



**GALE PACIFIC LIMITED**  
(ASX: GAP)

## **ASX and Media Release**

### **Announcement of renounceable rights issue**

11 February 2009

- **1.25 for 1 pro rata renounceable rights issue to raise approximately \$6 million**
- **Underwritten to \$5 million by the two largest shareholders**
- **Proceeds to assure ongoing bank facilities and strengthen balance sheet**
- **Trading update**

### **Overview**

Gale Pacific Limited (**Company**) announces a substantially underwritten renounceable pro rata rights issue (**Offer**) to holders of ordinary shares (**Shares**) in the Company (**Shareholders**) with a registered address in Australia or New Zealand (**Eligible Shareholders**) as at 7:00pm (Melbourne time) on Thursday 19 February 2009 (**Record Date**).

Pursuant to the Offer, the Company will issue up to 171,043,145 fully paid ordinary shares in the capital of the Company (**New Shares**) at an issue price of \$0.035 each, to raise approximately \$6 million (before costs). The issue price represents a discount of approximately:

- 31% to the closing price of \$0.051 for Shares last traded on the Australian Securities Exchange (**ASX**) on 30 January 2009, the day prior to the announcement of the underwriting of the expected Offer; and
- 33% to the volume weighted average price of Shares traded on the ASX over the 5 day period up to and including 30 January 2009.

The New Shares will be offered on the basis of 1.25 New Shares for every 1 Share held as at the Record Date, rounded-down to the nearest whole Share (**Entitlement**). The right to subscribe for New Shares in accordance with an Entitlement under the Offer will be renounceable.

In addition to their Entitlement, Shareholders will be offered the opportunity to subscribe under the Offer for New Shares in excess of their Entitlement (**Shortfall Facility**). Allocations of such additional New Shares will be determined by the Directors and will be dependent on the extent of any shortfall in take up by other Shareholders and compliance with the Corporations Act and ASX Listing Rules.

To the extent that a Shareholder does not take up their Entitlement, their interest in the Company will be diluted.

The New Shares issued under the Offer will be fully paid and will rank equally with the Company's existing Shares. The Company will make an application to the ASX for official quotation of the New Shares. The Company's existing dividend policy of not paying dividends (as previously announced to the ASX) applies equally to the New Shares. When business conditions and the Company's trading performance improve sufficiently, this policy will be reviewed.

There will be no prospectus or other disclosure document in relation to the Offer. However, there will be an Offer document which will be lodged with the ASX and despatched to Eligible Shareholders in accordance with the timetable set out below. There is no broker to the Offer.

Shareholders will be able to dispose of their rights to take up their Entitlement, including to:

- sell them on the ASX on or before the rights trading end date – by completing the relevant sections on the back of the application form which will accompany the Offer document, and sending their completed application form to their broker in sufficient time for the sale to be effected;
- exercise some of them by completing the application form and lodging it with the relevant application moneys or paying by BPAY<sup>®</sup>, and selling the balance on the ASX as described above; or
- transfer them off the ASX on or before the closing date of the Offer – by completing a standard renunciation form and the transferee lodging it with the completed application form and relevant application moneys.

More details on these options will be contained in the Offer document.

The number of issued Shares at the date of this announcement and the total maximum number of issued Shares following the Offer are as follows:

Number of Shares currently on issue:	136,834,516
Maximum number of New Shares to be issued under the Offer:	171,043,145
Maximum number of Shares on issue following the Offer:	307,877,661

The Company currently has 1,240,000 unquoted options and 850,000 unquoted performance rights on issue.

The Offer is being underwritten to \$5 million by the Company's two largest Shareholders, funds managed by Investec Wentworth Private Equity Limited (**Investec**) and Thorney Holdings Pty Limited (**Thorney**). Subject to the terms of the respective underwriting agreements with each of these major Shareholders, Investec and Thorney (and their related bodies corporate) will take up their full Entitlements as well as subscribe equally for any shortfall in applications to ensure that the Offer raises at least \$5 million. The value of each of Investec Group's Entitlement and Thorney Group's Entitlement, together with the amount they are underwriting will be a maximum of \$2.5 million each. Investec and Thorney will each be paid an underwriting fee of 4% on the value of their underwriting commitment (which excludes their respective Entitlements).

The Company explored a number of options for raising capital, and in the context of the current economic conditions, the terms of the Offer as set out in this announcement and the terms of the underwriting, were determined to be the most beneficial available terms for the Company.

