



GALE PACIFIC LIMITED
(ASX: GAP)

ASX ANNOUNCEMENT
26 November 2007

**Chairman and Managing Director and Chief Executive Officer's
Annual General Meeting Addresses**

Chairman's address

Before dealing with the formalities of the meeting, I would first like to report on the Company's progress on key issues during 2006/07. Peter McDonald, our Managing Director and Chief Executive Officer, will follow with a presentation on the current state of the business.

In the 2006/7 financial year we undertook a review of the Company's strategy and as a consequence of this review I am pleased to report we have completed significant restructuring initiatives that have led to improvement in our balance sheet, strengthening of our management team and systems, and improvements in many operational areas within the business. Debt levels have been substantially reduced, efficiency levels in our China operation have increased, improvements have been made to working capital management, there is a renewed focus on research and development activities, and our senior management team is now in place worldwide.

A concentrated effort was made to streamline the business and to ensure that the Group's cost structure is better matched to projected revenue generation. It is for these reasons that our German garden product distribution business, Jung, was sold in September 2006. Similarly, after a detailed review, it was concluded that the New Zealand manufacturing operations should be transferred to the China manufacturing plant as this would assist the Group to operate more efficiently. The New Zealand plant is expected to be fully integrated into the China plant on schedule by early next calendar year.

In November 2006, following discussions with the Group's bankers, we determined that revised long term financing arrangements needed to be put into place. The Group appointed advisors to assist in identifying and assessing long term refinancing options. After a comprehensive review and analysis process, a recapitalisation proposal was announced in June 2007, which combined a \$20 million equity placement and renewed Australian banking facilities. This proposal was approved by shareholders at an extraordinary general meeting held in August 2007 and resulted in the issue of 30,300,000 shares to our new cornerstone investor, Investec Wentworth Private Equity and its related entities at a price of \$0.50 per share, and 9,700,000 shares to our long-standing major investor Thorney Holdings Pty Limited upon the same terms.

Results

The Group reported a loss after tax of \$16.36 million, which includes a trading loss of \$2.7 million, write downs and provisions in relation to the European and New Zealand assets of \$9.9 million, and the additional write-off of the deferred tax asset relating to Gale Europe GmbH of \$3.75 million.

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Cash Flow and Balance Sheet

The Group has dramatically reduced borrowings by \$58 million during the last twelve months through a combination of a capital raising, conversion of unsecured notes to equity, sale of the Jung business, and positive cash flow from operations. The Group also generated \$9 million in operating cash flow for the year primarily through working capital reductions. As planned, capital expenditure was reduced to approximately \$4 million, down from \$19.4 million in the previous financial year, as the investment phase of the Group's relocation and expansion plan was completed.

The Board & Management

During the year, we welcomed Mr John Murphy to the board of directors of the Company. Mr Murphy's appointment was approved by shareholders at the Company's extraordinary general meeting on 24 August 2007. Mr Murphy is the Managing Director of Investec Wentworth Private Equity Limited. Mr Murphy's qualifications which include Bachelors and Masters degrees in Commerce, and his experience in a number of public and private companies, strengthens the Board and we are already benefitting from his contribution.

Outlook

With the \$20 million capital raising now complete, the Group has a stronger balance sheet, significantly reduced borrowings and long term banking facilities. We are confident about the strategy of the business and remain positive about the future prospects of the business.

I will now pass you over to Peter McDonald, our Managing Director and Chief Executive Officer who will report on the current state of the business.

Managing Director and Chief Executive Officer's address

The Chairman has commented on the key actions during the 2006/07 financial year. The annual report sent to all shareholders also sets out the key operational activities undertaken during the recently completed year and the performance of each of the regional businesses. There is no doubt that the year was another challenging and difficult year for the business but with the restructuring work and refinancing completed we are now in a good position to focus on future growth opportunities for the Company.

Trading highlights of the 06/07 year were as follows:

* Sales revenue of \$110.4 million – a reduction against the prior year of 1.6% due mainly to foreign exchange differences on consolidation. On a regional basis, sales in Australia grew by 5% highlighted by strong sales to retail channels and difficult market conditions in the agricultural sector due to the ongoing drought. Sales in New Zealand remained flat in what has become an increasingly competitive market. Sales in Europe increased off a small base. The divestment of Jung early in the financial year has enabled us to refocus the business and clean up the trading arrangements from the past. Sales in the Middle East business were down 7.6% for the year as a result of earlier production bottlenecks in the China plant which have since been cleared. Sales in the USA grew by 29%.

* We completed the relocation and recommissioning of the Australian plant to China and restructured the China production, R&D and engineering departments to reduce staff headcount and provide a leaner operation with a focus on efficient manufacturing of high quality product. We are now seeing the China plant operating at greater efficiency levels and have managed to achieve good gains in

yield increases and waste reduction more recently. Our Chinese operation also achieved ISO9001:2000 quality accreditation. More recently, we made the decision to close our Christchurch, New Zealand manufacturing operation and relocate the majority of this production to the China factory.

* Resin prices remained high throughout the financial year and, where possible, price increases have been passed on to the market.

* The Company generated \$9 million in operating cash flow for the year primarily through working capital reductions.

* A new Company wide information system is being implemented along with improved demand forecasting and production planning systems to provide further improvements to our working capital management and customer service levels.

* We strengthened the management team of the business substantially during the year and now have a team of committed and experienced managers to deliver improved performance for the business in the future.

I would also like to add that a considerable amount of management time was allocated to the refinancing process during the year which was successfully concluded in June 2007. I would now like to discuss the major activities since the commencement of this financial year which I am pleased to say has not involved any activity or distraction relating to refinancing and has been fully focussed on improving the business and establishing a strong and profitable Company.

