issue and Pacific Brands had received the following substantial shareholder notices:

| Pacific Brands – Substantial Shareholders | | | |
|---|---|---|---|
| **Shareholder** | **Date of Notice** | **Number of Shares** | **Percentage** |
| Allan Gray Australia Pty Ltd | 30 March 2016 | 139,482,671 | 15.21% |
| Dimensional Fund Advisors LP | 17 March 2016 | 56,445,046 | 6.15% |
| Vinva Investment Management | 14 March 2016 | 46,541,583 | 5.07% |

Source: Pacific Brands and ASX announcements

### 3.8 Share Price Performance

A summary of the price and trading history of Pacific Brands since 1 January 2011 is set out below:

| Pacific Brands - Share Price History | | | | | |
|---|---|---|---|---|---|
| | Share Price ($) | | | Average Weekly Volume (000's) | Average Weekly Transactions |
| | High | Low | Close | | |
| **Year ended 31 December** | | | | | |
| 2011 | 1.10 | 0.50 | 0.55 | 23,281 | 5,121 |
| 2012 | 0.74 | 0.43 | 0.62 | 13,412 | 3,468 |
| 2013 | 0.95 | 0.58 | 0.64 | 16,962 | 6,935 |
| 2014 | 0.75 | 0.42 | 0.54 | 18,848 | 6,024 |
| **Quarter ended** | | | | | |
| 31 March 2015 | 0.54 | 0.42 | 0.46 | 8,910 | 4,084 |
| 30 June 2015 | 0.48 | 0.32 | 0.32 | 13,610 | 4,619 |
| 30 September 2015 | 0.75 | 0.32 | 0.71 | 29,102 | 7,918 |
| 31 December 2015 | 0.79 | 0.64 | 0.79 | 15,038 | 8,775 |
| **Month ended** | | | | | |
| 31 January 2016 | 0.81 | 0.65 | 0.81 | 20,344 | 8,068 |
| 29 February 2016 | 0.93 | 0.71 | 0.91 | 33,411 | 12,999 |
| 31 March 2016 | 1.05 | 0.90 | 1.03 | 34,123 | 12,279 |
| 30 April 2016 | 1.17 | 0.83 | 1.15 | 39,880 | 15,005 |

Source: IRESS

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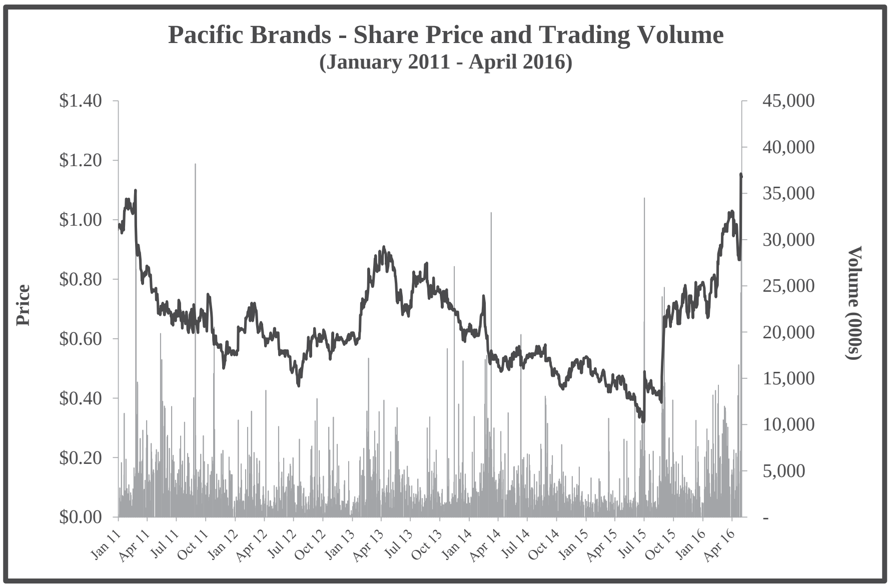
The following graph illustrates the movement in the Pacific Brands share price and trading volumes since January 2011:




Source: IRESS

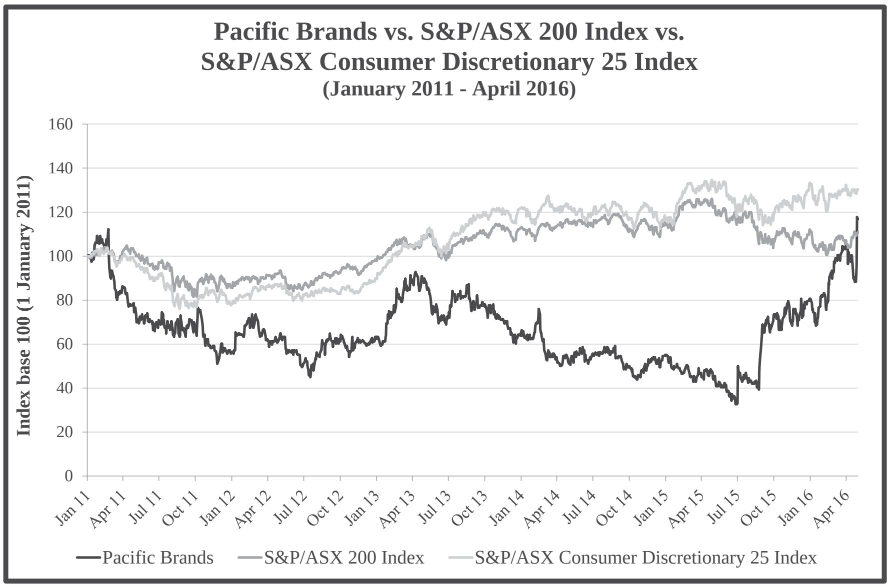
The Pacific Brands share price steadily declined from $1.10 in February 2011 to $0.44 in the middle of 2012. The company reported a loss of $450 million in the 2012 financial year, as sales fell due to business divestments and gross margins contracted following cost increases in labour markets in China and volatile cotton prices. While consumer sentiment and business confidence remained weak, the share price recovered to close at $0.91 on 9 April 2013 on the back of favourable currency movements and improved equity market conditions.

Challenging market conditions and business underperformance resulted in a fall in earnings and downward pressure on the company's share price for the following two years. The share price closed at $0.32 on 30 June 2015, its lowest level since the global financial crisis and its aftermath in 2009. During this time, Pacific Brands completed a strategic review and simplified its portfolio of brands, including through the divestment of its Workwear and Brand Collective divisions.

On 25 August 2015, Pacific Brands announced its results for the year ended 30 June 2015. The results beat analysts' expectations and were favourably received by the market. The share price jumped to around $0.65-0.70 and continued to rise to around $0.80 by the end of 2015. Following the release of Pacific Brands' half yearly results on 16 February 2016, the share price increased again as the company announced further growth in earnings. For much of March and the first half of April 2016, Pacific Brands shares traded at around $1.00, before falling to a range nearer to $0.90 in mid-April. Pacific Brands shares closed at $0.94 immediately before the announcement of the Proposal on 28 April 2016.

Pacific Brands is a reasonably liquid stock with no restrictions on its free float. Average weekly volume over the twelve months prior to the announcement of the Proposal represented approximately 2.5% of shares on issue or an annual turnover of around 130% of the issued capital.

Pacific Brands is a member of various indices including the S&P/ASX 200 Index and S&P/ASX Consumer Discretionary 25 Index. At 5 May 2016, its weighting in these indices was approximately 0.07% and 1.19% respectively. The following graph illustrates the performance of Pacific Brands shares since 1 January 2011 relative to the two indices:




Source: IRESS

The Pacific Brands share price has generally underperformed these indices since January 2011. However, following the results announcements for the year ended 30 June 2015 and half year ended 31 December 2015, the differential between the Pacific Brands share price and these indices has narrowed considerably.

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## 4 Valuation of Pacific Brands

### 4.1 Summary

Grant Samuel has valued Pacific Brands in the range $1,009-1,124 million, which corresponds to a value of $1.10-1.23 per share. The valuation is the aggregate of the estimated market value of Pacific Brands' operating businesses, adjusted for corporate costs and net cash at 31 December 2015. The valuation is summarised below:

**Pacific Brands - Valuation Summary ($ millions)**

| | Report Section Reference | Value Range | |
|---|---|---|---|
| | | Low | High |
| Underwear | 4.3.1 | 775 | 850 |
| Sheridan | 4.3.2 | 225 | 250 |
| Tontine and Dunlop Flooring | 4.3.3 | 60 | 70 |
| Unallocated corporate costs | 4.3.4 | (65) | (60) |
| **Enterprise value** | | **995** | **1,110** |
| Net cash at 31 December 2015 (adjusted) | 4.5 | 14 | 14 |
| **Value of equity** | | **1,009** | **1,124** |
| Shares on issue (millions) | | 917 | 917 |
| **Value per share (cps)** | | **110** | **123** |

The valuation represents the estimated full underlying value of Pacific Brands and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Pacific Brands shares to trade on the ASX in the absence of a takeover offer.

The value attributed to the operating businesses of $995-1,110 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA, EBIT and NPAT) and discounted cash flow ("DCF") analysis. The earnings multiples implied by the valuation of Pacific Brands' operating businesses and the valuation of the equity of Pacific Brands are summarised below:

**Pacific Brands – Implied Valuation Parameters**

| | Variable ($ million) | Range of Parameters | |
|---|---|---|---|
| | | Low | High |
| **Multiple of EBITDA (times) - Enterprise** | | | |
| Year ended 30 June 2015 (actual) | 77.3 | 12.9 | 14.4 |
| Year ending 30 June 2016 (prospective) | 86.3 | 11.5 | 12.9 |
| Year ending 30 June 2017 (prospective) | 96.4 | 10.3 | 11.5 |
| **Multiple of EBIT (times) – Enterprise** | | | |
| Year ended 30 June 2015 (actual) | 64.2 | 15.5 | 17.3 |
| Year ending 30 June 2016 (prospective) | 74.7 | 13.3 | 14.9 |
| Year ending 30 June 2017 (prospective) | 82.8 | 12.0 | 13.4 |
| **Multiple of NPAT (times) – Equity** | | | |
| Year ended 30 June 2015 (actual) | 37.5[21] | 26.9 | 30.0 |
| Year ending 30 June 2016 (prospective) | 50.3 | 20.1 | 22.3 |
| Year ending 30 June 2017 (prospective) | 57.0 | 17.7 | 19.7 |

[21] NPAT before significant items sourced from Pacific Brands' FY15 Annual Report.

While Pacific Brands has made guidance statements about EBIT for the year ending 30 June 2016, the directors of Pacific Brands have decided not to include earnings forecasts for the years ending 30 June 2016 and 30 June 2017 or beyond in the Scheme Booklet, and therefore this information has not been disclosed in this report. Accordingly, the implied multiples of 2016 and 2017 earnings set out above are based on the brokers' consensus forecast for Pacific Brands (see Appendix 1). These forecasts are sufficiently close to Pacific Brands' internal forecasts to be useful for analytical purposes.

Grant Samuel has reviewed these multiples having regard to trading multiples for comparable listed companies and multiples implied by the prices at which transactions involving companies with comparable businesses have been completed.

In Grant Samuel's view, the multiples implied by the valuation of Pacific Brands' operating businesses are reasonable having regard to the following factors:

- none of the comparable companies has the same business mix and range of products as Pacific Brands, although a limited number have exposure to both the apparel and bedding / lifestyle sectors. Similarly, the comparable companies generally do not represent a precise match for Pacific Brands in terms of their relative exposure to the wholesale, retail and online channels;
- there are few recent transactions that provide meaningful valuation evidence for Pacific Brands. The information available to derive multiples for the comparable transactions is limited and generally does not enable the calculation of forward looking multiples. The multiples implied by the transaction prices reflect a wide range of factors, including the particular circumstances of the target companies, market conditions at the time, expected synergies and other factors;
- the valuation reflects the following positive attributes of Pacific Brands:
    - it is uniquely positioned in the Australian market. It owns:
        - Bonds, an iconic Australian brand and number one underwear brand in Australia;
        - Sheridan, the number one premium bed linen and towel brand in Australia; and
        - a portfolio of secondary brands, some of which have strong positions in their respective segments, including Berlei (number one everyday bra and sports bra in Australia), Jockey (number one underwear brand in New Zealand) (under licence), Tontine (the number one pillow brand) and Dunlop Flooring (dominant market share of the carpet underlay market);
    - the company has delivered substantial growth in retail sales and earnings, particularly through continued expansion of the Bonds store network, improved same store sales and continued growth in online sales for Bonds. It expects that retail sales and earnings will continue to grow strongly over the short to medium term; and
    - the company's focus on the efficiency of the supply chain through, in particular, the implementation of the LEAN programme at selected suppliers, and the installation of a new automated warehousing system for its Underwear and Sheridan businesses (i.e. GTP), are expected to deliver substantial financial benefits and generally improve product offering, speed to market and customer experience.
- the valuation also recognises the following risks:
    - the wholesale channel for underwear and Sheridan is challenging and the hosiery category as a whole is in decline. In particular, the underwear business is heavily reliant on a limited number of large department store, discount department store and supermarket customers. Changes in the trading or strategy of these major customers (for example, a decision to focus on house-branded product rather than name-branded products such as Bonds) could have a major impact on the Underwear business;

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- while there is good reason to expect that the Bonds retail business will continue to grow strongly, this growth will not be without risk and will be accentuated as the store network increases in size, with site selection, format development and store management requiring increasing focus. Although Bonds is a "basics" brand, there is always the risk that changes in consumer preferences, fashion shifts, competitive responses or other retail developments will adversely affect the business. Moreover, the business will face ongoing competition as high quality/low cost international players such as H&M, Uniqlo and Topshop continue to enter the Australian market place;
- the exposure of the business to adverse movements in exchange rates and inflationary pressures in China, the company's main sourcing region, may continue to put pressure on margins; and
- the lack of brand equity in overseas markets (other than New Zealand) constitutes a barrier to international expansion.

The valuation includes a premium for control. The premiums implied by the value range over the share price prevailing prior to the announcement of the HanesBrands Proposal are in the range of 17-38%, depending on the timeframe over which the Pacific Brands share price is measured. Takeover premiums are typically in the range 20-35%, depending on the individual circumstances. While the premiums implied by the valuation are broadly consistent with this range, movements in the Pacific Brands share price in the weeks and months preceding the announcement of the Proposal suggest that premium analysis needs to be approached with some caution.

## 4.2 Methodology

### 4.2.1 Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

Nevertheless, valuations are generally based on either or both DCF or multiples of earnings and Grant Samuel has had regard to both methodologies in the valuation of Pacific Brands. The value ranges selected for Pacific Brands are judgements derived through an iterative process. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of the DCF analysis in terms of the various scenarios and their likelihood.

### 4.2.2 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT or NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the sharemarket. EBITDA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable to EBIT if depreciation or non-cash charges distort earnings or make comparisons between companies difficult. On the other hand, EBIT can better adjust for differences in relative capital expenditure intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a "premium for control" to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations, premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.

Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

In determining a value for Pacific Brands' business, Grant Samuel has placed particular reliance on the EBITDA and EBIT multiples implied by the valuation range compared to the EBITDA and EBIT multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses, but has also considered price earnings multiples in some cases.

### 4.2.3 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed term contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the parameters used in assessing this terminal value become critical determinants in the valuation. The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.

A financial model of the operating business has been developed by Grant Samuel. The model allows the key drivers of revenues, costs and capital expenditure to be modelled. The model is based on a large number of assumptions and is subject to significant uncertainty and contingencies, many of which are outside the control of Pacific Brands. A number of different scenarios have been developed and analysed to reflect the impact on value of various key assumptions relating to pricing, capital expenditure and other factors.

#### 4.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business of Pacific Brands. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

#### 4.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Pacific Brands' case.

#### 4.2.6 Approach for Pacific Brands

***Overview***

Grant Samuel's valuation of Pacific Brands has been estimated by aggregating the estimated market value of its operating businesses (on a "control" basis) and adjusting for unallocated corporate costs and net cash as at 31 December 2015. The value of the operating businesses has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

In valuing the Underwear and Sheridan businesses, Grant Samuel has had regard to earnings multiples analysis as well as DCF analysis. The value range selected is a judgement derived through an iterative process. The objective is to determine a value that fits with the output of DCF analysis in terms of the various scenarios and their likelihood and is consistent with the market evidence as to multiples.

For the valuation of Tontine and Dunlop Flooring, Grant Samuel has relied on earnings multiples analysis, in the absence of long term forecasts appropriate for valuation purposes and given that this is the approach that prospective buyers of the business would adopt.

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*Market Evidence*

Grant Samuel has had regard to the earnings multiples implied by transactions involving the acquisition of Australian and global branded apparel companies since September 2008 as well as multiples implied by the sharemarket trading of listed companies with a focus on branded apparel or bedding products.

*Discounted Cash Flow Analysis*

Grant Samuel has prepared models for each of the Underwear and Sheridan businesses. These models have been developed with reference to longer term financial projections prepared by Pacific Brands, amended as deemed appropriate by Grant Samuel. The assumptions included in the models in relation to future rates of growth of sales, margins, capital expenditures and other relevant matters do not represent forecasts or projections by Pacific Brands or Grant Samuel, but are merely assumptions adopted by Grant Samuel for the purpose of the valuation. Grant Samuel gives no warranty or representation that the future performance implied by these assumptions will be achieved.

The models use as a starting point the balance sheet of Pacific Brands as at 31 December 2015 and project nominal after tax cash flows from 1 January 2016 to 30 June 2021, a period of five and a half years, with a terminal value calculated to represent the value of cash flows in perpetuity. The terminal value has been calculated by capitalising net after tax cash flows based on a perpetual growth assumption (the "perpetuity method"). A discount rate (weighted average cost of capital) in the range 9.5-10.5% has been used. The rationale for the selection of this discount rate is set out in Appendix 2. An annual growth rate in the range of 2.0-3.0% has been used for the calculation of the terminal value.

The base DCF models assume the businesses operate on an "as is" basis. They assume:

- tax is paid at the Australian general corporate tax rate of 30% and there is no change in tax legislation that has a material impact on Pacific Brands' operations;
- cash flows occur in the middle of each period; and
- no acquisitions or divestitures of business units occur.

The assumptions adopted for the purposes of the financial model are subject to significant uncertainties and contingencies, many of which are outside the control of Pacific Brands. In particular:

- assumptions in relation to store roll outs, performance of new stores and growth rates of sales in comparable stores over an extended period are subjective and somewhat arbitrary;
- competitor behaviour could potentially have a major impact on the future performance of the Pacific Brands businesses. Future competitor behaviour is intrinsically uncertain;
- the outlook for the wholesale channel, which is of particular importance in the Underwear business, remains uncertain and assumptions in relation to revenue growth rates, which capture both volumes and pricing outcomes, are subject to uncertainty; and
- with 75-80% of the products sourced from third parties located overseas, Pacific Brands is exposed to movements in exchange rates and inflationary pressures affecting the sourcing regions. The ability for Pacific Brands management to mitigate the potential adverse impact of these factors on the company's earnings is uncertain and there is no guarantee that the company would be able to fully offset these impacts.

### 4.3 Value of Business Operations

#### 4.3.1 Underwear

***Overview***

Grant Samuel has valued Pacific Brands' Underwear business in the range $775-850 million.

The valuation reflects the positive attributes of the Underwear business. In particular, it takes into account the following positive characteristics of the business:

- Pacific Brands' leading brand, Bonds, is an iconic Australian brand with a long history and leading market shares in the underwear and socks segments;
- the Bonds retail business has delivered strong growth in sales and earnings, based on a rapid expansion of the Bonds store network, continued improvement in store formats and retail practices delivering significant growth in same store sales, and a highly successful online offering. Pacific Brands expects that this growth will continue in the short to medium term, underpinned by plans to continue the expansion of the retail network;
- the company has proven its ability to successfully innovate, in particular with the Bonds range. Bonds continues to introduce seasonal fashion to its product range on a regular basis, and has potential to expand further in its core business and adjacent categories. For example, the recent launch of the Bonds Sports line of products sold through concession stores at Myer provides further scope for growth;
- Berlei, the second largest contributor to the Underwear business' sales, is the number one brand in the sports bra and everyday bra categories. While sales have been flat over recent years, there is potential for growth of the brand both domestically and overseas;
- benefits are expected to continue to flow from the rollout of the LEAN programme to the business' supplier base, including compressed product development and delivery timeframes, enhanced ability to respond to market dynamics, lower sourcing costs and reduced working capital; and
- the implementation of the GTP warehousing system should yield substantial financial benefits as well as an enhancement in customer service through faster response times and higher service levels.

