



GALE PACIFIC LIMITED
(ASX: GAP)

ASX and Media Release

17 November 2009

2009 Annual General Meeting –Managing Director and Chief Executive Officer’s Address

We have communicated to shareholders on several occasions throughout the year on the additional restructuring costs incurred relating to our European and New Zealand businesses. These costs have had a significant impact on our reported result for the year and have been fully explained in our previous announcements. If any shareholders have further questions on this topic, please feel free to ask at the end of my address to you today.

The focus of the management and staff has for many months been clearly directed to the continuing operations of the company. At the annual general meeting last year we foreshadowed that the volatility of the global economy, commodity markets and foreign currencies would provide significant challenges and opportunities for our business. We are pleased to report to shareholders that despite the uncertain times, we were able to meet the EBITDA earnings guidance for continuing operations provided earlier in the year. Our business continues to generate strong cash flows from operations which have resulted in a substantially reduced net debt position.

We made two key appointments during the year. Mr. Bernie Wang was appointed as the managing director for our Chinese manufacturing facility. Bernie brings to the Company 20 years of manufacturing experience in the chemical fibre textile industry in China, and will help drive the efficiencies and cost down programs for our plant. We also combined our Australian, New Zealand and Asian markets to be managed by Mr. Shaun McPherson. Shaun is an experienced executive in sales, marketing and business development in a range of industries and has made a very positive impact on the business in the past twelve months.

We believe that we are now in a strong position to create future growth opportunities for the Company.

Trading highlights of the 2008 / 09 year were as follows:

- The Company reported a loss after tax of \$12.0 million for the year which compares with a reported profit after tax of \$2.5 million for the previous corresponding period. Although disappointing, it must be remembered that this result includes \$15.1 million of additional costs relating to the closure of the European operations, impairment of goodwill in New Zealand and additional lease charges for the surplus New Zealand leased premises.
- Sales revenue for the year for continuing businesses was steady compared to the prior year at \$98 million. In local currencies, sales increased in Australia, Japan and the Middle East, whilst difficult trading conditions in the USA and New Zealand resulted in a sales decline from the same period last year.
- EBITDA was \$14 million or 14% of revenue compared with EBITDA of \$17.7 million from continuing business for the previous corresponding period. The major causes of the decline in EBITDA from the prior year were the impact of record high polymer prices and a weak Australian dollar, and the difficulty of passing on selling price increases to our customers in a weak economy. The recent stabilisation of polymer prices and the strengthening Australian currency should be favourable to the company's performance if maintained for the full year.
- The Company continued to generate strong positive cash flows from operations. Cash provided from operating activities was \$11.4 million. Net debt was reduced to \$14.1 million.
- Inventory has reduced by \$2.9 million as we have continued to drive improved forecasting and production planning systems in the business.

Asia / Pacific revenue reduced to \$67 million from \$70.8 million in the previous corresponding period. Revenue in Australia and Japan increased by \$0.6 million. Commercial fabric sales in Australia were down 10% or approximately \$2.5 million due mainly to reduced demand for grain covers during the drought. Sales of consumer products through retail channels were ahead of the previous year following the successful introduction of a new range of window furnishing and shade sail products, and the hot weather experienced across many parts of the country in January and February.

New Zealand revenues were lower by \$4.9 million due to difficult economic conditions, particularly in the agricultural netting market. We have succeeded in sub-letting the excess space in our Christchurch, New Zealand facility to the end of our head lease in 2014. A charge to 2008/9 profit of \$0.4 million was made to account for the sub lease rent to gross rent differential. Our structure and overheads in New Zealand have been reduced to a small, focused sales and distribution operation.

Our export business to Japan continued to grow from customers added through our Japanese distributor, Takasho Co. Ltd. Sales to Takasho more than doubled year on year.

Operating profit after tax for the Asia Pacific region decreased to \$0.5 million from a profit of \$6.7 million in the previous corresponding period due to the previously mentioned \$3.2 million write off of Goodwill in New Zealand as well as higher Australian dollar cost of product

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imported from our China operations and from overseas suppliers where product is usually invoiced in US dollars. As previously mentioned, our base raw material, polymer, was at record high prices during the period, however this has now stabilized to the 2007 levels.

