



Gale Pacific Limited and its controlled entities
ABN 80 082 263 778

Annual Report
for the Financial Year Ended 30 June 2006

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Corporate Information

GALE PACIFIC LIMITED

ABN 80 082 263 778

DIRECTORS

Mr. Harry Boon (Chairman)

Mr. Peter McDonald (Managing Director and Chief Executive Officer)

Mr. Gary Gale (Non-Executive Director)

Mr. Daryl Reilly (Non-Executive Director)

Mr. George Richards (Non-Executive Director)

COMPANY SECRETARY

Ms. Sophie Karzis

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Chairman's Report

Harry Boon, Chairman

Dear Shareholders,

The Year in Review

In last year's Annual Report, your Directors indicated that many challenges were expected in 2005/06 as your Company progressed its northern hemisphere strategy to balance the seasonality inherent in the southern hemisphere business. These challenges included growing our presence in Europe and the USA, completion of a world class manufacturing operation in China, improvements in management of working capital and inventory control, reduction of debt, recapitalisation of the balance sheet and strengthening of our management team. It is pleasing to report solid progress on all these fronts.

Firstly, the expansion of our business in the northern hemisphere has progressed well with Gale's shade products now sold through approximately 1,270 retail outlets in Europe, with sales revenue up by more than 56% in the Middle East and by over 45% in the USA. Overall sales revenue grew by 12% compared with last year. Removing the effect of Jung garden products, revenue grew by 19%.

Secondly, the restructure of manufacturing gathered momentum, with the completion of a purpose built manufacturing facility in China, the relocation of a significant portion of the Australian plant and equipment, and the installation of substantial new capacity for future growth. This is a significant achievement and one which we believe will be the cornerstone of the Company's ability to be more competitive through reduced lead times and lower costs. Performance improvements were slower to reach the bottom line than originally anticipated due to delays in the commissioning of equipment and additional costs of extending Australian manufacturing operations through the transition period.

Another important element of our strategy was to improve working capital management and to reduce debt. In July 2006 the Company successfully completed a capital raising of \$20 million via a combination of a private placement and a share purchase plan. In addition, \$15.5 million of debt represented by unsecured convertible notes was converted to ordinary shares. This has significantly reduced debt and strengthened the balance sheet, delivering a stable platform to fund the future operation of the business. Capital expenditure of \$19.4 million was invested in the business to complete the investment stage of our current plan. This level of capital expenditure will reduce significantly in coming years as the focus shifts to maximising the return from these investments.

After careful review, the Directors authorised the sale of our German garden product distribution business, Jung, which will contribute cash proceeds of approximately \$14 million to further reduce debt. Jung had been the Company's vehicle for accelerated entry into the European retail market, and having achieved this goal, was no longer considered to be a core part of the Company's future strategy.

Directors and management also undertook a comprehensive review of the Company's major business units, research and development activities, organisational structure and accounting controls and processes. This review was led by the Company's new senior management team, (Peter McDonald, Managing Director and Chief Executive Officer appointed in April 2006 and Jeff Cox, Chief Financial Officer appointed in March 2006) and resulted in substantially improved processes throughout the supply chain, a new clarity in research and development priorities, as well as writing off equipment and raw material remaining from the transfer of the knitting plant to China, writing down the carrying value of certain research and development activities, and taking up additional provisions for slow moving inventories.

The culture that has brought the Company to the current stage in its development needs to develop in maturity, and management is dedicated to ensuring our people feel appreciated and rewarded for the work they do and equally to continue to foster accountability and commitment. In many instances employee effort and commitment has been much greater than is reflected in the year's operating result, and represents an investment in the foundations of the business which will be rewarded with improved future results.

Chairman's Report (cont'd)

Results

The Company reported a loss after tax of \$11.9 million, which is predominantly a reflection of the previously mentioned write downs and provisions and the loss on sale of the Jung business. Despite the disappointing result, Directors believe that the restructuring that has occurred in the past twelve months has put the Company in a much better position for growth in Australia and New Zealand, China, the United States of America, the Middle East and Europe. The benefits of these initiatives should become increasingly evident during 2006/07 and the next few years.

Tax

The effective tax rate on earnings was 25.3% (income tax benefit) compared with 15.4% (income tax expense) for the year ended 30 June 2005. This was due to losses in offshore operations with higher effective tax rates.

Dividends

The Company paid a fully franked interim dividend of 1.5 cents on 18 April 2006. In light of the disappointing result, Directors have decided not to pay a final dividend this financial year. Directors expect that the Company's overall dividend policy of paying out 50-55% of profit will be resumed on 2006/07's anticipated improved result.

Annual General Meeting

A notice of the Company's Annual General Meeting to be held on 21 November 2006 and a proxy form for voting is enclosed with this report.

Re-election of Directors

One of the items of business at the Company's Annual General Meeting is the re-election of Mr. Daryl Reilly and Mr. Gary Gale who retire as Directors by rotation in accordance with the constitution of the Company and, being eligible, offer themselves for re-election. The Board endorses Mr. Reilly's and Mr. Gale's re-election.

Corporate Governance

The Company is committed to the principles of good corporate governance. A full discussion on the Company's progress in creating strong and transparent corporate governance and in meeting all of the 'Principles and Best Practice Recommendations' published by the Corporate Governance Council of the Australian Stock Exchange is contained in the Directors' Report section of this Annual Report.

As part of this commentary, the Directors' Report contains the Remuneration Report. This report shows how the Company aligns employee remuneration with Company performance, putting a significant portion of executive remuneration at risk. It details both variable short term cash incentives and longer term performance hurdles. The Board believes such short and long term incentive programs are vital to improving organisational performance. At this year's Annual General Meeting shareholders will be asked to provide a non-binding vote on the Remuneration Report.

Chairman's Report (cont'd)

Retirement of Managing Director and Chief Executive Officer

Following the retirement of Mr. Gary Gale, the Board appointed Mr. Peter McDonald, the former Chief Operating Officer, to the role of Managing Director and Chief Executive Officer, effective 26 April 2006. Mr. Gale will continue his involvement with the Company as a Non-Executive Director.