On the other hand:

- while Pacific Brands has been highly successful in growing the Bonds retail business, further growth is in part predicated on the business' ability to secure additional store sites in appropriate locations. Furthermore, although cannibalisation of wholesale volumes seems to have been limited to date, there is a risk that continued growth in retail sales will ultimately cannibalise wholesale sales;
- more generally, although Bonds is mainly a "basics" brand, the business will continue to be exposed to an element of apparel retailing/fashion risk, with the possibility that changes in consumer preferences, fashion shifts or other retail developments will adversely affect the business;
- the wholesale channel is expected to remain challenging for Pacific Brands. While the channel's proportionate contribution to total sales is diminishing, it remains the largest part of the underwear business in terms of both sales and earnings contribution. Pacific Brands is heavily reliant on a small number of major wholesale customers (department stores, discount department stores and supermarkets) and its business is accordingly vulnerable to changes in the trading fortunes of those major customers.

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Any strategic shift on the part of major customers in terms of their mix of branded versus private label product could have a significant adverse impact on the business;

- the underperformance of most brands other than Bonds and Berlei (flat sales for Jockey and Explorer and declining sales for the hosiery and other brands) is expected to continue;
- essentially all of the business' product is sourced from Asia and purchased on a US$ denominated basis. Ongoing inflationary pressures in those Asian regions from which the business sources its product will continue to put pressure on costs. Any material devaluation of the Australian dollar against the US$ is likely to have a significant effect in terms of reduced profitability. Conversely, gains achieved through the appreciation of the Australian dollar and the resulting decline in costs in Australian dollar terms are likely to be shared with customers;
- the lack of brand awareness outside of Australia and New Zealand limits Pacific Brands' ability to expand its underwear business overseas; and
- there is no guarantee that the owners of the brands licensed to Pacific Brands (e.g. Jockey) for distribution in the Australia and New Zealand markets would grant equivalent rights to an acquirer of the business (or that the current licence arrangements would continue in perpetuity with Pacific Brands on a standalone basis).

***Earnings Multiple Analysis***

The valuation of Pacific Brands' Underwear business in the range $775-850 million implies the following earnings multiples:

| Underwear – Implied Valuation Parameters | | | |
|---|---|---|---|
| | Variable[22] ($ million) | Range of Parameters | |
| | | Low | High |
| **Valuation ($ million)** | | **775** | **850** |
| **Multiple of EBITDA (times)** | | | |
| Year ended 30 June 2015 (actual) | 66.5 | 11.7 | 12.8 |
| Year ending 30 June 2016 (prospective) | 69.3 | 11.2 | 12.3 |
| Year ending 30 June 2017 (prospective) | 74.8 | 10.4 | 11.4 |
| **Multiple of EBIT (times)** | | | |
| Year ended 30 June 2015 (actual) | 60.2 | 12.9 | 14.1 |
| Year ending 30 June 2016 (prospective) | 63.2 | 12.3 | 13.4 |
| Year ending 30 June 2017 (prospective) | 66.7 | 11.6 | 12.7 |

These multiples appear broadly consistent with the multiples implied by the prices paid for similar businesses and the sharemarket ratings of comparable companies taking into account the following factors:

- the multiples implied by Grant Samuel's valuation of the Underwear business and the multiples implied by transaction prices for comparable companies include a premium for control. On the other hand, the multiples derived from share prices for comparable listed companies reflect portfolio interests and do not include a premium for control;
- the multiples implied by the valuation (particularly the multiples of EBITDA) are relatively high by comparison with the multiples at which most of the comparable Australian companies are trading. Only Premier Investments, which is expected to

22 The prospective EBITDA for Underwear represents a 70% allocation of broker consensus EBITDA for the group before corporate costs, which is broadly consistent with Pacific Brands' financial projections. Depreciation and amortisation was allocated to the Underwear business in line with Pacific Brands' financial projections to derive prospective EBIT data.

generate strong growth in earnings over the medium term, is trading on higher multiples. Earnings growth expectations for the other Australian companies are generally more modest;

- of the offshore companies, HanesBrands, PVH Corp. ("PVH") and V.F. Corporation ("VFC") trade on multiples in the range 13.2-16.5 times forecast year 1 EBIT and 12.2-14.6 times forecast year 2 EBIT. These companies generally have portfolios of globally recognised brands, are expected to generate high rates of earnings growth in the short term and are much larger than Pacific Brands. Their trading multiples may also have been boosted by expectations that, in the short term at least, they will face relatively low effective tax rates;
- other offshore companies such as American Eagle Outfitters Inc., Ralph Lauren Corporation and The Gap Inc., which trade on multiples in the range 6.7-9.4 times forecast year 1 EBIT and 6.3-9.3 times forecast year 2 EBIT, are generally expected to generate much lower EBIT growth and arguably do not have the brand equity and market positioning in their respective markets and categories as that enjoyed by the Underwear business; and
- the multiples implied by Grant Samuel's valuation of the Underwear business are at the high end of the range of multiples implied by the acquisitions of comparable businesses. Transaction multiples reflect a combination of market conditions at the time of the respective transactions and factors relating to the target companies, synergistic benefits and structure of the transaction.

These factors are discussed in more detail in Section 4.4.

***Discounted Cash Flow Analysis***

Grant Samuel has developed a DCF model that allows the key drivers of earnings and capital expenditure for the Underwear business to be modelled. The DCF model is based on a number of assumptions that Grant Samuel considers reasonable. However, the model does not constitute a forecast or projection by Grant Samuel of the future performance of the Underwear business and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the model. The model forecasts cash flows from 1 January 2016 to 30 June 2021 and estimates a terminal value at that date. The key operational assumptions modelled are as follows:

- revenue growth at a compound annual growth rate ("CAGR") of 6.3% from 2015 to 2021, reflecting the opening of retail and outlet stores at rates commensurate with recent levels and some reduction in wholesale volumes;
- a slight increase in EBITDA margins from 13.1% in the 2015 financial year to 13.8% in 2021, reflecting the increasing proportion of higher margin retail sales;
- tax depreciation assumed to increase to approximately $8 million in FY17 as a result of the start-up of the $18 million GTP system in the December 2016 quarter and moderate increases thereafter;
- capital expenditure of around $8 million per annum; and
- a progressive reduction in net working capital until 2021, largely reflecting the achievement of incrementally better creditor terms and an improvement in stock turns. Thereafter, and for the purposes of calculating the terminal value, net working capital is assumed to grow in line with revenues.

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Estimation of the terminal value (i.e. the value of cash flows beyond the five years of explicit cash flows modelled) requires an assumption regarding the growth rates of free cash flow in perpetuity. Grant Samuel has selected growth rates in the range 2-3%, reflecting an assumption that in the long term the business will generate modest real growth in free cash flows (i.e. marginally above inflation). The selected range of free cash flow growth rates reflects the potential variation in free cash flow growth over the very long term. The selected range of 2-3% compares with assumptions disclosed in broker reports on Pacific Brands generally in the range 2-2½%.[23]

The output of the DCF analysis is summarised below:

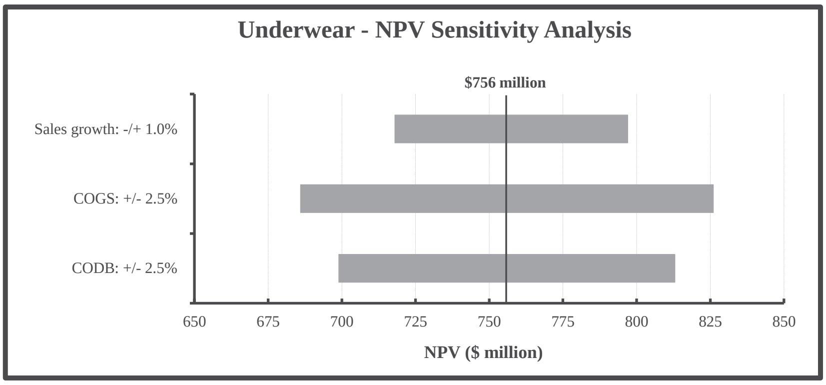
**Underwear – NPV Analysis ($ millions)**

| | | Terminal Value Growth Rate | | |
|---|---|---|---|---|
| | | **2.0%** | **2.5%** | **3.0%** |
| Discount rate | **9.5%** | 772 | 810 | 854 |
| | **10.0%** | 723 | 756 | 794 |
| | **10.5%** | 681 | 709 | 741 |

To assess the impact of variations in key assumptions, Grant Samuel has analysed the sensitivity of calculated net present values to changes in the following variables:

- sales revenue growth: variations of -/+ 1.0% on the assumed compound annual growth rate (i.e. CAGR of 5.3% in the low case and 7.3% in the high case) which could reflect variations in assumptions relating to, for example, the speed of roll out of new Bonds stores, sales growth rates in comparable stores or performance of the wholesale channel;
- cost of goods sold ("COGS"): variations of +/- 2.5% on the COGS assumption reflecting, for example, the impact of inflationary pressures, the realisation of gains on supply costs or movements in exchange rates; and
- cost of doing business ("CODB"): variations of +/- 2.5% on the assumed CODB reflecting factors such as potential variations in the cost of the retail network or distribution costs.

The output of the sensitivity analysis is summarised below:




Note: Based on a mid-point WACC of 10.0% and a terminal value growth rate of 2.5%.

23 Of the six broker reports used by Grant Samuel to derive broker consensus forecasts, three have disclosed assumptions regarding terminal growth rates.

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Grant Samuel has modelled an indicative scenario to reflect the potential outcome of a significant change in strategy on the part of a major wholesale customer, leading to a material (but not absolute) de-ranging or de-listing of Pacific Brands product. The negative impact on NPV falls within the range of NPV sensitivities indicated above. It is conceivable in a worst case that the Underwear business could lose 100% of its sales to a major customer, which would result in a significantly greater negative impact on NPV (before taking into account any mitigation strategy that Pacific Brands might implement or any countervailing gains that the Underwear business might win from other customers).

These sensitivities do not, and do not purport to, represent the full range of potential value outcomes for Pacific Brands' Underwear business. They are simply theoretical indicators of the sensitivity of the net present values derived from the DCF analysis. The net present value ("NPV") outcomes show a relatively wide range across the different scenarios, highlighting the sensitivity of NPVs to relatively small changes in assumptions.

The sensitivity analysis does not take into account the operational flexibility that management has to react to market changes. For example, Pacific Brands has the ability to further optimise its brand portfolio, change its product mix to optimise sales and margins in particular in the company's network of retail stores, close or refit underperforming stores, negotiate price increases with wholesalers, capture savings on cost of goods sold through further optimisation of the supply chain and improve its distribution systems.

Similarly, the sensitivity analysis does not take into account potential responses by customers and suppliers to positive changes in Pacific Brands' volumes and margins, for example through customers negotiating lower purchase prices to capture reductions in Pacific Brands' cost of goods.

DCF analyses are subject to significant limitations and calculated NPVs should always be treated with considerable caution. The model for the DCF analysis of the Underwear business relies on explicit assumptions that apply up to five years into the future and result in substantial growth in the company's earnings. The sensitivities to assumptions regarding future operational performance are accentuated by the fact that the terminal value (the value contributed by cash flows generated after the end of the explicit cash flow forecast period) contributes a high proportion of the overall value. The NPV analysis is also very sensitive to even small changes in discount rate assumptions. Judgements regarding the appropriate discount rate to apply are inherently subjective and subject to considerable uncertainty.

Grant Samuel's selected value range of $775-850 million for the Underwear business is at the upper end of the range of outcomes of the NPV analysis for the discount rates and terminal value growth rates assumed. Grant Samuel considers this to be appropriate, reflecting the brand strength, leading market position and recent strong earnings performance of the Underwear business.

### 4.3.2 Sheridan

***Overview***

Grant Samuel has valued the Sheridan business in the range $225-250 million.

The valuation reflects the particular attributes of the business. In particular, it takes into account the following positive characteristics of Sheridan:

- Sheridan is Australia's leading premium bed linen and towel brand: it has very strong brand equity in its core categories;
- the business has significant growth opportunities in a highly fragmented market:
  - sales growth in comparable stores is expected to remain strong and there is potential to substantially grow the retail network;

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- the launch of the kids and baby range in October 2015 is yet to be reflected in earnings;
- the introduction of products at lower price points and in separates is expected to appeal to more budget conscious consumers and the launch of more contemporary designs should attract a younger audience;
- there are opportunities to continue broadening the product offering into adjacent lifestyle categories, such as indoor and outdoor soft furnishings, by leveraging Sheridan's positioning as a premium lifestyle brand;

- the turnaround of the UK business should contribute to earnings growth in the short term. Sheridan is withdrawing from 15 underperforming concession and outlet stores; and
- the business is somewhat insulated from overseas competition as size specifications for bedding products typically vary between countries.

On the other hand, the valuation also reflects the following:

- the expected growth in earnings will require both a successful store rollout and the leveraging of the Sheridan brand to extend the product range into adjacent categories without diluting the strength of the brand in its core bed linen and towel segments. Whilst these are credible outcomes, the reality is that Sheridan has not delivered strong earnings performance in recent years; and
- the wholesale channel remains a significant component of the Sheridan business (accounting for a little less than 30% of Sheridan's revenue in the December 2015 half) and will require careful ongoing management.

***Earnings Multiple Analysis***

The valuation of the Sheridan business in the range $225-250 million implies the following earnings multiples:

**Sheridan – Implied Valuation Parameters**

| | Variable[24] ($ million) | Range of Parameters | |
|---|---|---|---|
| | | Low | High |
| **Valuation ($ million)** | | **225** | **250** |
| **Multiple of EBITDA (times)** | | | |
| Year ended 30 June 2015 (actual) | 16.7 | 13.5 | 15.0 |
| Year ending 30 June 2016 (prospective) | 19.8 | 11.4 | 12.6 |
| Year ending 30 June 2017 (prospective) | 21.4 | 10.5 | 11.7 |
| **Multiple of EBIT (times)** | | | |
| Year ended 30 June 2015 (actual) | 13.9 | 16.2 | 18.0 |
| Year ending 30 June 2016 (prospective) | 16.9 | 13.3 | 14.8 |
| Year ending 30 June 2017 (prospective) | 18.5 | 12.2 | 13.5 |

While there is limited market evidence for companies focused on the manufacture and distribution of bed linen and towels, the share market rating of Adairs Limited ("Adairs") appears particularly relevant to the earnings multiples analysis.

[24] The prospective EBITDA for Sheridan represents a 20% allocation of broker consensus EBITDA for the group before corporate costs, which is broadly consistent with Pacific Brands' financial projections. Depreciation and amortisation was allocated to the Sheridan business in line with Pacific Brands' financial projections to derive prospective EBIT data.

Adairs trades at 9.6 times 2016 EBITDA, 8.5 times 2017 EBITDA, 10.9 times 2016 EBIT and 9.7 times 2017 EBIT. The multiples implied by Grant Samuel's valuation of the Sheridan business are of the order of 16-37% higher than Adairs' trading multiples. This is considered appropriate when the following factors are taken into account:

- the multiples for Adairs are based on share trading data and therefore do not include a premium for control, whereas the multiples implied by Grant Samuel's valuation of the Sheridan business do include a premium for control;
- based on brokers' consensus forecast, Adairs' EBIT is expected to grow by 20-25% from the 2016 financial year to the 2018 financial year. This is broadly consistent with Pacific Brands' expectations of strong earnings growth for Sheridan;
- Sheridan is the largest brand (by sales value) in the bed linen and towel segments in Australia and benefits from stronger brand equity than Adairs;
- Adairs has delivered strong growth in earnings, while Sheridan's recent financial performance has been somewhat disappointing; and
- Sheridan generates lower EBIT margins than Adairs and is therefore more susceptible to adverse movements in exchange rates, inflationary pressures and other factors affecting the financial performance of the business.

***Discounted Cash Flow Analysis***

Grant Samuel has developed a DCF model that allows the key drivers of earnings and capital expenditure for the Sheridan business to be modelled. The DCF model is based on a number of assumptions that Grant Samuel considers reasonable. However, the model does not constitute a forecast or projection by Grant Samuel of the future performance of the Sheridan business and no assurance or warranty is given that future performance will be consistent with the assumptions adopted in the model. The model forecasts cash flows from 1 January 2016 to 30 June 2021 and estimates a terminal value at that date. The key operational assumptions modelled are as follows:

- revenue growth at a CAGR of 7.8% from 2015 to 2021, reflecting the opening of retail and outlet stores, a slowing of growth in comparable store sales and a slight decline in wholesale sales;
- an increase in EBITDA margins from 8.7% in the 2015 financial year to 11% in 2021, in part reflecting the turnaround of the UK business;
- assumed tax depreciation of approximately $3 million per year;
- capital expenditure of around $3 million per annum; and
- positive changes in net working capital until 2021, largely reflecting the achievement of better creditor terms and an improvement in stock turns. For the purposes of calculating the terminal value, net working capital is assumed to grow in line with revenues.

The output of the DCF analysis is summarised below:

**Sheridan – NPV Analysis ($ millions)**

| | | Terminal Value Growth Rate | | |
|---|---|---|---|---|
| | | **2.0%** | **2.5%** | **3.0%** |
| **Discount rate** | **9.5%** | 253 | 265 | 278 |
| | **10.0%** | 237 | 247 | 259 |
| | **10.5%** | 224 | 232 | 242 |

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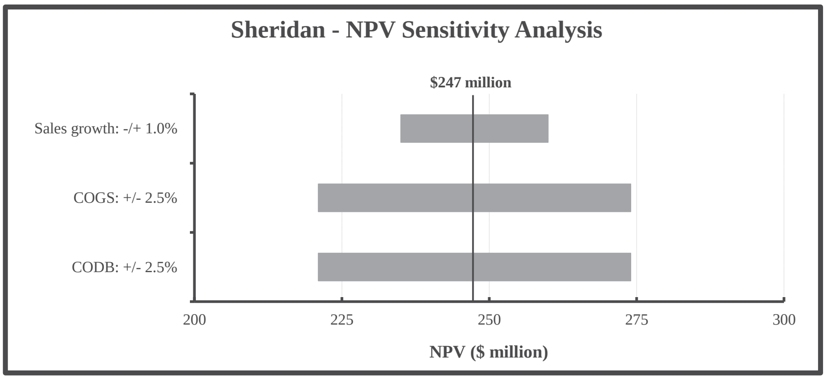
To assess the impact of variations in key assumptions, Grant Samuel has analysed the sensitivity of calculated net present values to changes in the following variables:

- sales revenue growth: variations of -/+ 1.0% on the assumed compound annual growth rate (i.e. CAGR of 6.8% in the low case and 8.8% in the high case). These outcomes could result from variations in the speed of roll out of new stores, comparable store growth rates and the impact of the UK business;
- cost of goods sold: variations of +/- 2.5% on the model assumptions reflecting, for example, the impact of inflationary pressures, the realisation of gains on supply costs or movements in exchange rates.
- cost of doing business: variations of +/- 2.5% reflecting factors such as variations in the cost of the retail network or distributions costs.

The output of the sensitivity analysis is summarised below:




Note: Based on a mid-point WACC of 10.0% and a terminal value growth rate of 2.5%.

These sensitivities do not, and do not purport to, represent the full range of potential value outcomes for the Sheridan business. They do not reflect the operational flexibility that management has to react to changes in markets in which it operates. Similarly, the sensitivity analysis does not take into account potential responses by customers and suppliers to positive changes in Pacific Brands' volumes and margins. Net present values from DCF analyses are subject to significant limitations and should be treated with considerable caution.

Grant Samuel's selected value range of $225-250 million for Sheridan is broadly consistent with the outcomes of the NPV analysis for the range of discount rates and terminal value growth rates assumed.

### 4.3.3 Tontine and Dunlop Flooring

Grant Samuel has valued the Tontine and Dunlop Flooring businesses in the range $60-70 million.

Grant Samuel's valuation range for Tontine and Dunlop Flooring implies the following multiples of earnings:

| Tontine and Dunlop Flooring – Implied Valuation Parameters | | | |
|---|---|---|---|
| | Variable[25] ($ million) | Range of Parameters | |
| | | Low | High |
| **Valuation ($ million)** | | **60** | **70** |
| **Multiple of EBITDA (times)** | | | |
| Year ended 30 June 2015 (actual) | 7.4 | 8.1 | 9.5 |
| Year ending 30 June 2016 (prospective) | 9.9 | 6.1 | 7.1 |
| Year ending 30 June 2017 (prospective) | 10.7 | 5.6 | 6.5 |
| **Multiple of EBIT (times)** | | | |
| Year ended 30 June 2015 (actual) | 5.9 | 10.3 | 12.0 |
| Year ending 30 June 2016 (prospective) | 9.8 | 6.1 | 7.2 |
| Year ending 30 June 2017 (prospective) | 10.6 | 5.7 | 6.6 |

Grant Samuel's valuation of Tontine and Dunlop Flooring reflects the following factors:

- Tontine and Dunlop Flooring are two quite separate businesses (and the Dunlop Flooring business could arguably in turn be divided into two distinct business, although there are distribution-related synergies between the carpet underlay and hard flooring businesses), with different risk and growth profiles;
  - Tontine is a significant player in its market. However, its brands are primarily focussed on the value sector of the market, it is dependent on a limited number of wholesale customers and it operates in a market with relatively low growth prospects;
  - the carpet underlay business has a dominant market share and strong track record but low growth prospects; and
  - the hard flooring business has only recently been launched, will require further investment and is yet to reach substantial scale. On the other hand, it does have real prospects for growth in the short to medium term.
- the Tontine business and the Dunlop Flooring business would be of interest to separate sets of potential acquirers. Each of the businesses is relatively small and is likely to be of interest to only a limited number of potential acquirers.

