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2011 ANNUAL REPORT





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2011 ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Friday 28 October 2011.

The Notice of Meeting and Proxy Form are separate items accompanying this 2011 Annual Report.



CORPORATE DIRECTORY

GALE PACIFIC LIMITED

ABN 80 082 263 778

DIRECTORS

Mr David Allman (Chairman)
Mr Peter McDonald (Managing Director and Chief Executive Officer)
Mr John Murphy (Non Executive Director)
Mr George Richards (Non Executive Director)

COMPANY SECRETARY

Ms Sophie Karzis

REGISTERED OFFICE

145 Woodlands Drive, Braeside, Victoria, 3195
T + 613 9518 3333

SOLICITORS

Norton Gledhill
Level 23, 459 Collins Street, Melbourne, Victoria, 3000
T + 613 9614 8933

AUDITOR

Pitcher Partners
Level 19, 15 William Street, Melbourne, Victoria, 3000
T + 613 8610 5000

SHARE REGISTER

Computershare
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067
T + 613 9415 4000

WEBSITE ADDRESS

www.galepacific.com

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CHAIRMAN'S AND MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT

DEAR SHAREHOLDERS,

It is very pleasing to report to shareholders the results for the year ended 30 June 2011. The Company reported an increase in the net profit after tax of 18% to \$7.1 million compared to \$6.0 million for the previous corresponding period. Gale has generated these solid results while operating with some weak economic conditions in several markets and enduring a very mild and wet summer and flooding across several parts of Australia. The stronger Australian dollar also had an unfavourable impact on the translation of foreign currency revenue and earnings.

We are also very excited about the acquisition of the Zone Hardware and Riva Window Fashions businesses in June 2011 which is the initial acquisition growth step.

The key items of the results were;

Revenue decrease of 3% to \$95.6 million

Revenue for the year decreased by 3% to \$95.6 million which was impacted by the unfavourable effect of translating foreign currency revenues to a stronger Australian dollar. Sales revenues in local currencies grew by 3% in the USA, and 18% in the Middle East. New customers were won in Europe and South Africa as we increased our market penetration into new markets following the hiring earlier this year of a General Manager International Sales and Marketing. Lower sales were recorded in Australia due to an extremely mild summer, wet weather and flooding across many parts of the eastern states. Whilst sales to retail channels in New Zealand increased year on year, this increase was not enough to offset the shortfalls in commercial sales due to a poor agricultural season in that market.

EBITDA decrease of 4% to \$15.8 million

Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations was \$15.8 million for the year compared to \$16.5 million for the previous corresponding period. The decrease over the prior year is due to the unfavourable impact of translating foreign currency EBITDA in the Middle East, USA and Chinese businesses to a stronger Australian dollar. The impact of this equates to approximately A\$0.9 million.

EBIT increase of 6% to \$9.9 million

Earnings before interest and tax (EBIT) was \$9.9 million for continuing operations compared to \$9.3 million for the previous corresponding period. The increase was achieved through sales growth in new markets, leaner operating costs, substantial yield and efficiency improvements in the Company's Chinese and Australian manufacturing facilities, and an immediate contribution from only the first months trading of the recently acquired Zone Hardware and Riva Window Fashions.

NPAT up 18% from \$6.0 million to \$7.1 million

Net profit after tax of \$7.1 million for the financial year ended 30 June 2011 is the highest on record for the Company. This result is an 18% or \$1.1 million increase on the reported result for the previous corresponding period.

Final dividend payment of 1.2 cents fully franked

Directors are also pleased to announce to shareholders that the Company has increased the ordinary final dividend to 1.2 cents per share. Dividends for the full year of 2.2 cents per share have been declared on diluted earnings of 2.4 cents per share. This represents a 10% increase on full year ordinary dividends compared to last year. The final dividend payment of 1.2 cents per share will be fully franked and will be paid to shareholders on Monday 3 October 2011. Gale considers this dividend frankable for Australian tax purposes as the dividends are being paid out of current year profits and Gale has sufficient franking credits available to fully frank this dividend. However, the Commissioner of Taxation has informally expressed a preliminary view on dividend franking capability in an ATO Draft Fact Sheet dated 21 June 2011 which may or may not support the Company's position. Shareholders will be advised should there be any impact on the franking of Gale dividends.



Chairman's And Managing Director And Chief Executive Officer's Report (continued)

Cash from operations \$11.4 million

The Company continued to generate strong cash flow from operations which is the result of strong profitability.

The business required only maintenance capital expenditure of \$0.6 million for the year. The company paid net cash of \$11.2 million for the acquisition of the Zone Hardware and Riva Window Fashions businesses. Dividends of \$8.4 million were paid to shareholders.

The company had net debt of \$5.7 million as at 30 June 2011 compared to net cash on deposit of \$3.1 million at 30 June 2010.

Asia Pacific (Excluding China)

| Local Currency | FY11 (A\$M's) | FY10 (A\$M's) | Change (%) |
|----------------|------------------|------------------|---------------|
| Sales | 67.5 | 71.4 | -5% |
| EBITDA | 9.1 | 9.3 | -2% |

A sales decline from the prior year of 5% was due to a very mild and wet summer period on the east coast of Australia which had a particularly strong negative impact on sales of Coolaroo product sold through retail channels which could not be fully offset by other segments of the business which performed well. Whilst the wet weather and flooding created challenges in many markets, they provided good conditions in some agricultural markets, particularly grain and cotton markets. As a result, sales of coated fabrics sold into these markets were well ahead of the previous year. There were strong sales of new products including weed mat and synthetic grass as these new branded product programs were rolled out fully into the retail market. Significant efficiency gains were made in the Australian manufacturing operation during the year which contributed positively to the overall result.

The continued weak horticultural market in New Zealand resulted in lower sales of commercial shade cloth and protective nets, however sales of Coolaroo products sold through retail channels in New Zealand increased by more than 10%.

Sales to Japanese customers increased by more than 20% on the previous year helped by government targets set to encourage homeowners to reduce energy consumption by 15% which increased demand for exterior window shade products.

EBITDA for the Asia Pacific region fell slightly year on year but was still a very solid result considering the sales decline which resulted from one of the worst summers recorded in Australia.

Americas

| Local Currency | FY11 (US\$M's) | FY10 (US\$M's) | Change (%) |
|----------------|-------------------|-------------------|---------------|
| Sales | 19.3 | 18.7 | +3% |
| EBITDA | 0.5 | 0.8 | -37% |

Given that market conditions in the USA continue to be extremely challenging and remain subdued, we are pleased to report a small but positive uplift in sales of 3% year on year. Consumer confidence is low and the markets for Gale products are best described as patchy and unpredictable at present with many retail customers reducing inventory levels and taking a cautious approach on seasonal programs.

During the year we have been further challenged by regulatory changes in the window furnishings industry forcing widespread changes to product design to reduce or eliminate the use of exposed loop cords on interior window furnishings which has led to a number of product deletions and industry wide product recalls. This has resulted in the deletion of some parts of the Coolaroo range in the USA market. We have developed a number of new initiatives to overcome these changes and proposed new industry standards which are being finalised with customers for next season.

Sales of commercial fabrics increased by more than 50% due to strengthened field sales resources and increased activity in commercial markets. We plan to launch a full range of fire retardant commercial knitted fabrics in 2011 / 2012 along with the release of the waterproof Synthesis Commercial 95 range in the USA market. EBITDA fell in the USA by US\$300,000 for the year due to increased margin pressure from rising product costs, increased freight costs and costs associated with the window shade product changes to comply with industry regulatory changes.

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Chairman's And Managing Director And Chief Executive Officer's Report (continued)

Middle East

| Local Currency | FY11 (US\$M's) | FY10 (US\$M's) | Change (%) |
|----------------|-------------------|-------------------|---------------|
| Sales | 6.4 | 5.4 | +18% |
| EBITDA | 1.3 | 0.9 | +44% |

The Middle East business performed strongly. Sales growth of 18% over the prior year in local currency was due to solid growth in the Saudi market generated from new customers gained throughout the year and increasing work from Gale products being specified and major project wins. Sales in Saudi Arabia increased by more than 40% year on year. Whilst construction activity remained flat in other parts of the region, particularly Dubai, we managed to achieve year on year sales increases in most of the major regions (U.A.E., Kuwait and Qatar).

During the 2010 / 2011 financial year we shipped a major portion of the knitted fabric for the large (300,000 m²) mass vehicle storage project awarded to Gale earlier in the year. Another major source of sales growth has been the successful market launch of our new waterproof range of Synthesis Commercial 95 fabric which has gained wide market acceptance in a very short period of time.

EBITDA increased by a healthy US\$400,000 or 44% in our Middle East business due to the increased sales activity and tight expense controls in place. Debtor collections in the Middle East have been excellent and we continue to operate with very tight trading terms in the region.

China

| Local Currency | FY11 (US\$M's) | FY10 (US\$M's) | Change (%) |
|-----------------------|-------------------|-------------------|---------------|
| Sales - International | 1.9 | (0.1) | +100% |
| Sales - Internal | 22.7 | 26.5 | -7% |
| EBITDA | 5.0 | 4.3 | +16% |

Excellent results have been generated from our Chinese manufacturing operation. Scrap rates have continued to reduce throughout the year as part of the continuous manufacturing improvement program. Margins have increased, despite lower volumes and higher wage rates, due in part to continuing labour efficiencies, lower overhead costs and improved yields.

International market development

A full time dedicated resource was added to the team earlier in the year, focused on international market development, the opportunities in new and existing markets have grown significantly over the past 12 months. We have attracted new customers in untapped markets including South Africa, Spain, France, Chile, and Israel. We have also identified and capitalised on new opportunities with existing customers.

International sales to third party customers are largely invoiced from China and were US\$1,900,000 (2009/2010 : (US\$69,000)).

Acquisition of Zone Hardware and Riva Window Fashions

The acquisition of Zone Hardware and Riva Window Fashions was concluded on 1 June 2011 and will add substantial sales and profit growth to the company's 2011/2012 results. Zone Hardware specialises in the marketing and distribution of branded home improvement products sold into the do-it-yourself home improvement market, mass merchants and specialty retail outlets.

Riva Window Fashions has been recently established and specialises in a diverse range of custom window furnishings made specifically to the consumer's window measurements and specifications. This exciting new range is promoted and sold by Bunnings Warehouse with measure and installation services provided by professional authorised Riva representatives. This program has already been launched through all Melbourne and Brisbane metropolitan stores and will be rolled out nationally over the coming months. The hiring of the professional field installer team has commenced and will be implemented fully with the planned store roll out. The Riva custom window shade program gives both Bunnings and Riva entry into the large custom window shade market in Australia.

Integration plans to combine the operations of Zone and Riva with Gale are well underway.



Chairman's And Managing Director And Chief Executive Officer's Report (continued)

Organic and acquisition growth

Gale maintains a strong continuous improvement culture, skilled and motivated employees and management, and an effective and efficient infrastructure. Innovation and product development continues to be a main focus as a driver of growth from our core business base. The Company has ongoing strong cash generation and a strong balance sheet. The acquisition of the Zone Hardware and Riva Window Fashions businesses will provide a solid contribution to the future results. Further complementary acquisitions are being assessed and actively pursued.

Management and staff

On behalf of the Directors, we would like to thank all Gale employees for their hard work, dedication and commitment to the business and congratulate the whole team for the results which have been achieved this year. In all areas of the business the team has been challenged to focus on continuing to improve the way we operate and do business with our customers. Many improvements have been made during the year particularly in the area of manufacturing efficiency gains and waste reduction initiatives.

We would like to welcome the team from Zone and Riva to the Gale community and look forward to their involvement and contribution to the business.

Outlook

Trading conditions are expected to remain challenging with consumer and business confidence levels low in most markets. Retail conditions in Australia are difficult, but on a positive note we do expect good market conditions in the agricultural market in Australia for the coming season.

With the addition of the Zone and Riva businesses and planned international sales expansion of Coolaroo and Synthesis branded products we expect to deliver another solid financial result in 2011/2012 in what will be a very difficult and volatile global market environment.

Gale continues to generate strong positive cash flows and operates with a solid balance sheet with the capacity to support further growth opportunities which we continue to explore.

Annual General Meeting

A notice of the Company's Annual General Meeting to be held on 28 October 2011 and a voting form is enclosed with this report.

Mr David Allman
Chairman
25 August 2011

Mr Peter McDonald
Managing Director and Chief Executive Officer
25 August 2011



BOARD OF DIRECTORS

DAVID ALLMAN



B.Sc.

Chairman and Non Executive Director since November 2009

Mr Allman was Managing Director of McPherson's Limited from 1995 to 2009 and prior to that he was Managing Director of Cascade Group Limited for 7 years. Before this he held senior positions with Elders IXL Limited and Castlemaine Tooheys Limited. Mr Allman holds a degree in engineering and prior to obtaining general management positions held managerial roles in production management, finance and marketing. Mr Allman is a Non Executive Director of McPherson's Limited.

Mr Allman is the Chairman of the Company's Nomination Committee and is a member of the Audit and Risk and Remuneration Committees.

PETER McDONALD



B.BUS (MARKETING)

Managing Director and Chief Executive Officer since April 2006

Mr McDonald joined Gale in 1988 and was appointed as an Executive Director of the Company in 1998. Mr McDonald has held the positions of Product Manager, National Marketing Manager, National Sales and Marketing Manager, Chief Operating Officer and Managing Director of Gale's United States operations.

JOHN MURPHY



CA, FCPA, B.COMM, M.COMM

Non Executive Director since August 2007

Mr Murphy is the Managing Director of Investec Wentworth Private Equity Limited and in this capacity is a board member of the fund's investments, including the following listed companies: Ariadne Australia Limited, Staging Connections Group Limited, Vocus Communications Limited (formally First Opportunity Fund Limited), ClearView Wealth Limited and Gale Pacific Limited. Mr Murphy is also an Executive Director of Investec Bank (Australia) Limited and Non Executive Director of Specialty Fashion Group Limited.

Mr Murphy is the Chairman of the Company's Remuneration Committee and is a member of the Audit and Risk and Nomination Committees.

GEORGE RICHARDS



CPA, AAICD

Non Executive Director since May 2004

Mr Richards joined the Board in 2004. Mr Richards was the Chief Executive of Mitre 10 South West Ltd from 1990 to 2000 and was previously the Managing Director of Cooper Tools, a market leader in hand tools manufacture and distribution. Mr Richards has had over 45 years experience in retail, marketing, manufacturing and distribution. He is a board member of The Alfred Foundation, a Director of Bowen & Pomeroy Pty Ltd, Associate Member of the Australian Institute of Company Directors and Australian Society of Accountants.

Mr Richards is Chairman of the Company's Audit and Risk Committee and is a member of the Nomination and Remuneration Committees.



SENIOR MANAGEMENT

JEFF COX

CHIEF FINANCIAL OFFICER (“CFO”)



Jeff joined Gale in March 2006 and is an experienced CFO having held senior finance positions for over 20 years. He has been the CFO of major divisions within the Pacific Dunlop Group including the Battery Group, Food Group and at Ansell. All these businesses had revenues in excess of \$1 billion and significant international sales, distribution and manufacturing operations. Jeff’s experience at Ansell included residing in the USA for 5 years while playing a significant part in a successful and global company.

SHAUN MCPHERSON

MANAGING DIRECTOR, ASIA PACIFIC



Shaun joined Gale in late November 2008 as Managing Director Asia Pacific. Shaun has extensive experience in general management, sales and marketing in commercial / industrial and retail markets. He has held senior management positions with global companies including General Manager, Country Director for Newell Rubbermaid Australia / New Zealand, Group Category Manager (Industrial, Engineering & Safety) for Hagemeyer Australia, and Regional Sales Manager (Industrial) for Ansell. Shaun has an Associate Diploma in Business Management and a MBA.

MARTIN DENNEY

MANAGING DIRECTOR, USA



Martin joined Gale in June 2006 and has strong commercial and strategic planning skills gained over 20 years across a range of industries including food and beverage, distribution, manufacturing, technology and property development. He has held senior management roles including General Manager of Socomin, a branded food import and distribution division of Pacific Dunlop Group (turnover A\$40 million). Other roles include National Sales and Marketing Manager at Dennis Family Corporation (turnover A\$250 million), and Business Development Manager at Adacel Technologies.

BERNIE WANG

MANAGING DIRECTOR, CHINA



Bernie joined Gale in February 2009 and has 20 years experience in the chemical fibre textile industry. Bernie started his career with a large tyre cord manufacturer in China as a spinning process engineer and was promoted to Plant Manager and finally to Technical Director. Bernie then spent four years with DuPont Fibre as Operations Manager and Maintenance Manager. Before joining Gale, he worked for 5 years as General Manager for a German company in China where he was responsible for the design and construction of the factory and the establishment of manufacturing operations.



CORPORATE GOVERNANCE

This statement sets out the corporate governance practices that were in operation throughout the 2011 financial year for Gale Pacific Limited (“the Company”) and its controlled entities (“the Group”) and includes a summary of how the Group complies with the revised ASX Corporate Governance Principles and Recommendations. The various charters and policies are all available on the Gale Pacific web site: www.galepacific.com

PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT OVERSIGHT

Formalise and disclose the functions reserved to the board and those delegated to management.