Adoption of Australian equivalents to IFRS

From 1 July 2005, the Company is required to comply with the Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board.

Entities complying with AIFRS for the first time are required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Notes explaining the impact of the application of AIFRS on the statements of financial performance and position are set out in the financial statements of the Annual Report. The new AIFRS standards should not materially impact the Company's operating results in the future.

Outlook

The Company's strategy is to develop and grow both retail and commercial product ranges across a diversified customer base. This will be achieved through innovative new products and low cost supply from China. Continued improvements in working capital management are anticipated from greater flexibility in managing inventory in response to customer demand changes. The new senior management team will be focused on delivering organic sales growth and operational efficiencies.



Harry Boon
Chairman

29 September 2006

Managing Director and Chief Executive Officer's Report

Peter McDonald, Managing Director and Chief Executive Officer

The Year in Review

Fiscal year 2006 has been an enormously challenging year for the Company. Whilst we have delivered a revenue increase of 12% to \$167 million, we have recorded a net loss after tax of \$11.9 million, largely attributable to the sale of the Jung business in Germany of approximately \$6.5 million and asset write downs at year end of approximately \$6.4 million. During the year we absorbed considerable costs associated with the relocation of knitted fabric production to China and the shut down of the Australian knitting operations. Significant expenses were incurred in Europe for market entry costs and start up expenses.

The result does not reflect our strategic progress or our medium term potential as we continue to expand internationally with our Coolaroo (retail) and Synthesis (commercial) products and restructure our manufacturing to give us increased capacity, reduced costs and shortened supply lead times. Management is now very focussed on continuing to grow organic sales, improving our research and product development processes, plant productivity and efficiency levels, and reducing inventory levels through improved supply chain processes.

The Company has a sound underlying strategy, unique technologies and innovative products with which to drive future growth.

Asia / Pacific

Australia

Despite challenging conditions, we have maintained a strong market position in Australia, our most mature market. Overall sales were down approximately 4% on the previous year, with sales to retailers down approximately 12% as they reduced inventories to drive efficiencies within their own organisations in tough retail conditions. Despite this, sales of Coolaroo products to consumers through these retail outlets were up on the previous year, a positive sign for our future sales activities. With retailers' inventories now at lower levels and new products coming through for the next season, we anticipate sales growth returning to our Australian operation.

Sales of Synthesis commercial fabrics remained stable and our direct to market distribution strategy strengthened ties with customers and aligned us more closely with the market.

New Zealand

New Zealand completed its first full year of operations since the purchase of selected assets of Donaghys Industries in December 2004. The year was very much focused on continuing the integration of the business fully within Gale. The implementation of a new sales and distribution structure established the Company as a major direct supplier in each of the three market segments, retail, commercial, and agricultural. The key objective for 2006/07 is to continue to grow sales in these market channels and derive the benefits of this new structure implemented during 2005/06.

China

Delays in the realisation of operating efficiencies from the new and relocated knitting plant in our China manufacturing facility resulted in additional costs being absorbed in 2005/06. The resultant lower output levels necessitated keeping the Australian knitting plant open longer

Managing Director and Chief Executive Officer's Report (cont'd)

than planned. While these factors had a significant impact on the past year's result, they are largely behind us, and we are now focusing on delivering the efficiencies and improved profitability from the investment in China manufacturing.

The appointment of Paul Ducray as Head of Manufacturing has strengthened our manufacturing resources in China. Paul has over 18 years of manufacturing experience including the position of Manufacturing Manager of our New Zealand plant for the past 18 months. Additional full time resources in technical knitting and polymer engineering have also been added to support the team in China and ensure the required efficiency levels, costs, output and quality are achieved as early as possible.

Europe / Middle East

Europe

Since the acquisition of Jung in Germany in February 2004, we have established a good base for Gale's shade products which are now sold through approximately 1,270 retail outlets in Europe. With this objective having been achieved, it was decided to sell the Jung business and to concentrate on the core Gale shade products.

In addition to the retail business, we have commenced selling the Gale range of Synthesis commercial fabrics into the European market. Management is enthusiastic about the opportunities to establish a strong sales network for these products, and to expand the market distribution for our retail products.

With the experience of the past 2 years since we entered the European market, we have now reached a customer base with coverage of the most attractive countries for sun protection products in Europe. The plan for future growth is to concentrate on fast moving products and the combined offering of local supply and direct container load shipments from China to provide competitive advantage and flexibility which will attract new customers and distribution channels.

Middle East

Sales revenue in the Middle East increased by more than 56% from the previous period, representing the third consecutive year of double-digit growth in this region. Whilst the UAE is still our largest market in the Middle East, we have expanded strongly into Saudi Arabia, Kuwait, Qatar and Bahrain as demand for our commercial fabrics in the region increases.

With a management team now in place, our Regional Manager, Zafar Fakroddin, will spend more time focusing on establishing a market presence for the commercial range of Synthesis fabrics in the European market.

USA

Sales revenue for the year increased by over 46% on the previous year, with an increase in the number of stores in which our products are sold and strong sell-through with our major retail customers. Our Coolaroo products are now sold through many of the major retail chains including The Home Depot, Lowe's, Costco, Wal-Mart and Sam's. With this increased market penetration our focus is to expand the product range with these retail customers and develop new products to suit consumer demand and tastes.

Importantly, we also increased our commercial/architectural fabric market penetration with sales almost doubling on the prior year. This is a market we expect to continue to grow as the use of high end commercial grade fabrics expands in the USA with an increased number of fabricators now servicing this emerging market segment.

The Company recently appointed a new Managing Director to head up the USA operations. Martin Denney, who will relocate from Australia to the USA with his family, brings to the Company a broad range of strategic, business development and operational experience across a range of industries including consumer goods, manufacturing and building products.