Valuation of the businesses is essentially judgemental:

- Grant Samuel is not aware of any relevant market evidence from transactions involving companies with similar activities or from share prices for listed companies with businesses similar to those of Tontine or Dunlop Flooring;
- given the size and characteristics of the Tontine and Dunlop Flooring businesses, they are unlikely to be of interest to large potential acquirers with the capacity to pay significant multiples. Grant Samuel notes HanesBrands' announcement that it intends

[25] The prospective EBITDA for TDF represents a 10% allocation of broker consensus EBITDA for the group before corporate costs, which is broadly consistent with Pacific Brands' financial projections. Depreciation and amortisation was allocated to the TDF business in line with Pacific Brands' financial projections to derive prospective EBIT data.

to divest Tontine and Dunlop Flooring as it considers that they do not form part of Pacific Brands' core business;

- instead, the Tontine and Dunlop Flooring businesses are more likely to be of interest to relatively small potential acquirers (or potentially to financial investors), who would generally be prepared to pay only modest multiples of earnings; and
- analysis of small industrial/consumer goods companies listed on the ASX shows that many are trading on multiples of 4-6 times FY17 EBIT. These multiples, which are based on share trading prices and therefore do not include a premium for control, are broadly consistent with the FY17 EBIT multiples of 5.7-6.6 times implied by the valuation of the business, after adjusting for a premium for control (generally expected to be in the range 20-35%).

#### 4.3.4 Corporate Costs

Pacific Brands' corporate overheads for the 2017 financial year are expected to be around $17 million (reducing from $19 million in the 2016 financial year), including $2.5 million of depreciation and amortisation. These overheads consist of approximately $4 million of shared services costs, which are allocated to the business units and reflected in the cash flow projections developed for each of the businesses and used for modelling purposes, and $13 million of costs associated with the maintenance of Pacific Brands as a listed company and other head office costs that are not directly related to the operation of the individual businesses.

Based on a review of these corporate overheads, Grant Samuel has assumed that approximately $8 million of these corporate costs could be saved by potential acquirers of Pacific Brands, which results in residual corporate costs of $5 million. The cost of achieving these savings has been estimated at $8 million. These amounts represent an estimate by Grant Samuel of the cost savings that could be achieved by a generic acquirer of the business. They are not intended to reflect the intentions of HanesBrands or any other specific acquirer.

These unallocated residual corporate overheads have been capitalised on a discounted cash flow basis and added to the estimated one-off rationalisation costs to give a total capitalised corporate cost of $60-65 million.

### 4.4 Market Evidence

***Transaction Evidence***

The following table sets out the EBITDA and EBIT multiples implied by selected transactions involving the acquisition of Australian and global branded apparel companies since September 2008:

| Date | Target | Transaction | Consid-eration[26] ($ millions) | EBITDA Multiple[27] (times) Histo-rical | EBITDA Multiple[27] (times) Fore-cast | EBIT Multiple[28] (times) Histo-rical | EBIT Multiple[28] (times) Fore cast |
|---|---|---|---|---|---|---|---|
| ***Domestic*** | | | | | | | |
| Mar-15 | Accent Group | Acquisition by RCG Group | AUD199 | 6.0 | n.a. | n.a. | n.a. |
| Aug-14 | Workwear Group | Acquisition by Wesfarmers | AUD180 | 7.4 | n.a. | 8.2 | 11.4 |
| Apr-13 | RM Williams | Acquisition of 49.9% by L Capital Asia | AUD100 | 11.6 | n.a. | 17.8 | n.a. |
| Aug-12 | Witchery Fashions | Acquisition by Country Road | AUD172 | 5.1 | n.a. | n.a. | n.a. |
| Mar-08 | Just Group | Acquisition by Premier Investments | AUD808 | 7.9 | n.a. | 10.0 | n.a. |
| ***Global*** | | | | | | | |
| Feb-15 | Knights Apparel LLC | Acquisition by HanesBrands | USD200 | n.a. | 8.0 | n.a. | n.a. |
| Jun-14 | DBA Lux Holding S.A. | Acquisition by HanesBrands | EUR400 | 7.5 | n.a. | n.a. | n.a. |
| Jun-14 | Doris Inc. | Acquisition by Gildan Activewear | CAD110 | 7.9 | n.a. | n.a. | n.a. |
| Jul-13 | Maidenform Brands Inc. | Acquisition by HanesBrands | USD581 | 10.1 | n.a. | 11.3 | n.a. |
| Oct-12 | Warnaco | Acquisition by PVH | USD2,850 | 9.7 | 8.2 | 14.7 | 10.4 |
| May-12 | Schiesser AG | Acquisition by Delta Galil | EUR68 | 8.2 | n.a. | 10.6 | n.a. |
| Mar-12 | Eveden Group Ltd | Acquisition by Wacoal Holdings | GBP152 | 11.5 | n.a. | 13.9 | n.a. |
| Aug-10 | GearCo, Inc. (Gear for Sports) | Acquisition by HanesBrands | USD55 | 7.5[29] | n.a. | 9.2 | n.a. |
| Mar-10 | Tommy Hilfiger Corporation | Acquisition by PVH | EUR3,017 | 8.3 | n.a. | 11.3 | n.a. |

**Recent Transaction Evidence – Branded Apparel Companies**

Source: Grant Samuel analysis

Further details on these transactions are set out in Appendix 3.

The transactions set out above imply a relatively wide range of multiples, reflecting factors including the strength of the brands, the relative contribution of retail operations, the companies' growth expectations at the time of acquisition and the level of competition for the asset.

While there is some variability in the multiples reflecting, among other factors, the historical performance, the outlook of the selected companies and investor sentiment at the time of acquisitions, the prices paid implied multiples broadly in the range 8.0-10.0 times historical EBITDA and 11.0-13.0 times historical EBIT. While these multiples are substantially lower than the multiples implied by the valuation of Pacific Brands, for some this reflects the fact that the transactions occurred at a time when markets overall were trading at much lower multiples than current levels. While some of the target companies owned relatively strong brands, they typically did not command the brand leadership that Bonds enjoys in the Australian market.

Furthermore:

- the acquisition of Accent Group by of RCG Corporation was essentially a merger of equals and approximately half of the consideration was paid in RCG shares, resulting in the vendors of Accent acquiring a 31% interest in the merged entity;
- the sale of a 49.9% stake in RM Williams to L Capital Asia allowed the vendors to introduce a strategic partner to expand into Asia while retaining a majority stake in the company and exposure to future growth. Furthermore, the transaction completed in the context of declining earnings despite sales growth;

[26] Implied equity value if 100% of the company or business had been acquired.

[27] Represents gross consideration (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.

[28] Represents gross consideration divided by EBIT.

[29] Company disclosures do not specify if the underlying EBITDA number relates to the last historical year or forecast year 1.

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- a number of transactions were completed under challenging circumstances:
  - Eveden Group Ltd was facing difficult market conditions in Europe;
  - shortly before the announcement of the proposed acquisition of Maidenform Brands Inc. ("Maidenform") by HanesBrands, Maidenform had released disappointing results for the half ended 30 June 2013 with revenues declining 12% and net income 61% on the previous corresponding period;
  - Pacific Brands sold the Workwear business to Wesfarmers at a time when the outlook for the business was not positive and earnings were under pressure. The sale allowed Pacific Brands to simplify its business model and strengthen its balance sheet;
  - Premier Investments acquired Just Group in the context of a worsening outlook and increasing uncertainty for the target. In a Supplementary Target's Statement released on 2 July 2008, one month after the release of the Target's Statement on 2 June 2008, Just Group announced an earnings downgrade for the year ending 26 July 2008: pro forma EBITA was expected to be 7% to 11% lower and earnings per share 8% to 13% lower than disclosed in the Target's Statement. Furthermore, the independent expert stated in a letter released as part of the Supplementary Target's Statement that the EBITA projection for the 2009 financial year adopted in its report dated 30 May 2008 may no longer be achievable;
  - Schiesser AG, a German underwear manufacturer, was sold to the Israel- and US-based group Delta Galil Industries Ltd. after a comprehensive restructuring of its operations following insolvency proceedings; and
  - the acquisition of Tommy Hilfiger Corporation by PVH was seen as an opportunity for PVH for revamp the business. The brand had experienced several years of sales decline and had lost some of its brand appeal among the more affluent segment of its customers;
- the multiple implied by the acquisition of the Witchery Group by Country Road is likely to understate the value Country Road attributed to the continuing business of the Witchery Group. While the consideration paid for the group reflected the losses that the MIMCO UK business generated and the estimated cost related to the planned closure of the business, the multiple is based on the normalised EBITDA estimate provided, which did not reflect the losses and closure costs;
- the multiples set out above for the acquisition of Doris Inc. by Gildan Activewear Inc. do not reflect a contingent payment of US$10 million to be paid under an earn out arrangement. If the full amount of the earn out was taken into account, the total consideration would represent 8.6 times historical EBITDA;
- the acquisitions of DBA Lux Holding S.A. and Maidenform Brands Inc. by HanesBrands were principally motivated by HanesBrands' ability to realise significant synergies through cost rationalisation and deliver additional earnings through its 'Innovate-to-Elevate strategy' which revolves around brand management, innovation and global supply chain efficiencies. Similarly, the company's acquisition of Knights Apparel LLC, and GearCo, Inc. were expected to unlock synergies by consolidating businesses that focused on the distribution of branded, basic sports apparel; and
- the acquisition of Warnaco Group Inc. ("Warnaco"), a Calvin Klein licensee, by PVH, owner of the Calvin Klein brand, resulted in the consolidation of the entire Calvin Klein brand under the ownership of PVH, which was expected to result in substantial revenue and cost synergies.

*Sharemarket Evidence*

The following table sets out the implied EBITDA and EBIT multiples for a range of comparable listed companies:

**Share market Ratings of Selected Listed Branded Apparel Companies**

| Company | Market Capitalisation ($ million) | EBITDA Multiple (times) Historical | EBITDA Multiple (times) Forecast Year 1 | EBITDA Multiple (times) Forecast Year 2 | EBIT Multiple (times) Historical | EBIT Multiple (times) Forecast Year 1 | EBIT Multiple (times) Forecast Year 2 |
|---|---|---|---|---|---|---|---|
| ***Domestic*** | | | | | | | |
| Adairs | A$406 | 11.7 | 9.7 | 8.7 | 13.3 | 11.1 | 9.9 |
| Billabong | A$269 | 6.0 | 6.3 | 5.1 | 10.6 | 13.4 | 8.5 |
| Gazal | A$133 | 12.9 | n.a. | n.a. | 19.4 | n.a. | n.a. |
| Kathmandu | NZ$320 | 8.2 | 6.2 | 5.7 | 11.5 | 8.0 | 7.5 |
| Premier Investments | A$2,498 | 16.4 | 13.6 | 12.0 | 19.9 | 16.3 | 14.4 |
| Speciality Fashion Group | A$124 | 5.8 | 3.9 | 3.6 | 181.9 | 11.1 | 8.5 |
| The PAS Group | A$90 | 4.2 | n.a. | n.a. | 6.2 | n.a. | n.a. |
| ***Global*** | | | | | | | |
| American Eagle Outfitters | US$2,657 | 5.2 | 4.6 | 4.3 | 7.6 | 6.7 | 6.2 |
| Bed Bath & Beyond | US$7,836 | 5.1 | 5.4 | 5.5 | 6.0 | 6.6 | 6.8 |
| Delta Galil | US$702 | 5.6 | 5.3 | n.a. | 7.1 | 6.7 | n.a. |
| Esprit | US$13,220 | n.m. | 83.2 | 11.9 | n.m. | n.m. | 66.5 |
| HanesBrands | US$11,427 | 19.6 | 13.2 | 12.7 | 23.0 | 14.7 | 13.7 |
| L Brands | US$23,150 | 9.9 | 9.4 | 8.8 | 11.8 | 11.3 | 10.5 |
| PVH | US$7,981 | 9.6 | 10.0 | 9.4 | 12.4 | 13.3 | 12.2 |
| Ralph Lauren | US$7,831 | 5.4 | 6.6 | 6.8 | 6.8 | 9.2 | 9.1 |
| The Gap | US$9,223 | 4.5 | 4.7 | 4.6 | 6.0 | 6.5 | 6.2 |
| VFC | US$27,342 | 13.5 | 12.9 | 11.8 | 15.5 | 15.0 | 13.5 |

Source: Grant Samuel analysis (see Appendix 4)

The multiples are based on sharemarket prices as at 29 April 2016. It should be noted that the value determined for Pacific Brands is appropriate for the acquisition of the business as a whole and, accordingly, incorporates a premium for control, whilst the multiples set out above reflect the market prices at which shares trade on the sharemarket in the absence of a takeover offer. A more detailed description of these companies is set out in Appendix 4 to this report.

The following factors are relevant to consideration of the comparable entity multiples:

- the relative contributions of retail and wholesale activities varies between the companies;
- brokers' growth expectations vary widely between these companies:
  - brokers expect that Premier Investments Limited will grow its EBITDA and EBIT between 2016 and 2018 at slightly less than 30% per annum, as the Smiggle brand continues to perform strongly;
  - the EBITDA and EBIT of HanesBrands, L Brands and VFC in the apparel sector and Adairs Limited in the home segment, are expected to grow at rates of 18-22% over the same period;
  - American Eagle Outfitters Inc., Bed Bath & Beyond Inc., Kathmandu Holding Limited, The Gap Inc., PVH and Ralph Lauren Corporation are expected to grow at more subdued rates;
- while there is some variability in the multiples, companies with strong brands generally trade at higher multiples:
  - wholesalers with strong brands, such as HanesBrands, PVH (owner of the Calvin Klein and Tommy Hilfiger brands among others) and VF Corporation, which owns a diverse

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portfolio of brands, including The North Face, Napapijri, Lee and Wrangler, are trading at around 10-13 times forecast year 1 EBITDA and around 13-15 times forecast year 1 EBIT. Ralph Lauren's trading multiples seem to reflect the challenges the company is facing, in particular in outlets and lower tier department stores, and the rationalisation programme it is currently undergoing;

- integrated and retail companies such as American Eagle Outfitters, Esprit and The Gap generally trade around 4.5 times year 1 forecast EBITDA and 6.5 times forecast year 1 EBIT. L Brands' much higher trading multiples is likely to reflect the strength of its key brand (Victoria Secret) and its track record of delivering sales and earnings growth;
- the evidence is much more mixed for Australian listed apparel companies and the multiples seem to reflect each company's brand strength and growth prospects rather than exposure to retail or wholesale; and

- some of these companies (HanesBrands, PVH and VFC) are expected to face relatively low effective tax rates in the short term, which may have boosted the multiples of EBITDA and EBIT on which they are trading.

### 4.5 Net Cash

Pacific Brands' net cash for valuation purposes is $14.4 million. This amount is based on:

- a cash balance of $87.4 million as at 31 December 2015;
- the $18.6 million that will be paid out to holders of performance rights as compensation for the cancellation of these rights[30] should the Proposal be implemented; and
- debt of $54.4 million as at 31 December 2015.

### 4.6 Franking Credits

Under Australia's dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for tax paid by a company. The franking credit attaches to any dividends paid by a company and the franking credit offsets personal tax for Australian investors. To the extent that personal tax has been fully offset the individual will receive a refund of the balance of the franking credit. Franking credits therefore have value to the recipient.

However, in Grant Samuel's opinion, while acquirers are attracted by franking credits there is no clear evidence that they will actually pay extra for a company with them (at any rate the sharemarket evidence referenced by Grant Samuel in valuing the Pacific Brands businesses will already reflect the value impact of the existence of franking credits). Further, franking credits are not an asset of the company in the sense that they can be readily realised for a cash sum that is capable of being received by all shareholders. The value of franking credits can only be realised by shareholders themselves when they receive distributions. Importantly, the value of franking credits is dependent on the tax position of each individual shareholder. To some shareholders (e.g. overseas shareholders) they will have very little or no value. Similarly, if they are attached to a distribution which would otherwise take the form of a capital gain taxed at concessional rates there may be minimal net benefit.

Accordingly, while franking credits will have value when distributed to shareholders (assuming that they are domestic shareholders and can utilise those franking credits), undistributed franking credits do not affect the underlying value of the company itself. No separate value has therefore been attributed to Pacific Brands' accumulated franking credit position in the context of the value of Pacific Brands as a whole.

[30] Of the total 15.623 million rights on issue, 14.973 million will be cancelled for cash consideration of 119 cents per right. The remaining 651,527 rights will vest and be converted into shares prior to completion of the proposed transaction in which case the holder of the rights will receive 115 cents in cash per share.

## 5 Evaluation of the Proposal

### 5.1 The Proposal is Fair

Grant Samuel has estimated that the full underlying value of Pacific Brands, including a premium for control, is in the range $1.10-1.23 per share. The Consideration of $1.15 per share falls well within the range. Accordingly, the Proposal is fair.

Moreover, Pacific Brands intends to pay 9.4 cents of the total Consideration of $1.15 per share as a fully franked dividend. The amount payable under the Scheme will be reduced by the amount of the dividend. For shareholders who can use the attached franking credits, this will deliver additional value of up to 4 cents per share.

Grant Samuel's valuation of Pacific Brands implicitly reflects assumptions of robust earnings growth. For the Proposal to be "not fair", shareholders would need to have considerable confidence that Pacific Brands will deliver high rates of growth, and would need to be prepared to effectively discount the major risks facing the business, including those associated with the Company's wholesale exposure, exchange rates and broader apparel/fashion risk. It is of course conceivable that Pacific Brands could deliver high rates of growth for an extended period of time. On balance, however, Grant Samuel believes that it is appropriate to adopt a valuation range that reflects meaningful, but not stellar, growth rates, and implicitly gives some weighting to the possibility that the risks facing the business will over time have some impact on earnings performance. On this basis, in Grant Samuel's view, the Proposal is clearly fair.

### 5.2 The Proposal is Reasonable

As the Scheme is fair, it is by definition also reasonable. In any event, there are a number of factors that support the reasonableness of the Scheme:

- the consideration of $1.15 per share represents a meaningful premium over the Pacific Brands share price immediately prior to the announcement of the Scheme:

**Pacific Brands – Premiums Implied by the Scheme Consideration**

| Period | Pacific Brands Price/VWAP[31] | Premium |
|---|---|---|
| Last closing price – 27 April 2016 | 94.0¢ | 22.3% |
| 5 days prior to 27 April 2016 (VWAP) | 88.6¢ | 29.8% |
| 1 month prior to 27 April 2016 (VWAP) | 94.1¢ | 22.2% |
| 3 months prior to 27 April 2016 (VWAP) | 91.5¢ | 25.6% |
| 6 months prior to 27 April 2016 (VWAP) | 85.2¢ | 34.9% |
| 12 months prior to 27 April 2016 (VWAP) | 68.7¢ | 67.4% |

Source: IRESS and Grant Samuel analysis

The premiums implied by the Scheme consideration relative to Pacific Brands share prices for the periods set out above are generally consistent with those normally seen in takeover offers. However, premium analysis should be approached with some caution in the case of Pacific Brands.