All Eligible Shareholders may participate in the Offer. The Company will appoint an ASIC-approved nominee to sell the Rights to which Shareholders with registered addresses outside Australia or New Zealand (**Excluded Shareholders**) at the Record Date would otherwise have been entitled. The net proceeds of the sale of those Rights (if any) will then be paid as soon as practicable to Excluded Shareholders.

Proceeds from the Offer will be used to replenish working capital funds as a result of the repayment of bank debt in addition to assuring the renewal of ongoing banking facilities. The Company's balance sheet will be improved as a result of the Offer at a time of considerable uncertainty in the global economy. Further details on these issues and the use of proceeds are provided in the 'Banking summary' and 'Trading update' sections below.

## Offer timetable

EVENT	DATE
Announcement date	Wednesday 11 February 2009
Ex date	Friday 13 February 2009
Rights trading start date	Friday 13 February 2009
Record date	7:00pm Melbourne time Thursday 19 February 2009
Offer document dispatch date	Wednesday 25 February 2009
Opening date	Wednesday 25 February 2009
Rights trading end date	Wednesday 4 March 2009
Deferred settlement trading start date	Thursday 5 March 2009
Closing date	5:00pm Melbourne time Thursday 12 March 2009
Shortfall notification date	Tuesday 17 March 2009
Issue date	Wednesday 18 March 2009
Holding statement despatch date	Thursday 19 March 2009
Deferred settlement trading end date	Thursday 19 March 2009
Excluded Shareholder payment date	Thursday 19 March 2009
Normal trading start date	Friday 20 March 2009

This timetable is indicative only and subject to change. Subject to the *Corporations Act 2001 (Cth)* and the ASX Listing Rules, the Company, in conjunction with the underwriters, reserves the right to vary these dates, including the closing date of the Offer, without prior notice. The Company also reserves the right not to proceed with the whole or part of the Offer at any time prior to the issue date. In that event, application money will be returned as required by the Corporations Act, without interest.

Full details of the terms and conditions of the Offer will be contained in the Offer document to be lodged with the ASX and despatched to Eligible Shareholders in accordance with the timetable set out above.

## Underwriting

As noted above, the Offer is being underwritten to \$5 million by the Company's two largest Shareholders, Investec and Thorney. Subject to the terms of the respective underwriting agreements with each of these major shareholders, Investec and Thorney will subscribe equally for all New Shares relating to Entitlements that are not taken up by other Shareholders under the Offer, up to a maximum commitment from each underwriter of \$2.5 million (including its Entitlements).

Investec currently owns 22.1% of the Company and Thorney owns 22.3%.

At the completion of the Offer, Investec will own between 22.1% of the Company (if all Entitlements are taken up) and 36.4% of the Company (if no Entitlements are taken up other than by the underwriters).

Investec has advised the Company that it does not presently intend to change its existing relationship with the Company (other than the number of Shares it holds) including the continuation of the business of the Company, major changes to the business of the Company including redeployment of the fixed assets, the future employment of the present employees of the Company and its position relating to the current composition of the Company's board.

At the completion of the Offer, Thorney will own between 22.3% of the Company (if all Entitlements are taken up) and 36.5% of the Company (if no Entitlements are taken up other than by the underwriters).

Thorney has advised the Company that it does not presently intend to change its existing relationship with the Company (other than the number of Shares it holds) including the continuation of the business of the Company, major changes to the business of the Company including redeployment of the fixed assets, the future employment of the present employees of the Company and its position relating to the current composition of the Company's board.

### **Use of proceeds**

As discussed above, the Offer will raise up to \$6 million. The Company requires these additional funds to replenish working capital as it has used surplus capital to pay down foreign currency loans and bank debt over recent months on its Australian and Chinese banking facilities. Funds raised from the Offer will be used to return the Company to a normal level of working capital.

The capital raised will also strengthen the Company's financial position at a time of considerable economic uncertainty in its key markets. Funds raised will provide a buffer against the impact of potential volatility in general trading and against possible adverse movements in foreign exchange rates and commodity prices.