We are pleased to report that after four months of trading to 31 October 2007 that the business is tracking to its internal budget targets. Gale operates a seasonal business whereby the Southern hemisphere sales and marketing operations have commenced the seasonal peaks with the Northern Hemisphere operations providing considerable sales and profits in the second half of the financial year. In Australia, the retail sales activities have commenced a little slower than budget and the exceptional year we had last year. We expect improved sales levels over the coming summer months. With regard to sales of industrial fabrics, the drought conditions which were expected to improve following early rains recorded in the winter of 2007 are still with us. Unfortunately follow up rains in many regions have not occurred which has resulted in a slow recovery of sales performance from the 2006 drought stricken year. We have however for the first time won a \$2.7 million contract for the supply of our environmentally friendly, recyclable Landmark fabric to Grain Corp for grain storage covers replacing a competitors PVC product used in prior years. Sales in Australia are 9% ahead of the same period last year.

As reported in 2006/07, New Zealand has come under significant margin pressure due to a strong NZ dollar and uncompetitive manufacturing costs. We have maintained our strong market leadership position and sales are in line with the same period last year. We will reap benefits from the reduced costs of production resulting from the transfer of the manufacturing equipment from New Zealand to China from the 2008 calendar year.

Our Middle East operation has benefited from being absorbed within the European management structure. The necessary changes to our warehouse operations, inventory management and sales forecasting systems have now been made and we are operating a leaner and more cost effective operation in the region. The Middle East business has recorded a very strong start to the 07/08 year with sales 43% ahead of last year.

It is early in our preparations for the seasonal sales to the Northern Hemisphere.

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The USA is experiencing tough economic conditions particularly in home sales and home renovations spending and some of our major retail customers in the USA are reporting declining sales and consumer activity. We continue to pursue and create additional sales opportunities to expand our range with existing customers and to penetrate new market opportunities.

With regard to Europe we are very pleased with the early indications of initial orders and product ranging for this summer. We have won listings with new customers Toom (300 stores) and Hagebau (200 stores) and will be launching two new product ranges this coming season. In addition to our *continuing* retail customers, we have strengthened *distributor support* for our retail ranges in Spain, Italy and France. We have had some early success with the liquidation of carried over excess inventories from last season which we plan to sell through by the end of the European Summer season.

Production volumes in China are 6% below the same time last year as we reduce group wide inventory levels. Volumes will increase as we head into the Northern Hemisphere seasons and the volumes previously produced in New Zealand take effect. We have had some early processing challenges with China sourced master batch which is one of the key ingredients to our knitted fabrics but are now seeing improved quality and process performance. Waste levels since July have considerably and consistently improved. The relocation of the New Zealand equipment is progressing very well and is tracking to plan with full production capability in China early in the 2008 calendar year.

Polymer prices continue to rise to record high levels and we are passing on selling price increases where possible. Mitigating some of the polymer cost increase in the Australian market has been the weakness of the US dollar but this is not sufficient to offset the most recent spikes driven by the exceptionally high oil prices. The Company has a currency hedge program in place which establishes a steady A\$ to US\$ exchange rate for the 6 month period ending December 2007 which we also plan to put in place for the second half of this financial year. This provides the Company with "locked in" margins at these forward exchange rates. The weakness of the USD will reduce the group wide sales when reported in Australian dollars but is not forecast to have an unfavourable effect on the bottom line.

With our renewed focus and commitment to Research & Development we are making good progress with a number of the major R&D projects and plan to commercialise the first of these towards the end of the second half of this financial year.

With regard to the balance sheet, the Company has continued to reduce borrowings by a combination of the \$20 million capital raising received in August 2007 and continued strong cash generation from operations. Cash will be expended during the restructure and relocation of the New Zealand manufacturing operations over the next few months. Aside from this project which will incur approximately \$2.5 million of capital expenditure to complete the relocation of equipment, maintenance capital expenditure will remain well below the annual depreciation charge of approximately \$7 million. Inventory levels at the end of October are approximately \$11million below the level at the same period last year, partly due to the 06/07 year end write down of approximately \$4 million, foreign exchange differences of approximately \$4 million and improved inventory management of approximately \$3 million.

The Company has commenced the implementation of a new global information system which is now operational in Australia. The roll out to all sales and marketing regions is planned to be completed in 2008.

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The Company recently issued 700,000 performance rights to the senior management team which forms an integral part of the Company's remuneration policy. The performance rights are aligned with the financial performance of the Company over the next three years.

I would like to thank the whole team at Gale for their hard work and dedication to the business in what have been extremely challenging times. With the restructuring work that has been completed and a more positive outlook for the business, we can look forward to providing a more secure and rewarding environment for all of our employees.

As previously mentioned, trading for the first four months of this financial year is in line with our internal budget although our sales and profits are skewed to the second half of the year. This is because our long established Australian and New Zealand businesses have a more even revenue stream throughout the year compared to our northern hemisphere businesses which are skewed towards retail sales which occur mainly in the second half.

Whilst we still have eight months of trading ahead of us and the business is doing everything it should to achieve our forecasts, some caution needs to be taken given the challenges emerging in the USA economy impacting the DIY market and polymer prices which are continuing to rise and have spiked more recently.

We will continue to monitor these two issues closely over the coming months.

About Gale Pacific Limited

Gale Pacific is a leading manufacturer and marketer of advanced polymer fabrics and related products with subsidiaries in the USA, Europe, UAE, New Zealand and China.

For further information please contact Mr. Peter McDonald on (03) 9518 3352.

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