The Pacific Brands share price fluctuated significantly in the period prior to the announcement of the Proposal, notwithstanding that there were no releases from the Company that would have been expected to affect the market's views of Pacific Brands' prospects. Following the announcement of Pacific Brands' half year results on 16 February 2016, Pacific Brands shares traded at around $0.90 until the end of February, following which the share price strengthened to levels around $1.00. In mid-April the share price fell sharply, reaching prices around $0.85, before gaining $0.08 in the last two days before the

[31] VWAP = volume weighted average price

Proposal was announced, to close at $0.94. In the context of these share price movements, it is not clear what share price or share trading period provides the most appropriate reference point for the calculation of takeover premiums. Nor is it obvious that the most recent share prices (including the last closing price before the announcement of the Proposal) provide the best indication of an informed market based view on value. Accordingly, while the calculated premiums are generally consistent with those observed in takeovers of listed companies, the premium analysis provides only general support for the conclusion that the Proposal is reasonable. In any event, premium analysis is not determinative of value, but is rather an outcome of a valuation or transaction process;

- it is likely that, in the absence of the Proposal or market speculation regarding a similar transaction and under current market conditions, Pacific Brands shares would trade at prices below $1.15 per share, at least in the short term. Given Pacific Brands' recent trading performance, it is conceivable that its shares could trade at prices around the levels at which the shares were trading prior to the announcement of the Proposal (circa $0.85-$0.90); and
- there is no indication that there is a realistic prospect of a competing bid by any third party. In any event, there will continue to be an opportunity for any third party that is interested to put forward a superior proposal until the Scheme meeting. While there are various "deal protection" mechanisms in place and Pacific Brands could be obliged to pay a break fee of up to $10.55 million if it was to proceed with an alternative transaction, these arrangements would not be an effective disincentive to a party that was committed to a counter-offer.

### 5.3 The Proposal is in the best interests of Shareholders

In the context of a cash offer there are few issues for shareholders to consider other than price. Other matters that shareholders may wish to consider include:

- shareholders will be treated as having disposed of their Pacific Brands shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the Pacific Brands shares, the length of time for which the shares were held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. Shareholders should seek their own tax advice;
- if the Proposal is not implemented, Pacific Brands will incur transaction costs of around $2-3 million (0.2-0.3 cents per share). In certain circumstances, if the Proposal did not proceed, Pacific Brands would also be liable to pay HanesBrands a $10.55 million break fee; and
- Pacific Brands shares have generally traded around $1.15 since the announcement of the Proposal. Shareholders who sell their shares on market will incur transaction costs. In addition, they will lose the opportunity of realising value of up to 4 cents per share from franking credits (in the event that Pacific Brands declares a special dividend as planned and shareholders' individual tax positions allow them to utilise the credits) and forego the possibility of receiving any higher price that might be offered.

Overall, because the Proposal is fair and reasonable, it is in the best interests of shareholders, in the absence of a superior offer.

### 5.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Proposal is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposal, the responsibility for which lies with the directors of Pacific Brands.

In any event, the decision whether to vote for or against the Proposal is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Proposal, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Pacific Brands. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Proposal. Shareholders should consult their own professional adviser in this regard.

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## 6 Qualifications, Declarations and Consents

### 6.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 500 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper and Craig Chipperfield. Each has a significant number of years of experience in relevant corporate advisory matters. Matt Leroux MEng MBA, David Szeleczky BCom (Hons) LLB (Hons), Shakeel Mohammed MS MBA and Tom Rowe BCom CA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

### 6.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Proposal is in the best interests of Pacific Brands shareholders. Grant Samuel expressly disclaims any liability to any Pacific Brands shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Pacific Brands and has not verified or approved any of the contents of the Pacific Brands Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Pacific Brands Scheme Booklet (except for this report).

### 6.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Pacific Brands or HanesBrands or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposal.

Grant Samuel had no part in the formulation of the Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $525,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

### 6.4 Declarations

Pacific Brands has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Pacific Brands has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Pacific Brands are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Pacific Brands and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

### 6.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Pacific Brands. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

### 6.6 Other

The accompanying letter dated 20 May 2016 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

**GRANT SAMUEL & ASSOCIATES PTY LIMITED**
20 May 2016

Grant Samuel & Associates

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## Appendix 1

### Broker Forecasts

On 16 February 2016, Pacific Brands confirmed its EBIT guidance for the year ending 30 June 2016 to be approximately $73-75 million. The company has not released earnings forecasts for the year ending 30 June 2017 or beyond and is not including any prospective financial information in the Scheme Booklet.

Accordingly, the prospective multiples implied by the valuation of Pacific Brands in the Grant Samuel report are based on broker consensus forecast. These forecasts are sufficiently close to Pacific Brands' internal projections to be useful for analytical purposes.

Set out in the table below is a summary of forecasts prepared by brokers that follow Pacific Brands in the Australian stockmarket:

**Pacific Brands – Broker Forecasts for the Year Ending 30 June ($ millions)**

| | | Sales Revenue | | EBITDA | | EBIT | | Net Profit After Tax | | Earnings per Share | | Dividends per Share | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Broker** | **Date** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** |
| Broker 1 | 28 April 2016 | 865.6 | 910.9 | 87.8 | 96.8 | 75.6 | 83.6 | 51.3 | 57.6 | 5.6¢ | 6.3¢ | 3.4¢ | 4.2¢ |
| Broker 2 | 28 April 2016 | 883.0 | 941.0 | 88.0 | 96.0 | 76.0 | 82.0 | 51.7 | 56.3 | 6.0¢ | 6.0¢ | 3.0¢ | 4.0¢ |
| Broker 3 | 28 April 2016 | 858.0 | 911.0 | 87.0 | 103 | 75.0 | 88.0 | 50.0 | 60.0 | 6.0¢ | 7.0¢ | 3.0¢ | 4.0¢ |
| Broker 4 | 28 April 2016 | 858.3 | 911.5 | 84.0 | 91.1 | 73.4 | 77.0 | 49.7 | 53.0 | 5.4¢ | 5.8¢ | 3.3¢ | 3.5¢ |
| Broker 5 | 28 April 2016 | 872.2 | 925.3 | 85.8 | 97.3 | 74.0 | 85.6 | 50.4 | 61.4 | 5.5¢ | 6.7¢ | 3.2¢ | 4.0¢ |
| Broker 6 | 28 April 2016 | 855.5 | 892.9 | 85.3 | 85.4 | 74.1 | 73.8 | 48.9 | 49.9 | 5.3¢ | 5.4¢ | 3.2¢ | 3.3¢ |
| *Minimum* | | *855.5* | *892.9* | *84.0* | *85.4* | *73.4* | *73.8* | *48.9* | *49.9* | *5.3¢* | *5.4¢* | *3.0¢* | *3.3¢* |
| *Maximum* | | *883.0* | *941.0* | *88.0* | *103.0* | *76.0* | *88.0* | *51.7* | *61.4* | *6.0¢* | *7.0¢* | *3.4¢* | *4.2¢* |
| ***Median*** | | ***862.0*** | ***911.3*** | ***86.4*** | ***96.4*** | ***74.6*** | ***82.8*** | ***50.2*** | ***57.0*** | ***5.6¢*** | ***6.2¢*** | ***3.2¢*** | ***4.0¢*** |
| ***Average*** | | ***865.4*** | ***915.4*** | ***86.3*** | ***94.9*** | ***74.7*** | ***81.7*** | ***50.3*** | ***56.4*** | ***5.6¢*** | ***6.2¢*** | ***3.2¢*** | ***3.8¢*** |

Source: Broker reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- the forecasts presented below represent the latest available broker forecasts for Pacific Brands;
- Grant Samuel is aware of only three other brokers that follow Pacific Brands. These brokers have not released any research on Pacific Brands that includes earnings forecasts subsequent to the announcement of the Proposal;
- in some cases, the broker forecasts are not prepared on a consistent basis. In the table below, Grant Samuel has attempted to present the broker earnings forecasts on a common basis; and
- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the earnings forecasts do not incorporate any one-off adjustments or non-recurring items.

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## Appendix 2

## Selection of Discount Rate

### 1 Overview

A discount rate in the range of 9.5-10.5% has been selected as appropriate to apply to the forecast nominal ungeared after tax cash flows of Pacific Brands' business operations. While Pacific Brands operates a number of discrete businesses (e.g. Underwear, Sheridan and Tontine and Dunlop Flooring), the reality is that Pacific Brands operates as an integrated business and Grant Samuel considers it appropriate to value Pacific Brands as a single business.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory which can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the growing acceptance and application of various theoretical models, it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Many businesses and investors use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome of any particular theoretical model.

The discount rate that Grant Samuel has adopted is reasonable relative to the rates derived from theoretical models. The discount rate represents an estimate of the weighted average cost of capital ("WACC") appropriate for these assets. Grant Samuel has calculated a WACC based on a weighted average of the cost of equity and the cost of debt. This is the relevant rate to apply to ungeared cash flows. There are three main elements to the determination of an appropriate WACC. These are:

- cost of equity;
- cost of debt; and
- debt/equity mix.

WACC is a commonly used basis but it should be recognised that it has shortcomings in that it:

- represents a simplification of what are usually much more complex financial structures; and
- assumes a constant degree of leverage which is seldom correct.

The cost of equity has been derived from application of the capital asset pricing model ("CAPM") methodology. The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice. However, while the theory underlying the CAPM is rigorous the practical application is subject to shortcomings and limitations and the results of applying the CAPM model should only be regarded as providing a general guide. There is a tendency to regard the rates calculated using CAPM as inviolate. To do so is to misunderstand the limitations of the model. For example:

- the CAPM theory is based on expectations but uses historical data as a proxy. The future is not necessarily the same as the past;
- the measurement of historical data such as risk premia and beta factors is subject to very high levels of statistical error. Measurements vary widely depending on factors such as source, time period and sampling frequency;

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- the measurement of beta is often based on comparisons with other companies. None of these companies is likely to be directly comparable to the entity for which the discount rate is being calculated and may operate in widely varying markets;
- parameters such as the debt/equity ratio and risk premium are based on subjective judgements; and
- there is not unanimous agreement as to how the model should adjust for factors such as taxation. The CAPM was developed in the context of a "classical" tax system. Australia's system of dividend imputation has a significant impact on the measurement of net returns to investors.

In addition, the market upheaval since 2007 has seen a repricing of risk by investors and global interest rates, including long term bond rates, are at low levels by comparison with historical norms. The CAPM methodology does not readily allow for these types of events.

The cost of debt has been determined by reference to the pricing implied by the debt markets in Australia. The cost of debt represents an estimate of the expected future returns required by debt providers. In determining the appropriate cost of debt over this forecast period, regard was had to debt ratings of comparable companies.

Selection of an appropriate debt/equity mix is a matter of judgement. The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the business over the forecast period. The relevant proportions of debt and equity have been determined having regard to the financial gearing of the industry in general and comparable companies, and judgements as to the appropriate level of gearing considering the nature and quality of the cash flow stream.

The following sections set out the basis for Grant Samuel's determination of the discount rates for Pacific Brands' businesses and the factors which limit the accuracy and reliability of the estimates.

## 2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in equities. The rate of return required by equity investors represents the cost of equity of a company and is therefore the relevant measure for estimating a company's weighted average cost of capital. CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as Australian government bonds). The premium is commonly known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to a company or business may be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular company or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular investment or business operation. Systematic risk is the risk that the return from an investment or business operation will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market in general, then the return required on the investment would be equal to the return required from the market in general (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;
- cyclicality of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and

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- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market and an investment with a beta of less than one is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$Re = Rf + Beta\ (Rm - Rf)$$

Where:

| | | |
|---|---|---|
| *Re* | = | the cost of equity capital; |
| *Rf* | = | the risk free rate; |
| *Beta* | = | the beta factor; |
| *Rm* | = | the expected market return; and |
| *Rm - Rf* | = | the market risk premium. |

The beta for a company or business operation is normally estimated by observing the historical relationship between returns from the company or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a classical tax system is as follows:

$$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$$

Where:

| | | |
|---|---|---|
| *E/V* | = | the proportion of equity to total value (where V = D + E); |
| *D/V* | = | the proportion of debt to total value; |
| *Re* | = | the cost of equity capital; |
| *Rd* | = | the cost of debt capital; and |
| *t* | = | the corporate tax rate |

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below:

- **Risk Free Rate**

  Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official "risk free" rate but rates on government securities are typically used as an acceptable substitute. More importantly, forecast rates for each future period are not readily available. In practice, the long term Commonwealth Government Bond rate is used as a substitute in Australia and medium to long term Treasury Bond rates are used in the United States. It should be recognised that the yield to maturity of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer term rates are significantly above short term rates) the adoption of a single long term bond rate has the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

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The ten year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds ten years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the ten year bond market is the deepest long term bond market in Australia and is a widely used and recognised benchmark. There is a very limited market for bonds of more than ten years. In the United States, there are deeper markets for longer term bonds. The 30 year bond rate is a widely used benchmark. However, long term rates accentuate the distortions of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a ten year rate. More importantly, the ten year rate is the standard benchmark used in practice.

Where cash flows are less than ten years in duration the opposite issue arises. An argument could be made that shorter term, and therefore lower, bond rates should be used in determining the discount rate. While Grant Samuel believes this is a legitimate argument, an adjustment may give a misleading impression of precision for the whole methodology. In any event, the impact on valuation would usually be trivial.

In practice, Grant Samuel believes acquirers would use a common rate. The ten year bond rate can be regarded as an acceptable standard risk free rate for medium to long term cash flows, particularly given its wide use.

- **Market Risk Premium**

The market risk premium (*Rm - Rf*) represents the "extra" return that investors require to invest in equity securities as a whole over risk free investments. This is an "ex-ante" concept. It is the expected premium and as such it is not an observable phenomenon. There is no generally accepted approach to estimating a forward looking market risk premium and therefore the historical premium is used as the best available proxy measure. The premium earned historically by equity investments is usually calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term numbers are highly volatile and that a long term average return would be a fair indication of what most investors would expect to earn in the future from an investment in equities with a 5-10 year time frame.

In the United States it is generally believed that the premium is in the range of 5-6% but there are widely varying assessments (from 3% to 9%). Australian studies have been more limited and mainly derive from the Officer Study[1] which was based on data for the period 1883 to 1987 (prior to the introduction of dividend imputation) and indicated that the long run average premium was in the order of 8% using an arithmetic average but subject to significant statistical error[2]. More recently, the Officer Study has been updated to 2011[3] with the long term average declining to around 6%. However, due to concerns about the earlier market data, Officer now places emphasis on the average risk premium since 1958 which is estimated to be 5.9% ignoring the impact of imputation[4].

In addition, the market risk premium is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase or decrease their expected premium. Indeed, prior to 2008 there were arguments being put forward that the risk premium was lower than it had been historically while today there is evidence to indicate that current market risk premiums are above historical averages. However, there is no accepted approach to deal with changes in market risk premia for current conditions.

1 R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., "Share Market and Portfolio Theory: Readings and Australian Evidence" (second edition), University of Queensland Press, 1989 ("Officer Study").

2 The "true" figure lies within a range of approximately 2-10% at a 95% confidence level.

3 Dr. S. Bishop and Professor R.R. Officer, "Review of Debt Risk Premium and Market Risk Premium" (February 2013), prepared for Aurizon Holdings Limited.

4 Where the market return explicitly includes a component for imputation benefits of 1.0 the market risk premium over the same period is around 6.5%.

In the absence of controls over capital flows, differences in taxation and other regulatory and institutional differences, it is reasonable to assume that the market risk premium should be approximately equal across markets which exhibit similar risk characteristics after adjusting for the effects of expected inflation differentials. Accordingly, it is reasonable to assume similar market risk premiums for first world countries enjoying political economic stability, such as Australia, New Zealand, the United States, Japan, the United Kingdom and various western European countries.

- **Beta Factor**

The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past share price data and use it as a proxy for the future but it must be recognised that the expected beta is not necessarily the same as the historical beta. A company's relative risk does change over time.

The appropriate beta is the beta of the company being acquired rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company may be utilised. However, it is also appropriate (and may be necessary if the investment is not listed) to utilise betas for comparable companies and sector averages (particularly as those may be more reliable).

However, there are very significant measurement issues with betas which mean that only limited reliance can be placed on such statistics. There is no "correct" beta. For example:

- over the last four years Pacific Brands' beta as measured by the Securities Industry Research Centre of Asia-Pacific (SIRCA Limited ("SIRCA")) has varied between 0.26 and 1.29 and in December 2015 was measured at 0.78; and
- the standard error of the SIRCA's estimate of the Pacific Brands beta has generally been in the order of 1.6 to 1.7 meaning that for a beta of, say, 0.8 even at a 68% confidence level, the range is -0.85 to 2.45.

- **Debt/Equity Mix**

The tax deductibility of the cost of debt means that the higher the proportion of debt the lower the WACC, although this would be offset, at least in part, by an increase in the beta factor as leverage increases.

The debt/equity mix assumed in calculating the discount rate should be consistent with the level implicit in the measurement of the beta factor. Typically, the debt/equity mix changes over time and there is significant diversity in the levels of leverage across companies in a sector. There is a tendency to calculate leverage at a point in time whereas the leverage should represent the average over the period the beta was measured. This can be difficult to assess with a meaningful degree of accuracy.

The measured beta factors for listed companies are "equity" betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel's view this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Deleveraging and releveraging is also incorrectly calculated based on debt levels at a single point in time.

In addition, the actual debt and equity structures of most companies are typically relatively complex. It is necessary to simplify this for practical purposes in this kind of analysis.

Finally, it should be noted that, for this purpose, the relevant measure of the debt/equity mix is based on market values not book values.

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- **Specific Risk**

  The WACC is designed to be applied to "expected cash flows" which are effectively a weighted average of the likely scenarios. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation.

  However, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) in a different way by adjusting the discount rate applied to forecast cash flows.

## 3 Calculation of WACC for Pacific Brands

### 3.1 Cost of Equity Capital

The cost of equity capital has been estimated by reference to the CAPM. Grant Samuel has adopted a cost of equity capital in the range 8.5-9.7%.

- **Risk Free Rate**

  Grant Samuel has adopted a risk free rate of 2.5%. The risk free rate approximates the current yield to maturity on ten year Australian Government bonds.

- **Market Risk Premium**

  Grant Samuel has consistently adopted a market risk premium of 6% and believes that this continues to be a reasonable estimate. It:

  - is not statistically significantly different to the premium suggested by long term historical data;
  - is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
  - makes no explicit allowance for the impact of Australia's dividend imputation system.

- **Beta Factor**

  Grant Samuel has adopted a beta factor in the range 1.0-1.2 for the purposes of valuing Pacific Brands' business operations.

  Grant Samuel has considered the beta factors for a wide range of apparel companies in determining an appropriate beta for Pacific Brands' businesses. The betas have been calculated on two bases relative to each company's home exchange index and relative to the Morgan Stanley Capital International Developed World Index ("MSCI"), an international equities market index that is widely used as a proxy for the global stockmarket as a whole. Where a company is extensively traded by global investors it can be argued that the regression against the MSCI is more relevant but:

  - this depends on who the "price setting" investors are; and
  - it raises a related issue as to whether a global risk premium is also appropriate and, if so, what that global premium is.

  Put alternatively, there is no simple, universal answer.

A summary of betas for selected comparable listed companies is set out in the table below:

**Equity Beta Factors for Selected Listed Branded Apparel Companies**

| Company | Market Capitalisatio[5] (millions) | Monthly Observations over 5 years Barra[6] | Monthly Observations over 4 years | | | Weekly Observations over 2 years | |
|---|---|---|---|---|---|---|---|
| | | | SIRCA[7] | Bloomberg[8] | | Bloomberg | |
| | | | | Local Index | MSCI[9] | Local Index | MSCI |
| **Pacific Brands** | **A$862** | | **0.78** | **0.34** | **(0.10)** | **1.05** | **0.73** |
| **Australia** | | | | | | | |
| Adairs | A$406 | | na | 0.13 | (0.04) | (0.08) | 0.04 |
| Billabong | A$269 | | 2.66 | 1.09 | 2.76 | 0.11 | 0.74 |
| Gazal | A$133 | | 0.31 | 0.40 | 0.46 | 0.27 | 0.25 |
| Kathmandu (NZ) | A$320 | | 0.52 | 0.92 | 0.75 | 0.99 | 0.44 |
| Premier Investments | A$2,498 | | 1.48 | 1.33 | 1.25 | 0.78 | 0.81 |
| Specialty Fashion | A$124 | | 0.37 | 0.39 | 0.54 | 0.29 | 0.32 |
| The PAS Group | A$90 | | n.a. | 0.14 | (0.44) | 0.38 | (0.31) |
| **Global** | | | | | | | |
| American Eagle Outfitters | US$2,587 | 0.70 | | 0.76 | 0.70 | 0.91 | 0.87 |
| Bed Bath & Beyond | US$7,358 | 0.88 | | 0.77 | 0.68 | 0.74 | 0.75 |
| Delta Galil | US$2,620 | 0.86 | | 0.39 | 0.18 | 0.96 | 0.56 |
| Esprit | HK$13,220 | 0.97 | | 0.88 | 1.90 | 0.68 | 0.60 |
| Hanesbrands | US$10,959 | 0.92 | | 1.33 | 1.19 | 1.28 | 1.02 |
| L Brands | US$22,470 | 0.74 | | 0.79 | 0.77 | 0.69 | 0.63 |
| PVH | US$7,770 | 1.01 | | 0.62 | 0.57 | 0.74 | 0.70 |
| Ralph Lauren | US$7,831 | 0.97 | | 0.77 | 0.75 | 1.18 | 1.14 |
| The Gap | US$9,223 | 0.86 | | 0.99 | 0.86 | 1.19 | 1.14 |
| V.F. Corp | US$26,698 | 0.82 | | 0.52 | 0.49 | 0.96 | 0.87 |
| *Minimum* | | | | *0.13* | *(0.44)* | *(0.08)* | *(0.31)* |
| *Maximum* | | | | *1.55* | *2.76* | *1.28* | *1.25* |
| *Median* | | | | *0.77* | *0.73* | *0.76* | *0.72* |
| *Weighted Average*[10] | | | | *0.79* | *0.75* | *0.92* | *0.85* |

Source: SIRCA, Ibbotson, London Business School, Bloomberg

The table shows outcomes that suggest it is difficult to determine a reliable beta for Pacific Brands with any confidence:

- Pacific Brands' beta varies significantly depending on the measurement source (SIRCA, Bloomberg etc.) and, as discussed earlier, has varied significantly over time;

5 Based on share prices as at 29 April 2016, except Pacific Brands, which is based on its share price as at 27 April 2016 (being the day prior to announcement of the Proposal).