### **European restructure**

The Company provided investors with a trading update on 23 December 2008 when it announced the restructure of European operations from a full service regional operation to a distribution arrangement. The Company entered into a distribution agreement with an established European sales and distribution company, and since that announcement the first orders and payments for stock under the new distribution agreement have been received. This new European structure substantially reduces the Company's operating costs in a highly

seasonal market. The new distributor has approximately 400 employees, a strong network of sales representation and distribution channels to service and penetrate these key markets for the Company's products.

As advised in December 2008, the closure costs and asset write downs associated with the restructure, plus the first half European trading loss were expected to result in a loss from Europe of approximately \$12.8 million for the half year ended December 2008. Further adverse currency movements between the time of the announcement and the end of the 2008 calendar year resulted in additional non-cash write downs of \$1.9 million, bringing the total European closure costs to \$14.7 million. The Company's Australian banking partner has agreed to exclude European closure and restructuring costs from covenant calculations.

### **Banking summary**

The Company uses external bank debt to finance operations in Australia (multicurrency facility denominated in Australian dollars) and China (US dollar and Renminbi facilities). At 30 June 2008, the draw down of these facilities net of cash amounted to \$20.6 million.

In October 2008, to prevent further increases in banking facilities due to currency movements in the volatile foreign exchange rate environment, the Company used available Australian dollar facilities, working capital and cash to repay all Euro facilities and reduce US dollar exposures to ensure that the Company continued to operate within facility limits.

Until October 2008, the Company maintained a portion of the Australian dollar multicurrency facility in US dollars and Euros to match assets in those regions as a strategy to manage the impact on profit of exchange rate risk. As noted in the Company's announcement on 23 December 2008, the rapid fall in the Australian dollar against the US dollar and Euro increased overall bank borrowings as measured in Australian dollars by approximately \$10 million.

At 31 December 2008, the comparable draw down of these facilities net of cash amounted to \$28.3 million.

The Company's Australian banking partner has renewed its banking facilities until January 2010, conditional upon the Company successfully raising at least \$5 million of additional funds through the Offer.

The Company's two Chinese banking partners have also indicated that they will renew facilities as they fall due for an additional twelve month period, being the customary maximum term for Chinese banking facilities. As is normal in Chinese banking, renewal of a loan facility involves repayment of the facility and subsequent redrawing of the new facility some days or weeks later.

The Company successfully revolved a number of Chinese facilities in December 2008 and repaid other loans prior to their expected redraw over subsequent weeks. This short term cash requirement has been met with available cash resources, but has stretched the Company's working capital. The Company is currently operating within the limits of both its Australian and Chinese banking facilities, yet those facilities are regularly fully drawn. Funds raised by the Offer will return the Company to a normal working capital position, provide additional financial flexibility to meet short term funding requirements and remove pressure from the Company's current facility position.

The Company's banking facilities at 31 December 2008 are summarised in the following table:

REGION	FACILITY CURRENCY	FACILITY DRAWN (LOCAL CURRENCY MILLION)*	FACILITY DRAWN (\$A MILLION)*	FACILITY MATURITY
Australia	\$A multi-currency	15	15	January 2010
China	\$US/Renminbi	11	16 *	Various dates in February, March and November 2009, and January 2010
Total		n/a	31	

\* Translated at an exchange rate of A/US \$0.6875 and RMB/US 6.8

The US dollar facilities for the China region have various sizes and maturity dates over the next year. The maturity profile for these facilities is as follows:

FACILITY MATURITY DATE	DRAWN BALANCE AT 31 DECEMBER 2008 (\$US MILLION)
February 2009	0.3
March 2009	2.2
November 2009	6.0
January 2010	2.5
<b>Total China Facilities</b>	<b>11.0</b>

Approximately 23% by value of the Chinese loan facilities have been approved and will be renewed in February and March 2009 with the other 77% by value falling due in November 2009 and January 2010. Based on the Company's long-term relationship with these Chinese banks, the Company currently expects these loans to be repaid and then redrawn.

## Trading update

Despite the challenging economic and operating environment in the first half of FY09, the Company has posted positive earnings from continuing businesses (excluding European operations) in the period to the end of December 2008. The Company's results for continuing businesses for the six months from July to December 2008 compared to the six months from July to December 2007 are as follows:

<b>Profit and loss (actual)</b>		
<b>July to December</b>		
<b>Continuing businesses – unaudited</b>	<b>YTD</b>	<b>YTD</b>
	<b>2008</b>	<b>2007</b>
	<b>(\$'000)</b>	<b>(\$'000)</b>
Sales	48,446	49,529
EBITDA	8,026	9,833
EBIT	4,105	6,572
Interest Expense	902	602
Pre tax Profit	3,203	5,970
Tax Expense	1,006	1,655
Profit After Tax	2,197	4,315

Whilst continuing business profits for the first half are behind the corresponding period in FY08, this is mainly due to the record high polymer prices experienced during that period when compared to last year. Polymer prices have reduced in recent months and the Company expects these to flow through to profit in the second half, although adverse foreign exchange movements are expected to absorb some of these gains.