Complying.

The Board has adopted a charter which establishes the role of the Board and its relationship with management. The primary role of the Board is the protection and enhancement of long term shareholder value. Its responsibilities include the overall strategic direction of the Group, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1. A copy of the Board Charter is posted on the Group’s website.

Each Director is given a letter upon his or her appointment which outlines the Director’s duties. The Group has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness. The Nomination Committee takes responsibility for evaluating the Board’s performance and the Remuneration Committee evaluates the Group’s Key Executives annually.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

A majority of the board members should be independent.

Complying.

The Board comprises four Directors, three of whom are non executive and independent. The Directors considered by the Board to constitute independent Directors are Mr D Allman, Mr G Richards and Mr J Murphy. The test to determine independence which is used by the Company is whether a Director is independent of management and any business or other relationship with the Group that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

Directors may seek independent professional advice, at the Company’s expense, on any matter connected with the discharge of their responsibilities, provided the advice, together with a copy of the letter of instructions, is provided to the Board.

The chairman should be an independent Director.

Complying.

The Chairman, Mr D Allman has been Chairman of the Company since 17 November 2009 and was, at the date of his appointment and continues to be, independent. The Chairman leads the Board and is responsible for the efficient organisation and conduct of the Board’s functions.

The roles of the chairman and the chief executive officer should not be exercised by the same individual.

Complying.

The positions of Chairman and Chief Executive Officer are held by separate persons.

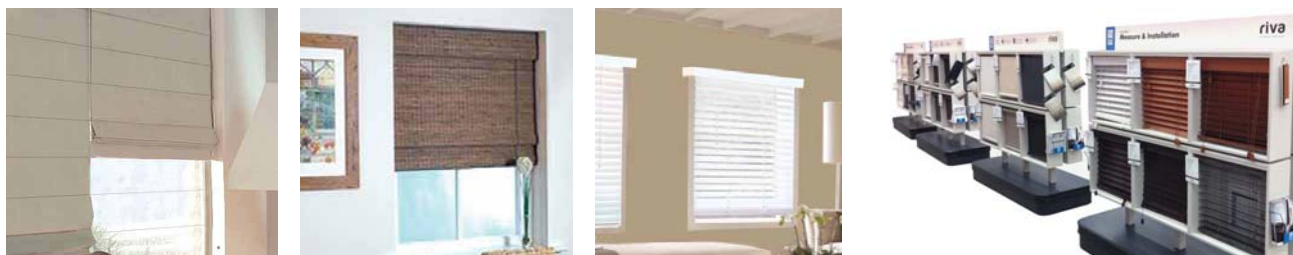
The board should establish a nomination committee.

Complying.

The Board has a formal Nomination Committee comprising of all of the independent Non Executive Directors. The Nomination Committee’s functions and powers are formalised in a Charter.

Provide the information indicated in the Guide to reporting on Principle 2.

Complying.



Corporate Governance (continued)

The following information is set out in the Company's annual report:

- The skills and experience of directors.
- The directors considered by the Board to constitute independent directors.
- A statement regarding directors' ability to take independent professional advice at the expense of the Company.
- The term of office held by each director in office at the date of the report.
- The names of members of the Company's committees and their attendance at committee meetings.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Establish a code of conduct and disclose the code as to:

- The practices necessary to maintain confidence in the Company's integrity.
- The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.
- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
- Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Companies should provide the information indicated in the Guide to reporting on Principle 3.

Complying.

The Company has formulated a Code of Conduct which can be viewed on its website.

The Code of Conduct has the commitment of the directors and senior management to ensure practices are operating that are necessary to maintain confidence in the Company's integrity, and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has adopted a Share Trading Policy which can be viewed on its website.

The Company has a policy concerning the trading in the Company's securities by Directors, Senior Managers and employees. In summary, Directors, Senior Managers and employees must not deal in the Company's securities when they are in possession of insider information. Directors and Senior Managers must not trade during the "trading blackout" beginning at the end of the half year and full year reporting periods until the release to the ASX of the Financial Results for the relevant period.

Details of the Company's trading policy are posted on its website.

The Company has adopted a gender diversity policy. The policy includes requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. Progress towards achieving the gender diversity objectives set by the board will be measured and reported on in the Company's 2012 annual report.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

The board should establish an audit committee.

The audit committee should be structured so that it:

- Consists only of non executive directors.
- Consists of a majority of independent directors.
- Is chaired by an independent chair, who is not chair of the board.
- Has at least three members.

The audit committee should have a formal charter.

Companies should provide the information indicated in the Guide.

Complying.

The Directors are committed to the preparation of financial statements that present a balanced and clear assessment of the Group's financial position and prospects. The Board reviews the Group's half yearly and annual financial statements. The Board requires that the Chief Executive Officer and the Chief Financial Officer state in writing to the Board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.

The Board has an Audit Committee that reports to the Board. The Company's Audit Committee comprises only non executive independent directors; and a chairman who is not chairman of the Board. The members of the Audit Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the Group and to advise on financial information prepared for use by the Board or for inclusion in financial statements.

The Audit Committee has a formal charter that is posted on the Company's website.

The Board, with the involvement of the Audit Committee, has established procedures in relation to the external auditor selection and appointment and for discussing with the auditor the rotation of the lead partner.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. Companies should provide the information indicated in the Guide.

Complying.

The Company has a documented policy which has established procedures designed to ensure compliance with Australian Securities Exchange Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The focus of these procedures is on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities and improving access to information for all investors. The Chief Executive Officer, the Chief Financial Officer and the Company Secretary are responsible for interpreting the Group's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the Australian Securities Exchange. The purpose of the procedures for identifying information for disclosure is to ensure timely and accurate information is provided equally to all shareholders and market participants. The policy on continuous disclosure is posted on the Company's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. Companies should provide the information indicated in the Guide to reporting on Principle 6.

Complying.

The Board informs shareholders of all major developments affecting the Group's state of affairs as follows:

- The annual report is distributed to all shareholders who have elected to receive it, including relevant information about the operations of the consolidated entity during the year and changes in the state of affairs.
- The half yearly report to the Australian Securities Exchange contains summarised financial information and a review of the operations of the Group during the period.
- All major announcements are lodged with the Australian Securities Exchange, and posted on the Company's website.
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.
- The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategy and goals.
- The Company's auditor attends the Annual General Meeting.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Complying.

The Board has responsibility for monitoring risk oversight and ensures that the Chief Executive Officer and the Chief Financial Officer or equivalent report on the status of business risks through risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. In addition the Board is responsible for reviewing the risk management framework and policies of the Group.

The Board oversees policies on risk assessment and management and has delegated certain responsibilities in these matters to the Audit Committee. The Group has established policies and procedures to identify, assess and manage critical areas of financial and operating risk. The Group's Risk Management policy is posted on the Company's website.

The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Complying.

Management has previously completed a review of the Group's major business units, organisational structure and accounting controls and processes. This review by management has been reported to the Audit Committee and in turn to the Board and the Board is satisfied that the processes in place to identify the Group's material business risks are appropriate and that these risks are being effectively managed. The Group's risk management processes continue to be monitored and reported against on an ongoing basis.

A description of the Group's risk management policy and internal compliance and control systems is available on the Company's website.

The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Companies should provide the information indicated in the Guide to reporting on Principle 7.

Complying.

The Chief Executive Officer and Chief Financial Officer are required to state to the Board in writing that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Complying.

The Group has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness.

The board should establish a remuneration committee.

Complying.

The Board has established a Remuneration Committee. The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and practices applicable to the Chief Executive Officer, Senior Executives and Directors themselves. This role also includes responsibility for share option schemes incentive performance packages and retirement and termination entitlements. Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executives. The Remuneration Committee may obtain independent advice on the appropriateness of remuneration packages. The members of the Remuneration Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

Companies should clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives.

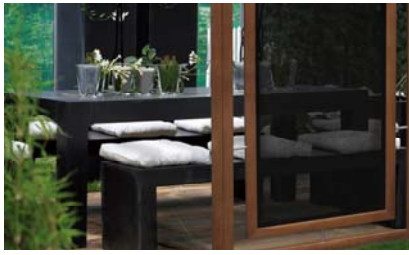
Complying.

Details of the Directors and Key Senior Executives remuneration are set out in the Remuneration Report of the Annual Report. The structure of Non Executive Directors' remuneration is distinct from that of executives and is further detailed in the Remuneration Report of the Annual Report. Equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders. In addition, the Company has issued equity based remuneration to both Executive and Senior Management which has been approved by shareholders at a general meeting.

Companies should provide the information indicated in the Guide to reporting on Principle 8.

Complying.

A charter setting out the responsibilities of the Remuneration Committee has been adopted and a copy of this charter is posted on the Company's website.



DIRECTORS' REPORT

The Directors of Gale Pacific Limited ("the Company") present their annual financial report for the Company and its controlled entities ("the Group") for the financial year ended 30 June 2011.

The Directors in office at any time during or since the end of the year to the date of this report are:

DAVID ALLMAN, B.SC.

Chairman and Non Executive Director since November 2009

Mr Allman was Managing Director of McPherson's Limited from 1995 to 2009 and prior to that he was Managing Director of Cascade Group Limited for 7 years. Before this he held senior positions with Elders IXL Limited and Castlemaine Tooheys Limited. Mr Allman holds a degree in engineering and prior to obtaining general management positions held managerial roles in production management, finance and marketing.

Mr Allman is a Non Executive Director of McPherson's Limited.

Other than the above, no other directorships of listed companies were held by Mr Allman at anytime during the three years prior to 30 June 2011.

Mr Allman is Chairman of the Company's Nomination Committee and is a member of the Audit and Risk and Remuneration Committees.

PETER McDONALD, B.BUS (MARKETING)

Managing Director and Chief Executive Officer since April 2006 and Executive Director since 1998

Mr McDonald was appointed Managing Director and Chief Executive Officer of Gale in April 2006. Mr McDonald joined Gale in 1988 and was appointed as an Executive Director of the Company in 1998. Mr McDonald has held the positions of Product Manager, National Marketing Manager, National Sales and Marketing Manager, Chief Operating Officer and Managing Director of Gale's United States operations.

No other directorships of listed companies were held by Mr McDonald at any time during the three years prior to 30 June 2011.

JOHN MURPHY, CA, FCPA, B.COMM, M.COMM

Non Executive Director since August 2007

Mr Murphy is the Managing Director of Investec Wentworth Private Equity Limited and in this capacity is a board member of the fund's investments, including the following listed companies: Ariadne Australia Limited, Staging Connections Group Limited, Vocus Communications Limited (formally First Opportunity Fund Limited), ClearView Wealth Limited and Gale Pacific Limited. Mr Murphy is also an Executive Director of Investec Bank (Australia) Limited and Non Executive Director of Specialty Fashion Group Limited.

No other directorships of listed companies were held by Mr Murphy at any time during the three years prior to 30 June 2011.

Mr Murphy is the Chairman of the Company's Remuneration Committee and is a member of the Audit and Risk and Nomination Committees.



Directors' Report (continued)

GEORGE RICHARDS, CPA, AAICD

Non Executive Director since May 2004

Mr Richards was the Chief Executive of Mitre 10 South West Ltd from 1990 to 2000 and was previously the Managing Director of Cooper Tools, a market leader in hand tools manufacture and distribution. Mr Richards has had over 45 years experience in retail, marketing, manufacturing and distribution. He is a board member of The Alfred Foundation, Director of Bowen & Pomeroy Pty Ltd, Associate Member of the Australian Institute of Company Directors and Australian Society of Accountants.

No other directorships of listed companies were held by Mr Richards at any time during the three years prior to 30 June 2011.

Mr Richards is Chairman of the Company's Audit and Risk Committee and is a member of the Nomination and Remuneration Committees.

Ms SOPHIE KARZIS, B JURIS LLB

Company Secretary

Ms Karzis was appointed as Company Secretary in June 2004. Ms Karzis is a practising lawyer who holds roles at a number of public and private companies.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The Group's principal activities in the course of the financial year were the marketing, sales, manufacture and distribution of screening and shading products to global markets.

REVIEW AND RESULTS OF OPERATIONS

The consolidated profit of the Group for the financial year attributable to the members of Gale Pacific Limited was \$7.110 million. Refer to the Chairman and Managing Director and Chief Executive Officer's Report for further details on the Group's result.

STATE OF AFFAIRS

On 1 June 2011 the Group acquired 100% of the shares and units of Zone Hardware Pty Ltd and Riva Window Fashions Pty Ltd. For details of the acquisition refer to Note 29 of the financial statements.

There were no other significant changes in the state of affairs of the Group during the financial year.

EVENTS SUBSEQUENT TO BALANCE DATE

In the interval between the end of the financial year and the date of this report, no item, transaction or event of a material and unusual nature has arisen that is likely, in the opinion of the Directors, to affect significantly, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years has been made in part in the Chairman and Managing Director and Chief Executive Officer's Report of this Annual Report. Any further such disclosure and the expected results of those operations is likely to result in unreasonable prejudice to the Group and has accordingly not been disclosed in this report.

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ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are not subject to any significant environmental regulations under the Commonwealth or State legislation. The Directors believe that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

DIVIDENDS

Dividends paid to members during the financial year were as follows:

| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
|-------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Final ordinary dividend for the year ended 30 June 2010 of one cent per share paid on 22 October 2010 | 2,797 | - |
| Special dividend for the year ended 30 June 2010 of one cent per share paid on 22 October 2010 | 2,797 | - |
| Interim ordinary dividend for the year ended 30 June 2011 of one cent per share paid on 25 March 2011 | 2,797 | - |

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of 1.2 cents per share to be paid on 3 October 2011.

Dividends for the full year of 2.2 cents per share have been declared on diluted earnings of 2.4 cents per share. This represents a 10% increase on full year ordinary dividends compared to last year. The final dividend payment of 1.2 cents per share will be fully franked and will be paid to shareholders on Monday 3 October 2011. Gale considers this dividend frankable for Australian tax purposes as the dividends are being paid out of current year profits and Gale has sufficient franking credits available to fully frank this dividend. However, the Commissioner of Taxation has informally expressed a preliminary view on dividend franking capability in an ATO Draft Fact Sheet dated 21 June 2011 which may or may not support the Company's position. Shareholders will be advised should there be any impact on the franking of Gale dividends.

SHARE BASED PAYMENTS

Performance Rights

The number of performance rights on issue at the date of this report is 13,940,000. No amount is payable on the vesting of a performance right. Each performance right entitles the holder to one (1) ordinary share in Gale Pacific Limited in the event that the performance right is exercised. Performance rights carry no rights to dividends and no voting rights.

Of the performance rights on issue, 3,000,000 performance rights were issued to the Managing Director and Chief Executive Officer, Mr Peter McDonald on 1 December 2009. 8,000,000 performance rights were issued on 30 June 2009 to the following Senior Executives; 2,000,000 each to Mr Jeff Cox, Chief Financial Officer; Mr Martin Denney, Managing Director USA; Mr Shaun McPherson, Managing Director Asia Pacific; and Mr Bernie Wang, Managing Director China. These performance rights are subject to a continuation of employment to 30 June 2012 and then the satisfying of relevant performance hurdles based on improvements in the Group's diluted earnings per share over the two year period 1 July 2009 to 30 June 2011. None of these performance rights can vest until 30 June 2012 and expire on 30 June 2019.

2,940,000 performance rights have been issued to Senior Executives outside the key management group on 18 August 2010. These performance rights are subject to a continuation of employment to 30 June 2013 and then the satisfying of relevant performance hurdles based on the Group's diluted earnings per share over the two year period 1 July 2010 to 30 June 2012. None of these performance rights can vest until 30 June 2013 and expire on 18 August 2020.

Further details of the options and performance rights movements during the reporting period are disclosed in Note 24 to the Financial Statements.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred as a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as an officer or auditor.

DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares, options and performance rights in shares of the Company as at the date of this report.

| Directors | Fully Paid Ordinary Shares | Options | Performance Rights |
|------------|----------------------------|---------|--------------------|
| D Allman | - | - | - |
| P McDonald | 978,105 | - | 3,000,000 |
| J Murphy | - | - | - |
| G Richards | 491,899 | - | - |

DIRECTORS' MEETINGS

The table below sets out the attendance by Directors.

| Directors | Directors' Meetings | | Audit and Risk Committee Meetings | | Remuneration Committee Meetings | | Nomination Committee Meetings | |
|-------------------|-----------------------------------|----------|-----------------------------------|----------|-----------------------------------|----------|-----------------------------------|----------|
| | No of Meetings Eligible to Attend | Attended | No of Meetings Eligible to Attend | Attended | No of Meetings Eligible to Attend | Attended | No of Meetings Eligible to Attend | Attended |
| D Allman | 12 | 12 | 2 | 2 | 1 | 1 | 1 | 1 |
| P McDonald | 12 | 12 | - | - | - | - | - | - |
| J Murphy | 12 | 12 | 2 | 2 | 1 | 1 | 1 | 1 |
| G Richards | 12 | 12 | 2 | 2 | 1 | 1 | 1 | 1 |

By Board invitation, Mr Peter McDonald also attended all of the Audit and Risk, Remuneration and Nomination Committee meetings.