Managing Director and Chief Executive Officer's Report (cont'd)

Investing for the future

Significant effort has been directed towards restructuring our operations recently to refocus the business and to improve controls and systems within the organisation to increase accountability, reduce costs and improve our profitability. We continue to invest in our business, to make it more efficient and responsive to the needs of the markets we serve. This investment in both physical and human capital will set the base for future organic growth.

In March 2006, Jeff Cox joined Gale as Chief Financial Officer and Frank Albertsmeier joined our Gale Europe business as Managing Director Europe. The increased size of the Group has placed increasing demands on the senior executives and these appointments have strengthened the Gale team to help grow and consolidate the businesses. The recent appointment of Martin Denney as Managing Director of our USA operation adds further strength.

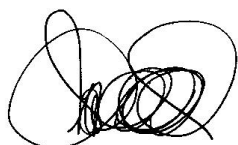
2007 Priorities

Management priorities for the 2007 financial year will be to focus on organic growth, operational efficiencies and to capitalise on the low cost manufacturing base which has been implemented in this past year. Measures have been taken to ensure improved plant productivity, process controls and efficiency levels. Supply chain processes are being streamlined to better align sales and production demands and to better manage inventory levels.

The Company is well positioned to maximise opportunities to further expand the range of Gale products carried by our growing international customer base and to continue to develop the commercial and industrial fabric sales and distribution channels.

Product development will benefit from a more robust system and better control of expenditures to deliver clear and measurable outcomes from the Company's significant research and development investment. New processes are being implemented to ensure that there is wider commitment and acceptance within the group of these priorities to ensure we focus our activities on our core fabric development areas and execute these plans well through the whole business.

The new management team is committed to delivering a solid profit result for 2006/07 and beyond. With more focused operations, improved efficiencies, significantly reduced debt and a stronger balance sheet, 2006/07 is expected to see the Company return to profitability and generate positive cash flows. I would like to thank the team for their efforts, commitment and acceptance of these changes as we deliver a more focused and profitable business.



Mr. Peter McDonald
Managing Director and Chief Executive Officer
29 September 2006

Corporate Governance Statement

This statement sets out the corporate governance practices that were in operation throughout the financial year for Gale Pacific Limited and its controlled entities (“the Company”). Gale Pacific’s Directors and management are committed to conducting the Company’s business in an ethical manner and in accordance with the highest standards of corporate governance. The Board believes that Gale Pacific complies with the Corporate Governance Council’s Principles of Good Corporate Governance and Best Practice Recommendation. A summary of how the Company complies with the ASX Corporate Governance Council’s Principles of Good Corporate Governance and Best Practice Recommendations is included below. The various charters and policies are all available on the Gale Pacific web site: www.galepacific.com

	ASX Principle	Status	Reference/Comment
Principle 1			
Lay solid foundation for management oversight			
1.1	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 Company, 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 Company’s website.
Principle 2			
Structure the Board to add value			
2.1	A majority of the board members should be independent.	Complying	The Board comprises five directors, three of whom are non-executive and independent. The Directors considered by the Board to constitute independent directors are: H. Boon, D. Reilly and G. Richards. 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.
2.2	The chairman should be an independent director.	Complying	The Chairman, Mr. H. Boon has been Chairman of the Company since August 2005 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.
2.3	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.
2.4	The board should establish a nomination committee.	Complying	The Board has a formal Nomination Committee comprising of the non-executive independent Directors. The Nomination Committee’s functions and powers are formalised in a Charter.
2.5	Provide the information indicated in the Guide to reporting on Principle 2.	Complying	The following information is set out in the Company’s annual report: <ul style="list-style-type: none"> • The skills and experience of Directors. • The Directors considered by the Board to constitute independent Directors and the Company’s materiality thresholds. • 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.

Corporate Governance Statement (cont'd)

	ASX Principle	Status	Reference/Comment
Principle 3			
Promote ethical and responsible decision-making			
3.1	Establish a code of conduct to guide the directors, the chief executive officer, the chief financial officer and any other key executives as to the practices necessary to maintain confidence in the company's integrity and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Complying	The Company has formulated a Code Of Conduct which can be viewed on the Company's website.
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	Complying	The Company has adopted a Securities Trading Policy which can be viewed on its website.
3.3	Provide the information indicated the Guide to Reporting on Principle 3.	Complying	The Company's policy documents are posted on its website.
Principle 4			
Safeguard integrity in financial reporting			
4.1	Require the chief executive officer and the chief financial officer to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	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 Audit & Risk Committee reviews the Company's half yearly and annual financial statements and makes recommendations to the Board. The Board requires the Managing Director and Chief Executive Officer and the Chief Financial Officer to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.
4.2	The board should establish an audit committee.	Complying	The Company has an Audit & Risk Committee. The primary role of the Audit & Risk Committee is to assist the Board in fulfilling its responsibilities relating to the accounting, internal control and reporting practices of the Company and its subsidiaries.
4.3	The audit committee should be structured so that it consists of only non-executive directors; a majority of independent directors, and have an independent chairperson who is not chairman of the board and have at least three members.	Complying	The Audit & Risk Committee consists of only non-executive, independent Directors and it has an independent Chairman who is not the Chairman of the Board. Mr D. Reilly is the Chairman of the Audit & Risk Committee.
4.4	The audit committee should have a formal charter.	Complying	The Audit & Risk Committee has a formal charter which sets out the Audit Committee's role and responsibilities, composition, structure and membership requirements. The Audit & Risk Committee is given the necessary power and resources to meet its charter.