Due to the nature of the Company's business, and the current uncertain economic outlook worldwide, forecasting financial performance is challenging. Given these limitations and based on the actual results to December 2008, the Company's continuing businesses are forecast to generate an EBITDA of approximately \$14 million for the full year ending 30 June 2009, excluding the losses associated with the European business and restructure. This compares to the actual full year EBITDA of \$17 million for continuing businesses for the prior year ending 30 June 2008.

## Balance sheet update

The Company's financial position at 31 December 2008, including the prior year comparison, and the pro forma financial position assuming a successful \$6 million capital raising are shown below.

Unaudited	31 December 2007 (\$'000)	31 December 2008 (\$'000)	31 December 2008 Post Offer (\$'000)
<b>Current Assets</b>			
Cash and cash equivalents	18,432	4,000	10,000
Trade and other receivables	18,447	19,616	19,616
Inventories	31,811	34,710	34,710
Current tax assets	142	40	40
Other current assets	896	604	604
<b>Total current assets</b>	<b>69,728</b>	<b>58,970</b>	<b>64,970</b>
<b>Non Current Assets</b>			
Property, plant and equipment	58,819	69,805	69,805
Intangible assets	10,975	11,600	11,600
Deferred tax assets	820	1,530	1,530
<b>Total non current assets</b>	<b>70,614</b>	<b>82,935</b>	<b>82,935</b>
<b>Total assets</b>	<b>140,342</b>	<b>141,905</b>	<b>141,905</b>
<b>Current Liabilities</b>			
Trade and other payables	11,264	17,937	17,937
Interest bearing liabilities	39,230	29,398	29,398
Other financial liabilities	11	14	14
Current tax liabilities	1,373	655	655
Provisions	2,666	2,426	2,426
<b>Total current liabilities</b>	<b>54,544</b>	<b>50,430</b>	<b>50,430</b>
<b>Non Current Liabilities</b>			
Interest bearing liabilities	3,059	2,888	2,888
Deferred tax liabilities	1,129	2,119	2,119
Provisions	148	107	107
<b>Total non current liabilities</b>	<b>4,336</b>	<b>5,114</b>	<b>5,114</b>
<b>Total liabilities</b>	<b>58,880</b>	<b>55,544</b>	<b>55,544</b>
<b>Net Assets</b>	<b>81,462</b>	<b>86,361</b>	<b>92,361</b>
<b>Equity</b>			
Share capital	100,831	100,813	106,813
Other reserves	(7,402)	9,446	9,446
Retained earnings	(11,956)	(23,887)	(23,887)
<b>Parent entity interest</b>	<b>81,473</b>	<b>86,372</b>	<b>92,372</b>
Minority interests	(11)	(11)	(11)
<b>Total equity</b>	<b>81,462</b>	<b>86,361</b>	<b>92,361</b>
<b>Net Debt</b>	<b>23,857</b>	<b>28,286</b>	<b>22,286</b>

Assuming \$6 million is raised through the Offer, balance sheet gearing (net debt/equity) at 31 December 2008 will be reduced from 33% to 24%. The Company will be in a stronger financial position and will have higher levels of liquid assets to provide it with financial flexibility in the current volatile environment.

### Key risks

Potential investors should be aware that an investment in the Company under the Offer carries risks. Some of these risks are associated with share market investing generally and some risks relate to the specific financial and operating environment in which the Company operates.

Outlined below are some of the key risks that potential investors should be aware of, but this list does not represent all of the risks that the Company faces.