The members of the Audit Committee are David Allman, John Murphy and George Richards. The Chairman of the Audit and Risk Committee is George Richards.

The members of the Remuneration Committee are David Allman, John Murphy and George Richards. The Chairman of the Remuneration Committee is John Murphy.

The members of the Nomination Committee are David Allman, John Murphy and George Richards. The Chairman of the Nomination Committee is David Allman.

REMUNERATION REPORT

This report contains the remuneration arrangements in place for Directors and Executives of the Group.

The Remuneration Committee reviews the remuneration packages of all Directors and Executive Officers on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed with due regard to performance and other relevant factors, and advice is sought from external advisors in relation to their structure.

The Group's remuneration policy is based on the following principles:

- Provide competitive rewards to attract high quality executives;
- Provide an equity incentive for senior executives that will provide an incentive to executives to align their interests with those of the Group and its shareholders; and
- Ensure that rewards are referenced to relevant employment market conditions.

Remuneration packages contain the following key elements:

- Primary benefits – salary / fees; and
 - Benefits, including the provision of motor vehicles and incentive schemes, including performance rights;
- Performance rights, if the performance criteria and any Board discretion are satisfied, entitle an executive to be issued shares in the Company at no cost to the executive. Shares are issued automatically at the time the performance rights vest.

Details of these benefits are disclosed in this report.

Remuneration Practices

The Group policy for determining the nature and amount of emoluments of Board members and Senior Executives is as follows. The remuneration structure for Executive Officers, including Executive Directors, is based on a number of factors including length of service, particular experience of the individual concerned, and overall performance of the Group. The contracts of service between the Group and Executive Directors and Executives are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement Executive Directors and Executives are paid employee benefit entitlements accrued to date of retirement. Payment of bonuses, and other incentive payments are made at the discretion of the Remuneration Committee to Key Executives of the Group based predominantly on an objective review of the Group's financial performance, the individuals' achievement of stated financial and non financial targets and any other factors the Committee deems relevant. Non Executive Directors receive a fee for being Directors of the Company and do not participate in performance based remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non Executive Directors and Senior Manager remuneration is separate and distinct.

Non Executive Director Remuneration

Objective

The Board seeks to set remuneration at a level which provides the Company with the ability to attract and retain directors of relevant experience and skill, whilst incurring costs which are acceptable to shareholders.

Structure

The Company's Constitution and the Australian Securities Exchange Listing Rules specify that the aggregate remuneration of Non Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The last determination was at the Annual General Meeting held on 14 December 2000 when shareholders' approved the Company's constitution which provides for an aggregate remuneration of \$300,000 per annum. The amount of the aggregate remuneration and the manner in which it is apportioned is reviewed periodically. The Board considers fees paid to Non Executive Directors of comparable companies when undertaking this review process.

Each Non Executive Director receives a fee for being a Director of the Company and does not participate in performance based remuneration.

The remuneration of Non Executive Directors for the period ended 30 June 2011 is detailed below.

Senior Manager and Executive Director Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group. The objective of the remuneration policy is:

- Reward executives for Group and individual performance;
- Align the interests of the executives with those of the shareholders; and
- Ensure that total remuneration is competitive by market standards.

Structure

In determining the level and make up of executive remuneration, the Remuneration Committee reviews reports detailing market levels of remuneration for comparable roles. Remuneration consists of fixed and variable elements.

(a). Share Based Payments

The Group maintains a performance rights scheme for certain staff and executives, including the Managing Director, as approved by shareholders at an annual general meeting. These schemes are designed to reward key personnel when the Group meets performance hurdles increasing the diluted earnings per share and relate to:

- Improvement in net profit after tax.
- Improvement in return to shareholders.
- Improvement in share price.

The number of unissued ordinary shares under option as at the date of this report is nil.

The number of unissued ordinary shares under the performance rights scheme at the date of this report is 13,940,000. Each performance right entitles the holder one (1) ordinary share in Gale Pacific Limited when exercised and is subject to the satisfying of relevant performance hurdles based on improvements in the Group's diluted earnings per share.

Options and performance rights issued to executives during the year were issued in accordance with the Group's remuneration policy which:

- Reward executives for Group and individual performance;
- Align the interests of the executives with those of the shareholders; and
- Ensure that total remuneration is competitive by market standards.

(b). Cash Bonuses

One year short term performance cash bonus payments are awarded in accordance with the company's remuneration policy. The budget targets for each business unit and the company overall is established each year by the Board. The performance criteria include sales and earnings before interest and tax growth and working capital management. For corporate executives, the performance criteria include growth in earnings before interest tax and depreciation and profit after tax.

Key Management Personnel of the Group Who Held Office During the Year

Directors

D Allman (Chairman, Non Executive, Appointed 17 November 2009)
J Murphy (Non Executive)
G Richards (Non Executive)
P McDonald (Managing Director and Chief Executive Officer)
H Boon (Chairman, Non Executive, Retired as at 17 November 2009)

Executives

J Cox (Chief Financial Officer)
M Denney (Managing Director USA)
S McPherson (Managing Director Asia Pacific)
B Wang (Managing Director China)

The following table discloses the remuneration of the Directors of the Company:

| 2010 / 2011 | Short Term Benefits | | | Post Employment | Share Based Payments | Total | Performance Related | |
|--------------------------------|---------------------|----------|--------------|-----------------|----------------------|----------------|---------------------|--------------------|
| | Salary & Fees | Bonus | Non Monetary | | | | Total | Performance Rights |
| Directors | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Executive Directors | | | | | | | | |
| P McDonald | 458,241 | - | 5,009 | 25,000 | 162,739 | 650,989 | 25.0 | 25.0 |
| Non Executive Directors | | | | | | | | |
| D Allman | 105,505 | - | - | 9,495 | - | 115,000 | - | - |
| G Richards | 63,073 | - | - | 11,927 | - | 75,000 | - | - |
| J Murphy | 65,000 | - | - | - | - | 65,000 | - | - |
| Total | 691,819 | - | 5,009 | 46,422 | 162,739 | 905,989 | | |

| 2009 / 2010 | Short Term Benefits | | | Post Employment | Share Based Payments | Total | Performance Related | |
|--------------------------------|---------------------|----------------|---------------|-----------------|----------------------|----------------|---------------------|--------------------|
| | Salary & Fees | Bonus | Non Monetary | | | | Total | Performance Rights |
| Directors | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Executive Directors | | | | | | | | |
| P McDonald | 415,485 | 163,500 | 28,643 | 20,872 | 94,076 | 722,576 | 35.6 | 13.0 |
| Non Executive Directors | | | | | | | | |
| D Allman ¹ | 65,602 | - | - | 5,904 | - | 71,506 | - | - |
| H Boon ² | 54,287 | - | - | 2,636 | - | 56,923 | - | - |
| G Richards | 68,807 | - | - | 6,193 | - | 75,000 | - | - |
| J Murphy | 65,000 | - | - | - | - | 65,000 | - | - |
| Total | 669,181 | 163,500 | 28,643 | 35,605 | 94,076 | 991,005 | | |

The following table discloses the remuneration of the Group's key management personnel and the five highest paid executives.

| 2010 / 2011 | Short Term Benefits | | | Post Employment | Share Based Payments | Total | Performance Related | |
|--------------------------|---------------------|----------------|---------------|-----------------|----------------------|------------------|---------------------|--------------------|
| | Salary & Fees | Bonus | Non Monetary | | | | Total | Performance Rights |
| Key management personnel | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| J Cox | 273,240 | 47,681 | - | 29,948 | 40,630 | 391,499 | 22.6 | 10.4 |
| S McPherson | 292,083 | 20,000 | - | 22,917 | 40,630 | 375,630 | 16.1 | 10.8 |
| M Denney ³ | 257,389 | 12,388 | 12,380 | - | 40,630 | 322,787 | 16.4 | 12.6 |
| A Scott ⁴ | 158,659 | 52,667 | - | 16,381 | 59,156 | 286,863 | 39.0 | 20.6 |
| B Wang ⁵ | 147,736 | 53,583 | 7,266 | - | 40,630 | 249,215 | 37.8 | 16.3 |
| Total | 1,129,107 | 186,319 | 19,646 | 69,246 | 221,676 | 1,625,994 | | |

| 2009 / 2010 | Short Term Benefits | | | Post Employment | Share Based Payments | Total | Performance Related | |
|--------------------------|---------------------|----------------|---------------|-----------------|----------------------|------------------|---------------------|--------------------|
| | Salary & Fees | Bonus | Non Monetary | | | | Total | Performance Rights |
| Key management personnel | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| J Cox | 264,908 | 118,388 | - | 23,842 | 40,630 | 447,768 | 35.5 | 9.07 |
| S McPherson | 275,000 | 81,000 | - | 25,229 | 40,630 | 421,859 | 28.8 | 9.63 |
| M Denney ³ | 265,108 | 87,483 | 16,887 | - | 40,630 | 410,108 | 31.2 | 9.91 |
| B Wang ⁵ | 128,902 | 35,064 | 14,457 | - | 40,630 | 219,053 | 34.6 | 18.55 |
| R Campbell | 169,129 | 19,261 | - | 15,222 | - | 203,612 | 9.5 | - |
| Total | 1,103,047 | 341,196 | 31,344 | 64,293 | 162,520 | 1,702,400 | | |

¹ Mr Allman was appointed as a Non Executive Director and Chairman on 17 November 2009. His remuneration for the reporting period is from that date.

² Mr Boon retired from his role as a Non Executive Director on 17 November 2009. His remuneration for the reporting period is to that date.

³ Mr Denney is based in the United States of America and remunerated in United States dollars converted to Australian dollars in the table above.

⁴ Mr Scott is the General Manager International Sales and Marketing and is located in Australia.

⁵ Mr Wang is based in China and remunerated in Chinese renminbi converted to Australian dollars in the table above.

Share Based Compensation

The terms and conditions of each grant of performance rights granted as at 30 June 2011 affecting remuneration in the current or a future reporting period are as follows:

| | |
|--------------------------------------------|----------------|
| Grant Date | 18 August 2010 |
| Value per performance rights at grant date | 0.20 |

Each performance right entitles the holder to one (1) ordinary share in Gale Pacific in the event that the performance rights are exercised. Performance rights carry no rights to dividends and no voting rights.

The performance rights are subject to a continuation of employment to 30 June 2013 and then the satisfying of relevant performance hurdles based on improvements in the Group's diluted earnings per share over the two year period 1 July 2010 to 30 June 2012. None of these performance rights can vest until 30 June 2013 and expire on 30 June 2020.

| | No of Performance Rights Granted During the Year | Value Per Performance Rights at Grant Date | Value of Performance Rights at Grant Date (\$) | No. of Performance Rights Lapsed During the Year | Value of Lapsed Performance Rights (\$) |
|-----------------------------------|--------------------------------------------------|--------------------------------------------|------------------------------------------------|--------------------------------------------------|-----------------------------------------|
| Key Management Personnel | | | | | |
| A Scott | 980,000 | 0.20 | 196,000 | - | - |
| Other Management Personnel | | | | | |
| Other Management | 1,960,000 | 0.20 | 392,000 | - | - |
| Total | 2,940,000 | | 588,000 | | |

AUDITOR INDEPENDENCE AND NON AUDIT SERVICES

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided with this report.

NON AUDIT SERVICES

Non audit services have been approved by the Audit Committee and reported to the Board. The Directors are satisfied that the provision of non audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each non audit service provided means that auditor independence was not compromised.

Amounts paid or payable to an auditor for non audit services provided during the year by the auditors to any entity that is part of the Group for:

| | Consolidated | |
|------------------------------------------|---------------------|---------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Taxation services | 37 | 43 |
| Assurance services regarding acquisition | 37 | - |
| Capital registration audit | 2 | 2 |
| Government grant review | 2 | 2 |
| Total | 78 | 47 |

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of a Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of Directors made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors;



Mr David Allman
Chairman
25 August 2011



Mr Peter McDonald
Managing Director and Chief Executive Officer
25 August 2011

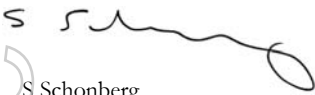
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AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Gale Pacific Limited

In relation to the independent audit for the year ended 30 June 2011, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.
- (ii) No contraventions of any applicable code of professional conduct.



S Schonberg
Partner
25 August 2011



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DIRECTORS' DECLARATION

The Directors of the Company declare that:

The financial statements and notes, as set out on pages 25 to 66 are in accordance with the *Corporations Act 2001* including:

- Compliance with Accounting Standards in Australia and the *Corporations Regulations 2001*;
- Providing a true and fair view of the financial position as at 30 June 2011 and of the performance, as represented by the results of the operations and the cash flows, of the Company and the Group for the year ended on that date;
- As stated in Note 1, the (consolidated) financial statements also comply with International Financial Reporting Standards; and
- That the Directors have been given the declaration required under section 295A of the *Corporations Act 2001*.

In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Mr David Allman
Chairman
25 August 2011



Mr Peter McDonald
Managing Director and Chief Executive Officer
25 August 2011

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GALE PACIFIC LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Gale Pacific Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

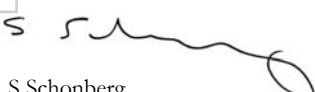
- (a) the financial report of Gale Pacific Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 20 of the Directors' Report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Gale Pacific Limited and controlled entities for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.


S Schonberg
Partner
25 August 2011


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MELBOURNE

FINANCIAL RESULTS



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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated | |
|-----------------------------------------------------------------------|------|------------------------|------------------------|
| | | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Revenue | 2 | 95,580 | 98,811 |
| Cost of goods sold | | (58,808) | (62,788) |
| Gross profit | | 36,772 | 36,023 |
| Other Income | | 140 | 472 |
| Warehousing and distribution | | (7,937) | (7,675) |
| Marketing and selling | | (7,407) | (7,538) |
| Administration | | (9,461) | (10,458) |
| Other expenses | | (2,187) | (1,506) |
| Net finance costs | 3 | (859) | (1,247) |
| Profit from continuing operations before income tax | | 9,061 | 8,071 |
| Income tax expense | 4 | (1,961) | (2,060) |
| Profit from continuing operations after income tax | | 7,100 | 6,011 |
| Profit from discontinued operations | 23 | 10 | 11 |
| Profit for the year | 19 | 7,110 | 6,022 |
| Note only: Depreciation and amortisation (from continuing operations) | 3 | (5,938) | (7,186) |
| Earnings Per Share | | | |
| From continuing and discontinued operations | | | |
| Basic earnings per share (cents per share) | | 2.54 | 2.15 |
| Diluted earnings per share (cents per share) | | 2.42 | 2.08 |
| From continuing operations | | | |
| Basic earnings per share (cents per share) | | 2.54 | 2.15 |
| Diluted earnings per share (cents per share) | | 2.42 | 2.07 |

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

| | | Consolidated | |
|-----------------------------------------------------------|------|------------------------|------------------------|
| | Note | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Profit for the year | | 7,110 | 6,022 |
| Other Comprehensive Income | | | |
| Net changes in fair value of cash flow hedges, net tax | 18 | (807) | 558 |
| Exchange differences on translation of foreign operations | 18 | (11,406) | (2,749) |
| Other comprehensive loss for the year | | (12,213) | (2,191) |
| Total comprehensive income / (loss) for the year | | (5,103) | 3,831 |
| Profit Attributable To | | | |
| Members of the parent | | 7,110 | 6,022 |
| Profit for the year | | 7,110 | 6,022 |
| Total Comprehensive Income Attributable To | | | |
| Members of the parent | | (5,103) | 3,831 |
| Total comprehensive income / (loss) for the year | | (5,103) | 3,831 |

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated | |
|--------------------------------------|------|-------------------------|-------------------------|
| | | 2010 / 2011 (\$'000) | 2009 / 2010 (\$'000) |
| Current Assets | | | |
| Cash and cash equivalents | 6 | 9,596 | 15,139 |
| Receivables | 7 | 13,971 | 14,142 |
| Other financial assets | 9 | - | 341 |
| Inventories | 8 | 21,827 | 20,281 |
| Current tax assets | 4 | 72 | - |
| Other current assets | 10 | 638 | 913 |
| Total current assets | | 46,104 | 50,816 |
| Non Current Assets | | | |
| Property, plant and equipment | 11 | 36,905 | 49,552 |
| Intangible assets | 12 | 17,003 | 6,649 |
| Deferred tax assets | 4 | 418 | 379 |
| Total non current assets | | 54,326 | 56,580 |
| Total assets | | 100,430 | 107,396 |
| Current Liabilities | | | |
| Trade and other payables | 13 | 7,458 | 7,269 |
| Borrowings | 14 | 15,177 | 11,989 |
| Other financial liabilities | 15 | 1,063 | - |
| Current tax liabilities | 4 | 1,688 | 1,355 |
| Provisions | 16 | 2,225 | 2,832 |
| Total current liabilities | | 27,611 | 23,445 |
| Non Current Liabilities | | | |
| Borrowings | 14 | 155 | - |
| Deferred tax liabilities | 4 | 4,651 | 4,382 |
| Provisions | 16 | 54 | 73 |
| Total non current liabilities | | 4,860 | 4,455 |
| Total liabilities | | 32,471 | 27,900 |
| Net assets | | 67,959 | 79,496 |
| Equity | | | |
| Contributed equity | 17 | 107,086 | 105,586 |
| Reserves | 18 | (19,544) | (7,899) |
| Retained earnings | 19 | (19,583) | (18,191) |
| Total equity | | 67,959 | 79,496 |