Corporate Governance Statement (cont'd)

	ASX Principle	Status	Reference/Comment
4.5	Provide the information indicated in Guide to Reporting on Principle 4.	Complying	Details of the names and qualifications of the members of the Audit & Risk Committee and the number of meetings held and attended by each member are contained in the Directors' Report of the Annual Report.
Principle 5			
Make timely and balanced disclosure			
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Complying	The Company has a documented policy which has established procedures designed to ensure compliance with Australian Stock Exchange Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Managing Director and Chief Executive Officer, the Chief Financial Officer and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the Australian Stock 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.
5.2	Provide the information indicated in Guide to Reporting on Principle 5.	Complying	A copy of the Company's Disclosure Policy is posted on the Company's website.
Principle 6			
Respect the rights of shareholders			
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Complying	The Board informs shareholders of all major developments affecting the Company's state of affairs as follows: <ol style="list-style-type: none"> 1. The annual report is distributed to all shareholders, including relevant information about the operations of the consolidated entity during the year and changes in the state of affairs. 2. The half-yearly report to the Australian Stock Exchange contains summarised financial information and a review of the operations of the consolidated entity during the period. 3. All major announcements to the Australian Stock Exchange are distributed to shareholders, and posted on the Company's website at www.galepacific.com 4. Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders. 5. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals.
Principle 7:			
Recognise and manage risk			
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	Complying	The Board has responsibility for monitoring risk oversight and ensures that the Managing Director and Chief Executive Officer and the Chief Financial Officer report on the status of business risks through risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. In addition to its financial reporting obligations, the Audit & Risk Committee is responsible for reviewing the risk management framework and policies of the Company. The structure of the Audit & Risk Committee

Corporate Governance Statement (cont'd)

	ASX Principle	Status	Reference/Comment
			and its responsibilities reflect the requirements of ASX Principle 7. In performing this function, the Committee receives periodic reports from the auditor, senior management and, in some instances, external consultants.
7.2	The chief executive officer and the chief financial officer should state to the Board in writing that the statement given regarding the integrity of financial statements is founded on a sound system of risk management and internal compliance and control.	Complying	The Managing Director and Chief Executive Officer and the Chief Financial Officer are required to state to the Board in writing that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.
7.3	Provide the information indicated in Guide to Reporting on Principle 7.	Part Complying	Management has completed a review of the Company's major business units, organisational structure and accounting controls and processes. As a result of this review a number of risk management recommendations have been made and will be implemented. A description of the Company's risk management policy and internal compliance and control systems is currently being documented and will be posted on the Company's web site as soon as it is available.
Principle 8: Encourage enhanced performance			
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	Complying	The Company 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 Company's key executives.
8.2	Provide the information indicated in Guide to Reporting on Principle 8.	Complying	A performance evaluation for the Board and its members has recently been completed. No material internal deficiencies or issues were identified through this process although some areas have been identified for further improvement or enhancement which the Board will focus on over the coming period.
Principle 9: Remunerate fairly and responsibly			
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	Complying	Details of the Directors and key senior executives remuneration are set out in the Remuneration Report of the Annual Report.

Corporate Governance Statement (cont'd)

	ASX Principle	Status	Reference/Comment
9.2	The board should establish a remuneration committee.	Complying	The Board has in place a Remuneration Committee. The structure of this Committee and its responsibilities reflect the requirements of ASX Principle 9. All three members of the Committee are independent Directors. In addition to the members, the Managing Director and Chief Executive Officer is invited to the meetings at the discretion of the Committee. This Committee is responsible for ensuring that the recruitment and remuneration policies and practices of the Company are consistent with its strategic goals and are designed to enhance corporate and individual performance as well as meet the appropriate recruitment and succession planning needs.
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Complying	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.
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	Complying	The Remuneration Committee is responsible for reviewing and monitoring executive performance, remuneration and incentive policies and the manner in which they should operate, the introduction and operation of share plans, executive succession planning and development programs to ensure that they are appropriate to the Company's needs and the remuneration framework for Directors (as approved by shareholders). The Committee may consult with remuneration advisors to assist in its role.
9.5	Provide the information indicated in Guide to reporting on Principle 9.	Complying	The 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.
Principle 10: Recognise the legitimate interests of stakeholders			
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	Complying	The Company has in place a Code of Conduct which sets standards for the Board and employees in dealing with the Company's customers, suppliers, shareholders and other stakeholders. A copy of this Code of Conduct has been posted on the Company's website.

Directors' Report

The Directors of Gale Pacific Limited present their annual financial report of the Company for the financial year ended 30 June 2006.

Directors

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

HARRY BOON, LLB (HONS), B. Com

Chairman and Non-Executive Director appointed on 25 August 2005

Mr. Boon joined the Company in August 2005 and brings to the role his experience as a senior executive in one of Australia's leading listed companies, Ansell Limited. Mr. Boon's executive career culminated with the position of Chief Executive Officer of Ansell Limited from April 2002 to June 2004, having previously been President, Chief Executive Officer and Managing Director of Ansell Healthcare since February 1989.

During the last three years, Mr. Boon has also served as a Director of the following other listed companies:

- Tattersall's Limited
- Funtastic Limited
- Hastie Group Limited.

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

PETER RONALD MCDONALD, Bachelor of Business (Marketing)

Managing Director and Chief Executive Officer since 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 and most recently the Company's Chief Operating Officer and Managing Director of the Company's U.S. Operations.

No other directorships of listed companies were held by Mr. McDonald at any time during the three years prior to 30 June 2006.

GARY STEPHEN GALE

Non-Executive Director since 2006

Mr. Gale studied textile engineering in Germany, and is the son of the founder of the Gale business. Mr. Gale was responsible for the restructuring of the Gale Group both in Australia and the USA in 1996/97 and was appointed as Managing Director of the Company in 1998. He was responsible for the Company entering the advanced polymer fabric industry as a manufacturer in 1977, taking the former Gale family business public in late 2000, expansion into world markets, and the establishment of a world-class manufacturing facility in China. Mr. Gale resigned as Managing Director in April 2006 but has remained on the Board as a Non-Executive Director.

No other directorships of listed companies were held by Mr. Gale at any time during the three years prior to 30 June 2006.