Middle East / Africa revenue increased to \$8 million from \$6.5 million in the previous year. The operating profit after tax for this region was \$1.5 million compared to \$1.6 million for the previous year. We have found the Dubai market to be hit very hard with many projects deferred or cancelled, but have been able to offset this decline by growth in several other Arab countries, particularly Saudi Arabia.

Sales in the USA declined 5% in local currency terms in difficult economic conditions. Measured in weaker Australian dollars, sales increased to \$23.3 million from \$20.9 million. The operating loss after tax for this region was \$1.5 million compared to a break even result for the previous corresponding period. The sell through rates with two of our largest retail customers, Lowes and The Home Depot, were impacted by lower overall consumer spending in the DIY home improvement market. However, we have increased committed range listings and store numbers for the coming season with two of our major retail customers in the USA, Lowe's and Sam's Club.

During the year we successfully added over 80 new accounts as we implemented our strategy to broaden our distribution base in the USA. Accounts added included Target, Bed Bath and Beyond and many smaller independent and regional accounts.

We see further sales growth opportunities in the broader Asia Pacific region, Europe and the USA, and other markets we do not currently service. We have recently attended a major trade show in India which has generated a high level of enquiry, and will be attending two international trade shows in China early next year for the first time. We have recently created a new international sales and global marketing role within the company to focus on new business opportunities in these identified markets.

We have spent a great deal of energy improving our China operations during the year. In addition to the appointment of Bernie Wang in February of this year, we have also made a number of changes and appointments in key technical roles recently.

Our focus in the China plant is to improve our overall manufacturing performance by increasing efficiencies, reducing scrap rates and operating costs by driving process improvements and lean manufacturing principles in the plant. Whilst this must remain a focus indefinitely, we have already seen good improvements made in the China plant in recent months with improved yields and reduced scrap rates.

09/10 Trading Update

Trading for the first four months of this financial year is largely in line with the prior year and our budget expectations. We have made a solid start to the year in Australia in the pre summer period, particularly in our industrial business with good sales of our Landmark fabric for grain covers. Economic conditions remain subdued in New Zealand, the United States and the

Middle East. Efficiency and scrap levels at our Chinese manufacturing facility are approaching budget levels and are favourable to the prior year.

We continue to generate strong positive cash flows which have resulted in further reductions in our debt levels, giving us significant head room and flexibility within our existing banking facilities. The Company's Australian banking partner, Commonwealth Bank, has renewed our banking facilities until January 2011 conditional on the ongoing renewal of Chinese banking facilities as they mature. Based on all available information and past experience, we believe that the Chinese banking facilities will continue to be renewed as they fall due.

While the results for the first four months this year are in line with our expectations, as the Chairman has said, there is too much uncertainty in economic activity levels, consumer demand, commodity prices and exchange rates to be able to provide shareholders with any meaningful profit guidance. We will, of course, update shareholders with further information on trading and performance when we announce our interim results in February 2010.

Rest assured, our focus this year is to return the business to profitability, generate strong cash flow, further reduce net debt levels, and implement plans for future growth, having now established a more solid base.

Retirement of the Chairman

As previously advised to shareholders, Harry Boon will be stepping down as chairman and as a director of Gale at the end of this meeting, and David Allman will be taking over that role.

I would like to express my personal thanks to Harry and also thank him on behalf of all stakeholders of Gale Pacific for the contribution he has made to the business as chairman and non executive director since 2005. Harry has given considerable guidance and support during a period of difficult restructuring, refinancing and key management changes. We wish Harry very well for the future.

I also take this opportunity to welcome David Allman to the board and role as Chairman, and I look forward to working with David and the rest of the board to improve future returns to shareholders.

In closing, I would also like to acknowledge the contribution and dedication of the management team and all employees of Gale throughout the year. Thank you also to the directors for their valuable guidance and contribution, and to our shareholders, thank you again for your patience and support. We look forward to improved results as we build on the stronger foundation developed during 2009.

Thank you.

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For further information please contact:

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

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