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

| 30 June 2011 | Note | Contributed Equity (\$000) | Reserves (\$000) | Retained Earnings (\$000) | Total Equity (\$000) |
|-------------------------------------------------------------------|------|----------------------------|------------------|---------------------------|----------------------|
| Balance at 1 July 2010 | | 105,586 | (7,899) | (18,191) | 79,496 |
| Profit for the year | | - | - | 7,110 | 7,110 |
| Other comprehensive income / (loss) for the year | | - | (12,213) | - | (12,213) |
| Total comprehensive income / (loss) for the year | | - | (12,213) | 7,110 | (5,103) |
| Transactions With Owners In Their Capacity As Owners | | | | | |
| Contributions, net of raising costs and tax | 17 | 1,500 | - | - | 1,500 |
| Employee share based payments | 18 | - | 457 | - | 457 |
| Statutory transfer to reserves | | - | 111 | (111) | - |
| Dividends paid | | - | - | (8,391) | (8,391) |
| Total transactions with owners in their capacity as owners | | 1,500 | 568 | (8,502) | (6,434) |
| Balance at 30 June 2011 | | 107,086 | (19,544) | (19,583) | 67,959 |

| 30 June 2010 | Note | Contributed Equity (\$000) | Reserves (\$000) | Accumulated Losses (\$000) | Total Equity (\$000) |
|-------------------------------------------------------------------|------|----------------------------|------------------|----------------------------|----------------------|
| Balance at 1 July 2009 | | 105,594 | (5,965) | (24,213) | 75,416 |
| Profit for the year | | - | - | 6,022 | 6,022 |
| Other comprehensive income / (loss) for the year | | - | (2,191) | - | (2,191) |
| Total comprehensive income / (loss) for the year | | - | (2,191) | 6,022 | 3,831 |
| Transactions With Owners In Their Capacity As Owners | | | | | |
| Contributions, net of raising costs and tax | 18 | (8) | - | - | (8) |
| Employee share based payments | 18 | - | 257 | - | 257 |
| Total transactions with owners in their capacity as owners | | (8) | 257 | - | 249 |
| Balance at 30 June 2010 | | 105,586 | (7,899) | (18,191) | 79,496 |

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated | |
|-----------------------------------------------------------------------------|------|------------------------|------------------------|
| | | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Cash Flow From Operating Activities | | | |
| Receipts from customers | | 100,699 | 106,302 |
| Payments to suppliers and employees | | (87,200) | (87,652) |
| Interest received | | 105 | 95 |
| Borrowing costs paid | | (964) | (1,350) |
| Income tax refunds / (payments) | | (1,222) | 558 |
| Net cash provided by operating activities | 23 | 11,418 | 17,953 |
| Cash Flow From Investing Activities | | | |
| Proceeds from sale of plant and equipment | | 254 | 40 |
| Proceeds / (payment) from / for disposal / acquisition of business | 29 | (11,150) | - |
| Payment for plant and equipment | | (626) | (1,160) |
| Payment for intangible assets | | (35) | - |
| Net cash used by investing activities | | (11,557) | (1,120) |
| Cash Flow From Financing Activities | | | |
| Proceeds from issue of equity securities | | - | (11) |
| Proceeds from / (repayment of) borrowings | | 5,017 | (8,588) |
| Proceeds from / (repayment of) principal on finance leases | | 212 | (69) |
| Repayment of principal on hire purchase | | (18) | (29) |
| Dividends paid | | (8,391) | - |
| Net cash used by financing activities | | (3,180) | (8,697) |
| Net increase / (decrease) in cash held | | (3,319) | 8,136 |
| Cash at beginning of year | | 15,139 | 7,141 |
| Effects of exchange rate changes on items denominated in foreign currencies | | (2,429) | (138) |
| Cash at the end of the year | 23 | 9,391 | 15,139 |

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Statement of Significant Accounting Policies

The following is a summary of material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a). Basis of Preparation of the Financial Report

The financial report of Gale Pacific Limited and controlled entities is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act, comply with Australian equivalents to International Financial Reporting Standards.

The financial report covers Gale Pacific Limited and controlled entities as a consolidated entity ("the Group"). Gale Pacific Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the Directors at the date of the Directors' Report.

The financial report also complies with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

(b). Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Gale Pacific Limited controlled from time to time during the year and at balance date. Details of the controlled entities are contained in Note 26.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

(c). Use of Estimates and Judgements

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial report is included in the following notes:

- Note 12 – Intangible Assets
- Note 27 – Financial Instruments

(d). Foreign Currencies

Functional and Presentation Currency

The financial statements of each Group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

Transactions and Balances

Transactions in foreign currencies of entities within the Group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

NOTE 1: Statement of Significant Accounting Policies (continued)

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Resulting exchange differences arising on settlement or restatement are recognised as revenues and expenses for the financial year.

Group Companies

The financial statements of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- Assets and liabilities are translated at year end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve as a separate component of equity in the statement of financial position.

(e). Net Investments in Foreign Operations

During 2006 / 2007, the Group reclassified a portion of the Company's related party balances as net investments in foreign operations as permitted by AASB 121 The Effects of Changes in Foreign Exchange Rates. The balances reclassified were identified as being monetary items of a non current nature as settlement of these balances is not planned and the Group's forecasts showed that any settlement would not occur in the foreseeable future. While this situation persists, impacting the Group's current year profits with the movement in the foreign exchange rates applying to these monetary items would not provide the best representation of a current year's performance. As permitted by AASB 121, from the date of reclassification, all changes in the Australian dollar value of these items arising from changes in foreign exchange rates are, in the consolidated financial statements, being recognised in the foreign currency translation reserve. As and when settlements occur, the cumulative amount of these changes in value deferred in the foreign currency translation reserve will be recognised in that current year's profit in the consolidated accounts.

In the 2008 / 2009 period, the net investment in Gale Europe GmbH was written off following the closure of the European full service operation; a portion of the net investment in Gale Pacific Special Textiles (Ningbo) Limited was converted to equity and additional balances in Gale Pacific (New Zealand) Limited and Gale Pacific USA Inc were reclassified as net investments in foreign operations. No further adjustments to these balances occurred in the reporting period.

In the accounts of the Company, these changes in value continue to be recognised in the current year's profit as required by AASB 121.

Details of the monetary items reclassified and the total exchange difference recognised in the foreign currency translation reserve are detailed below.

| | | Consolidated | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------------------------|------------------------|
| | Note | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Monetary item identified as a net investment in a foreign operation | | | |
| Related party receivable to the company from Gale Pacific Special Textiles (Ningbo) Limited | | 6,842 | 6,842 |
| Related party receivable to the company from Gale Pacific (New Zealand) Limited | | 6,800 | 6,800 |
| Related party receivable to the company from Gale Pacific USA Inc | | 9,473 | 9,473 |
| Total | | 23,115 | 23,115 |
| Exchange movement arising in the reporting period on monetary item forming part of the net investment in related party, recognised in foreign currency translation reserve | 18 | 2,999 | 559 |

It is impracticable to estimate the effect of this change on future periods because movements in foreign exchange rates cannot be predicted.

NOTE 1: Statement of Significant Accounting Policies (continued)

(f). Segment Reporting

Operating segments are reported based on internal reporting provided to the Managing Director and Chief Executive Officer who is the Group's chief operating decision maker.

(g). Revenue Recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of the delivery of goods to the customer.

Where a government grant (including Strategic Investment Plan income (SIP)) is received or receivable relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received or receivable relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred costs.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(h). Cash and Cash Equivalents

Cash and cash equivalents include cash on hand at call, deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position

For the purposes of the statement of cash flows, cash includes cash on hand and at call, deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts.

(i). Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is determined on the basis of each inventory line's normal selling pattern. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

(j). Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and Equipment

Plant and equipment is measured on a cost basis. The carrying value of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected discounted net cash flows that will be received from the asset's employment and subsequent disposal. Refer to Note 1 (m).

Depreciation

The depreciable amounts of all fixed assets, including capitalised leased assets, are depreciated on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Depreciation and amortisation rates are reviewed annually for appropriateness. When changes are made, adjustments are reflected in current and future periods only.

The depreciation rates used for each class of assets are:

| Class of Fixed Asset | Depreciation Rates | Depreciation Basis |
|------------------------|--------------------------|--------------------|
| Buildings | 2.25% | Straight line |
| Leasehold improvements | Determined by lease term | Straight line |
| Plant and equipment | 6.7% - 50.0% | Straight line |
| Motor vehicles | 20.0% | Straight line |
| Office equipment | 20.0% - 50.0% | Straight line |

NOTE 1: Statement of Significant Accounting Policies (continued)

(k). Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entities within the Group are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives received under operating leases are recognised as a liability.

(l). Intangibles

Goodwill

Goodwill on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entities at the date of acquisition.

Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Patents and Trademarks

Patents and trademarks are valued in the accounts at cost of acquisition and are amortised over the period in which the benefits are expected to be realised, but not exceeding 20 years.

Application Software

Application software is valued in the accounts at cost and amortised on a straight line basis over its expected useful life but not exceeding five years.

Research and Development

Expenditure on research is recognised as an expense when incurred. Expenditure on development activities is capitalised only when it is expected that future benefits will exceed the deferred costs. Capitalised development expenditure is stated at cost less accumulated amortisation.

Amortisation is calculated using a straight line method to allocate the cost over a period (not exceeding three years), during which the related benefits are expected to be realised, once commercial production is commenced.

(m). Impairment of Assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell, and value in use.

Refer to note 1(c) for the significant estimates and assumptions relating to impairment of assets.

(n). Taxes

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

NOTE 1: Statement of Significant Accounting Policies (continued)

Tax Offset

Deferred tax assets and deferred tax liabilities are only offset when the Group has:

- Legally enforceable right to offset current tax assets with current liabilities; and
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

(o). Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p). Employee Benefits

Provision is made for the Group's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

Share Based Payments

The Group operates a share performance rights scheme for certain staff and Executives including Executive Directors.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options and performance rights at grant date. The fair value of options and performance rights at grant date is determined using weighted average share price, and is recognised as an employee expense over the period during which the employees become entitled to the option or performance right.

(q). Financial Instruments

The Group classifies its financial instruments in the following categories

Non Derivative Financial Instruments

Loans and Receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method less any impairment losses.

Financial Liabilities

Financial liabilities include trade payables, other creditors, loans from third parties, related party balances and loans from or other amounts due to director related entities. Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative Financial Instruments

Cash Flow Hedges

Forward foreign currency contracts are classified as cash flow hedges when they hedge exposure to variability in cash flows of a recognised asset, liability or a highly probable forecasted transaction. When established, a cash flow hedge is formally documented. This documentation includes identification of the hedging instrument, the hedged item or transaction, the foreign currency risk being hedged and an assessment of the hedging instrument's effectiveness in offsetting the exposure to the hedged item's cash flows. Cash flow hedges are expected to be highly effective in offsetting changes in cash flows and are assessed on an ongoing basis to determine effectiveness. The portion of any gain or loss on a hedging instrument that is an effective hedge is recognised directly in equity. Any ineffective portion is immediately recognised through profit and loss. Hedge accounting is discontinued when the hedging instrument matures or is closed out, or the designation as a cash flow hedge is terminated. At that point in time any gain or loss recognised in equity remains in equity until the hedged transaction occurs when it is transferred to profit and loss in the same period that the hedged item affects profit and loss, or is included as a basis adjustment to a non financial hedged item.

NOTE 1: Statement of Significant Accounting Policies (continued)

Financial Instruments at Fair Value Through Profit and Loss

Forward foreign currency contracts that do not qualify for hedge accounting are measured at their fair value with any increment or decrement in fair value recognised in profit and loss.

(r). Rounding Amounts

The Company is of a kind referred to in ASIC Class Order CO 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(s). Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

(t). Discontinued Operations

On 22 December 2008 the Company closed its European full service operation Gale Europe GmbH and entered into a distribution agreement with an established European sales and distribution company, Windhager GmbH, to have it take over the inventory, sales and distribution of Gale products in key European markets. The income statements of the current and comparative periods reflect this change by disclosing the trading results and closure costs of Gale Europe GmbH as a separate line under the description "profit/(loss) from discontinued operations".

(u). New Accounting Standards and Interpretations

A number of accounting standards have been issued at the reporting date but are not yet effective. Management has not yet assessed the impact of these standards and interpretations.

NOTE 2: Revenue

| Consolidated | Continuing | |
|-------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Operating Activities | | |
| Sale of goods – other parties | 95,580 | 98,811 |
| Total revenue | 95,580 | 98,811 |

NOTE 3: Profit

Profit before income tax expense has been determined after charging / (crediting):

| Consolidated | 2010 / 2011 (\$000) | | 2009 / 2010 (\$000) | |
|------------------------------------------------------------------------------------------------------|------------------------|--------------|------------------------|--------------|
| | Continuing | Discontinued | Continuing | Discontinued |
| Other Income | | | | |
| Government grant income | 102 | - | 399 | - |
| Other revenue | 38 | - | 3 | - |
| Net foreign exchange gains | - | - | 70 | - |
| Total other income | 140 | - | 472 | - |
| Changes in inventories of finished goods and work in progress and raw materials and consumables used | 38,792 | - | 37,665 | 23 |
| Employee benefits | 18,500 | - | 18,559 | - |
| Net Finance Costs | | | | |
| Finance income – other parties | (105) | - | (108) | - |
| Finance expense – other parties | 964 | - | 1,355 | - |
| Net finance costs | 859 | - | 1,247 | - |
| Depreciation of Non Current Assets | | | | |
| Buildings | 303 | - | 228 | - |
| Leasehold improvements | 33 | - | 66 | - |
| Plant and equipment | 4,983 | 233 | 5,872 | - |
| Motor vehicles | 27 | - | 30 | - |
| Office equipment | 266 | - | 353 | - |
| Amortisation of Non Current Assets | | | | |
| Leased motor vehicles | 32 | - | 41 | - |
| Patents and trademarks | 60 | - | 204 | 30 |
| Application software | 234 | - | 262 | - |
| Research and Development Expenditure | | | | |
| Amortisation of previously capitalised expenditure | - | - | 130 | - |
| Expensed as incurred | - | - | 189 | - |
| Increase / (decrease) in provision for obsolete inventory | 75 | - | 23 | - |
| Bad and Doubtful Debts | | | | |
| Bad debts written off – trade debtors | 38 | - | 199 | - |
| Movement in provisions for doubtful debts – trade debtors | 2 | - | 20 | - |
| Remuneration of the Auditors of the Parent Entity For | | | | |
| Auditing the financial report | 211 | - | 224 | - |
| Taxation services | 24 | - | 33 | - |
| Assurance services regarding acquisition | 37 | - | - | - |
| Government grant review | 2 | - | 2 | - |
| Total remuneration of the auditors of the parent entity | 274 | - | 259 | - |
| Remuneration of Other Auditors of Controlled Entities For | | | | |
| Auditing the financial report | 112 | - | 86 | - |
| Taxation services | 13 | - | 10 | - |
| Capital registration review | 2 | - | 2 | - |
| Total remuneration of other auditors | 127 | - | 98 | - |
| Total remuneration of auditors | 401 | - | 357 | - |
| Net foreign exchange losses | 166 | - | - | - |
| Net Loss on Disposal of Non Current Assets | | | | |
| Plant and equipment | 463 | - | 137 | - |
| Motor vehicles | 13 | - | 1 | - |
| Office equipment | 1 | - | 6 | - |
| Operating lease rental expense | 1,951 | - | 2,174 | - |
| Share based payment (benefit) / expense | 457 | - | 257 | - |

NOTE 4: Income Tax

(a). The Components of Tax Expense

| | Consolidated | |
|-------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current tax | 944 | 1,581 |
| Deferred tax | 668 | 456 |
| Total income tax expense | 1,612 | 2,037 |
| Disclosed in the financial statements as | | |
| Income tax expense from continuing operations | 1,961 | 2,060 |
| Income tax (benefit) / expense from discontinued operations | (349) | (23) |
| Total | 1,612 | 2,037 |