Directors' Report (cont'd)

DARYL EDWARD JAMES REILLY, Graduate Diploma of Business (Accounting), CPA, ACIS, FTMA, AICD

Non-Executive Director since 1998

Mr. Reilly was previously an Executive Director and principal of Advent Management Group Limited ("AMG") and was AMG's Chief Financial Officer and Company Secretary between 1984 and 2004. During his twenty year career in private equity, he has been a Director on the Boards of numerous companies involved in a diverse range of areas including manufacturing, business to business, information technology, tourism, leisure and hospitality and communications, in addition to his funds management role within AMG. He remains a significant shareholder of AMG, which has recently changed its name to Advent Private Capital Pty Ltd. He is a Director of 8T8 Corporation Pty Ltd, the holding company of Sleepmaster Pty Ltd and is a Director of its Chinese subsidiary. No other directorships of listed companies were held by Mr. Reilly at any time during the three years prior to 30 June 2006.

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

GEORGE HENRY RICHARDS, CPA, ACIS

Non-Executive Director since 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 Magnet Mart Pty Ltd, Bowen & Pomeroy Pty Ltd, Chairman of Carpet Court Australia Limited, Associate Member of the Australian Institute of Company Directors and Australian Institute of Management.

No other directorships of listed companies were held by Mr. Richards at any time during the three years prior to 30 June 2006.

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

THEO EVERSTEYN, FCA, Graduate Diploma Industrial Accounting and Bus. Admin.

Former Chairman and Non-Executive Director, retired on 25 August 2005.

Mr. Eversteyn retired as the Company's Chairman on 25 August 2005. Mr. Eversteyn was a partner of the chartered accounting firm Bentleys MRI since 1973 and was appointed Chairman of the Melbourne partnership on 1 July 2004 and retired on 30 June 2006. During his career he has focused on manufacturing and distribution businesses. No other directorships of listed companies were held by Mr. Eversteyn during the three years prior to 30 June 2005.

Company Secretary

SOPHIE KARZIS. B.JURIS LLB

Ms. Karzis was appointed as Company Secretary on 11 June 2004. Ms. Karzis is a practising lawyer who has previously held roles at Touchcorp Limited and Australian Central Finance Pty Ltd.

Directors' Report (cont'd)

Nature of Operations and Principal Activities

The consolidated entity's principal activities in the course of the financial year were the manufacture and exporting of advanced polymer fabrics and related products.

Review & Results of Operations

The consolidated loss of the economic entity for the financial year attributable to the members of Gale Pacific Limited was \$11.9 million. Refer to the Chairman's Report for further details on the Company's result.

State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Company and its controlled entities that occurred during the financial year under review not otherwise disclosed in this report or the accompanying financial report.

Events Subsequent to Balance Date

In July 2006, the Company completed a \$20 million capital raising via a combination of a share purchase plan and a private placement resulting in the Company issuing 23,529,412 ordinary fully paid shares at a price of 85 cents. In addition, the Company negotiated with holders of convertible notes issued by the Company in December 2004 and September 2005 to convert the notes into ordinary fully paid shares at a conversion price of 85 cents. 18,235,289 shares were issued in conversion of 6,864,864 notes. The Company's shareholders approved the above share issues at the Company's Extraordinary General Meeting held on 30 June 2006.

On 5 September 2006, the Company announced that it had sold its German garden products distribution business, Jung Garten, and that it had received cash for the sale of approximately \$12.5 million and a further \$1.5 million receivable in October 2006.

Other than the matters discussed 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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years has been made in part in the Chairman's Report and the 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 consolidated entity and has accordingly not been disclosed in this report.

Environmental Regulation and Performance

The economic entity's operations are not subject to any significant environmental regulations under the Commonwealth or State legislation. However, the Directors believe that the economic entity 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 economic entity.

Directors' Report (cont'd)

Dividends

In respect of the financial year ended 30 June 2005, a final dividend of 1.5 cents per share franked to 100% at the 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 17 October 2005.

In respect of the financial year ended 30 June 2006, the Company paid a fully franked interim dividend of 1.5 cents on 18 April 2006.

The Directors have determined not to pay a final dividend this financial year.

Share Options

The Company maintains an option scheme for certain staff and executives, including Executive Directors, as approved by shareholders at an Annual General Meeting. The number of unissued ordinary shares under option as at the date of this report is 870,000. The issue price of each option is zero. Each option entitles the option holder to 1 ordinary share in Gale Pacific Limited in the event that the option is exercised.

Of the 870,000 options on issue, 50,000 options were issued on 30 December 2004, 240,000 options were issued under the Company's executive share plan to the Managing Director and Chief Executive Officer, Mr. Peter McDonald, as approved by the Company's shareholders at the Company's Annual General Meeting held on 15 November 2004 and 580,000 options were issued on 16 November 2005. The exercise price of the 50,000 options is \$1.50, the exercise price of the 240,000 issued options is \$3.00, and the exercise price of the 580,000 issued options is \$1.52. The vesting of options is determined in accordance with specific share price and/or performance hurdles. In the case of the 50,000 options, their vesting is determined by the performance of the Company's share price over time; the vesting of the 240,000 options is determined in accordance with the achievement of certain levels of adjusted weighted average earnings per share of the Company's share price over time and the vesting of the 580,000 options is determined in accordance with the achievement of certain levels of adjusted weighted average earnings per share of the Company's share price over time. The 50,000 options are not exercisable after 1 December 2006, the 240,000 options and the 580,000 options are not exercisable after 1 December 2008. Options carry no rights to dividends and no voting rights.

During the financial year no options vested. As set out in the accounting standard AASB 2 and the revised ASIC guidelines, the Company has valued the issued options. The Binomial option pricing model was used and this model takes into account the following inputs:

- Current price of the underlying shares as at the grant date.
- Exercise price.
- Expected volatility of the share price over the expected life of the options.
- First exercisable date.
- Expected life.
- Expected dividend yield.
- Risk free interest rate for the expected life of the options.

The Company has utilised the Black-Scholes methodology as a comparison to the values using the Binomial methodology and there was a plus or minus 5% correlation between the values achieved under the two methodologies which is not unreasonable.

Further details of the option plan are disclosed in note 17(b) to the Financial Statements.

Directors' Report (cont'd)

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' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director while they were a Director or committee member.