6 United States beta factors calculated by MSCI Barra, Inc. ("Barra") as at 31 March 2016 over a period of 60 months using ordinary least squares regression or the Scholes-Williams technique (including lag) where the stock us thinly traded.

7 The Australian beta factors calculated by SIRCA as at December 2015 over a period of 48 months using ordinary least squares regression or the Scholes-Williams technique where the stock is thinly traded.

8 Bloomberg betas have been calculated up to 29 April 2016. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel's view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg "adjusted" betas.

9 MSCI is calculated using local currency so that there is no impact of currency changes in the performance of the index.

10 Weighted by market capitalisation converted to Australian dollars.

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- individual company betas (for the same source/period) fall in a very wide range. For example, Bloomberg Four Year MSCI betas generally range from (0.44) (The PAS Group up to 2.76 (Billabong) although this should be treated as an outlier;
- some individual company betas vary significantly depending on which market index is utilised (Local or MSCI); and
- gearing levels vary significantly but this is not always consistent with beta factors.

In view of these issues, Grant Samuel also considered the betas of two consumer indices, which effectively represent the sector average. Indices can be more reliable as they smooth out the vagaries of the circumstances of individual companies. This data is summarised below:

**Beta Factor of Consumer Indices vs MSCI**

| Index | Weekly | Monthly |
|---|---|---|
| S&P/ASX 200 Consumer Staples | 0.59 | 0.34 |
| S&P/ASX 200 Consumer Discretionary | 0.74 | 0.73 |

Source: Bloomberg

Arguably, the consumer discretionary index is the more relevant benchmark for Pacific Brands. The sector indices reflect the same two year/four year differentials as the individual company betas.

Finally, intuitively, it would be expected that a company such a Pacific Brands, which mainly sells branded apparel, would have a beta close or slightly greater than 1.0, in view of the sensitivity of consumer spending to economic cycles.

Taking all of these factors into account, Grant Samuel believes that a beta of 1.0-1.2 is a reasonable estimate of the appropriate equity beta for Pacific Brands (also having regard to its gearing levels).

- **Calculation**

Using the estimates set out above, the cost of equity capital can be calculated as follows:

**Low**

$$\begin{aligned} Re &= Rf + Beta\ (Rm\text{-}Rf) \\ &= 2.5\% + (1.0 \times 6\%) \\ &= \mathbf{8.5\%} \end{aligned}$$

**High**

$$\begin{aligned} Re &= Rf + Beta\ (Rm\text{-}Rf) \\ &= 2.5\% + (1.2 \times 6\%) \\ &= \mathbf{9.7\%} \end{aligned}$$

### 3.2 Cost of Debt

A cost of debt of 4.0% has been adopted based on a margin of 1.5% over the risk free rate. This figure represents the expected future cost of borrowing over the duration of the cash flow model. Grant Samuel believes that this would be a reasonable estimate of an average interest rate, including a margin, that would match the duration of the cash flows assuming that the operations were funded with a mixture of short term and long term debt.

### 3.3 Debt/Equity Mix

The selection of the appropriate debt/equity ratio involves perhaps the most subjectivity of discount rate selection analysis. In determining an appropriate debt/equity mix, regard was had to gearing levels of Pacific Brands and the peer group companies used in the beta analysis.

Gearing levels for these companies for the past five years are set out below:

| Gearing Levels for Selected Listed Branded Apparel Companies | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Net Debt/(Net Debt + Market Capitalisation) | | | | | | | |
| | Financial Year | | | | | | | |
| | Historical 5 | Historical 4 | Historical 3 | Historical 2 | Historical 1 | Current[11] | 4 Year Average | 5 Year Average |
| **Pacific Brands** | **25.9%** | **29.2%** | **19.9%** | **33.3%** | **(0.3%)** | **(4.8%)** | **20.5%** | **21.6%** |
| **Australia** | | | | | | | | |
| Adairs | n.a. | n.a. | n.a. | n.a. | 6.6% | 7.6% | 6.6% | 6.6% |
| Billabong | 23.6% | 26.9% | 80.6% | 13.4% | 16.7% | 22.9% | 34.4% | 32.2% |
| Gazal | 19.6% | 16.6% | 11.8% | 13.5% | 21.2% | (4.0%) | 15.8% | 16.5% |
| Kathmandu (NZ) | 8.9% | 14.0% | 7.0% | 7.7% | 16.8% | 17.9% | 11.4% | 10.9% |
| Premier Investments | (25.4%) | (29.2%) | (21.5%) | (15.4%) | (9.2%) | (11.1%) | (18.8%) | (20.1%) |
| Specialty Fashion | 8.9% | (4.3%) | (31.7%) | 9.1% | 18.8% | (1.2%) | (2.0%) | 0.1% |
| The PAS Group | n.a. | n.a. | n.a. | (0.4%) | (23.9%) | (7.2%) | (12.1%) | (12.1%) |
| **Global** | | | | | | | | |
| American Eagle Outfitters | (37.9%) | (19.4%) | (19.6%) | (17.7%) | (10.9%) | (10.9%) | (16.9%) | (21.1%) |
| Bed Bath & Beyond | (14.1%) | (8.8%) | (6.5%) | 3.8% | 10.5% | 10.5% | (0.3%) | (3.0%) |
| Delta Galil | 24.7% | 24.6% | 10.8% | 7.4% | 8.8% | 8.8% | 12.9% | 15.3% |
| Esprit | (9.5%) | (13.2%) | (26.2%) | (37.0%) | (55.2%) | (33.7%) | (32.9%) | (28.2%) |
| Hanesbrands | 48.4% | 30.0% | 18.5% | 13.6% | 16.7% | 21.9% | 19.7% | 25.5% |
| L Brands | 17.5% | 21.3% | 18.5% | 11.0% | 10.2% | 10.2% | 15.3% | 15.7% |
| PVH | 23.6% | 14.3% | 25.4% | 25.2% | 30.8% | 30.8% | 23.9% | 23.9% |
| Ralph Lauren | (6.7%) | (5.7%) | (7.2%) | (7.6%) | (5.7%) | (3.4%) | (6.5%) | (6.6%) |
| The Gap | (2.5%) | (1.8%) | (0.7%) | (0.9%) | 3.5% | 3.5% | 0.0% | (0.5%) |
| V.F. Corp | 11.2% | 7.1% | 2.4% | 1.4% | 3.3% | 6.6% | 3.6% | 5.1% |
| *Minimum* | *(37.9%)* | *(29.2%)* | *(31.7%)* | *(37.0%)* | *(55.2%)* | *(33.7%)* | *(32.9%)* | *(28.2%)* |
| *Maximum* | *48.4%* | *30.0%* | *80.6%* | *41.4%* | *71.9%* | *71.9%* | *44.4%* | *40.7%* |
| *Median* | *10.1%* | *10.6%* | *4.7%* | *7.4%* | *9.5%* | *7.1%* | *5.1%* | *5.8%* |
| *Weighted average* | *11.0%* | *8.9%* | *6.7%* | *4.8%* | *7.1%* | *9.0%* | *6.9%* | *7.7%* |

Source: Company Reports, IRESS, S&P Capital IQ, Bloomberg, Grant Samuel analysis

The selection of gearing levels is highly judgemental. The table shows a very wide range of gearing levels. The debt levels should actually be the weighted average measured over the same period as the beta factor rather than just at the current point in time. Moreover, these do not always bear any relationship to the betas of the individual companies. In some cases lowly geared companies still have equity betas towards the higher end of the range (e.g. Premier Investments or The Gap).

Pacific Brand's gearing has significantly reduced from FY14 as a result of divestments, improved working capital management and stronger cash flow conversion. Pacific Brands reported a net cash position at the end of the financial year ended 30 June 2015 and half year ended 31 December 2015. Whilst current gearing is low, Grant Samuel would reasonably expect gearing to increase as Pacific Brands demonstrates continual and less volatile earnings.

Having regard to the above, the debt/equity mix has been estimated as 80-85% equity and 15-20% debt. This is regarded as being broadly consistent with a beta factor of 1.0-1.2.

[11] Current gearing levels are based on the most recent balance sheet information and on share market prices as at 29 April 2016, except Pacific Brands which is based on its share price as at 27 April 2016, (being the day prior to the acquisition announcement).

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### 3.4 WACC

On the basis of the parameters outlined and assuming a corporate tax rate of 30%, the nominal WACC is calculated to be in the range 7.4-8.7%.

| **Low** | **High** |
|---|---|
| *WACC = (Re x E/V) + (Rd x (1-t) x D/V)* | *WACC = (Re x E/V) + (Rd x (1-t) x D/V)* |
| *= (8.5% x 80%) + (4.0% x 0.7 x 20%)* | *= (9.7% x 85%) + (4.0% x 0.7 x 15%)* |
| ***= 7.4%*** | ***= 8.7%*** |

This is an after tax discount rate to be applied to nominal ungeared after tax cash flows. However, it must be recognised that this is a very crude calculation based on statistics of limited reliability and involving a multitude of assumptions. In this regard, these calculations are likely to understate the true cost of capital. In this context:

- anecdotal information suggests that equity investors have repriced risk since the global financial crisis in 2007 and that acquirers are pricing offers on the basis of hurdle rates above those implied by theoretical models. However, this has yet to be translated into the measures of market risk premium (at least those based on longer term historical data). In this regard, an increase in the market risk premium of 1% (i.e. from 6% to 7%) would increase the calculated WACC range to 8.2-9.7%;
- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the liquidity still being pumped into many advanced economies to stimulate economic activity. Effective real interest rates remain low. Grant Samuel does not believe this position is sustainable and the risk is clearly towards a rise in bond yields. Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a "normalised" risk free rate should be used. On this basis, an increase in the risk free rate to (say) 4% would increase the calculated WACC range to 8.8-10.1%; and
- analysis of research reports on Pacific Brands indicates that brokers are currently adopting WACCs of generally in the range of 10.5-11.0%.

Having regard to these matters and the calculations set out above, Grant Samuel has selected a discount rate range of 9.5-10.5% for application in the discounted cash flow analysis.

## 4 Dividend Imputation

The conventional WACC formula set out above was formulated under a "classical" tax system. The CAPM model is constructed to derive returns to investors after corporate taxes but before personal taxes. Under a classical tax system, interest expense is deductible to a company but dividends are not. Investors are also taxed on dividends received. Accordingly, there is a benefit to equity investors from increased gearing.

Under Australia's dividend imputation system, domestic equity investors now receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added into any analysis of value.
There is no generally accepted method of allowing for dividend imputation. In fact, there is considerable debate within the academic community as to the appropriate adjustment or even whether any adjustment is required at all. Some suggest that it is appropriate to discount pre-tax cash flows, with an increase in

the discount rate to "gross up" the market risk premium for the benefit of franking credits that are on average received by shareholders. On this basis, the discount rate might increase by approximately 2% but it would be applied to pre-tax cash flows. However, not all of the necessary conditions for this approach exist in practice:

- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits. If foreign investors are the marginal price setters in the Australian market there should be no adjustment for dividend imputation;
- not all franking credits are distributed to shareholders; and
- capital gains tax operates on a different basis to income tax. Investors with high marginal personal tax rates will prefer cash to be retained and returns to be generated by way of a capital gain.

Others have proposed a different approach involving an adjustment to the tax rate in the discount rate by a factor reflecting the effective use or value of franking credits. If the credits can be used, the tax rate is reduced towards zero. The proponents of this approach have in the past suggested a factor in the range 50-65% as representing the appropriate adjustment (gamma). Alternatively, the tax charge in the forecast cash flows can be decreased to incorporate the expected value of franking credits distributed.

There is undoubtedly merit in the proposition that dividend imputation affects value. Over time dividend imputation will become factored into the determination of discount rates by corporations and investors. In Grant Samuel's view, however, the evidence gathered to date as to the value the market attributes to franking credits is insufficient to rely on for valuation purposes. More importantly, Grant Samuel does not believe that such adjustments are widely used by acquirers of assets at present. While acquirers are undoubtedly attracted by franking credits there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows. The studies that measure the value attributed to franking credits are based on the immediate value of franking credits distributed and do not address the risk and other issues associated with the ability to utilise them over the longer term. Accordingly, it is Grant Samuel's opinion, that it is not appropriate to make any adjustment.

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## Appendix 3

### Market Evidence - Transactions

Set out below is a summary of relatively recent transactions involving global branded apparel businesses for which there is sufficient information to calculate meaningful valuation parameters:

| Recent Transaction Evidence – Branded Apparel Companies | | | | | | | |
|---|---|---|---|---|---|---|---|
| Date | Target | Transaction | Consideration[1] ($ millions) | EBITDA Multiple[2] (times) | | EBIT Multiple[3] (times) | |
| | | | | Historical | Forecast | Historical | Forecast |
| ***Domestic*** | | | | | | | |
| Mar-15 | Accent Group | Acquisition by RCG Group | AUD199 | 6.0 | n.a. | n.a. | n.a. |
| Aug-14 | Workwear Group | Acquisition by Wesfarmers | AUD180 | 7.4 | n.a. | 8.2 | 11.4 |
| Apr-13 | RM Williams | Acquisition of 49.9% by L Capital Asia | AUD100 | 11.6 | n.a. | 17.8 | n.a. |
| Aug-12 | Witchery Fashions | Acquisition by Country Road | AUD172 | 5.1 | n.a. | n.a. | n.a. |
| Mar-08 | Just Group | Acquisition by Premier Investments | AUD808 | 7.9 | n.a. | 10.0 | n.a. |
| ***Global*** | | | | | | | |
| Feb-15 | Knights Apparel LLC | Acquisition by Hanesbrands | USD200 | n.a. | 8.0 | n.a. | n.a. |
| Jun-14 | DBA Lux Holding S.A. | Acquisition by Hanesbrands | EUR400 | 7.5 | n.a. | n.a. | n.a. |
| Jun-14 | Doris Inc. | Acquisition by Gildan Activewear | CAD110 | 7.9 | n.a. | n.a. | n.a. |
| Jul-13 | Maidenform Brands Inc. | Acquisition by Hanesbrands | USD581 | 10.1 | n.a. | 11.3 | n.a. |
| Oct-12 | Warnaco | Acquisition by PVH | USD2,850 | 9.7 | 8.2 | 14.7 | 10.4 |
| May-12 | Schiesser AG | Acquisition by Delta Galil | EUR68 | 8.2 | n.a. | 10.6 | n.a. |
| Mar-12 | Eveden Group Ltd | Acquisition by Wacoal Holdings | GBP152 | 11.5 | n.a. | 13.9 | n.a. |
| Aug-10 | GearCo, Inc. (Gear for Sports) | Acquisition by Hanesbrands | USD55 | 7.5[4] | n.a. | 9.2 | n.a. |
| Mar-10 | Tommy Hilfiger Corporation | Acquisition by PVH | EUR3,017 | 8.3 | n.a. | 11.3 | n.a. |

Source: Grant Samuel analysis[5]

A brief summary of each transaction is set out below:

***Accent/RCG Group***

On 19 March 2015, RCG Corporation Limited ("RCG") entered into an agreement to acquire Accent Group Limited ("AGL") for approximately A$200 million. AGL is an importer, distributor and retailer of international branded footwear and related accessories with operations across Australia and New Zealand. RCG is engaged in the footwear retail business in Australia and New Zealand. The purchase price was based on 6.0x AGL's normalised maintainable EBITDA for the financial year ended 30 April 2015. AGL generated revenue for the

1 Implied equity value if 100% of the company or business had been acquired.

2 Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

3 Represents gross consideration divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

4 Company disclosures do not specify if the underlying EBITDA number relates to the last historical year or forecast year 1.

5 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.

year ended 31 December 2014 of A$181.4 million, EBITDA of A$26.5 million and EBIT of A$22.4 million. Normalised EBITDA of A$33.1 million was adopted to calculate the purchase price.

***Workwear Group/Wesfarmers***

On 26 August 2014 Wesfarmers Industrial and Safety Pty Ltd ("Wesfarmers") entered into an agreement to acquire Pacific Brands Limited's Workwear Group for A$180 million. The Pacific Brands Workwear Group designs, sources, manufactures and distributes industrial workwear, corporate wear, uniforms and defence emergency services workwear to customers across Australia, New Zealand, the United Kingdom and the United Arab Emirates. For the financial year ended 30 June 2014 the business generated sales of A$368.5 million and EBIT of A$22.1 million. The purchase price therefore represents a multiple of 8.1x historical EBIT.

***RM Williams/L Capital Asia***

On 13 April 2013 L Capital Asia ("L Capital") agreed to acquire a 49.9% stake in R.M. Williams Holdings Pty Ltd ("R.M. Williams") from Ken Cowley for A$50 million. L Capital was granted an option to acquire the remaining 50.1% shareholding over a certain time frame. R.M. Williams designs, manufactures, and markets footwear, clothing and leather accessories. At the date of the acquisition, R.M. Williams had 63 retail stores across Australia, the United States and the United Kingdom. L Capital Asia is a private equity firm specialising in growth capital and emerging market investments supported by LVMH Moet Hennessy – Louis Vuitton. In October 2014, L Capital agreed to acquire the remaining 50.1% shareholding for A$50 million. Revenue was reported to have grown to A$128.2 million (from A$118.6 million in 2013).

***Witchery Fashions/Country Road***

On 31 July 2012, Country Road Limited ("Country Road") agreed to acquire Witchery Australia Holdings Pty Ltd ("Witchery") from Gresham Private Equity and management for approximately A$170 million. At the time of acquisition, Witchery had 306 stores in Australasia under the 'Witchery' and 'Mimco' brand names. Witchery's normalised EBITDA is expected to be substantially in line with FY11 normalised EBITDA of A$34 million. Witchery's turnover was A$266 million in FY11. At the date of the acquisition Country Road had 211 stores, sales of A$413 million and EBITDA of A$39 million. The acquisition price represents a multiple of 5.1x normalised EBITDA.

***Just Group/Premier Investments***

On 31 March 2008, Premier Investments Limited ("Premier Investments") made a tender offer to acquire Just Group Limited ("Just Group") for A$820.4 million. Premier Investments completed the acquisition on 3 September 2008. Just Group operates as a fashion and apparel retailer in Australia, New Zealand, South Africa and Singapore. Premier Investments is an ASX listed company that operates a number of specialty retail fashion chains. For the year ended 28 July 2007, the Just Group had sales of A$759.6 million, EBITA of A$96.5 million and 810 retail stores. The acquisition price represents a multiple of 7.9x normalised EBITDA.

***Knights/Hanesbrands***

On 24 February 2015, Hanesbrands Inc. ("HanesBrands") announced that it had entered into a definitive purchase agreement to acquire Knights Holdco Inc. ("Knights") from affiliates of Merit Capital Partners. Knights is a leading seller of licensed collegiate logo apparel in the mass retail channel. The company sells t-shirts, sweatshirts and other sports apparel with college logos and graphics representing 400 of the largest colleges and universities in United States. The business was forecast to have sales of approximately US$180 million in 2015. The all cash transaction valued Knights at approximately $200 million on an enterprise value basis and represented approximately 8.0x forecast EBITDA. HanesBrands expects to realise significant cost savings and synergies by integrating Knights with its GearCo business and the post synergy multiple was expected to be approximately 4.5x EBITDA. HanesBrands announced the completion of the transaction on 8 April 2015.