(b). The Prima Facie Income Tax Payable on Profit is Reconciled to the Income Tax Expense as Follows

| | Consolidated | |
|---------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Prima facie tax payable on profit before income tax at 30% | 2,615 | 2,420 |
| Add tax effect of: | | |
| Tax rate differentials in foreign countries | (445) | (366) |
| Tax losses not recognised | 110 | 101 |
| Previously unrecognised tax losses utilised | (359) | (227) |
| Exempt income | (77) | - |
| Tax credits | (11) | (133) |
| Other non allowable / (non assessable) items | 126 | 225 |
| Total | 1,959 | 2,020 |
| Less tax effect of: | | |
| Over provision for income tax in the prior year | 2 | 40 |
| Income tax expense attributed to profit from continuing operations | 1,961 | 2,060 |
| Add income tax (benefit) / expense from discontinued operations | (349) | (23) |
| Total income tax expense | 1,612 | 2,037 |

(c). Income Tax Recognised Directly in Equity

The following current and deferred tax amounts were (credited) / debited directly to equity during the period.

| | Consolidated | |
|----------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Deferred Tax | | |
| Equity raising costs deductible over 5 years | - | (3) |
| Cash flow hedges | (362) | 238 |
| Total | (362) | 235 |

NOTE 4: Income Tax (continued)

(d). Current Tax

| | Consolidated | |
|-----------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current tax asset | 72 | - |
| Current tax liability | (1,688) | (1,355) |
| Total | (1,616) | (1,355) |

(e). Movement in Net Carrying Amount

Movement in the current tax net carrying amount between the beginning and the end of the year.

| | Consolidated | |
|----------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Balance at the beginning of the year | (1,355) | 763 |
| Current year tax expense | (944) | (1,581) |
| Income tax payments / (refunds) | 1,222 | (558) |
| Acquired business | (541) | - |
| Net foreign currency movements arising from foreign operations | 2 | 21 |
| Carrying amount at the end of the year | (1,616) | (1,355) |

(f). Deferred Tax

| | Consolidated | |
|---------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Deferred Tax Assets / (Liabilities) Arise from the Following | | |
| Property, plant and equipment | 127 | (10) |
| Foreign exchange | (5,135) | (4,711) |
| Income not (received) / derived | - | (71) |
| Finance leases | - | 109 |
| Doubtful debts | 5 | 18 |
| Other financial liabilities | 107 | (275) |
| Provisions | 254 | 293 |
| Employee benefits | 390 | 482 |
| Capitalised costs | (253) | (278) |
| Borrowing costs | - | 7 |
| Equity raising costs | 135 | 310 |
| Other | 137 | 123 |
| Net deferred tax liability | (4,233) | (4,003) |
| Represented By | | |
| Deferred tax asset ¹ | 418 | 379 |
| Deferred tax liability ¹ | (4,651) | (4,382) |
| Total | (4,233) | (4,003) |

¹ The deferred tax balances do not offset as they relate to different tax jurisdictions

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NOTE 4: Income Tax (continued)

(g) Unrecognised Deferred Tax Assets

The following deferred tax assets have not been brought to account as it is not probable that these can be recovered.

| | Consolidated | |
|----------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Tax losses – income | 1,794 | 1,834 |
| Tax losses – capital | 33,403 | 33,403 |
| Total | 35,197 | 35,237 |

NOTE 5: Operating Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing performance and determining the allocation of resources.

The Group's four operating segments are identified by geographic location and identity of the service line manager. Discrete financial information about each of these segments is reported on a monthly basis.

Revenue, result, depreciation and amortisation, significant items, assets and liabilities for the Group's four operating segments plus discontinued operations are set out in the tables below.

Asia Pacific (excluding China)

Manufacturing and distribution facilities are located in Australia, and distribution facilities are located in New Zealand. Sales offices are located in all states in Australia and in New Zealand.

China

Manufacturing facilities are located in Beilun, China which supply to the Group's sales and marketing operations throughout the world.

Americas

Sales offices are located in Florida and custom blind assembly and distribution facilities are located in California which service the North American region.

Middle East

A sales office and distribution facility is located in the United Arab Emirates to service this market.

Business Segment

The Group operates predominantly in one business segment, being the branded shading and screening products. The Group manufactures, sources and markets advanced durable knitted and woven polymer fabrics and value added structures made from these fabrics.

NOTE 5: Operating Segments (continued)

Segment Information Reporting – Geographical Segments

| 30 June 2011 | Asia Pacific | China | Americas | Middle East | Unallocated | Total Continuing Operations | Discontinued Operations | Total Group |
|-------------------------------------|---------------|---------------|---------------|--------------|-----------------|-----------------------------|-------------------------|---------------|
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| Revenue outside the economic entity | 67,549 | 1,918 | 19,605 | 6,508 | - | 95,580 | - | 95,580 |
| Inter segment revenue | 798 | 22,660 | (130) | 169 | (23,497) | - | - | - |
| Total revenue | 68,347 | 24,578 | 19,475 | 6,677 | (23,497) | 95,580 | - | 95,580 |
| Segment EBITDA | 9,094 | 5,041 | 501 | 1,337 | (115) | 15,858 | (106) | 15,752 |
| Depreciation and amortisation | (1,380) | (4,255) | (295) | (8) | - | (5,938) | (233) | (6,171) |
| Segment EBIT | 7,714 | 786 | 206 | 1,329 | (115) | 9,920 | (339) | 9,581 |
| Net finance expense | - | - | - | - | - | (859) | - | (859) |
| Profit before income tax | - | - | - | - | - | 9,061 | (339) | 8,722 |
| Income tax expense | - | - | - | - | - | (1,961) | 349 | (1,612) |
| Profit for the year | - | - | - | - | - | 7,100 | 10 | 7,110 |
| Segment assets | 46,472 | 39,079 | 11,908 | 3,620 | (660) | 100,419 | 11 | 100,430 |
| Segment liabilities | 24,459 | 6,001 | 1,789 | 294 | (72) | 32,471 | - | 32,471 |

| 30 June 2010 | Asia Pacific | China | Americas | Middle East | Unallocated | Total Continuing Operations | Discontinued Operations | Total Group |
|-------------------------------------|---------------|---------------|---------------|--------------|-----------------|-----------------------------|-------------------------|---------------|
| | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) | (\$000) |
| Revenue outside the economic entity | 71,401 | (81) | 21,343 | 6,148 | - | 98,811 | - | 98,811 |
| Inter segment revenue | 571 | 27,721 | 69 | 150 | (28,511) | - | - | - |
| Total revenue | 71,972 | 27,640 | 21,412 | 6,298 | (28,511) | 98,811 | - | 98,811 |
| Segment EBITDA | 9,286 | 5,082 | 915 | 989 | 232 | 16,504 | 18 | 16,522 |
| Depreciation and amortisation | (2,136) | (4,586) | (457) | (7) | - | (7,186) | (30) | (7,216) |
| Segment EBIT | 7,150 | 496 | 458 | 982 | 232 | 9,318 | (12) | 9,306 |
| Net finance expense | - | - | - | - | - | (1,247) | - | (1,247) |
| Profit before income tax | - | - | - | - | - | 8,071 | (12) | 8,059 |
| Income tax expense | - | - | - | - | - | (2,060) | 23 | (2,037) |
| Profit for the year | - | - | - | - | - | 6,011 | 11 | 6,022 |
| Segment assets | 34,235 | 52,901 | 16,381 | 4,116 | (311) | 107,322 | 74 | 107,396 |
| Segment liabilities | 12,175 | 12,701 | 1,869 | 286 | (44) | 26,987 | 913 | 27,900 |

Notes:

- (a). All inter segment pricing is on a commercial basis.
- (b). Asia Pacific result excludes finance costs, interest revenue and income tax expense.
- (c). Asia Pacific includes foreign exchange hedge and Australian Corporate costs.
- (d). Asia Pacific excludes China which is now disclosed separately.
- (e). Revenue from one customer in the Asia Pacific region represents \$28,961,000 (2010 : \$31,546,000) of the Group's total revenues.

NOTE 6: Cash And Cash Equivalents

| | Consolidated | |
|-----------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Cash on hand | 20 | 12 |
| Cash at bank | 9,068 | 8,486 |
| Cash on deposit | 508 | 6,641 |
| Total | 9,596 | 15,139 |

NOTE 7: Trade And Other Receivables

| | Consolidated | |
|----------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current | | |
| Trade debtors | 13,623 | 13,900 |
| Less provision for doubtful debts | (324) | (282) |
| Total | 13,299 | 13,618 |
| Other receivables | 672 | 524 |
| Total | 13,971 | 14,142 |
| Movement in the provision for doubtful debts were: | | |
| Balance at the beginning of the year | (282) | (258) |
| Charge for the year | (37) | (219) |
| Amounts written off | 35 | 198 |
| Acquired businesses | (87) | - |
| Net foreign currency movements arising from foreign operations | 47 | (3) |
| Balance at the end of the year | (324) | (282) |

NOTE 8: Inventories

| | Consolidated | |
|---------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current | | |
| Raw materials at cost | 2,723 | 2,866 |
| Work in progress at cost | 1,844 | 1,952 |
| Finished goods at cost | 17,555 | 15,699 |
| Less provision for obsolescence | (295) | (236) |
| Total | 21,827 | 20,281 |

NOTE 9: Other Financial Assets

| | Consolidated | |
|------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current | | |
| Foreign currency forward contracts | - | 341 |
| Total | - | 341 |

NOTE 10: Other Assets

| | Consolidated | |
|----------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current | | |
| Prepayments | 638 | 913 |
| Total | 638 | 913 |

NOTE 11: Property, Plant And Equipment

| | Consolidated | |
|--------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Buildings | | |
| At cost | 8,019 | 9,641 |
| Less accumulated depreciation | (1,181) | (1,129) |
| Total | 6,838 | 8,512 |
| Plant and Equipment | | |
| At cost | 57,715 | 67,622 |
| Less accumulated depreciation | (28,689) | (27,621) |
| Total | 29,026 | 40,001 |
| Leasehold Improvements | | |
| At cost | 474 | 560 |
| Less accumulated depreciation | (327) | (431) |
| Total | 147 | 129 |
| Motor Vehicles | | |
| At cost | 149 | 212 |
| Less accumulated depreciation | (110) | (123) |
| Total | 39 | 89 |
| Motor Vehicles Under Lease | | |
| At cost | 831 | 179 |
| Less accumulated amortisation | (511) | (76) |
| Total | 320 | 103 |
| Office Equipment | | |
| At cost | 4,429 | 4,378 |
| Less accumulated depreciation | (3,905) | (3,823) |
| Total | 524 | 555 |
| Capital Work in Progress | 11 | 163 |
| Total property, plant and equipment | 36,905 | 49,552 |

NOTE 11: Property, Plant And Equipment (continued)

| | Consolidated | |
|---------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Movements in Carrying Amounts | | |
| Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the year. | | |
| Buildings | | |
| Balance at the beginning of the year | 8,512 | 8,329 |
| Reclassifications | - | 23 |
| Additions | - | 746 |
| Disposals | (3) | - |
| Depreciation expense | (303) | (228) |
| Net foreign currency movements arising from foreign operations | (1,368) | (358) |
| Carrying amount at the end of the year | 6,838 | 8,512 |
| Plant and Equipment | | |
| Balance at the beginning of the year | 40,001 | 47,503 |
| Additions | 475 | 440 |
| Disposals | (686) | (142) |
| Acquisitions through business combinations | 39 | - |
| Depreciation expense | (5,216) | (5,872) |
| Net foreign currency movements arising from foreign operations | (5,587) | (1,928) |
| Carrying amount at the end of the year | 29,026 | 40,001 |
| Leasehold Improvements | | |
| Balance at the beginning of the year | 129 | 218 |
| Reclassifications | - | (23) |
| Additions | 33 | 8 |
| Disposals | (1) | (3) |
| Acquisitions through business combinations | 20 | - |
| Depreciation expense | (33) | (66) |
| Net foreign currency movements arising from foreign operations | (1) | (5) |
| Carrying amount at the end of the year | 147 | 129 |
| Motor Vehicles | | |
| Balance at the beginning of the year | 89 | 132 |
| Disposals | (9) | (7) |
| Depreciation expense | (27) | (30) |
| Net foreign currency movements arising from foreign operations | (14) | (6) |
| Carrying amount at the end of the year | 39 | 89 |
| Motor Vehicles Under Lease | | |
| Balance at the beginning of the year | 103 | 172 |
| Disposals | (27) | (28) |
| Acquisitions through business combinations | 276 | - |
| Amortisation expense | (32) | (41) |
| Carrying amount at the end of the year | 320 | 103 |
| Office Equipment | | |
| Balance at the beginning of the year | 555 | 821 |
| Additions | 240 | 119 |
| Disposals | (1) | (7) |
| Acquisitions through business combinations | 35 | - |
| Depreciation expense | (266) | (353) |
| Net foreign currency movements arising from foreign operations | (39) | (25) |
| Carrying amount at the end of the year | 524 | 555 |

NOTE 12: Intangible Assets

| | Consolidated | |
|------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Goodwill at cost | 17,507 | 8,768 |
| Less accumulated impairment | (1,054) | (2,939) |
| Total | 16,453 | 5,829 |
| Patents, trademarks and licenses at cost | 1,295 | 2,399 |
| Less accumulated amortisation | (930) | (2,002) |
| Total | 365 | 397 |
| Application software at cost | 1,298 | 1,332 |
| Less accumulated amortisation | (1,113) | (909) |
| Total | 185 | 423 |
| Research and development | 4,865 | 4,865 |
| Less accumulated amortisation | (4,865) | (4,865) |
| Total | - | - |
| Total intangible assets | 17,003 | 6,649 |

Movements in Carrying Amounts

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the year

Goodwill

| | | |
|----------------------------------------------------------------|---------------|--------------|
| Balance at the beginning of the year | 5,829 | 5,950 |
| Acquisition through business combinations | 11,112 | - |
| Net foreign currency movements arising from foreign operations | (488) | (121) |
| Carrying amount at the end of the year | 16,453 | 5,829 |

Patents, Trademarks and Licences

| | | |
|----------------------------------------------------------------|------------|------------|
| Balance at the beginning of the year | 397 | 635 |
| Additions / (transfers) | 35 | - |
| Acquisitions through business combinations | 4 | - |
| Amortisation expense | (60) | (234) |
| Net foreign currency movements arising from foreign operations | (11) | (4) |
| Carrying amount at the end of the year | 365 | 397 |

Application Software

| | | |
|----------------------------------------------------------------|------------|------------|
| Balance at the beginning of the year | 423 | 690 |
| Amortisation expense | (234) | (262) |
| Net foreign currency movements arising from foreign operations | (4) | (5) |
| Carrying amount at the end of the year | 185 | 423 |

Research and Development

| | | |
|-----------------------------------------------|----------|----------|
| Balance at the beginning of the year | - | 130 |
| Amortisation expense | - | (130) |
| Carrying amount at the end of the year | - | - |

Goodwill

The recoverable amount of the cash generating units (CGU) have been determined based on a value in use calculation using the financial budget for the 2011 / 2012 reporting period as approved by the Board of Directors and revenue growth for the further four year period within the range of 3% to 8% depending on the demographic, economic, trading conditions and growth potential, of the CGU. The discount rate applied to the cash flow projections is 11.42% (2010 : 12.99%) being the Group's pre tax weighted average cost of capital.

The terminal value represents the growth rate applied to extrapolate the cash flows beyond the five year forecast period. These growth rates are based on the Board of Directors expectations, industry knowledge, market comparative multiples and other features specific to each CGU.

| | Consolidated | |
|----------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Australia | 3,073 | 3,073 |
| USA – (2010/2011 US\$2,077,000; 2009/2010 US\$2,077,000) | 1,921 | 2,409 |
| China | 347 | 347 |
| Zone Hardware Pty Ltd (provisionally accounted) | 11,112 | - |
| Total | 16,453 | 5,829 |

NOTE 12: Intangible Assets (continued)

Key Assumptions Used in Value in Use Calculations

The key assumptions on which management has based its cash flow projections when determining the value in use of the cash generating units is that projected turnover, margins and expenses are determined based on historical performance, adjusted for internal / external changes anticipated in the forecast years.

| Assumptions Applicable To Five Year Cash Flow Forecast For Each Cash Generating Unit | 2010 / 2011 | 2009 / 2010 |
|--------------------------------------------------------------------------------------|-------------|-------------|
| Year one cash flows based on | 2012 Budget | 2011 Budget |
| Years two to five | 3% to 8% | 2% to 10% |

The five year cash flow projections are based on the 2012 year budget (2010 : based on 2011 budget) and an ongoing growth rate of 3% to 8% which is considered reasonable in light of past performance and future operating plans and business strategies.

Sensitivity Analysis

No reasonable change in the key assumptions of the value in use calculations would result in an impairment.