	Directors' Meetings		Audit & Risk Committee Meetings		Remuneration Committee Meetings		Nomination Committee	
	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
H Boon	20	19	4	4	1	1	1	1
P R McDonald	21	19	-	-	-	-	-	-
G S Gale	21	20	-	-	-	-	-	-
D E J Reilly	21	20	5	5	1	1	1	1
G H Richards	21	21	5	5	1	1	1	1

Directors' Shareholdings

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

Name	Fully Paid Ordinary Shares	Share Options
H Boon	73,000	-
G S Gale	15,399,709	-
P R McDonald	334,714	240,000
D E J Reilly	423,141	-
G H Richards	78,851	-

Remuneration Report

This report contains the remuneration arrangements in place for Directors and executives of the Company.

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.

Directors' Report (cont'd)

The Company'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 Company 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;
- Benefits, including the provision of motor vehicles and superannuation; and
- Incentive schemes, including share options under the executive share option plan as disclosed in Note 17 and Note 23 to the financial statements.

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 Stock 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. Non-Executive Directors are encouraged to hold shares in the Company (purchased by the Director on-market). It is considered good governance for Directors to have a stake in the Company.

The remuneration of Non-Executive Directors for the period ended 30 June 2006 is detailed below.

Directors' Report (cont'd)

Senior Manager & Executive Director Remuneration

Objective

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

- Reward executives for Company 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.

Options issued to executives as a form of compensation are dependant upon the performance conditions outlined in note 17(b) of the financial statements.

Cash bonuses granted to executives are based on the respective performance of their regional business unit. Bonuses are paid out at various times during the year and are determined at the discretion of the Remuneration Committee.

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

2006 Directors	Short-term benefits		Post Employment	Share based payments	Termination benefits	Total	Performance Related	
	Salary & Fees \$	Non- Monetary \$	Superannuation \$	Options \$	\$	\$	Total %	Options %
Executive Directors								
G S Gale(i)	371,635	61,964	12,139	51,658	102,849	600,245	8.6	8.6
P R McDonald	359,942	62,401	5,171	72,580	-	500,094	14.5	14.5
Non-Executive Directors								
H Boon	95,833	-	41,667	-	-	137,500	-	-
T J Eversteyn	14,166	-	-	-	-	14,166	-	-
D E J Reilly	75,000	-	-	-	-	75,000	-	-
G H Richards	65,000	-	-	-	-	65,000	-	-
TOTAL	981,576	124,365	58,977	124,238	102,849	1,392,005	-	-

- (i) Mr. Gale resigned from his role as an Executive Director on 26 April 2006, and therefore the details of his remuneration for the reporting period are to that date. Mr. Gale has not received any remuneration in his role as Non-Executive Director.

Directors' Report (cont'd)

2005 Directors	Short-term benefits		Post Employment	Share based payments	Total	Performance Related	
	Salary & Fees \$	Non- Monetary \$	Superannuation \$	Options \$	\$	Total %	Options %
Executive Directors							
G S Gale(i)	396,951	66,500	11,549	33,922	508,922	6.7	6.7
P R McDonald	269,414	39,037	11,549	25,442	345,442	7.4	7.4
Non-Executive Directors							
T J Eversteyn	144,992	-	-	-	144,992	-	-
D E J Reilly	119,124	-	-	-	119,124	-	-
G H Richards	68,000	-	-	-	68,000	-	-
TOTAL	998,481	105,537	23,098	59,364	1,186,480	-	-

The following table discloses the remuneration of the 5 highest remunerated executives of the Company and the consolidated entity.

2006	Short Term Benefits			Post Employment	Share based payments	Total	Performance Related	
	Salary & Fees \$	Bonus \$	Non- Monetary \$	Super- annuation \$	Options \$	\$	Total %	Options %
E. Jung (ii)	255,940	38,538	15,784	4,171	-	314,433	12.3	-
Z. Fakroddin (iii)	148,610	67,549	60,031	-	3,950	280,140	25.5	1.4
S. Carroll	208,900	-	27,070	20,527	3,950	260,447	1.5	1.5
C. McCallum (iv)	198,825	36,357	15,558	-	4,938	255,678	16.2	1.9
E. Xu (v)	150,013	24,318	18,919	-	48,600	241,850	30.2	20.1
TOTAL	962,288	166,762	137,362	24,698	61,438	1,352,548	-	-

2005	Short Term Benefits			Post Employment	Share based payments	Total	Performance Related	
	Salary & Fees \$	Bonus \$	Non- Monetary \$	Super- annuation \$	Options \$	\$	Total %	Options %
D. Whyte (vi)	261,815	31,915	34,000	-	-	327,730	9.7	-
E. Jung (ii)	222,603	51,370	31,906	6,545	-	312,424	16.4	-
Z. Fakroddin (iii)	147,200	27,813	20,850	50,850	-	246,713	11.3	-
E. Xu (v)	128,958	31,919	61,621	-	33,281	255,779	25.5	13.0
S. Carroll	175,100	-	24,677	15,759	-	215,536	-	-
TOTAL	935,676	143,017	173,054	73,154	33,281	1,358,182	-	-

(ii) Mr. Jung was based in Germany and remunerated in Euro converted to Australian dollars in the table above.

(iii) Mr. Fakroddin was based in the Middle East and remunerated in US dollars converted to Australian dollars in the table above.

(iv) Mr. McCallum is based in New Zealand and remunerated in New Zealand dollars converted to Australian dollars in the table above.

(v) Ms. Xu is based in China and remunerated in RMB and US dollars converted to Australian dollars in the table above.

(vi) Mr. Whyte was based in the USA and remunerated in US dollars converted to Australian dollars in the table above.

Directors' Report (cont'd)

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

The following non-audit services were provided by the Company's auditor, Pitcher Partners. 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 consolidated entity for:

	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
Taxation services	99	53	74	31
General review and assistance	-	45	-	16
Due diligence	-	17	-	17
Total	99	115	74	64

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 s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Harry Boon
Chairman



Peter McDonald
Managing Director and Chief Executive Officer

Dated: 29 September 2006

Auditor's Independence Declaration

To the Directors of Gale Pacific Limited

In relation to the Independent audit for the year ended 30 June 2006, 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.