***DBA/Hanesbrands***

On 25 June 2014 Hanesbrands Inc. ("HanesBrands") announced its intention to acquire DBApparel of France ("DBA") from Sun Capital Partners Inc. subject to approval from European and French work councils representing DBA employees. DBA is a leading marketer of intimate apparel, hosiery and underwear in Europe with nearly half of total company sales coming from intimate apparel. At the time of acquisition, DBA had a market leading position in Western and Central Europe and generated annual sales of more than $875 million. DBA's brands include DIM, Playtex and Wonderbra in multiple countries with DIM accounting for approximately 50% of all sales. Approximately 45% of company sales were in France, while the Germany/Austria market accounted for approximately 15% of sales. Italy, Spain and Portugal together accounted for another 20% of sales. The all cash transaction valued DBA at approximately EUR400 million (US$550 million) on an enterprise value basis and represented approximately 7.5x EBITDA. The acquisition aimed to provide HanesBrands entry into new geographic markets. In addition, HanesBrands expected to realise significant operational synergies and the post synergy multiple was forecast to be less than 4.0x EBITDA. HanesBrands announced the completion of the transaction on 29 August 2014.

***Doris/Gildan***

On 19 June 2014, Gildan Activewear Inc. ("Gildan") announced that it has signed a definitive agreement to acquire substantially all of the assets of Doris Inc. ("Doris"). At the time of acquisition, Doris was the third largest marketer of branded ladies legwear in the United States and the market leader in Canada, with products sold throughout all retail channels of distribution. The company reported revenues of approximately C$95 million (US$88 million) during the year ended March 2014 with Canada accounting for 70% and United States accounting for 30% of the sales. The company owned brands include Secret® one of the most recognised sheer pantyhose brands, Silks®, TherapyPlus® and Kushyfoot®. The company also has brand licenses and supplies selective retailer private label programs. The cash purchase consideration included an initial payment of C$110 million (US$101 million) with possible contingent payments of up to C$10 million (US$9 million) based on the achievement of targets for growth in sales revenues. Based on reported adjusted EBITDA of approximately C$14 million (US$13 million) the valuation multiple (excluding contingent payments) implied by the transaction was 7.9x. Gildan announced the completion of the transaction on 17 July 2014.

***Maidenform/Hanesbrands***

On 24 July 2013, Hanesbrands Inc. ("HanesBrands") announced that it had entered into a definitive agreement with Maidenform Brands Inc. ("Maidenform") to acquire Maidenform in an all cash transaction which valued Maidenform at approximately US$590 million on an enterprise value basis. Maidenform is a leading seller of bras, shapewear and panties under brands such as Maidenform, Flexees, Lilyette, Self-Expressions and Sweet Nothings, as well as Donna Karan and DKNY intimate apparel under license. During 2012, Maidenform reported revenues of US$600 million with approximately 57% from bra sales, 35% from shapewear sales and 8% from panties sales. Approximately 90% of total sales were in the United States. Based on the historical EBITDA of US$59 million, the valuation multiple implied by the transaction was 10.1x. HanesBrands announced the completion of the transaction on 7 October 2013.

***Warnaco/PVH***

On 31 October 2012, PVH Corp. ("PVH"), owner of the Calvin Klein brand among others, entered into a definitive agreement with The Warnaco Group, Inc. ("Warnaco") to acquire Warnaco for $51.75 cash and 0.1822 PVH shares per Warnaco share, which valued Warnaco at US$2.85 billion. Warnaco owned and licensed brands such as Calvin Klein, Speedo, Chaps, Warner's and Olga, operated over 1,700 Calvin Klein retail stores globally (including concession and shop in shops), several ecommerce platforms and had retail licences or franchise and distributor agreements with third parties operating an additional 615 stores. In the 2011 financial year, Warnaco generated approximately $2.5 billion in revenue. The acquisition resulted in the consolidation of the Calvin Klein brand under PVH and was expected to generate significant synergies and be EPS accretive in the first financial year (excluding integration costs).

***Schiesser AG/Delta Galil***

On 2 May 2012, Delta Galil Industries Ltd. ("Delta Galil"), the global manufacturer and marketer of branded and private label apparel products, had signed a definitive agreement to acquire Schiesser AG, the leading underwear manufacturer and marketer in Germany, for a purchase price of €68 million. At the time of the acquisition, Schiesser AG held the top market share in the men's underwear segment and a significant share of the women's and children's segments. Key markets for Schiesser included Germany, Belgium, Netherlands, Switzerland, Austria and Italy and the company had sales of €132 million in 2011. The acquisition aimed to expand Delta Galil's global market reach in intimate apparel, particularly in branded products. The consideration represented historical EBITDA multiples of 8.2x and was expected to be immediately accretive to Galil's earnings in 2012.

***Eveden/Wacoal***

On 30 March 2012, Wacoal Holdings Corp. ("Wacoal") announced that it had entered into an agreement to acquire all the shares in Eveden Group Limited ("Eveden"). Eveden is a United Kingdom based company that is a leading manufacturer and supplier of premium lingerie and swimwear products. At the time of acquisition, Eveden had a sales network of over 5,000 retailers across more than 50 countries in Europe, North America, Asia, Australia and others. Eveden's brands include Fantasie, Freya, Huit, Fauve, Elomi and Goddess. During the year ended 30 June 2011, Eveden reported revenues of approximately £82 million and generated EBITDA of £13.2 million. The purchase consideration was £152 million implying historical EBITDA multiple of 11.5x. The acquisition aimed to expand Wacoal's geographic presence and was also expected to generate significant operational synergies.

***GearCo/Hanesbrands***

On 10 August 2010, Hanesbrands Inc. ("HanesBrands") announced that it had entered into a definitive purchase agreement to acquire GearCo Inc. also known as Gear for Sports ("GearCo"). Founded in 1974, GearCo was one of the largest providers of college and athletic licensed logo apparel, selling t-shirts, fleece and other embellished sportswear to college bookstores, golf pro shops and leisure resorts. The apparel was sold under several brand names, including HanesBrands' Champion label, Gear for Sports and other brands, generating sales of approximately US$225 million. The total purchase consideration was approximately US$225 million and included US$55 million in cash for shareholders' equity plus assumption of approximately $170 million of debt of the privately held company. The reported implied a historical EBITDA multiple of approximately 7.5x and the acquisition was forecast to be immediately EPS accretive to HanesBrands. The transaction completed on 1 November 2010.

***Tommy Hilfiger/PVH***

On 15 March 2010, PVH Corp. ("PVH") announced that it has signed a definitive purchase agreement with Apax Partners L.P. to acquire Tommy Hilfiger BV ("Tommy Hilfiger"). Tommy Hilfiger,one of the world's most recognised designer apparel groups, focusses on designing and marketing high quality menswear, womenswear, children's apparel and denim collections. The brand portfolio includes Tommy Hilfiger and Hilfiger Denim and there were approximately 1,000 stores globally. For the fiscal year ended 31 March 2010, Tommy Hilfiger forecast revenues of approximately US$2.25 billion with 34% of total revenues from United States and 66% international sources. The total purchase consideration was €2.2 billion (approximately $3.0 billion) plus the assumption of €100 million in liabilities. The consideration included €1.924 billion in cash and €276 million in PVH common stock. The transaction was expected to realise considerable synergies and the acquisition was forecast to be immediately accretive to PVH's earnings per share. The purchase consideration represented forecast EBITDA multiples of 8.3x and 7.4x including expected annual synergies. PVH announced the completion of the transaction on 6 May 2010.

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## Appendix 4

### Market Evidence - Comparable Listed Companies

The share market ratings of selected listed branded apparel companies are set out below:

| Share market Ratings of Selected Listed Branded Apparel Companies | | | | | | | |
|---|---|---|---|---|---|---|---|
| Company | Market Capitalisation ($ million) | EBITDA Multiple[1] (times) | | | EBIT Multiple[2] (times) | | |
| | | Historical | Forecast Year 1 | Forecast Year 2 | Historical | Forecast Year 1 | Forecast Year 2 |
| ***Domestic*** | | | | | | | |
| Adairs | A$406 | 11.7 | 9.7 | 8.7 | 13.3 | 11.1 | 9.9 |
| Billabong | A$269 | 6.0 | 6.3 | 5.1 | 10.6 | 13.4 | 8.5 |
| Gazal | A$133 | 12.9 | n.a. | n.a. | 19.4 | n.a. | n.a. |
| Kathmandu | NZ$320 | 8.2 | 6.2 | 5.7 | 11.5 | 8.0 | 7.5 |
| Premier Investments | A$2,498 | 16.4 | 13.6 | 12.0 | 19.9 | 16.3 | 14.4 |
| Speciality Fashion Group | A$124 | 5.8 | 3.9 | 3.6 | 181.9 | 11.1 | 8.5 |
| The PAS Group | A$90 | 4.2 | n.a. | n.a. | 6.2 | n.a. | n.a. |
| ***Global*** | | | | | | | |
| American Eagle Outfitters | US$2,657 | 5.2 | 4.6 | 4.3 | 7.6 | 6.7 | 6.2 |
| Bed Bath & Beyond | US$7,836 | 5.1 | 5.4 | 5.5 | 6.0 | 6.6 | 6.8 |
| Delta Galil | US$702 | 5.6 | 5.3 | n.a. | 7.1 | 6.7 | n.a. |
| Esprit | HK$13,220 | n.m. | 83.2 | 11.9 | n.m. | n.m. | 66.5 |
| Hanesbrands | US$11,427 | 19.6 | 13.2 | 12.7 | 23.0 | 14.7 | 13.7 |
| L Brands | US$23,150 | 9.9 | 9.4 | 8.8 | 11.8 | 11.3 | 10.5 |
| PVH | US$7,981 | 9.6 | 10.0 | 9.4 | 12.4 | 13.3 | 12.2 |
| Ralph Lauren | US$7,831 | 5.4 | 6.6 | 6.8 | 6.8 | 9.2 | 9.1 |
| The Gap | US$9,223 | 4.5 | 4.7 | 4.6 | 6.0 | 6.5 | 6.2 |
| V.F. Corporation | US$27,342 | 13.5 | 12.9 | 11.8 | 15.5 | 15.0 | 13.5 |

Source: Grant Samuel analysis[3]

The multiples shown above are based on share market prices as at 29 April 2016 and do not reflect a premium for control.

The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

A brief description of each company is set out below:

***Adairs Limited***

Adairs Limited ("Adairs") is one of Australia's leading specialist retailers of manchester and homewares. With approximately 140 stores nationally, its key brands include Adairs (including Adairs Homemaker and Adairs

1 Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

2 Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

3 Grant Samuel analysis based on data obtained from IRESS, Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

1

Factory Outlets), Adairs Kids and Urban Home Republic. The company has limited trading history as a public company, having listed on the ASX in June 2015. During FY2015, Adairs reported revenues of A$211 million and generated a gross margin of 62.0%, slightly higher than prospectus forecasts. The company is forecasting a significant increase in revenues to around A$245-255 million during FY2016.

***Billabong International Limited***

Billabong International Limited ("Billabong") is an ASX listed company involved in the marketing, distribution, wholesaling and retailing of apparel, accessories, eyewear, wetsuits and hard goods in the board sports sector. Billabong's brands include Billabong, RVCA, Element, Von Zipper, Honolua Surf Company, Kustom, Palmers Surf, Xcel, Sector 9 and Tigerlily. Its brands are licensed and distributed in more than 100 countries and are available in approximately 11,000 stores worldwide. The majority of revenue is generated through wholly-owned operations in Australia, North America, Europe, Japan, New Zealand, South Africa and Brazil. During FY2015, Billabong reported revenues of A$1,048 million and generated a gross margin of 53.0% from its continuing operations.

***Gazal Corporation Limited***

Gazal Corporation Limited ("Gazal") is one of the largest ASX listed branded apparel companies in Australia. The company specialises in developing national and international brands in the apparel and fashion accessories industry. Gazal has a wholesale business which provides workwear and corporate uniforms and a 50% share in a joint venture with PVH, "PVH Brands Australia Pty". The license gives Gazal the right to distribute and sell Calvin Klein jeans and underwear in Australia and New Zealand. The joint venture significantly expanded in February 2015 through the acquisition of the Tommy Hilfiger Australia business from PVH Corp. and the acquisition of Van Heusen, Nancy Granz and other shirting, tailored and shapewear brands (collectively known as Heritage Brands) from Gazal. The company also owns leading corporate uniforms and workwear brands such as Bisley and Bracks. During FY2015, Gazal reported revenues of $51 million and generated gross margin of 41.2%.

***Kathmandu Holdings Limited***

Kathmandu Holdings Limited ("Kathmandu") is a leading international retailer of clothing and equipment for travel and adventure. The company has over 100 stores throughout Australia, New Zealand and the United Kingdom. In November 2009, Kathmandu listed on both the ASX and NZX. Around 95% of sales are Kathmandu branded products, mainly across Australia (c.65%) and New Zealand (c.35%) with marginal sales in the United Kingdom. Kathmandu rejected a takeover bid from New Zealand homeware company, Briscoe, in July 2015. Briscoe currently holds 19.9% of the issued share capital of Kathmandu. In FY2015, Kathmandu generated sales of NZ$409 million with a gross margin of 61.5%.

***Premier Investments Limited***

Premier Investments Limited ("Premier Investments") is an ASX listed company that operates a number of specialty retail fashion chains through its wholly owned retail conglomerate the Just Group. The Just Group operates a portfolio of leading retail brands including Just Jeans, Jay Jays, Jacqui E, Portmans, Dotti, Peter Alexander and Smiggle. As at 30 January 2016, the company operated approximately 1,070 stores and concessions primarily across Australia and New Zealand, with a small but growing presence in United Kingdom and Singapore. The company also has investments in listed securities, the most significant being a 25.7% stake in the electrical consumer products manufacturer, Breville Group Limited. During FY2015, Premier Investments reported revenues of A$945 million and generated a gross margin of 63.1%. The company trades at relatively high earnings multiples, potentially reflecting the strong growth opportunities for its Smiggle brand.

***Specialty Fashion Group***

Specialty Fashion Group Limited ("Specialty Fashion") is an ASX listed specialty fashion multi-branded women's apparel retailer and brand owner. It is the largest specialty retailer of women's fashion in Australasia and operates under the brand names Millers, Crossroads, Katies, Autograph and City Chic and Rivers. As at 31 December 2015, the company operated 1,080 stores across Australia and New Zealand, seven in the United States and two in South Africa. The company also has a strong online presence with over three million online members. During FY2015, Specialty Fashion reported revenues of A$792 million and generated a gross margin of 58.6%. The company trades at relatively low earnings multiples, potentially as a result of the decline in EBITDA from $A39 million in 2014 to A$21 million in 2015.

***The PAS Group Limited***

The PAS Group Limited ("PAS") is a leading Australian wholesaler and retailer of apparel, accessories and equipment, with a diverse portfolio of brands. PAS has a multi-channel sales offering through its branded retail stores and concessions, online channels, and on a wholesale basis through a range of retailers including department stores, discount department stores and independent stores. The company offers products under the Metalicus, Black Pepper, Breakaway, Yvonne Black, Equus, Yarra Trail and other brands. In FY15, PAS derived c.55% of revenue from its retail channel and c.45% from its wholesale channel, generating an overall gross margin of c.57%. It also designs, markets, and supplies owned, licensed, and private label and branded apparel. As of 31 December 2015, it operated 282 retail sites in Australia and New Zealand.

***American Eagle Outfitters, Inc.***

American Eagle Outfitters, Inc. ("American Eagle") is a vertically-integrated retailer offering clothing, accessories and personal care products targeting teenagers and young adults (15 to 25 years old). American Eagle's brands are American Eagle Outfitters ("AEO") and Aerie by American Eagle Outfitters. American Eagle operates more than 1,000 retail stores in the United States (accounting for approximately 90% of total revenue) and internationally. As at 30 January 2016, American Eagle operated 949 AEO stores and 97 Aerie stand-alone stores. The company also has franchise agreements with 141 stores operated by its partners in 22 countries across Asia, Europe, Latin America and the Middle East.

***Bed Bath & Beyond, Inc.***

Bed Bath & Beyond, Inc. ("BBB") sells a wide range of domestics merchandise and home furnishings. Domestics merchandise includes bed linen, bath items and kitchen textiles. Home furnishings include kitchen and tabletop items, basic homewares, general home furnishings, consumables and certain juvenile products. It also provides various textile products, amenities, and other goods to institutional customers in the hospitality, cruise line, food service, healthcare, and other industries. The company operates stores under the BBB, Christmas Tree Shops (CTS), Harmon, Baby and Cost Plus brand names. As of 27 February 2016, the company had a total of 1,530 stores, including 1,020 BBB stores; 276 Cost Plus stores; 105 Baby stores; 78 CTS stores and 51 Harmon stores. Sales outside of the United States were not material in the fiscal years 2015, 2014 and 2013.

***Delta Galil Industries Ltd***

Delta Galil Industries Ltd ("Galil") is a global manufacturer and marketer of private label apparel products for men, women and children. The company also provides underwear under the Schiesser brand name, women's sleepwear under the Karen Neuburger brand name, girls' clothing, beauty accessories, and bedding products under the LittleMissMatched brand name, shaping underwear under the Nearly Nude brand name and loungewear and women's intimates under P.J. Salvage brand name. It also sells licensed products including Wilson, Maidenform, Tommy Hilfiger, Lacoste, and other brands. The company sells its products through retailers, its own stores and online in the Americas, Europe and Israel. In 2015, Galil derived approximately 60% of its revenues from the Americas region, 28% from Europe and 12% from Israel.

***Esprit Holdings Limited***

Esprit Holdings Limited ("Esprit") is a global fashion brand engaged in the wholesale and retail distribution and licensing of fashion and lifestyle products for women, men and children. Esprit products are available in over 40 countries, in around 870 self-operated retail stores and over 7,500 controlled-space wholesale points of sales including franchisees. The company markets its products under two brands, Esprit (c. 75% of sales) and EDC, mainly in Europe (c.85% of sales) and Asia Pacific (c.15% of sales) with marginal sales in North America. Retail sales account for c.67% of group revenue and wholesale and licensing for c.32% and c.1% respectively. Esprit has performed relatively poorly in recent years and implemented a new strategic plan in FY15 in an effort to strengthen and rejuvenate the brand image.

***Hanesbrands, Inc.***

Hanesbrands Incorporated ("HanesBrands") is a consumer goods company which designs, manufactures and sells various basic apparels for men, women, and children. More than 80% of the apparel is manufactured in HanesBrands owned or contracted plants. The company generates revenue through four segments: Innerwear (c.46%), Activewear (c.27%), Direct to Consumer (c.7%), and International (c.20%). It sells bras, shapewears, hosiery, underwear and socks; and other activewear as well as licensed logo apparel. It provides products under the Hanes, Champion, Maidenform, Playtex, Bali, DIM and other brands names. The company markets its products through retailers, wholesalers, and third party embellishers, as well as directly to consumers. As of 2 January 2016, it operated 252 outlet stores in the United States, which generated approximately 80% of FY15 revenue. The company generates approximately 20% of its revenue from Europe, Asia, Latin America, Canada, Australia, the Middle East, Africa and the Caribbean.

***L Brands, Inc.***

L Brands, Inc. ("L Brands") operates as a specialty retailer of women's intimate and other apparel, beauty and personal care products and accessories. The company operates in three segments: Victoria's Secret, Bath & Body Works, and Victoria's Secret and Bath & Body Works International. The company offers its products under the Victoria's Secret, Pink, Bath & Body Works, La Senza, Henri Bendel, C.O. Bigelow and other brand names. L Brands sells its merchandise through company-owned specialty retail stores in the United States, Canada, and the United Kingdom; through its online store; and through franchises, licenses, and wholesale partners. As of 31 January 2016, the company operated 2,721 retail stores in the United States; 270 retail stores in Canada; and 14 retail stores in the United Kingdom. In the year ended 30 January 2016, L Brands derived only around 11% of its revenue outside the United States.

***PVH Corp.***

PVH Corp. ("PVH") designs and markets branded dress shirts, neckwear, sportswear, footwear and other related products globally. PVH owns the Calvin Klein and Tommy Hilfiger brands, as well as the heritage brands Van Heusen and IZOD, and a collection of well-known licensed brands. PVH's products are distributed via company-owned stores and wholesale distribution channels. In 2015, the United States accounted for c.55% of sales and Calvin Klein and Tommy Hilfiger together contributed 75% of sales.

***Ralph Lauren Corporation***

Ralph Lauren Corporation ("Ralph Lauren") designs, markets and distributes Ralph Lauren labelled lifestyle products, including men's, women's and children's apparel, accessories, fragrances and home furnishings. Ralph Lauren operates and sells its products through approximately 13,000 worldwide wholesale distribution locations, 466 retail stores, 536 concession-based shops and 10 ecommerce websites (March 2015). In 2015, wholesale accounted for 46% of sales, retail for 52% and licensing for the remaining 2%. Approximately 63% of FY15 sales were made in the United States, 21% in Europe and 16% in Asia.

