



GALE PACIFIC LIMITED
(ASX: GAP)

ASX and Media Release

17 November 2009

2009 Annual General Meeting - Chairman's Address to Shareholders

As shareholders will be aware, the volatility of world financial markets throughout 2008/9 had a major impact on currencies, commodity prices and also on overall demand for Gale products. It is pleasing to report that despite this volatility, Gale achieved sales revenue from continuing operations of \$98 million which is in line with sales for the prior year. The Company delivered earnings before depreciation, amortization, interest and tax (EBITDA) for its continuing businesses of \$14 million. Importantly, this result was in line with the guidance provided to shareholders during the capital raising process earlier in the year.

During my tenure as chairman, the Gale Pacific Group has undertaken substantial restructuring and management changes designed to strengthen the company and provide a stable platform for future growth.

Early during the 2008/9 financial year, we closed the loss-making distribution operation in Europe at a cost of \$11.5 million. This "full service" distribution model commenced in 2004 and incurred significant losses each year, without ever achieving the sustained growth in sales and market penetration that it was established to deliver. Despite this disappointment, your directors continue to believe that the European market provides opportunities for Gale's products. Consequently, the company has more recently entered into a distribution agreement with the well-established European sales and distribution company – Windhager GmbH. Shareholders may also be aware that, subsequent to securing the distribution agreement, Windhager purchased substantial volumes of shares and is now a 15% shareholder of our company.

Closer to home, our New Zealand operations have also faced significant restructuring challenges since the purchase of the "Donaghys" business in 2004. The New Zealand manufacturing equipment was relocated to our modern facility in China in 2007 where it is now part of a larger integrated facility. During 2008/9, due to the depressed New Zealand market outlook and the projected low level of profitability in that market, the directors decided to fully write down the goodwill recorded on the 2004 acquisition of Donaghys, resulting in an impairment charge of \$3.2 million.

It goes without saying that the directors and management are disappointed at the extent and impact of the costs associated with the restructuring activities, which resulted in a reported loss after tax of \$12 million for the year. However, we strongly believe that the company is in far better shape for the future after having taken these necessary steps which will stop the significant drain on resources, management focus and shareholder funds in trying to extract further value from the acquisitions and investments made in 2004.

Directors and management are firmly of the view that the restructured Gale Pacific has a stronger and more robust base from which to build solid growth for the future. In order to give the group an improved balance sheet and flexibility within existing banking facilities, a rights issue raising \$4.7 million was completed in March 2009.

It is important to note that the underlying continuing business recorded some very positive achievements throughout 2008/9. For example:

- \$11.4 million of cash was generated from operations compared to \$9.8 million for the previous year, and
- Net debt was reduced to \$14.1 million from \$20.5 million at 30 June 2008 and from \$28.3 million at 31 December 2008.

Peter McDonald will discuss the results of the individual business operations in greater detail during his address shortly.

Outlook

In recent months in Australia we have seen some positive signs from the market and many economic commentators now believe that a recovery is underway. While our sales in the first four months in Australia have been quite strong, other regions of the world are not yet enjoying this position or outlook. Therefore, we must remain cautious while there is still a high level of uncertainty in most markets. The price of our key polymer raw material has recently returned to 2007 levels, and a stronger Australian dollar should also be favourable to our performance if sustained for the full year.

We will, of course, update shareholders with further information on trading and performance when we announce our interim results in February 2010. By that time, we will have completed the important summer selling season in the southern hemisphere, and will have confirmed key product and range decisions with major northern hemisphere customers for their upcoming summer season.

I would like to acknowledge the considerable efforts made by the senior management team and all employees of the Gale group throughout the year. On behalf of the Directors, I thank the entire team for their diligence and dedication to improving the business.

In my last day as Chairman, I also take this opportunity to thank my fellow directors and management for their support during my time with the company since 2005. We have taken some very tough decisions, and our directors, management and shareholders have endured much pain in recent years. I leave today with the firm belief that the changes that we have implemented have built a very solid platform for this company to grow and deliver increased value to shareholders.

Thank you.

-End

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Gale Pacific is a manufacturer and marketer of advanced polymer fabrics and related products.

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