PITCHER PARTNERS

A handwritten signature in black ink, appearing to read 'M W Pringle', with a stylized flourish at the end.

M W PRINGLE
PARTNER
Melbourne
29 September 2006

Independent Audit Report

Scope

We have audited the financial report of Gale Pacific Limited and its controlled entities for the financial year ended 30 June 2006 comprising the Directors' Declaration, Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements.

The Company's Directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the Company's and its controlled entities financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Gale Pacific Limited and its controlled entities is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and its controlled entities financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional requirements in Australia.

PITCHER PARTNERS



M W PRINGLE
Partner
Melbourne
29 September 2006

Directors' Declaration

The Directors of the Company declare that:

The financial statements and notes, as set out on pages 27 to 68 are in accordance with the Corporations Act 2001 including:-

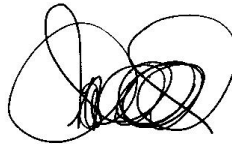
- compliance with Accounting Standards in Australia and the Corporations Regulations 2001;
- providing a true and fair view of the financial position as at 30 June 2006 and of the performance, as represented by the results of the operations and the cash flows, of the Company and economic entity for the year ended on that date; 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.



Harry Boon
Chairman



Peter McDonald
Managing Director and Chief Executive Officer

Dated this 29 September 2006

Income Statement

for the year ended 30 June 2006

		Consolidated		Company	
	Note	2005/06	2004/05	2005/06	2004/05
		\$'000	\$'000	\$'000	\$'000
Revenue	3	167,169	149,010	62,212	69,829
Expenses	4				
Changes in inventories of finished goods and work in progress		(2,978)	(16,484)	(7,985)	2,356
Raw materials and consumables used		(85,807)	(58,114)	(23,150)	(35,785)
Employee benefits expense		(27,823)	(21,824)	(9,684)	(12,946)
Depreciation and amortisation expenses		(9,472)	(5,572)	(5,287)	(3,776)
Impairment of goodwill and assets		(4,462)	-	(6,478)	-
Operating overheads		(41,821)	(33,567)	(14,439)	(12,738)
Other expenses		(4,630)	(2,280)	(3,043)	(1,693)
Finance costs expense		(6,157)	(4,926)	(4,349)	(3,350)
Profit/(loss) before income tax expense		(15,981)	6,243	(12,203)	1,897
Income tax/(expense)/benefit	5	4,037	(960)	3,196	(631)
Profit/(loss) after income tax		(11,944)	5,283	(9,007)	1,266
Loss attributable to minority interests	20	2	2	-	-
Net profit/(loss) attributable to the members of the parent entity		(11,942)	5,285	(9,007)	1,266
Basic earnings per share (cents per share)	29	(22.57)	10.32		
Diluted earnings per share (cents per share)	29	(22.03)	10.31		

The accompanying notes form part of these financial statements.

Balance Sheet

as at 30 June 2006

	Note	Consolidated		Company	
		2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
CURRENT ASSETS					
Cash and cash equivalents	6	10,552	3,965	6,055	2
Receivables	7	36,702	32,753	6,414	7,118
Inventories	8	47,599	50,577	11,257	19,242
Current tax assets	5	1,047	1,239	591	1,034
Other current assets	9	1,497	1,449	365	377
TOTAL CURRENT ASSETS		97,397	89,983	24,682	27,773
NON-CURRENT ASSETS					
Receivables	7	-	-	55,072	39,731
Other financial assets	10	-	-	25,909	24,816
Plant and equipment	11	70,220	57,765	19,407	23,802
Intangible assets	12	12,486	16,210	5,913	6,490
Deferred tax assets	5	2,054	294	-	-
TOTAL NON-CURRENT ASSETS		84,760	74,269	106,301	94,839
TOTAL ASSETS		182,157	164,252	130,983	122,612
CURRENT LIABILITIES					
Payables	13	22,654	19,790	3,768	5,155
Income received in advance		-	-	1,026	-
Short term borrowings	14	97,672	62,247	73,030	41,116
Current tax liabilities	5	344	165	-	-
Provisions	15	872	1,226	768	1,152
TOTAL CURRENT LIABILITIES		121,542	83,428	78,592	47,423
NON-CURRENT LIABILITIES					
Long term borrowings	14	12,070	20,650	7,237	20,650
Deferred tax liabilities	5	1,185	5,093	1,185	5,093
Provisions	15	427	547	73	73
TOTAL NON-CURRENT LIABILITIES		13,682	26,290	8,495	25,816
TOTAL LIABILITIES		135,224	109,718	87,087	73,239
NET ASSETS		46,933	54,534	43,896	49,373
EQUITY					
Contributed equity	17	47,124	42,071	47,124	42,071
Reserves	18	(2,096)	(2,989)	178	98
Retained profits	19	1,916	15,461	(3,406)	7,204
PARENT ENTITY INTEREST		46,944	54,543	43,896	49,373
Minority interests	20	(11)	(9)	-	-
TOTAL EQUITY		46,933	54,534	43,896	49,373

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

for the Year Ended 30 June 2006

	Note	Consolidated		Company	
		2005/006	2004/005	2005/006	2004/005
		\$'000	\$'000	\$'000	\$'000
TOTAL EQUITY AT THE BEGINNING OF THE PERIOD		54,534	52,753	49,373	48,795
Exchange differences on translation of foreign operations	18(a)	813	(2,814)	-	-
Employee share options	18(b)	80	93	80	93
Net income recognised directly in equity		893	(2,721)	80	93
Profit/loss for the year		(11,944)	5,283	(9,007)	1,266
Total recognised income and expense for the period		(11,051)	2,562	(8,927)	1,359
Attributable to:					
Member of the parent		43,485	55,317	40,446	50,154
Minority interest	20	(2)	(2)	-	-
		43,483	55,315	40,446	50,154
Transactions with equity holders in their capacity as equity holders:					
Contributions	17	5,053	3,044	5,053	3,044
Dividends provided for or paid	24	(1,603)	(3,825)	(1,603)	(3,825)
		3,450	(781)	3,450	(781)
TOTAL EQUITY AT THE END OF THE PERIOD		46,933	54,534	43,896	49,373