***The Gap, Inc.***

The Gap, Inc. ("Gap") is a global, vertically-integrated retailer offering apparel, accessories and personal care products for men, women, children and babies under several brands including Gap (c.36% of sales), Old Navy (c.42% of sales), Banana Republic (c.17% of sales), Piperlime, Athleta and Intermix. Gap's products are offered across specialty outlet, e-commerce and franchise channels with self-operated stores in the United States (c.77% of sales), Canada, United Kingdom, France, Ireland, Japan, China and Italy. Franchise agreements have been entered into with franchisees to operate 446 Gap and Banana Republic stores throughout Asia, Australia, Eastern Europe, Latin America, the Middle East and Africa.

***V.F. Corporation***

V.F. Corporation ("V.F.") designs, manufactures, markets and distributes branded apparel, footwear and related products in the United States and Europe. V.F. owns a highly diversified portfolio of brands in the outdoor & action sports sector (e.g. The North Face, Timberland, and Vans), jeanswear (e.g. Lee, Wrangler), imagewear, sportswear (Nautica, Kipling) and contemporary segments. Wholesale accounts for approximately 75% of sales with retail (including online) accounting for the balance. In 2015, V.F. derived approximately 70% of its revenues from the Americas region, 20% from Europe and 10% from the Asia Pacific business.

# ANNEXURE B

## SCHEME

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# Scheme of arrangement

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth)

Between the parties

| | |
|---|---|
| Pacific Brands | Pacific Brands Limited ACN 106 773 059 of Level 1, 1096 Toorak Road, Camberwell, Victoria 3124.<br>(**Pacific Brands**) |
| Scheme Shareholders | Each person who is registered as the holder of Pacific Brands Shares recorded in the Pacific Brands Share Register as at the Scheme Record Date<br>(**Scheme Shareholders**) |

## 1 Definitions and interpretation

### 1.1 Definitions

The meanings of the terms used in this Scheme are set out below.

| Term | Meaning |
|---|---|
| **ASIC** | the Australian Securities and Investments Commission. |
| **ASX** | ASX Limited ABN 98 008 624 691 and, where the context requires, the financial market that it operates. |
| **Business Day** | a weekday in which trading banks are open for business in Melbourne, Victoria, Australia and Winston-Salem, North Carolina, United States. |
| **CHESS** | the Clearing House Electronic Subregister System operated by ASX Settlement Pty Ltd and ASX Clear Pty Limited. |
| **Corporations Act** | the *Corporations Act 2001* (Cth). |

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| Term | Meaning |
|---|---|
| **Corporations Regulations** | the *Corporations Regulations 2001* (Cth). |
| **Court** | the Supreme Court of Victoria, or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Hanes and Pacific Brands. |
| **Deed Poll** | the deed poll executed by Hanes on 12 May 2016 under which Hanes and Hanes Sub each covenants in favour of the Scheme Shareholders to perform the obligations attributed to Hanes and Hanes Sub under this Scheme. |
| **Effective** | when used in relation to this Scheme, the coming into effect, under subsection 411(10) of the Corporations Act, of the Court order made under paragraph 411(4)(b) of the Corporations Act in relation to this Scheme. |
| **Effective Date** | the date on which this Scheme becomes Effective. |
| **End Date** | 30 October 2016, or such other date as agreed in writing by the parties |
| **Government Agency** | any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state, or any other federal, state, provincial, local or other government, whether foreign or Australian. |
| **Hanes** | Hanesbrands Inc. of 1000 East Hanes Mill Road, Winston-Salem, North Carolina 27105 USA. |
| **Hanes Sub** | HBI Australia Acquisition Co. Pty Ltd. ACN 612 185 476 of 'AMP Centre' Level 27 50 Bridge Street, Sydney NSW 2000, being a wholly owned Subsidiary of Hanes. |
| **Implementation Date** | the fifth Business Day after the Scheme Record Date, or such other date as agreed in writing by Pacific Brands and Hanes. |
| **Implementation Deed** | the scheme implementation deed dated 28 April 2016 between Pacific Brands and Hanes relating to the implementation of this Scheme. |

| Term | Meaning |
|---|---|
| **NZX** | NZX Limited and, where the context requires, the financial market that it operates. |
| **Operating Rules** | the official operating rules of ASX. |
| **Pacific Brands** | Pacific Brands Limited ACN 106 773 059. |
| **Pacific Brands Registry** | Computershare Investor Services Pty Limited ACN 078 279 277. |
| **Pacific Brands Share** | a fully paid ordinary share in the capital of Pacific Brands. |
| **Pacific Brands Shareholder** | each person who is registered as the holder of a Pacific Brands Share in the Share Register. |
| **Registered Address** | in relation to a Pacific Brands Shareholder, the address shown in the Share Register as at the Scheme Record Date. |
| **Scheme** | this scheme of arrangement under Part 5.1 of the Corporations Act between Pacific Brands and the Scheme Shareholders subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to by Pacific Brands and Hanes. |
| **Scheme Booklet** | the scheme booklet published by Pacific Brands and dated on or about 20 May 2016. |
| **Scheme Consideration** | the consideration to be provided by Hanes Sub in consideration for the transfer of the Pacific Brands Shares held by a Scheme Shareholder to Hanes, being, in respect of each Scheme Share, $1.15 cash, less the cash amount per Pacific Brands Share paid by Pacific Brands as a special dividend (following consultation with Hanes) pursuant to clause 4.5 of the Implementation Deed. |
| **Scheme Meeting** | the meeting of the Pacific Brands Shareholders ordered by the Court to be convened under subsection 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting. |
| **Scheme Record Date** | 7.00pm (Melbourne time) on the fifth Business Day after the Effective |

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| Term | Meaning |
|---|---|
| | Date. |
| **Scheme Shareholder** | a holder of Pacific Brands Shares recorded in the Share Register as at the Scheme Record Date. |
| **Scheme Shares** | all Pacific Brands Shares held by the Scheme Shareholders as at the Scheme Record Date. |
| **Scheme Transfer** | a duly completed and executed proper instrument of transfer in respect of the Scheme Shares for the purposes of section 1071B of the Corporations Act, in favour of Hanes Sub as transferee, which may be a master transfer of all or part of the Scheme Shares. |
| **Second Court Date** | the first day on which an application made to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving this Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application or appeal is heard. |
| **Share Register** | the register of members of Pacific Brands maintained by Pacific Brands or the Pacific Brands Registry in accordance with the Corporations Act. |
| **Subsidiary** | has the meaning given in Division 6 of Part 1.2 of the Corporations Act. |

## 1.2 Interpretation

In this Scheme:

(a) headings and bold type are for convenience only and do not affect the interpretation of this Scheme;

(b) the singular includes the plural and the plural includes the singular;

(c) words of any gender include all genders;

(d) other parts of speech and grammatical forms of a word or phrase defined in this Scheme have a corresponding meaning;

(e) a reference to a person includes any company, partnership, joint venture, association, corporation or other body corporate and any Government Agency as well as an individual;

(f) a reference to a clause, party, schedule, attachment or exhibit is a reference to a clause of, and a party, schedule, attachment or exhibit to, this Scheme;

(g) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or reenactments of any of them (whether passed by the same or another Government Agency with legal power to do so);

(h) a reference to a document (including this Scheme) includes all amendments or supplements to, or replacements or novations of, that document;

(i) the word ‘includes’ in any form is not a word of limitation;

(j) a reference to ‘$’, ‘A$’ or ‘dollar’ is to Australian currency;

(k) a reference to any time is, unless otherwise indicated, a reference to that time in Melbourne, Australia;

(l) a term defined in or for the purposes of the Corporations Act has the same meaning when used in this Scheme;

(m) a reference to a party to a document includes that party’s successors and permitted assignees;

(n) no provision of this Scheme will be construed adversely to a party because that party was responsible for the preparation of this Scheme or that provision; and

(o) a reference to a body, other than a party to this Scheme (including an institute, association or authority), whether statutory or not:

(1) which ceases to exist; or

(2) whose powers or functions are transferred to another body,

is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

### 1.3 Business Day

Where the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the next Business Day.

## 2 Preliminary matters

(a) Pacific Brands is a public company limited by shares, incorporated in Australia, and has been admitted to the official list of the ASX.

(b) As at the date of the Implementation Deed, there were on issue:

(1) 917,226,291 Pacific Brands Shares, which are quoted for trading on the ASX; and

(2) 15,623,817 performance rights issued pursuant to the Pacific Brands Performance Right Share Plan Rules, which are not quoted for trading on any stock exchange.

(c) Hanes is a company limited by shares, incorporated in the United States of America, and has been admitted to the official list of the New York Stock Exchange.

(d) Hanes Sub, a wholly-owned Subsidiary of Hanes, is a company limited by shares incorporated in Australia.

(e) If this Scheme becomes Effective:

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(1) Hanes Sub must provide, and Hanes must procure that Hanes Sub provides, the Scheme Consideration to the Scheme Shareholders in accordance with the terms of this Scheme and the Deed Poll; and

(2) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, must be transferred to Hanes Sub and Pacific Brands will enter the name of Hanes Sub in the Share Register in respect of the Scheme Shares on the Implementation Date.

(f) Pacific Brands and Hanes have agreed, subject to the terms and conditions of the Implementation Deed, to implement this Scheme.

(g) This Scheme attributes actions to Hanes and Hanes Sub but does not itself impose an obligation on them to perform those actions. Hanes and Hanes Sub have agreed, by executing the Deed Poll, to perform the actions attributed to them under this Scheme, including the provision or procuring the provision of the Scheme Consideration to the Scheme Shareholders.

## 3 Conditions

### 3.1 Conditions precedent

This Scheme is conditional on and will have no force or effect until, the satisfaction of each of the following conditions precedent:

(a) all the conditions in clause 3.1 of the Implementation Deed (other than the condition in the Implementation Deed relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Implementation Deed by 8.00am on the Second Court Date;

(b) neither the Implementation Deed nor the Deed Poll having been terminated in accordance with their terms before 8.00am on the Second Court Date;

(c) approval of this Scheme by the Court under paragraph 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under subsection 411(6) of the Corporations Act and agreed to in writing by Hanes and Pacific Brands;

(d) such other conditions made or required by the Court under subsection 411(6) of the Corporations Act in relation to this Scheme and agreed to in writing by Hanes and Pacific Brands having been satisfied or waived; and

(e) the orders of the Court made under paragraph 411(4)(b) (and, if applicable, subsection 411(6)) of the Corporations Act approving this Scheme coming into effect, pursuant to subsection 411(10) of the Corporations Act on or before the End Date (or any later date Pacific Brands and Hanes agree in writing).

### 3.2 Certificate

(a) Pacific Brands and Hanes will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent in clauses 3.1(a) and 3.1(b) have been satisfied or waived.

(b) The certificate referred to in clause 3.2(a) constitutes conclusive evidence that such conditions precedent were satisfied, waived or taken to be waived.

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## 4 Implementation of this Scheme

### 4.1 Lodgement of Court orders with ASIC

Pacific Brands must lodge with ASIC, in accordance with subsection 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as possible after the Court approves this Scheme and in any event by 5.00pm on the first Business Day after the day on which the Court approves this Scheme.

### 4.2 Transfer of Scheme Shares

On the Implementation Date:

(a) subject to the provision of the Scheme Consideration in the manner contemplated by clause 5, the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, must be transferred to Hanes Sub, without the need for any further act by any Scheme Shareholder (other than acts performed by Pacific Brands as attorney and agent for Scheme Shareholders under clause 8.5), by:

(1) Pacific Brands delivering to Hanes Sub a duly completed Scheme Transfer, executed on behalf of the Scheme Shareholders by Pacific Brands, for registration; and

(2) Hanes Sub duly executing the Scheme Transfer, attending to the stamping of the Scheme Transfer (if required) and delivering it to Pacific Brands for registration; and

(b) immediately following receipt of the Scheme Transfer in accordance with clause 4.2(a)(2), but subject to the stamping of the Scheme Transfer (if required), Pacific Brands must enter, or procure the entry of, the name of Hanes Sub in the Share Register in respect of all the Scheme Shares transferred to Hanes Sub in accordance with this Scheme.

## 5 Scheme Consideration

### 5.1 Provision of Scheme Consideration

(a) Hanes Sub must, and Hanes must procure that Hanes Sub does, by no later than the Business Day before the Implementation Date, deposit in cleared funds an amount equal to the aggregate amount of the Scheme Consideration payable to each Scheme Shareholder, in an Australian dollar denominated trust account operated by Pacific Brands as trustee for the Scheme Shareholders and notified to Hanes at least 3 Business Days prior to Implementation date, (provided that any interest on the amounts deposited (less bank fees and other charges) will be credited to Hanes Sub's account).

(b) On the Implementation Date, subject to funds having been deposited in accordance with clause 5.1(a), Pacific Brands must pay or procure the payment from the trust account referred to in clause 5.1(a) of the Scheme Consideration to each Scheme Shareholder based on the number of Scheme Shares held by such Scheme Shareholder as set out in the Share Register on the Scheme Record Date.

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(c) The obligations of Pacific Brands under clause 5.1(b) will be satisfied by Pacific Brands (in its absolute discretion):

(1) where a Scheme Shareholder has, before the Scheme Record Date, made a valid election in accordance with the requirements of the Pacific Brands Registry to receive dividend payments from Pacific Brands by electronic funds transfer to a bank account nominated by the Scheme Shareholder, paying, or procuring the payment of, the relevant amount in Australian currency by electronic means in accordance with that election; or

(2) otherwise, whether or not the Scheme Shareholder has made an election referred to in clause 5.1(c)(1), dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian currency to the Scheme Shareholder by prepaid post to their Registered Address (as at the Scheme Record Date), such cheque being drawn in the name of the Scheme Shareholder (or in the case of joint holders, in accordance with the procedures set out in clause 5.2).

(d) To the extent that, following satisfaction of Pacific Brands' obligations under clause 5.1(b), there is a surplus in the amount held by Pacific Brands as trustee for the Scheme Shareholders in the trust account referred to in that clause, that surplus shall be paid by Pacific Brands to Hanes Sub.

### 5.2 Joint holders

In the case of Scheme Shares held in joint names:

(a) subject to clause 5.1(c), the Scheme Consideration is payable to the joint holders and any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to either, at the sole discretion of Pacific Brands, the holder whose name appears first in the Share Register as at the Scheme Record Date or to the joint holders; and

(b) any other document required to be sent under this Scheme, will be forwarded to either, at the sole discretion of Pacific Brands, the holder whose name appears first in the Share Register as at the Scheme Record Date or to the joint holders.

### 5.3 Unclaimed monies

(a) Pacific Brands may cancel a cheque issued under this clause 5 if the cheque:

(1) is returned to Pacific Brands; or

(2) has not been presented for payment within six months after the date on which the cheque was sent.

(b) During the period of one year commencing on the Implementation Date, on request in writing from a Scheme Shareholder to Pacific Brands (or the Pacific Brands Registry) (which request may not be made until the date which is 10 Business Days after the Implementation Date), Pacific Brands must reissue a cheque that was previously cancelled under this clause 5.3.

(c) The *Unclaimed Money Act* 2008 (Vic) will apply in relation to any Scheme Consideration which becomes 'unclaimed money' (as defined in section 3 of the *Unclaimed Money Act* 2008 (Vic)).

### 5.4 Orders of a court or Government Agency

If written notice is given to Pacific Brands (or the Pacific Brands Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that:

(a) requires consideration to be provided to a third party (either through payment of a sum or the issuance of a security) in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable or required to be issued to that Scheme Shareholder by Pacific Brands in accordance with this clause 5, then Pacific Brands shall be entitled to procure that provision of that consideration is made in accordance with that order or direction; or

(b) prevents Pacific Brands from providing consideration to any particular Scheme Shareholder in accordance with this clause 5, or the payment or issuance of such consideration is otherwise prohibited by applicable law, Pacific Brands shall be entitled to (as applicable) retain an amount, in Australian dollars, equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as provision of the Scheme Consideration in accordance with this clause 5 is permitted by that order or direction or otherwise by law.

## 6 Dealings in Pacific Brands Shares

### 6.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Pacific Brands Shares or other alterations to the Share Register will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Share Register as the holder of the relevant Pacific Brands Shares on or before the Scheme Record Date; and

(b) in all other cases, registrable transfer or transmission applications in respect of those dealings, or valid requests in respect of other alterations, are received on or before the Scheme Record Date at the place where the Share Register is kept,

and Pacific Brands must not accept for registration, nor recognise for any purpose (except a transfer to Hanes Sub pursuant to this Scheme and any subsequent transfer by Hanes Sub or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

### 6.2 Register

(a) Pacific Brands must register registrable transmission applications or transfers of the Scheme Shares in accordance with clause 6.1(b) before the Scheme Record Date provided that, for the avoidance of doubt, nothing in this clause 6.2(a) requires Pacific Brands to register a transfer that would result in a Pacific Brands Shareholder holding a parcel of Pacific Brands Shares that is less than a ‘marketable parcel’ (for the purposes of this clause 6.2(a) ‘marketable parcel’ has the meaning given in the Operating Rules).

(b) If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of, or purport or agree to dispose

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of, any Scheme Shares or any interest in them on or after the Scheme Record Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and Pacific Brands shall be entitled to disregard any such disposal.

(c) For the purpose of determining entitlements to the Scheme Consideration, Pacific Brands must maintain the Share Register in accordance with the provisions of this clause 6.2 until the Scheme Consideration has been paid to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.

(d) All statements of holding for Pacific Brands Shares (other than statements of holding in favour of Hanes Sub) will cease to have effect after the Scheme Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the Share Register (other than entries on the Share Register in respect of Hanes Sub) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Pacific Brands Shares relating to that entry.

(e) As soon as possible on or after the Scheme Record Date, and in any event within one Business Day after the Scheme Record Date, Pacific Brands will ensure that details of the names, Registered Addresses and holdings of Pacific Brands Shares for each Scheme Shareholder as shown in the Share Register are available to Hanes in the form Hanes reasonably requires.

## 7 Quotation of Pacific Brands Shares

(a) Pacific Brands must apply to ASX and NZX to suspend trading on the ASX and NZX in Pacific Brands Shares with effect from the close of trading on the Effective Date.

(b) On a date after the Implementation Date to be determined by Hanes, Pacific Brands must apply:

(1) for termination of the official quotation of Pacific Brands Shares on the ASX and NZX; and

(2) to have itself removed from the official list of the ASX and the main board of the NZX.

## 8 General Scheme provisions

### 8.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

(a) Pacific Brands may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Hanes has consented in writing; and

(b) each Scheme Shareholder agrees to any such alterations or conditions which counsel for Pacific Brands has consented to.

### 8.2 Scheme Shareholders' agreements and warranties

(a) Each Scheme Shareholder:

(1) agrees to the transfer of their Pacific Brands Shares together with all rights and entitlements attaching to those Pacific Brands Shares in accordance with this Scheme;

(2) agrees to the variation, cancellation or modification of the rights attached to their Pacific Brands Shares constituted by or resulting from this Scheme;

(3) agrees to, on the direction of Hanes, destroy any holding statements or share certificates relating to their Pacific Brands Shares; and

(4) acknowledges and agrees that this Scheme binds Pacific Brands and all Scheme Shareholders (including those who do not attend the Scheme Meeting and those who do not vote, or vote against this Scheme, at the Scheme Meeting).

(b) Each Scheme Shareholder is taken to have warranted to Pacific Brands and Hanes Sub on the Implementation Date, and appointed and authorised Pacific Brands as its attorney and agent to warrant to Hanes Sub on the Implementation Date, that all their Pacific Brands Shares (including any rights and entitlements attaching to those shares) which are transferred under this Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Pacific Brands Shares to Hanes Sub together with any rights and entitlements attaching to those shares. Pacific Brands undertakes that it will provide such warranty to Hanes Sub as agent and attorney of each Scheme Shareholder.

## 8.3 Title to and rights in Scheme Shares

(a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attaching to the Scheme Shares) transferred under this Scheme to Hanes Sub will, at the time of transfer of them to Hanes Sub, vest in Hanes Sub free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise and free from any restrictions on transfer of any kind.

(b) Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 5, Hanes Sub will be beneficially entitled to the Scheme Shares to be transferred to it under this Scheme pending registration by Pacific Brands of Hanes Sub in the Share Register as the holder of the Scheme Shares.