NOTE 13: Trade And Other Payables

| | Consolidated | |
|------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current | | |
| Trade payables | 4,364 | 4,979 |
| Sundry payables and accruals | 3,094 | 2,290 |
| Total | 7,458 | 7,269 |

NOTE 14: Borrowings

| | Consolidated | |
|-------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current | | |
| Secured liabilities: | | |
| Bank overdrafts | 205 | - |
| Bank loans | 4,574 | 7,430 |
| Other loans | - | 1,554 |
| Commercial bills | 10,000 | - |
| Finance lease liability | 166 | 109 |
| Hire purchase liability | - | 18 |
| Total | 14,945 | 9,111 |
| Unsecured liabilities: | | |
| Bank loans | 232 | 2,803 |
| Other loans | - | 75 |
| Total | 232 | 2,878 |
| Non Current | | |
| Secured liabilities: | | |
| Finance lease liability | 155 | - |
| Total | 155 | - |
| Total | 15,332 | 11,989 |
| Disclosed in the Financial Statements As | | |
| Current borrowings | 15,177 | 11,989 |
| Non current borrowings | 155 | - |

NOTE 15: Other Financial Liabilities

| | Consolidated | |
|-------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Derivatives Carried at Fair Value | | |
| Current | | |
| Foreign currency forward contracts | 1,063 | - |
| Total | 1,063 | - |
| Disclosed in the Financial Statements As | | |
| Current other financial liabilities | 1,063 | - |

NOTE 16: Provisions

| | Consolidated | |
|-----------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current | | |
| Employee benefits | 1,541 | 1,776 |
| Restructuring and termination costs | 353 | 445 |
| Discontinued operations closure | - | 553 |
| Warranty claims | 331 | 58 |
| Non Current | | |
| Employee benefits | 54 | 73 |
| Total | 2,279 | 2,905 |
| Disclosed in the Financial Statements As | | |
| Current provisions | 2,225 | 2,832 |
| Non current provisions | 54 | 73 |
| (a) Aggregate employee benefits liability | 1,595 | 1,849 |
| (b) Number of employees at year end | 623 | 722 |
| Movements in Carrying Amounts | | |
| Movement in the carrying amounts for the following classes of provision between the beginning and the end of the year | | |
| Restructuring and Termination Costs ¹ | | |
| Balance at the beginning of the year | 445 | 860 |
| Provisions recognised | 43 | 1 |
| Payments made | (60) | (429) |
| Net foreign currency movements arising from foreign operations | 35 | 13 |
| Carrying amount at the end of the year | 353 | 445 |
| Discontinued operations closure | | |
| Balance at the beginning of the year | 553 | 628 |
| Provisions recognised | - | - |
| Reductions resulting from re measurement | (553) | (75) |
| Carrying amount at the end of the year | - | 553 |
| Warranty claims | | |
| Balance at the beginning of the year | 58 | 31 |
| Provisions recognised | 631 | 493 |
| Payments made | (358) | (466) |
| Carrying amount at the end of the year | 331 | 58 |

¹ The provision for restructuring and termination costs represents the Directors' best estimate of the remaining costs to be incurred by the New Zealand operation for the closure of its manufacturing facility. The restructuring is expected to be completed by January 2014 when the lease expires.

NOTE 17: Contributed Equity

| | Consolidated | |
|----------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Paid Up Capital | | |
| Fully paid ordinary shares | 107,086 | 105,586 |

| | Consolidated | |
|------------------------------------------------------|--------------------------------|------------------------|
| | 2010 / 2011 (No. of Shares) | 2010 / 2011 (\$000) |
| Movement In Share Capital | | |
| Shares issued at the beginning of the financial year | 279,691,658 | 105,586 |
| Costs of capital raising (net of tax) | - | - |
| Shares issued during the year | 7,500,000 | 1,500 |
| Total | 287,191,658 | 107,086 |

(a). Movement in Share Capital

On 1 June 2011 the Company issued 7,500,000 ordinary shares at 20 cents per share as part of the purchase consideration for the acquisition of Zone Hardware Pty Ltd and Riva Window Fashions Pty Ltd.

(b). Rights of Each Type of Share

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called.

The 7,500,000 ordinary shares issued on 1 June 2011 are not permitted to be sold for twelve months from their date of issue.

(c). Capital Management

When managing capital, management's objective is to ensure the consolidated entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. This is achieved through monitoring of historical and forecast performance and cashflows.

During the year the Company paid dividends of \$8,390,750 (2010: \$Nil)

(d). Share Based Payments

The Group maintains a performance rights scheme for certain staff and executives, including executive directors, as approved by shareholders at an annual general meeting. These schemes are designed to reward key personnel when the Group meets performance hurdles relating to:

- Improvement in net profit after tax.
- Improvement in return to shareholders.
- Improvement in share price.

The number of unissued ordinary shares under option as at the date of this report is nil.

The number of unissued ordinary shares under the performance rights scheme at the reporting date is 13,940,000. Each performance right entitles the holder one (1) ordinary share in Gale Pacific Limited when exercised and is subject to the satisfying of relevant performance hurdles based on improvements in the Company's diluted earnings per share.

Options and performance rights issued to executives during the year were issued in accordance with the Group's remuneration policy which:

- Reward executives for Group and individual performance;
- Align the interests of the executives with those of the shareholders; and
- Ensure that total remuneration is competitive by market standards.

The following share based payment arrangements were in existence during the current and comparative reporting periods.

NOTE 17: Contributed Equity (continued)

Performance Rights

| Grant Date | Expiry Date | Exercise Price | Balance Start of Year No. | Granted During Year No. | Exercised During Year No. | Lapsed During Year No. | Balance End of Year No. | Exercisable End of Year No. |
|----------------------------------------------|-------------|----------------|---------------------------|-------------------------|---------------------------|------------------------|-------------------------|-----------------------------|
| Consolidated and Parent Entity - 2011 | | | | | | | | |
| 30 Jun 2009 | 30 Jun 2019 | Nil | 8,000,000 | - | - | - | 8,000,000 | - |
| 1 Dec 2009 | 30 Jun 2019 | Nil | 3,000,000 | - | - | - | 3,000,000 | - |
| 18 Aug 2010 | 30 Jun 2020 | Nil | - | 2,940,000 | - | - | 2,940,000 | - |
| Total | | | 11,000,000 | 2,940,000 | - | - | 13,940,000 | - |

| | | | | | | | | |
|----------------------------------------------|-------------|-----|-----------|-----------|---|-------------|------------|---|
| Consolidated and Parent Entity - 2010 | | | | | | | | |
| 2 Feb 2007 | 2 Feb 2017 | Nil | 150,000 | - | - | (150,000) | - | - |
| 16 Nov 2007 | 16 Nov 2017 | Nil | 300,000 | - | - | (300,000) | - | - |
| 30 Jun 2009 | 30 Jun 2019 | Nil | 9,000,000 | - | - | (1,000,000) | 8,000,000 | - |
| 1 Dec 2009 | 30 Jun 2019 | Nil | - | 3,000,000 | - | - | 3,000,000 | - |
| Total | | | 9,450,000 | 3,000,000 | - | (1,450,000) | 11,000,000 | - |

| | Grant Date 18 August 2010 | Grant Date 1 December 2009 | Grant Date 30 June 2009 |
|-------------------------------------------------|------------------------------|-------------------------------|----------------------------|
| Performance Rights Valuation Assumptions | | | |
| Grant date share price | \$0.20 | \$0.14 | \$0.061 |
| Exercise price | Nil | Nil | Nil |
| Expected Life | | | |
| Tranche 1 | 2.9 years | 2.6 years | 3 years |
| Tranche 2 | 2.9 years | 2.6 years | 3 years |
| Dividend yield | 0.0% | 0.0% | 0.0% |

NOTE 18: Reserves

| | Consolidated | |
|--------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Foreign currency translation reserve | (21,142) | (9,736) |
| Share based payment reserve | 1,200 | 743 |
| Hedging reserve | (565) | 242 |
| Enterprise reserve fund | 963 | 852 |
| Total | (19,544) | (7,899) |

(a). Foreign Currency Translation Reserve

| | Consolidated | |
|---------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Balance at the beginning of the year | (9,736) | (6,987) |
| Translation of foreign controlled entities for the year | (14,405) | (3,308) |
| Movement arising from the reclassification of non current related party monetary items to net investments in foreign operations | 2,999 | 559 |
| Balance at the end of the year | (21,142) | (9,736) |

Exchange differences relating to foreign currency monetary items forming part of the net investment in a foreign operation and the translation of foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in Notes 1(d) and 1(e).

(b). Employee Share Based Payment Reserve

| | Consolidated | |
|---------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Balance at the beginning of the year | 743 | 486 |
| Share based expenditure / (benefit) | 457 | 257 |
| Balance at the end of the year | 1,200 | 743 |

(c). Hedging Reserve

| | Consolidated | |
|---------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Balance at the beginning of the year | 242 | (316) |
| Forward exchange contracts | (1,169) | 796 |
| Income tax related to cash flow hedges recognised | 362 | (238) |
| Balance at the end of the year | (565) | 242 |

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative gain or loss on the hedge is recognised as a profit or loss when the hedging instrument impacts the profit or loss, or is included as a basis adjustment to a non financial hedged item, consistent with the applicable accounting policy.

(d). Enterprise Reserve Fund (Gale Pacific Special Textiles (Ningbo) Limited)

| | Consolidated | |
|--------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Balance at the beginning of the year | 852 | 852 |
| Statutory transfers from retained earnings | 111 | - |
| Balance at the end of the year | 963 | 852 |

Gale Pacific Special Textiles (Ningbo) Limited ("GPST") is required by Chinese Company Law to maintain this reserve in its accounts. This reserve is unavailable for distribution to shareholders but can be used by GPST to expand the business, make up losses or increase the registered capital. GPST is required to allocate 10% of its annual profit after tax to this reserve until it reaches 50% of GPST's registered capital.

NOTE 19: Accumulated Losses

| | Consolidated | |
|---------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Balance at the beginning of the year | (18,191) | (24,213) |
| Net profit attributable to members of the parent entity | 7,110 | 6,022 |
| Dividends paid | (8,391) | - |
| Transfers to reserves | (111) | - |
| Balance at the end of the year | (19,583) | (18,191) |

NOTE 20: Dividends

The following dividends were paid during the year.

| Fully Paid Ordinary Shares | Consolidated | |
|-------------------------------------------------------------------|--------------------------------|------------------------|
| | 2010 / 2011 Cents Per Share | 2010 / 2011 (\$000) |
| Final Dividend | | |
| Fully franked at a 30% tax rate (date of payment 22 October 2010) | 1.0 | 2,797 |
| Special Dividend | | |
| Fully franked at a 30% tax rate (date of payment 22 October 2010) | 1.0 | 2,797 |
| Interim Dividend | | |
| Fully franked at a 30% tax rate (date of payment 25 March 2011) | 1.0 | 2,797 |
| Total | 3.0 | 8,391 |

| Dividend Franking Account | Consolidated | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Balance of franking account on a tax paid basis at financial year end adjusted for franking credits arising from payment of provision for income tax and franking debits arising from payment of proposed dividends. | 445 | 1,659 |

NOTE 21: Earnings Per Share

| | Consolidated | |
|-----------------------------------------|----------------------------------|----------------------------------|
| | 2010 / 2011 (Cents Per Share) | 2009 / 2010 (Cents Per Share) |
| Basic Earnings Per Share | | |
| From continuing operations | 2.54 | 2.15 |
| From discontinued operations | - | - |
| Total basic earnings per share | 2.54 | 2.15 |
| Diluted Earnings Per Share | | |
| From continuing operations | 2.42 | 2.07 |
| From discontinued operations | - | 0.01 |
| Total diluted earnings per share | 2.42 | 2.08 |

| | Consolidated | |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Earnings Per Share | | |
| The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows: | | |
| Profit for the year | 7,110 | 6,022 |
| Earnings Used in the Calculation of Basic EPS | | |
| Adjustments to exclude profit for the period from discontinued operations | (10) | (11) |
| Earnings used in the calculation of basic and diluted EPS from continuing operations | 7,100 | 6,011 |

| | Consolidated | |
|--------------------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (000's) | 2009 / 2010 (000's) |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 280,288 | 279,692 |
| Weighted average number of shares deemed to be issued for no consideration in respect of: | | |
| Performance rights | 13,545 | 10,183 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 293,833 | 289,875 |

NOTE 22: Capital and Leasing Commitments

(a). Finance Leasing Commitments

| | Consolidated | |
|-----------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Payable | | |
| Not longer than one year | 259 | 170 |
| Longer than one year and not longer than five years | 109 | - |
| Minimum future lease payments ¹ | 368 | 170 |
| Less future finance charges | (47) | (61) |
| Present value of minimum lease payments | 321 | 109 |
| Disclosed in the Financial Statements As | | |
| Current borrowings | 166 | 109 |
| Non current borrowings | 155 | - |
| Total | 321 | 109 |

(b). Hire Purchase Commitments

| | Consolidated | |
|----------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Payable | | |
| Not longer than one year | - | 20 |
| Minimum future hire purchase payments ² | - | 20 |
| Less future finance charges | - | (2) |
| Present value of minimum hire purchase payments | - | 18 |
| Disclosed in the Financial Statements As | | |
| Current borrowings | - | 18 |
| Total | - | 18 |

(c). Operating Lease Commitments

| | Consolidated | |
|-------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Non cancellable operating leases contracted for but not capitalised in the accounts | | |
| Payable | | |
| Not longer than one year | 1,726 | 1,956 |
| Longer than one year and not longer than five years | 902 | 2,282 |
| Total | 2,628 | 4,238 |

(d). Capital Expenditure Commitments

| | Consolidated | |
|--------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Payable | | |
| Not longer than one year | 39 | 44 |
| Total | 39 | 44 |

¹ Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

² Minimum future hire purchase payments includes the aggregate of all hire purchase payments and any guaranteed residual.

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NOTE 23: Cash Flow Information

(a). Reconciliation of Cash

| | Consolidated | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows: | | |
| Cash on hand | 20 | 12 |
| Cash at bank | 9,068 | 8,486 |
| Cash on deposit | 508 | 6,641 |
| Bank overdrafts | (205) | - |
| Total | 9,391 | 15,139 |

(b). Reconciliation of Profit for the Period to Net Cash Provided by Operating Activities

| | Consolidated | |
|-----------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Profit / (loss) after income tax | 7,110 | 6,022 |
| Non Cash Flows in Profit | | |
| Loss on disposal of fixed assets | 476 | 147 |
| Depreciation of fixed assets | 5,877 | 6,589 |
| Amortisation / impairment of intangible assets | 294 | 626 |
| Equity settled share based payments | 457 | 257 |
| Changes in tax balances processed directly in equity | (807) | 558 |
| Changes in tax balances due to foreign exchange movements | - | 51 |
| Changes in Assets and Liabilities | | |
| Increase / (decrease) in receivables | (121) | 84 |
| Increase / (decrease) in inventories | (1,559) | 2,900 |
| Increase / (decrease) in other assets | 182 | (194) |
| Increase / (decrease) in payables, accruals and other financial liabilities | (523) | (1,869) |
| Increase in tax balances | 518 | 2,782 |
| FX / other non operation movements backed out of assets and liabilities | (486) | - |
| Net cash provided by operating activities | 11,418 | 17,953 |

NOTE 23: Cash Flow Information (continued)**(c). Discontinued Operations**

In response to the worsening economic conditions and modified economic outlook, the operating and cost structure of the Group's European business was reviewed in November / December 2008. The business operated as a full service business in a highly seasonal market and had under performed to expectations. To reduce costs and de-risk the business the decision was made to close the existing European full service operation and enter into a distribution agreement with an established European sales and distribution company to have it take over the inventory, sales and distribution of Gale products in key European markets as of 22 December 2008. The costs associated with this decision have been classified under discontinued operations in these accounts.

Financial information relating to discontinuing operations for the period 30 June 2011 is set out below. Further information is set out in Note 5 Segment Information.

| | Consolidated | |
|--------------------------------------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Profit From Discontinued Operations | | |
| Expenses | (339) | (12) |
| Loss before income tax | (339) | (12) |
| Income tax benefit | 349 | 23 |
| Profit after income tax from discontinued operations | 10 | 11 |
| Cash Flows From Discontinued Operations | | |
| Net cash inflow / (outflow) from operating activities | (59) | 11 |
| Net cash outflow from investing activities | - | - |
| Effect of exchange rate changes on items nominated in foreign currencies | (4) | (16) |
| Net decrease in cash from discontinued operations | (63) | (5) |

NOTE 24: Directors' and Executives' Compensation

Details of Directors and Key Executives remuneration is disclosed in the remuneration report.