RISK	COMMENTS
<b>Market price</b>	The market price of Shares will fluctuate due to various factors including general movements in commodity prices, currencies, the Australian and international investment markets, economic conditions, global geopolitical events and hostilities, investor perceptions and other factors that may affect the Company's financial performance and position. The market price of Shares on the ASX may from time to time be below the issue price under the Offer.
<b>Banking facilities</b>	The Company finances its assets and operations using shareholders funds and bank borrowings. The Company is not heavily geared and its continuing operations are expected to meet its ongoing banking covenants. In a normal credit environment, the Company would expect bank facilities to be renewed as they fall due.  Despite the Company's confidence of its current banking relationships continuing, at this time the Company does not have commitments from its Chinese or Australian bankers that facilities due for renewal during late 2009 and 2010 will be renewed, or will be renewed for the same quantum or on the same terms.
<b>Foreign exchange</b>	The Company sells product into a global market and generates revenue in Australian dollars, US dollars, New Zealand dollars and Euros. Inventories are manufactured using principally US dollar and Chinese Renminbi inputs and other operating costs are incurred in local currencies in Australia, New Zealand and the US. Movements in foreign exchange rates impact profit margins and also the translation of foreign currency earnings, assets and liabilities into Australian dollars for reporting

	<p>purposes. The Company seeks to manage its foreign exchange risk using a number of strategies such as buying foreign exchange forwards and swaps as and when it is deemed appropriate, passing on foreign currency related price movements from time to time and by matching non-investment assets and liabilities in each major currency to limit the profit and loss impact of foreign exchange movements.</p> <p>While these strategies implemented correctly can limit the impact of foreign exchange movements, these strategies do not eliminate the foreign exchange risk completely.</p>
<b>Commodities</b>	<p>A number of key inputs to The Company's manufacturing process are plastic commodities, most significantly high density polyethylene (<b>HDPE</b>). HDPE prices, and other input prices generally, rose significantly over FY08 and peaked at record highs in the first half of FY09, before falling in recent months. The Company's margins are impacted by the prices of the commodities that it uses to manufacture its products. The Company seeks to manage this risk by passing on commodity related price movements to customers, however the Company does not have an unlimited ability to pass on price rises to customers and there is a delay in that process.</p>
<b>Market competition and consumer demand</b>	<p>The Company operates in competitive markets. Sales of the Company's products are driven by demand from retail and commercial customers and actions by competitors. Consumer spending patterns, preferences and tastes, competitor activity, as well as technology and new product innovation will impact the demand for the Company's products and ultimately, the financial performance and position of the Company.</p>
<b>Current economic slowdown</b>	<p>General economic conditions affect markets in which the Company operates, including the consequences of a prolonged downturn in economic conditions and credit and financial markets.</p>
<b>Intangible assets</b>	<p>The Company has \$11.6 million of intangible assets at 31 December 2008, the majority of which relates to goodwill from acquisitions. The carrying value of intangible assets is assessed against the discounted future cash flows of the businesses to which the goodwill asset relates. Deteriorating economic conditions may affect the expected future cash flows generated from these businesses and result in an impairment of the goodwill carrying value at a future period. Further deterioration of economic conditions in New Zealand may give rise to possible impairment of the goodwill carrying value of up to approximately \$3 million. The Company's Australian banking partner has agreed to exclude any New Zealand impairment from covenant calculations.</p>

<b>Onerous lease</b>	The Company has excess lease requirements in both Europe and New Zealand resulting from recent restructuring. The lease in Europe which expires in 2014 has been fully offset by a subleasing agreement recently concluded with the Company's new European distributor. The lease in New Zealand also expires in 2014. The excess space in New Zealand which has an approximate annual cost of \$250,000 is currently sublet until May 2009. The Company is actively pursuing other subletting arrangements beyond May 2009.
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**Summary**

These are difficult economic times and the Company is impacted by volatility and uncertainty in all of its markets. The Company has decided to raise additional capital at this time in response to the prevailing market conditions which have caused it to employ surplus capital to retire debt. The Offer is a defensive measure which the Directors consider to be in the best interests of the Company.

The Company has continued to implement its turnaround plan which saw significantly increased profits last financial year. While this year's results to date show a steady performance, although behind last year, the Company continues to invest in new products, develop new markets and make decisions such as restructuring Europe, which seek to improve long term profitability.

The Directors, Chief Executive Officer and Chief Financial Officer of the Company have indicated that they will be taking up their Entitlements in full.

The Offer represents an investment that carries its own particular risk, and you should obtain any professional advice you require to evaluate whether or not to participate in the Offer.

On behalf of the Directors, I invite you to consider this opportunity.

Yours sincerely



**Harry Boon**  
Chairman