## 8.4 Appointment of sole proxy

Immediately upon the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 5, and until Pacific Brands registers Hanes Sub as the holder of all Scheme Shares in the Share Register, each Scheme Shareholder:

(a) is deemed to have appointed Hanes Sub as attorney and agent (and directed Hanes Sub in each such capacity) to appoint any director, officer, secretary or agent nominated by Hanes Sub as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution;

(b) must not attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to clause 8.4(a));

(c) must take all other actions in the capacity of a registered holder of Scheme Shares as Hanes Sub reasonably directs; and

(d) acknowledges and agrees that in exercising the powers referred to in clause 8.4(a), Hanes Sub and any director, officer, secretary or agent nominated by Hanes Sub under clause 8.4(a) may act in the best interests of Hanes Sub as the intended registered holder of the Scheme Shares.

### 8.5 Authority given to Pacific Brands

Each Scheme Shareholder, without the need for any further act:

(a) on the Effective Date, irrevocably appoints Pacific Brands and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of enforcing the Deed Poll against Hanes and Hanes Sub, and Pacific Brands undertakes in favour of each Scheme Shareholder that it will enforce the Deed Poll against Hanes and Hanes Sub on behalf of and as agent and attorney for each Scheme Shareholder; and

(b) on the Implementation Date, irrevocably appoints Pacific Brands and each of its directors, officers and secretaries (jointly and each of them severally) as its attorney and agent for the purpose of executing any document or doing or taking any other act necessary, desirable or expedient to give effect to this Scheme and the transactions contemplated by it, including (without limitation) executing the Scheme Transfer,

and Pacific Brands accepts each such appointment. Pacific Brands as attorney and agent of each Scheme Shareholder, may sub-delegate its functions, authorities or powers under this clause 8.5 to all or any of its directors, officers, secretaries or employees (jointly, severally or jointly and severally).

### 8.6 Binding effect of Scheme

This Scheme binds Pacific Brands and all of the Scheme Shareholders (including those who did not attend the Scheme Meeting to vote on this Scheme, did not vote at the Scheme Meeting, or voted against this Scheme at the Scheme Meeting) and, to the extent of any inconsistency, overrides the constitution of Pacific Brands.

## 9 General

### 9.1 Stamp duty

Hanes Sub will, and Hanes must procure that Hanes Sub will:

(a) pay all stamp duty and any related fines and penalties in respect of this Scheme and the Deed Poll, the performance of the Deed Poll and each transaction effected by or made under this Scheme and the Deed Poll; and

(b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 9.1(a).

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## 9.2 Consent

Each of the Scheme Shareholders consents to Pacific Brands doing all things necessary or incidental to, or to give effect to, the implementation of this Scheme, whether on behalf of the Scheme Shareholders, Pacific Brands or otherwise.

## 9.3 Notices

(a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Pacific Brands, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Pacific Brands' registered office or at the office of the Pacific Brands Registry.

(b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such notice by a Pacific Brands Shareholder will not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

## 9.4 Governing law

(a) This Scheme is governed by the laws in force in Victoria, Australia.

(b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria, Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. The parties irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

## 9.5 Further action

Pacific Brands must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

## 9.6 No liability when acting in good faith

Each Scheme Shareholder agrees that neither Pacific Brands, Hanes nor Hanes Sub nor any director, officer, secretary or employee of Pacific Brands, Hanes or Hanes Sub shall be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

# ANNEXURE C

## DEED POLL

HERBERT SMITH FREEHILLS

# Deed poll

Date ▸ 12 May 2016

## This deed poll is made

| | |
|---|---|
| By | **Hanesbrands Inc.**<br>of 1000 East Hanes Mill Road, Winston-Salem, North Carolina 27105 USA<br>**(Hanes)**<br>and<br>HBI Australia Acquisition Co. Pty Ltd<br>ACN 612 185 476 of 'AMP Centre' Level 27, 50 Bridge Street Sydney NSW 2000<br>**(Hanes Sub)** |
| in favour of | each person registered as a holder of fully paid ordinary shares in Pacific Brands Limited (**Pacific Brands**) in the Pacific Brands Share Register as at the Scheme Record Date. |
| Recitals | 1 Pacific Brands and Hanes entered into the Implementation Deed.<br>2 In the Implementation Deed, Hanes agreed to make this deed poll and to procure that Hanes Sub make this deed poll.<br>3 Hanes and Hanes Sub are making this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to perform their obligations under the Implementation Deed and the Scheme. |

This deed poll provides as follows:

## 1 Definitions and interpretation

### 1.1 Definitions

(a) The meanings of the terms used in this deed poll are set out below.

| Term | Meaning |
|---|---|
| **First Court Date** | the first day on which an application made to the Court for an order under subsection 411(1) of the Corporations Act convening the |

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| Term | Meaning |
|---|---|
| | Scheme Meeting to consider the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard. |
| Implementation Deed | the scheme implementation deed entered into between Pacific Brands and Hanes dated 28 April 2016. |
| Scheme | the scheme of arrangement under Part 5.1 of the Corporations Act between Pacific Brands and the Scheme Shareholders, the form of which is set out in Attachment A to the Implementation Deed, subject to any alterations or conditions made or required by the Court under subsection 411(6) of the Corporations Act and agreed to in writing by Hanes and Pacific Brands. |

(b) Unless the context otherwise requires, terms defined in the Scheme have the same meaning when used in this deed poll.

### 1.2 Interpretation

Sections 1.2 and 1.3 of the Scheme apply to the interpretation of this deed poll, except that references to 'this Scheme' are to be read as references to 'this deed poll'.

### 1.3 Nature of deed poll

Hanes and Hanes Sub acknowledge that:

(a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it; and

(b) under the Scheme, each Scheme Shareholder irrevocably appoints Pacific Brands and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Hanes and Hanes Sub.

## 2 Conditions to obligations

### 2.1 Conditions

This deed poll and the obligations of Hanes and Hanes Sub under this deed poll are subject to the Scheme becoming Effective.

### 2.2 Termination

The obligations of Hanes and Hanes Sub under this deed poll to the Scheme Shareholders will automatically terminate and the terms of this deed poll will be of no force or effect if:

(a) the Implementation Deed is terminated in accordance with its terms; or

(b) the Scheme is not Effective on or before the End Date,

unless Hanes and Pacific Brands otherwise agree in writing.

### 2.3 Consequences of termination

If this deed poll terminates under clause 2.2, in addition and without prejudice to any other rights, powers or remedies available to it:

(a) Hanes and Hanes Sub are released from their obligations to further perform this deed poll except those obligations under clause 7.1; and

(b) each Scheme Shareholder retains the rights they have against Hanes and Hanes Sub in respect of any breach of this deed poll which occurred before it was terminated.

## 3 Scheme obligations

### 3.1 Undertaking to pay Scheme Consideration

Subject to clause 2, Hanes Sub undertakes, and Hanes undertakes to procure Hanes Sub, to:

(a) deposit, in cleared funds, by no later than the Business Day before the Implementation Date, an amount equal to the aggregate amount of the Scheme Consideration payable to all Scheme Shareholders under the Scheme into an Australian dollar denominated trust account operated by Pacific Brands as trustee for the Scheme Shareholders, except that any interest on the amounts deposited (less bank fees and other charges) will be credited to Hanes or Hanes Sub's account; and

(b) undertake all other actions attributed to it under the Scheme,

subject to and in accordance with the terms of the Scheme and in favour of each Scheme Shareholder.

## 4 Warranties

Each of Hanes and Hanes Sub represents and warrants in favour of each Scheme Shareholder, in respect of itself, that:

(a) it is a corporation validly existing under the laws of its place of registration;

(b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;

(c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;

(d) this deed poll is valid and binding on it and enforceable against it in accordance with its terms; and

(e) this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction, judgment, law, rule or regulation to which it is a party or subject or by which it is bound.

## 5 Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

(a) Hanes and Hanes Sub have fully performed their obligations under this deed poll; or

(b) the earlier termination of this deed poll under clause 2.

## 6 Notices

### 6.1 Form of Notice

A notice or other communication in respect of this deed poll (**Notice**) must be:

(a) in writing and in English and signed by or on behalf of the sending party; and

(b) addressed to Hanes and Hanes Sub in accordance with the details set out below (or any alternative details nominated by Hanes or Hanes Sub by Notice).

| | |
|---|---|
| Attention | Joia M. Johnson<br>Chief Legal Officer, General Counsel and Corporate Secretary |
| Address | 1000 East Hanes Mill Road, Winston-Salem, North Carolina 27105 |
| Email address | joia.johnson@hanes.com |

### 6.2 How Notice must be given and when Notice is received

(a) A Notice must be given by one of the methods set out in the table below.

(b) A Notice is regarded as given and received at the time set out in the table below.

However, if this means the Notice would be regarded as given and received outside the period between 9.00am and 5.00pm (addressee's time) on a Business Day (**business hours period**), then the Notice will instead be regarded as given and received at the start of the following business hours period.

| Method of giving Notice | When Notice is regarded as given and received |
|---|---|
| By hand to the nominated address | When delivered to the nominated address |
| By email to the nominated email address | When the email (including any attachment) comes to the attention of the recipient party or a person acting on its behalf. |

### 6.3 Notice must not be given by electronic communication

A Notice must not be given by electronic means of communication (other than email as permitted in clause 6.2).

## 7 General

### 7.1 Stamp duty

Hanes and Hanes Sub:

(a) will pay all stamp duty and any related fines and penalties in respect of the Scheme and this deed poll, the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll; and

(b) indemnify each Scheme Shareholder against any liability arising from failure to comply with clause 7.1(a).

### 7.2 Governing law and jurisdiction

(a) This deed poll is governed by the law in force in Victoria, Australia.

(b) Hanes and Hanes Sub irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in Victoria, Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this deed poll. Hanes and Hanes Sub irrevocably waive any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

### 7.3 Waiver

(a) Hanes and Hanes Sub may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.

(b) The meanings of the terms used in this clause 7.3 are set out below.

| Term | Meaning |
| --- | --- |
| conduct | includes delay in the exercise of a right. |
| right | any right arising under or in connection with this deed poll and includes the right to rely on this clause. |
| waiver | includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel. |

## 7.4 Variation

A provision of this deed poll may not be varied unless the variation is agreed to by Hanes and Hanes Sub and:

(a) if before the First Court Date, the variation is agreed to by Pacific Brands; or

(b) if on or after the First Court Date, the variation is agreed to by Pacific Brands and the Court indicates that the variation would not of itself preclude approval of the Scheme,

in which event Hanes and Hanes Sub will enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation.

## 7.5 Cumulative rights

The rights, powers and remedies of Hanes, Hanes Sub and the Scheme Shareholders under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

## 7.6 Assignment

(a) The rights created by this deed poll are personal to Hanes, Hanes Sub and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of Hanes or Hanes Sub.

(b) Any purported dealing in contravention of clause 7.6(a) is invalid.

## 7.7 Joint and several obligations

Hanes and Hanes Sub are jointly and severally liable for each obligation imposed on both of them by the terms of this deed poll.

## 7.8 Further action

Hanes and Hanes Sub must, at their own expense, do all things and execute all documents necessary to give full effect to this deed poll and the transactions contemplated by it.

HERBERT SMITH FREEHILLS

# Signing page

## Executed as a deed poll

Signed sealed and delivered for
**Hanesbrands Inc.**
by its authorised representative

sign here ▸ ______________________
Representative

print name Joia Mishaaron Johnson

in the presence of

sign here ▸ Gregory Lloyd Silva
Witness

print name Gregory Lloyd Silva

Signed sealed and delivered for
**HBI Australia Acquisition Co. Pty Ltd**
in accordance with section 127 of the
*Corporations Act 2001* (Cth)
by

sign here ▸ ______________________
Company Secretary/Director

print name Donald Fleming Cook

sign here ▸ ______________________
Director

print name Joia Mishaaron Johnson

# ANNEXURE D

## NOTICE OF MEETING

# Annexure D

## Notice of Meeting

### Pacific Brands Limited ACN 106 773 059

### Notice of meeting

Notice is hereby given, that by an order of the Supreme Court of Victoria pursuant to section 411(1) of the *Corporations Act 2001* (Cth), a meeting of shareholders of Pacific Brands Limited (**Pacific Brands**) will be held at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067 on Friday, 24 June 2016 at 10.00am (AEST).

### Business of meeting

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree to a Scheme of Arrangement (with or without modification) to be made between Pacific Brands and Pacific Brands ordinary shareholders.

### Resolution

The Scheme Meeting will be asked to consider, and, if thought fit, to pass the following resolution:

“That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Supreme Court of Victoria).”

By order of the board of Pacific Brands Limited.

John Grover

General Counsel & Company Secretary

Dated 20 May 2016

## Explanatory notes

### Material accompanying this notice

This notice of meeting and the Scheme Resolution should be read in conjunction with the booklet of which this notice forms part (**Scheme Booklet**). Terms used in this notice, unless otherwise defined, have the same meaning as set out in the Glossary in section 9 of the Scheme Booklet.

A Proxy Form also accompanies this notice.

### Voting

The Pacific Brands Directors recommend that you vote in favour of the Scheme Resolution. They each intend to vote all Pacific Brands Shares held by them in favour of the Scheme Resolution.

### Quorum

A quorum for a meeting of Pacific Brands Shareholders is 5 or more members present at the meeting and entitled to vote on a resolution at the meeting.

### Majorities required

In accordance with section 411(4)(a) of the Corporations Act, for the Scheme of Arrangement to be approved by Pacific Brands Shareholders, the Scheme Resolution must be passed by:

- unless the court orders otherwise, a majority in number of holders of ordinary shares present and voting (either in person or by proxy); and
- at least 75% of the votes cast on the resolution.

### Court approval

In accordance with section 411(4)(b) of the Corporations Act, to become effective, the Scheme of Arrangement must be approved by the order of the Court. If the Scheme Resolution set out in this notice is agreed to by the required majorities set out above and the conditions set out in the Scheme of Arrangement are satisfied or waived (where capable of waiver), Pacific Brands will apply to the Court for the necessary orders to give effect to the Scheme of Arrangement.

### Determination of entitlement to attend and vote

For the purposes of the Scheme Meeting, Pacific Brands Shares will be taken to be held by the persons who are registered as members at 7.00pm (AEST) on Wednesday, 22 June 2016. Accordingly, registrable transmission applications to transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

### How to vote

If you are a Pacific Brands Shareholder entitled to attend and vote at the Scheme Meeting, you may vote by:

- appointing a proxy to attend on your behalf;
- appointing an attorney to vote on your behalf;
- attending the Scheme Meeting in person; or
- in the case of a corporation which is a Pacific Brands Shareholder, by appointing an authorised corporate representative to attend on its behalf.

### Voting at the Scheme Meeting will occur by poll

All persons attending the Scheme Meeting are asked to arrive at least 30 minutes prior to the time the Scheme Meeting is to commence, so that either their shareholding may be checked against the Register, their power of attorney or appointment as corporate representative can be verified (as the case may be), and their attendance noted.

## Jointly held securities

If the Pacific Brands Shares are jointly held, each of the joint shareholders is entitled to vote. However, if more than one shareholder votes in respect of jointly held Pacific Brands Shares, only the vote of the shareholder whose name appears first on the Register will be counted.

## Voting in person

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting to be held at Computershare Conference Centre, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067 on Friday, 24 June 2016. The meeting will commence at 10.00am.

A Pacific Brands Shareholder who wishes to attend and vote at the Scheme Meeting in person will be admitted to the Scheme Meeting and given a voting card on disclosure at the point of entry to the Scheme Meeting of their name and address.

## Voting by proxy

A Pacific Brands Shareholder entitled to attend and vote at the meeting is also entitled to appoint a proxy to vote on their behalf. The Proxy Form is enclosed with this Scheme Booklet. You may appoint not more than 2 proxies to attend and act for you at the Scheme Meeting. A proxy need not be a Pacific Brands Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, your proxy may vote as he or she sees fit at the Scheme Meeting.

A proxy will be admitted to the Scheme Meeting and given a voting card on providing, at the point of entry to the Scheme Meeting, their name and address.

The sending of a Proxy Form will not preclude a Pacific Brands Shareholder from attending in person and voting at the Scheme Meeting if the Pacific Brands Shareholder is entitled to attend and vote.

For the appointment of a proxy to be effective, the Proxy Form enclosed with this Notice of Meeting must be completed and:

- lodged online at www.investorvote.com.au (see below);
- deposited at the Pacific Brands Registry at Computershare Investor Services Pty Limited, located at Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067;
- sent by post to Computershare Investor Services Pty Limited GPO Box 242 Melbourne VIC 3001; or
- sent by facsimile to the Pacific Brands Registry on 1800 783 447 (within Australia) or +61 (0)3 9473 2555 (outside Australia).

An authority under which the Proxy Form is executed, or a certified copy of that authority, must be deposited at the Pacific Brands Registry or sent by post to the address above (and received) before the cut-off time.

Please note that Proxy Forms must be received by the Pacific Brands Registry by no later than 10.00am (AEST) on 22 June 2016.

Pacific Brands Shareholders wishing to lodge electronic proxies online may do so by accessing the Investor Vote system at www.investorvote.com.au and then inputting the shareholder’s secure access information to commence voting. Shareholders must lodge electronic proxies online no later than 10.00am (AEST) on 22 June 2016.

## Voting by attorney

For the appointment of an attorney to be effective, the instrument appointing the attorney and the power of attorney under which it was executed, or a certified copy of that power, must be deposited or sent by post in the manner and within the time period set out above.

An attorney will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry of the Scheme Meeting evidence of their appointment, their name and address and the identity of their appointer.

The sending of a power of attorney will not preclude a Pacific Brands Shareholder from attending in person and voting at the Scheme Meeting if the Pacific Brands Shareholder is entitled to attend and vote.

## Voting by corporate representative

To vote at the Scheme Meeting (other than by proxy or by attorney), a corporation that is a Pacific Brands Shareholder must appoint a person (either by name or position and whether a Pacific Brands Shareholder or not) to act as its representative. The appointment must comply with section 250D of the Corporations Act.

An authorised corporate representative will be admitted to the Scheme Meeting and given a voting card on providing at the point of entry to the Scheme Meeting evidence of their appointment including any authority under which it is signed, their name and address and the identity of their appointer.

# *Corporate Directory*

**Pacific Brands Limited**
1096 Toorak Road
Hartwell, Victoria 3124
Australia

**Financial Adviser**
Macquarie Capital
Level 23, 101 Collins Street
Melbourne, Victoria 3000
Australia

**Legal Adviser**
Herbert Smith Freehills
Level 43, 101 Collins Street
Melbourne, Victoria 3000
Australia

**Share Registry**
Australia
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia
Telephone: 1300 132 632 (investors within Australia) or +61 (0)3 9415 4184 (International investors)
Fax: +61 (0)3 9473 2555
Electronic lodgement of proxies: www.investorvote.com.au
Online enquiries: www.investorcentre.com

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

**Shareholder Information Line**
1300 783 472 (within Australia)
+61 3 9415 4233 (outside Australia)

www.pacificbrands.com.au

PACIFIC BRANDS

PACIFIC BRANDS

**Pacific Brands Limited ("Pacific Brands")**
ABN 64 106 773 059

## Lodge your vote:

**Online:**
www.investorvote.com.au

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

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

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

## For all enquiries call:

(within Australia) 1300 783 472
(outside Australia) +61 3 9415 4233

# Scheme Meeting - Proxy Form

## Vote and view the scheme meeting booklet online

- Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

## Your access information that you will need to vote:

**Control Number:**

**SRN/HIN:** **PIN:**

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

**For your proxy form to be effective it must be received by 10:00am (AEST) Wednesday 22 June 2016**

## How to Vote on the Item of Business

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

### Appointment of Proxy

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

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

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

**A proxy need not be a securityholder of the Company.**

## Signing Instructions for Postal Forms

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

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

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

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

## Attending the Meeting

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

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

***GO ONLINE TO VOTE,***
***or turn over to complete the form*** ➔

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

# Scheme - Proxy Form

**Please mark ☒ to indicate your directions**

## STEP 1 Appoint a Proxy to Vote on Your Behalf

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

☐ **the Chairman of the Meeting** **OR** ____________________

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

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Scheme Meeting of Pacific Brands Limited to be held at Computershare Conference Centre "Yarra Falls", 452 Johnston Street, Abbotsford, Victoria on Friday 24 June 2016 at 10.00am (AEST) and at any adjournment or postponement of that meeting.

## STEP 2 Item of Business

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

| | | For | Against | Abstain |
|---|---|---|---|---|
| Resolution | That, pursuant to and in accordance with section 411 of the Corporations Act, the Scheme of Arrangement (the terms of which are described in the Scheme Booklet of which the notice convening this meeting forms part) is agreed to (with or without modification as approved by the Supreme Court of Victoria). | ☐ | ☐ | ☐ |

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on the resolution, in which case an ASX announcement will be made.

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

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

Contact Name ____________________ Contact Daytime Telephone ____________________ Date ___/___/___