Directors' and Executives' Compensation by Category

| | Consolidated | |
|--------------------------------|-------------------------|-------------------------|
| | 2010 / 2011 (\$'000) | 2009 / 2010 (\$'000) |
| Short term employment benefits | 2,032 | 2,503 |
| Post employment benefits | 116 | 106 |
| Share based payments | 384 | 257 |
| Termination benefits | - | - |
| Total | 2,532 | 2,866 |

Directors' and Executives' Equity Holdings: Fully Paid Ordinary Shares

| 2010 / 2011 | Balance 30 June 2010 | Granted as Compensation | Received on Exercise of Options | Net Change | Balance 30 June 2011 |
|--------------------------------|-------------------------|----------------------------|---------------------------------------|------------|-------------------------|
| | No. | No. | No. | No. | No. |
| Executive Directors | | | | | |
| P McDonald | 978,105 | - | - | - | 978,105 |
| Non Executive Directors | | | | | |
| D Allman | - | - | - | - | - |
| J Murphy | - | - | - | - | - |
| G Richards | 491,899 | - | - | - | 491,899 |
| Executives | | | | | |
| J Cox | 500,000 | - | - | - | 500,000 |
| Total | 1,970,004 | - | - | - | 1,970,004 |

| 2009 / 2010 | Balance 30 June 2009 | Granted as Compensation | Received on Exercise of Options | Net Change | Balance 30 June 2010 |
|--------------------------------|-------------------------|----------------------------|---------------------------------------|------------------|-------------------------|
| | No. | No. | No. | No. | No. |
| Executive Directors | | | | | |
| P McDonald | 978,105 | - | - | - | 978,105 |
| Non Executive Directors | | | | | |
| D Allman | - | - | - | - | - |
| H Boon ¹ | 607,500 | - | - | (607,500) | - |
| J Murphy | - | - | - | - | - |
| G Richards | 491,899 | - | - | - | 491,899 |
| Executives | | | | | |
| J Cox | 500,000 | - | - | - | 500,000 |
| Total | 2,577,504 | - | - | (607,500) | 1,970,004 |

¹ Mr Boon retired from his role as a Non Executive Director on 17 November 2009. The net change above represents the number of fully paid ordinary shares Mr Boon held on the date of his retirement.

NOTE 24: Directors' and Executives' Compensation (continued)

Directors' and Executives' Equity Holdings, Compensation Options and Performance Rights:
Granted and Vested During the Year

| 2010 / 2011 | Vested Number | Granted Number | Grant Date | Value Per Option / Right at Grant Date | Terms and Conditions for Each Grant | | | |
|--------------------------------------------------------|---------------|----------------|------------|----------------------------------------|-------------------------------------|-------------|---------------------|--------------------|
| | | | | | Exercise Price | Expiry Date | First Exercise Date | Last Exercise Date |
| Executive Directors (Performance Rights) | | | | | | | | |
| None | | | | | | | | |
| Non Executive Directors | | | | | | | | |
| None | | | | | | | | |
| Executives (Performance Rights) | | | | | | | | |
| A Scott | - | 980,000 | 18/10/2010 | \$0.20 | Nil | 30/06/2020 | 30/06/2013 | 30/06/2020 |
| Other Management Personnel (Performance Rights) | | | | | | | | |
| Other Management | - | 1,960,000 | 18/10/2010 | \$0.20 | Nil | 30/06/2020 | 30/06/2013 | 30/06/2020 |
| Total | | 2,940,000 | | | | | | |

The performance rights disclosed above are subject to continuation of employment to 30 June 2013 and then hurdles based on improvements in the Group's diluted earnings per share over the three year period 1 July 2010 to 30 June 2013.

| 2009 / 2010 | Vested Number | Granted Number | Grant Date | Value Per Option / Right at Grant Date | Terms and Conditions for Each Grant | | | |
|-------------------------------------------------|---------------|----------------|------------|----------------------------------------|-------------------------------------|-------------|---------------------|--------------------|
| | | | | | Exercise Price | Expiry Date | First Exercise Date | Last Exercise Date |
| Executive Directors (Performance Rights) | | | | | | | | |
| P McDonald | - | 3,000,000 | 01/12/2009 | \$0.14 | Nil | 30/06/2019 | 30/06/2012 | 30/06/2019 |
| Non Executive Directors | | | | | | | | |
| None | | | | | | | | |
| Executives (Performance Rights) | | | | | | | | |
| None | | | | | | | | |
| Total | | 3,000,000 | | | | | | |

The performance rights disclosed above are subject to a continuation of employment to 30 June 2012 and then hurdles based on improvements in the Group's diluted earnings per share over the three year period 1 July 2009 to 30 June 2012.

NOTE 24: Directors' and Executives' Compensation (continued)

Directors' and Executives' Equity Holdings Compensation Options and Performance Rights: Movements During the Year

| 2010 / 2011 | Balance 1 July 2010 | Granted as Compensation | Exercised | Lapsed | Net Other Change | Balance 30 June 2011 | Balance Held Nominally | Value of Lapsed Options/Rights |
|--------------------------------------------------------|------------------------|----------------------------|-----------|----------|---------------------|-------------------------|------------------------------|--------------------------------------|
| | No. | No. | No. | No. | No. | No. | No. | \$ |
| Executive Directors (Performance Rights) | | | | | | | | |
| P McDonald | 3,000,000 | - | - | - | - | 3,000,000 | - | - |
| Non Executive Directors | | | | | | | | |
| None | | | | | | | | |
| Executives (Performance Rights) | | | | | | | | |
| J Cox | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| M Denney | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| S McPherson | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| B Wang | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| A Scott | - | 980,000 | - | - | - | 980,000 | - | - |
| Other Management Personnel (Performance Rights) | | | | | | | | |
| Other Management | - | 1,960,000 | - | - | - | 1,960,000 | - | - |
| Total | 11,000,000 | 2,940,000 | - | - | - | 13,940,000 | - | - |

| 2009 / 2010 | Balance 1 July 2009 | Granted as Compensation | Exercised | Lapsed | Net Other Change | Balance 30 June 2010 | Balance Held Nominally | Value of Lapsed Options/Rights |
|-------------------------------------------------|------------------------|----------------------------|-----------|--------------------|---------------------|-------------------------|------------------------------|--------------------------------------|
| | No. | No. | No. | No. | No. | No. | No. | \$ |
| Executive Directors (Performance Rights) | | | | | | | | |
| P McDonald | 150,000 | 3,000,000 | - | (150,000) | - | 3,000,000 | - | (118,500) |
| Non Executive Directors | | | | | | | | |
| None | | | | | | | | |
| Executives (Performance Rights) | | | | | | | | |
| P Cacioli ¹ | 1,075,000 | - | - | (1,075,000) | - | - | - | (91,750) |
| J Cox | 2,075,000 | - | - | (75,000) | - | 2,000,000 | - | (30,750) |
| M Denney | 2,075,000 | - | - | (75,000) | - | 2,000,000 | - | (30,750) |
| P Ducray ² | 75,000 | - | - | (75,000) | - | - | - | (30,750) |
| S McPherson | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| B Wang | 2,000,000 | - | - | - | - | 2,000,000 | - | - |
| Total | 9,450,000 | 3,000,000 | - | (1,450,000) | - | 11,000,000 | - | (302,500) |

¹ Mr Cacioli departed his role as General Manager Research and Development and Technical Services on 9 October 2009.

² Mr Ducray departed his role as Chief Manufacturing Officer on 30 September 2009.

NOTE 25: Related Party Transactions

Transactions within the Wholly Owned Group

The wholly owned group includes:

- The ultimate parent entity in the wholly owned group; and
- Wholly owned controlled entities.

The ultimate parent entity in the wholly owned group is Gale Pacific Limited, which is also the parent entity in the economic entity.

During the financial year, the following transactions occurred between entities in the wholly owned group:

- Sale and purchase of goods totalling \$24,655,000 (2010 : \$29,044,000)
- Gale Pacific Limited received interest income from its subsidiaries totalling \$521,000 (2010 : \$548,000)
- Gale Pacific Limited made interest payments to its subsidiaries totalling \$155,000 (2010 : \$132,000)
- Reimbursement of certain operating costs totalling \$288,000 (2010 : \$1,704,000)

Transactions with Directors and Director Related Entities

The following amounts were payable to Directors and their Director related entities as at the reporting date.

| | Consolidated | |
|-------------------------------------------|------------------------|------------------------|
| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Current – Accrued bonus and Director fees | 22 | 187 |

NOTE 26: Controlled Entities

| | Country of Incorporation | Ownership Interest (%) | |
|------------------------------------------------|--------------------------|------------------------|-------------|
| | | 2010 / 2011 | 2009 / 2010 |
| Parent Entity | | | |
| Gale Pacific Limited | Australia | | |
| Controlled Entities | | | |
| Gale Europe GmbH Vertriebsgesellschaft | Germany | 100% | 100% |
| Gale Pacific (New Zealand) Limited | New Zealand | 100% | 100% |
| Gale Pacific FZE | United Arab Emirates | 100% | 100% |
| Gale Pacific Special Textiles (Ningbo) Limited | China | 100% | 100% |
| Gale Pacific USA Inc | United States of America | 100% | 100% |
| Zone Hardware Pty Ltd | Australia | 100% | - |
| Riva Window Fashions Pty Ltd | Australia | 100% | - |

NOTE 27: Financial Instruments

Financial Risk Management

Overview

The Group's activities expose it to a variety of financial risks: credit risk; liquidity risk; and market risk (including foreign currency risk and interest rate risk).

The Group's financial risk management processes and procedures seek to minimise the potential adverse effects on the Group's financial performance that may occur due to the unpredictability of financial markets. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

Financial Instruments

Derivative financial instruments are used by the Group to limit exposure to exchange rate risk associated with foreign currency transactions. Derivative financial instruments are recognised in the financial statements. Transactions to reduce foreign currency exposure are undertaken without the use of collateral as the Group only deals with reputable institutions with sound financial positions. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Net Fair Values

The net fair value of assets and liabilities approximates their carrying value. No financial assets or financial liabilities are readily traded on organised markets in standardised form other than forward exchange contracts.

(a). Credit Risk

Exposure to Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the reporting date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and derivative financial instruments.

To manage this risk, the Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions involving derivative financial instruments are with counterparties with sound credit ratings. Given their high credit ratings, the Group does not expect any counterparty to fail to meet its obligations.

The Group's most significant customer accounts for \$1,868,000 of the trade receivables carrying balance at 30 June 2011 (2010 : \$1,405,000). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position. In respect to those financial assets and the credit risk embodied within them, the Group holds no significant collateral as security and there are no other significant credit enhancements in respect of these assets. The credit quality of all financial assets that are neither past due nor impaired is appropriate and is consistently monitored in order to identify any potential adverse changes in the credit quality.

| | Note | Consolidated | |
|-----------------------------------------------------------------------------------------------------------|------|-------------------------------|-------------------------------|
| | | As at 30 Jun 2011 (\$'000) | As at 30 Jun 2010 (\$'000) |
| The maximum exposure to credit risk at the reporting date was: | | | |
| Loans and receivables | 7 | 13,971 | 14,142 |
| Cash and cash equivalents | 6 | 9,596 | 15,139 |
| Tradeable foreign currency forward contracts | 9 | - | 341 |
| Total | | 23,567 | 29,622 |
| The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was: | | | |
| Asia Pacific | | 5,528 | 4,778 |
| China | | 1,001 | 157 |
| Americas | | 4,629 | 6,234 |
| Middle East | | 2,141 | 2,449 |
| Total | | 13,299 | 13,618 |
| The ageing of trade receivables not impaired at the reporting date was: | | | |
| Not outside credit terms | | 9,591 | 10,400 |
| Outside credit terms 0-30 days | | 2,268 | 1,908 |
| Outside credit terms 31-120 days | | 1,018 | 1,165 |
| Outside credit terms 121 days to one year | | 409 | 114 |
| More than one year | | 13 | 31 |
| Total | | 13,299 | 13,618 |
| The ageing of impaired receivables at the reporting date was: | | | |
| Outside credit terms 31-120 days | | 94 | 65 |
| Outside credit terms 121 days to one year | | 113 | 132 |
| More than one year | | 117 | 85 |
| Total | | 324 | 282 |

NOTE 27: Financial Instruments (continued)

The Group's most significant customer, an Australian retailer accounts for \$1,868,000 of the trade receivables carrying balance at 30 June 2011 (2010 : \$1,405,000).

(b). **Liquidity Risk**

The following tables detail both the Group's effective weighted average interest rates on classes of its financial liabilities at reporting date and the contractual maturity of these financial liabilities. Contractual cash flows include both interest and principal cash flows, are undiscounted and based on the earliest date on which the Group can be required to pay.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

| Consolidated 30 June 2011 | Note | Weighted Average Effective Interest Rate (%) | Carrying Amount (\$000) | Contractual Cash Flows (\$000) | Contractual Cash Flows Maturing In: | | |
|--------------------------------------------------|------|-------------------------------------------------------|-------------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------------------|
| | | | | | Less Than 6 Months (\$000) | 6 To 12 Months (\$000) | 1 To 2 Years (\$000) |
| Trade and Other Payables | | | | | | | |
| Trade payables | 13 | | 4,364 | 4,364 | 4,364 | - | - |
| Sundry payables and accruals | 13 | | 3,094 | 3,094 | 2,344 | 750 | - |
| Non Derivative Financial Liabilities | | | | | | | |
| Bank overdrafts | 14 | 9.84% | 205 | 205 | 205 | - | - |
| Bank loans | 14 | 6.95% | 14,806 | 14,889 | 14,889 | - | - |
| Finance lease liabilities | 14 | 8.62% | 321 | 368 | 130 | 129 | 109 |
| Derivative Financial Liabilities | | | | | | | |
| Foreign currency forward exchange contracts used | 15 | | 1,063 | 1,063 | 983 | 80 | - |
| Total | | | 23,853 | 23,983 | 22,915 | 959 | 109 |

| Consolidated 30 June 2010 | Note | Weighted Average Effective Interest Rate (%) | Carrying Amount (\$000) | Contractual Cash Flows (\$000) | Contractual Cash Flows Maturing In: | | |
|---------------------------------------------|------|-------------------------------------------------------|-------------------------------|--------------------------------------|-------------------------------------|------------------------------|-------------------------|
| | | | | | Less Than 6 Months (\$000) | 6 To 12 Months (\$000) | 1 To 2 Years (\$000) |
| Trade and Other Payables | | | | | | | |
| Trade payables | 13 | | 4,979 | 4,979 | 4,979 | - | - |
| Sundry payables and accruals | 13 | | 2,290 | 2,290 | 2,290 | - | - |
| Non Derivative Financial Liabilities | | | | | | | |
| Bank loans | 14 | 4.49% | 10,233 | 10,421 | 7,706 | 2,715 | - |
| Other loans | 14 | 9.07% | 1,629 | 1,708 | 593 | 1,115 | - |
| Finance lease liabilities | 14 | 10.06% | 109 | 117 | 38 | 79 | - |
| Hire purchase liabilities | 14 | 9.25% | 18 | 21 | 19 | 2 | - |
| Total | | | 19,258 | 19,536 | 15,625 | 3,911 | - |

(c). Market Risk

The Group's activities expose it to the financial risks of changes in the market rates for foreign currency exchange rates and interest rates.

Foreign Exchange Contracts

The Group is exposed to currency risk on purchases and sales that are denominated in a currency other than the respective currencies of the group entities, primarily the United States dollar, the New Zealand dollar and the European Euro.

The Group's policy is to review its foreign currency exposures at least on a monthly basis and hedge an appropriate portion of its foreign currency exposures in respect of forecast purchases and sales over the following 12 months.

The Group enters into foreign exchange contracts to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. There was no cash flow hedge ineffectiveness during the reporting period.

The Group has adopted hedge accounting and classifies forward exchange contracts as cash flow hedges where these contracts are hedging highly probable forecasted transactions and they are timed to mature when the cash flow from the underlying transaction is scheduled to occur. Cash flows are expected to occur during the next financial year. Changes in fair value on forward exchange contracts designated as cash flow hedges are taken directly to equity.

Forward exchange contracts that are not designated as cash flow hedges have any changes in fair value recognised in profit or loss in the period the changes occur.

The full amount of foreign currency the Group will be required to pay or purchase when settling the bought forward exchange contracts should the counterparty not pay the currency it is committed to deliver to the Group has been recognised in the Group's statement of financial position. At balance date the net amount payable was \$1,063,000 (2010 : \$341,000 receivable).

The Company holds cash in foreign currency as an effective hedge against foreign currency intercompany loans.

The Company does not hedge net investments in foreign operations.

The accounting policy in regard to forward exchange contracts is detailed in Note 1(d).

| | Average Exchange Rate | | Foreign Currency | | Contract Value | | Fair Value | |
|------------------------------------------------------------------|-----------------------|-------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2010 / 2011 | 2009 / 2010 | 2010 / 2011 (FC000) | 2009 / 2010 (FC000) | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
| Foreign Exchange Contracts Designated as Cash Flow Hedges | | | | | | | | |
| Buy United States dollars / sell Australian dollars | | | | | | | | |
| Less than 6 months | 0.9700 | 0.8602 | 12,300 | 9,683 | 12,664 | 11,258 | (977) | 292 |
| 6 – 12 months | 0.9788 | 0.8771 | 3,300 | 850 | 3,306 | 969 | (80) | 56 |
| Buy United States dollars / sell New Zealand dollars | | | | | | | | |
| Less than 6 months | - | 0.6723 | - | 460 | - | 562 | - | (12) |
| Buy European euro / sell Australian dollars | | | | | | | | |
| Less than 6 months | 0.7064 | 0.6889 | 130 | 490 | 184 | 711 | (6) | 3 |
| 6 – 12 months | - | 0.6709 | - | 330 | - | 492 | - | 2 |
| Total | | | | | | | (1,063) | 341 |

Foreign Exchange Risk Sensitivity

The Group is mainly exposed to United States dollars, Euros and New Zealand dollars in its Australian operation and Australian dollars in its foreign operations.

The following table details the Group's sensitivity to a 10% (2010: 10%) increase or decrease in the Australian dollar against these currencies. This analysis includes only unhedged foreign currency denominated monetary items, including loans to foreign operations within the Group, as shown at the carrying value, and details the profit effect from each of these items of a 10% strengthening in the Australian dollar on the reporting date with all other variables held constant. For a weakening of the Australian dollar there would be an equal and opposite impact on profit to that shown on the following page.

NOTE 27: Financial Instruments (continued)

| 30 June 2011 | CONSOLIDATED | | | |
|------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------|-------------------------------|
| | Australian Dollar Carrying Value Australian Entities (\$000) | Australian Dollar Carrying Value Foreign Entities (\$000) | Profit / (Loss) AUD +10% (\$000) | Equity AUD +10% (\$000) |
| Financial Assets | | | | |
| Cash and cash equivalents | | | | |
| United States dollars | 4,040 | 1,778 | (404) | (178) |
| Chinese renminbi | - | 375 | - | (38) |
| Euro | 56 | 11 | (6) | (1) |
| New Zealand dollars | - | 337 | - | (34) |
| UAE dirham | - | 53 | - | (5) |
| Trade receivables | | | | |
| United States dollars | - | 7,641 | - | (764) |
| Chinese renminbi | - | 445 | - | (44) |
| New Zealand dollars | - | 434 | - | (43) |
| Amounts receivable from related parties | | | | |
| United States dollars | - | - | 444 | - |
| New Zealand dollars | - | - | (56) | - |
| Financial Liabilities | | | | |
| Trade payables | | | | |
| United States dollars | 183 | (20) | 18 | (2) |
| Chinese renminbi | - | 1,630 | - | 163 |
| Euro | 84 | 44 | 8 | 4 |
| New Zealand dollars | - | 191 | - | 19 |
| UAE dirham | - | 70 | - | 7 |
| Borrowings | | | | |
| Chinese renminbi | - | 4,806 | - | 481 |
| Foreign currency forward contracts | | | | |
| United States dollars | 1,057 | - | - | 1,597 |
| Euro | 6 | - | - | 18 |
| Profit or (loss) impact | | | 4 | 1,180 |
| Currency Asset / (Liability) Breakdown | | | | |
| United States dollars | 2,800 | 9,439 | 58 | 653 |
| Chinese renminbi | - | (5,617) | - | 562 |
| Euro | (34) | (33) | 2 | 21 |
| New Zealand dollars | - | 580 | (56) | (58) |
| UAE dirham | - | (17) | - | 2 |
| Profit or (loss) impact | | | 4 | 1,180 |
| 30 June 2010 | | | | |
| CONSOLIDATED | | | | |
| | Australian Dollar Carrying Value Australian Entities (\$000) | Australian Dollar Carrying Value Foreign Entities (\$000) | Profit / (Loss) AUD +10% (\$000) | Equity AUD +10% (\$000) |
| Financial Assets | | | | |
| Cash and cash equivalents | | | | |
| United States dollars | 4,090 | 3,752 | (409) | (375) |
| Chinese renminbi | - | 917 | - | (92) |
| Euro | 4 | 74 | - | (7) |
| New Zealand dollars | - | 350 | - | (35) |
| UAE dirham | - | 98 | - | (10) |
| Trade receivables | | | | |
| United States dollars | - | 9,775 | - | (978) |
| Chinese renminbi | - | 557 | - | (56) |
| New Zealand dollars | - | 556 | - | (56) |
| Amounts receivable from related parties | | | | |
| United States dollars | - | - | 504 | - |
| New Zealand dollars | - | - | (14) | - |
| Foreign currency forward contracts | | | | |
| United States dollars | 348 | - | - | (1,223) |
| Euro | 5 | - | - | (120) |
| Financial Liabilities | | | | |
| Trade payables | | | | |
| United States dollars | 297 | 813 | 30 | 81 |
| Chinese renminbi | - | 1,900 | - | 190 |
| Euro | 125 | - | 13 | - |
| New Zealand dollars | - | 341 | - | 34 |
| UAE dirham | - | 120 | - | 12 |
| Borrowings | | | | |
| United States dollars | - | 1,536 | - | 154 |
| Chinese renminbi | - | 8,697 | - | 870 |
| Profit or (loss) impact | | | 124 | (1,612) |
| Currency Asset / (Liability) Breakdown | | | | |
| United States dollars | 4,141 | 11,179 | 125 | (2,341) |
| Chinese renminbi | - | (9,122) | - | 912 |
| Euro | (116) | 74 | 13 | (127) |
| New Zealand dollars | - | 565 | (14) | (57) |
| UAE dirham | - | (22) | - | 2 |
| Profit or (loss) impact | | | 124 | (1,612) |

NOTE 27: Financial Instruments (continued)

Interest Rate Risk

The Group is exposed to interest rate risk as entities in the Group borrow and deposit funds at both fixed and variable interest rates. Effective weighted average interest rates on classes of financial liabilities are disclosed under liquidity risk. The Group does not have long term borrowings and does not use interest rate swaps to manage the risk of interest rate changes.

The following table details the Group's sensitivity to every 1% increase in interest rates at the reporting date. The analysis is on its variable rate financial instruments shown in the carrying value and details the profit effect of a 1% increase in interest rates on these financial instruments with the change taking place at the beginning of the following financial year and held constant throughout the reporting period. All other variables remain constant.

| 30 June 2011 | Consolidated | |
|------------------------------------------|---------------------------|--------------------------------------------|
| | Carrying Value (\$000) | Profit / (Loss) +1% Movement (\$000) |
| Financial Assets | | |
| Cash and cash equivalents | 9,576 | 96 |
| Financial Liabilities | | |
| Borrowings (all fixed rates instruments) | 10,205 | (102) |
| Profit or (loss) impact | 19,781 | (6) |

| 30 June 2010 | Consolidated | |
|------------------------------------------|---------------------------|--------------------------------------------|
| | Carrying Value (\$000) | Profit / (Loss) +1% Movement (\$000) |
| Financial Assets | | |
| Cash and cash equivalents | 15,127 | 151 |
| Financial Liabilities | | |
| Borrowings (all fixed rates instruments) | - | - |
| Profit or (loss) impact | 15,127 | 151 |

NOTE 28: Parent Entity Disclosures

| | 2010 / 2011 (\$000) | 2009 / 2010 (\$000) |
|------------------------------------------------------------|------------------------|------------------------|
| Results of the parent entity | | |
| Profit / (loss) for the year | 7,348 | 4,207 |
| Other comprehensive income | (815) | 511 |
| Total | 6,533 | 4,718 |
| Financial position of the parent entity at year end | | |
| Current assets | 21,732 | 23,469 |
| Total assets | 90,710 | 80,980 |
| Current liabilities | (17,232) | (7,781) |
| Total liabilities | (16,495) | (6,864) |
| Net assets | 74,215 | 74,116 |
| Total equity of the parent entity comprising of: | | |
| Contributed equity | 107,086 | 105,586 |
| Share based payment reserve | 1,200 | 743 |
| Hedging reserve | (565) | 250 |
| Retained earnings | (33,506) | (32,463) |
| Total equity | 74,215 | 74,116 |
| Parent Entity Commitments | | |
| Finance leases | - | 109 |
| Hire purchase | - | 18 |
| Operating leases | 1,479 | 2,604 |
| Capital expenditure | 18 | 18 |
| Total | 1,497 | 2,749 |

NOTE 29: Business Combinations

(a). Summary Of Acquisition

On 1 June 2011 the parent entity acquired 100% of the issued share capital and units of Zone Hardware Pty Ltd and Riva Window Fashions Pty Ltd. Zone Hardware specializes in the marketing and distribution of branded home improvement products. Riva Window Fashions specializes in a diverse range of custom made window furnishings made specifically to the customer's measurements and specifications. The acquisitions give Gale an expanded presence in the broader pre packaged and custom window shade markets, an expanded product offer and a wider customer base to grow the combined businesses.

Details of the purchase consideration, the net assets acquired and goodwill are as follows.

| | 2010 / 2011 (\$000) |
|--------------------------------------------------------------------------------------|------------------------|
| Purchase consideration (refer to (b)) on next page: | |
| Cash paid | 11,344 |
| Purchase adjustment | (544) |
| Shares issued | 1,500 |
| Deferred consideration | 750 |
| Total consideration | 13,050 |
| The assets and liabilities recognized as a result of the acquisition are as follows: | |
| Cash | 194 |
| Trade receivables | 1,092 |
| Inventories | 2,353 |
| Plant and equipment | 370 |
| Intangible assets | 4 |
| Trade payables | (1,183) |
| Lease liabilities | (331) |
| Provision for employee benefits | (75) |
| Provision for taxation | (486) |
| Total tangible net assets required | 1,938 |
| Add goodwill | 11,112 |
| Net assets acquired | 13,050 |

The goodwill will not be deductible for tax purposes.

Shares Issued

7,500,000 shares were issued as part of the consideration. The issue price of \$0.20 was based on the volume weighted average price of fully paid ordinary shares over the 30 trading days ending on 31 May 2011.

Deferred consideration

Additional consideration of \$750,000 plus accrued interest at the rate of 6.5% is to be paid in cash on 1 June 2012. The fair value of the deferred consideration of \$750,000 was estimated based on a discount rate of 6.5%.

Revenue and Profit Contribution

The acquired businesses contributed revenues of \$1,367,000 and net profit after tax of \$64,098 to the Group for the period from 1 June 2011 to 30 June 2011. If the acquisition had occurred on 1 July 2010, consolidated revenue and net profit after tax for the year ended 30 June 2011 would have been \$109,770,000 and \$8,271,000 respectively. (The net profit after tax of \$8,271,000 does not factor into account the additional cost of debt that would have been incurred.)

Initial Accounting Incomplete

The accounting for intangible assets arising from the business combination is incomplete and the amounts recognised has thus been determined only provisionally. An assessment of any required split in the value of intangible assets between brand names and goodwill will be undertaken in the next period.

Gross Contractual Amounts Receivable

The gross contractual amount of trade receivables acquired as part of the business combination total \$1,155,000.

NOTE 29: Business Combinations (continued)

(b). Purchase Consideration – Cash Outflow

Outflow of cash to acquire subsidiary. Net of cash acquired.

| | 2010 / 2011 (\$000) |
|-----------------------------------------------|------------------------|
| Cash consideration | 11,344 |
| Less balances acquired | |
| Cash | 194 |
| Outflow of cash – investing activities | 11,150 |

Acquisition Related Costs

Acquisition related costs of \$88,814 are included in other expenses in profit and loss and in operating cash flows in the statement of cash flows.

NOTE 30: Subsequent Events

Dividends paid or determined by the Company to shareholders since the end of the previous financial year are set out in Note 20. The financial effect of the dividends declared subsequent to the reporting date has not been brought to account in the financial statements for the year ended 30 June 2011 and will be recognized in subsequent financial reports. Franked dividends determined or paid during the year were franked at the tax rate of 30%.

Gale considers this dividend frankable for Australian tax purposes as the dividends are being paid out of current year profits and Gale has sufficient franking credits available to fully frank this dividend. However, the Commissioner of Taxation has informally expressed a preliminary view on dividend franking capability in an ATO Draft Fact Sheet dated 21 June 2011 which may or may not support the Company's position. Shareholders will be advised should there be any impact on the franking of Gale dividends.

The dividend reinvestment plan continues to be suspended.

Other than the proceeding matter above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 31: Company Details

The registered office of the Company is:

Gale Pacific Limited
145 Woodlands Drive
Braeside, Vic, 3195
Australia

ADDITIONAL SECURITIES EXCHANGE INFORMATION

NUMBER OF HOLDINGS OF EQUITY SECURITIES AS AT 16 AUGUST 2011

The fully paid issued capital of the Company consisted of 287,191,658 ordinary fully paid shares held by 809 shareholders. Each share entitles the holder to one vote.

8 holders have been granted 13,940,000 performance rights over ordinary shares. Performance rights do not carry a right to vote.

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

| Range | Ordinary Fully Paid Shares | | |
|--------------------|----------------------------|--------------------|------------------|
| | Total Holders | Units | % Issued Capital |
| 1 – 1,000 | 120 | 39,017 | 0.01 |
| 1,001 – 5,000 | 221 | 630,569 | 0.22 |
| 5,001 – 10,000 | 124 | 969,488 | 0.34 |
| 10,001 – 100,000 | 244 | 8,456,651 | 2.94 |
| 100,001 – 999,999 | 100 | 277,095,933 | 96.48 |
| 1,000,000 and over | 0 | 0 | 0.00 |
| Rounding | | | 0.01 |
| Total | 809 | 287,191,658 | 100.00 |

UNMARKETABLE PARCELS

| Unmarketable Parcels as at 16 August 2011 | Minimum Parcel Size | Holders | Units |
|-------------------------------------------|---------------------|---------|---------|
| Minimum \$500 parcel at \$0.175 per unit | 2,858 | 242 | 273,349 |

SUBSTANTIAL SHAREHOLDERS AS AT 16 AUGUST 2011

| Shareholder | No. | % |
|---------------------------------------|------------|-------|
| Thorney Holdings Pty Ltd | 79,817,646 | 27.79 |
| Investec Wentworth Private Equity Ltd | 74,148,162 | 25.82 |
| Windhager Handels Gesmbh | 41,925,781 | 14.60 |

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

| Shareholder | No. | % |
|--------------------------------------------------------------------------|--------------------|--------------|
| JP Morgan Nominees Australia Limited <Cash Income A/C> | 80,856,612 | 28.15 |
| Windhager Handels Gesmbh | 41,925,781 | 14.60 |
| IWPE Nominees Pty Ltd <IWPE Fund 2 A/C> | 28,365,369 | 9.88 |
| IWPE Nominees Pty Ltd <MG Private Equity Fund A/C> | 18,234,879 | 6.35 |
| Guinness Mahon & Co Limited | 14,182,685 | 4.94 |
| Gale Australia Pty Ltd | 13,927,844 | 4.85 |
| MGB Equity Growth Pty Limited <MGB Equity Growth Fund 2 A/C> | 10,130,490 | 3.53 |
| UBS Nominees Pty Ltd | 9,921,075 | 3.45 |
| Ruminator Pty Ltd | 6,691,433 | 2.33 |
| Clipper Island Pty Ltd <Smart Family A/C> | 5,000,000 | 1.74 |
| Gernis Holdings Pty Limited | 4,369,941 | 1.52 |
| Mr Geoffrey Duncan Nash <GDN Super Fund A/C> | 3,327,428 | 1.16 |
| Haroldswick Corporation Pty Ltd <Robertson Family A/C> | 2,500,000 | 0.87 |
| GFS Securities Pty Ltd <Glenfare Super Fund A/C> | 2,447,935 | 0.85 |
| IWPE Nominees Pty Limited <Investec Aus Equity Fund Ac> | 2,204,481 | 0.77 |
| IWPE Nominees Pty Limited <MZL Opportunity Fund A/C> | 2,058,824 | 0.72 |
| Venn Milner Superannuation Pty Ltd | 2,000,000 | 0.70 |
| Atkone Pty Ltd | 1,919,796 | 0.67 |
| Mr Simon Gautier Hannes <SGH Super Fund A/C> | 1,532,003 | 0.53 |
| Citicorp Nominees Pty Limited | 1,170,382 | 0.41 |
| Top 20 Holders Of Ordinary Fully Paid Shares As At 16 August 2011 | 252,766,958 | 88.01 |
| Total Remaining Holders Balance | 34,424,700 | 11.99 |

OTHER INFORMATION

The name of the Company Secretary is Ms Sophie Karzis. The address of the principal registered office in Australia, and the principal administrative office is 145 Woodlands Drive, Braeside, 3195, Victoria, Australia, telephone is (03) 9518 3333. The Company is listed on the Australian Securities Exchange. The home exchange is Melbourne. Registers of securities are held by Computershare Investor Services Pty Limited, Yarra Falls, 452 Johnston Street, Abbotsford, 3067, Australia, local call is 1300 850 505, international call is + 613 9415 4000.

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OFFICES

Australia PO Box 892, Braeside, Victoria 3195, Ph: +61 3 9518 3399 Toll Free 1800 331 521

New Zealand PO Box 15 118 Aranui, Christchurch, Ph: + 64 3 373 9500 Toll Free: 0800 555 171

United States PO Box 951509, Lake Mary, Florida, 32795-1509, Phone +1 407 333 1038

Middle East PO Box 17696 Jebel Ali, Dubai, U.A.E., Ph: +971 4 881 7114

China No.777 Hengshan West Rd, Beilun, Ningbo 315800, Ph: +86 574 5626 8888

Zone Hardware Pty Ltd, 10 Elite Way, Carrum Downs, Victoria, 3201, Ph: +61 3 8773 4000

Riva Window Fashions, PO Box 685, Patterson Lakes, Victoria, 3197, Toll Free 1800 97 22 77