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2006

	Note	Consolidated		Company	
		2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		181,639	155,693	67,492	70,704
Payments to suppliers and employees		(176,266)	(153,127)	(56,648)	(60,532)
Interest received		114	1,231	1,560	1,231
Borrowing costs paid		(6,157)	(4,926)	(4,349)	(3,350)
Income tax paid		(1,260)	(1,588)	(721)	(641)
Net cash provided by operating activities	21(b)	(1,930)	(2,717)	7,334	7,412
CASH FLOW USED IN INVESTING ACTIVITIES					
Proceeds from sale of plant and equipment		134	167	4,483	157
Payment for plant and equipment		(19,443)	(25,051)	(3,208)	(2,034)
Payment for acquisition of business	21(c)	-	(11,646)	-	(11,646)
Investment in controlled entity		-	-	(6,843)	-
Payment for intangible assets		(1,921)	(2,747)	(1,941)	(2,761)
Amounts advanced to related parties		-	-	(15,341)	(17,383)
Net cash used in investing activities		(21,230)	(39,277)	(22,850)	(33,667)
CASH FLOW FROM FINANCING ACTIVITIES					
Net proceeds from borrowings		8,849	34,560	2,891	22,125
Proceeds from issue of convertible notes		9,000	6,500	9,000	6,500
Proceeds from issue of equity securities		4,681	277	4,681	277
Repayment of principal on finance leases		(219)	(188)	(220)	(186)
Proceeds from/(repayment of principal on) hire purchases		(1,646)	(1,839)	(1,819)	(1,839)
Dividends paid		(1,232)	(2,866)	(1,232)	(2,866)
Net cash provided by financing activities		19,433	36,444	13,301	24,011
Net increase in cash held		(3,727)	(5,550)	(2,215)	(2,244)
Cash at beginning of year		(2,348)	5,430	(1,021)	1,223
Effects of exchange rate changes on items denominated in foreign currencies		(339)	(2,228)	-	-
Cash at end of year	21(a)	(6,414)	(2,348)	(3,236)	(1,021)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

NOTE 1: BASIS OF PREPARATION

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Gale Pacific Limited as an individual parent entity and Gale Pacific Limited and controlled entities as a consolidated entity. Gale Pacific Limited is a company limited by shares, incorporated and domiciled in Australia.

The following is a summary of material accounting policies adopted by the consolidated entity 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, and Gale Pacific Limited as an individual parent entity comply with Australian equivalents to International Financial Reporting Standards (AIFRS).

This is the first annual financial report of Gale Pacific Limited prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS). The financial reports of Gale Pacific Limited were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. A summary of the significant accounting policies under AIFRS is provided below. Reconciliations of equity and operating profit/loss between AGAAP and AIFRS are provided in Notes 32 and 33.

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 27.

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.

Minority interests in the equity and results of the entities that are controlled are shown separately in the consolidated financial report.

(c) Revenue Recognition

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Where a Government grant (including SIP income) 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).

NOTE 1: BASIS OF PREPARATION (cont'd)

(d) Cash and Cash Equivalents

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 two months and net of bank overdrafts.

(e) Inventories

Inventories are measured at the lower of cost and 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.

(f) 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 the 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(i). The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour and an appropriate proportion of fixed and variable overheads.

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
Leasehold improvements	Determined by lease term	Straight Line
Plant and equipment	6.7% - 20.0%	Straight Line
Leased plant and equipment	6.7% - 20.0%	Straight Line
Motor vehicles	20.0%	Straight Line
Office equipment	14.3% - 50.0%	Straight Line

(g) Leases

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 economic entity are classified as finance leases. Finance leases are capitalised, recording at the inception of the lease an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are amortised on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset 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.

NOTE 1: BASIS OF PREPARATION (cont'd)

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 and are brought into account as a reduction of rental expense over the lease term.

(h) 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. (Refer also to notes 32 and 33 regarding first-time adoption of AIFRS).

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.

Research and Development

Research and development costs are charged to profit before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs.

Deferred research and development expenditure is amortised on a straight-line basis over the period during which the related benefits are expected to be realised, once commercial production is commenced but not exceeding three years.

(i) 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.

(j) 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.

A balance sheet approach is adopted under which 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: BASIS OF PREPARATION (cont'd)

(k) Employee Benefits

Provision is made for the economic entity'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 economic entity to an employee superannuation fund and are charged as expenses when incurred.

Share-based payments

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. Under the transitional arrangements for first-time adoption of AIFRS, no expense has been recognised for options granted before 7 November 2002 and/or vested before 1 January 2005. For options granted after 7 November 2002 and vesting after 1 January 2005 the fair value of options at grant date is determined using a Black-Scholes option pricing model, and is recognised as an employee expense over the period during which the employees become entitled to the option. The market value of shares issued to employees for no cash consideration under the employee share scheme is recognized as an expense when the employees become entitled to the shares.

(l) Classification

The group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at each reporting date.

Loans and Receivables

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Financial Liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(m) 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 consolidated entity are translated into functional currency at the rate of exchange ruling at the date of the transaction.

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 re-statement are recognised as revenues and expenses for the financial year.

NOTE 1: BASIS OF PREPARATION (cont'd)

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or re-statement 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 balance sheet.

(n) Comparatives

In accordance with the first-time adoption of AIFRS, comparative information has been reclassified where appropriate through retrospective application of AIFRS to the previous year's results so as to achieve consistency with current year disclosures.

(o) 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.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectation for the future.

Critical accounting estimates and assumptions

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events which could have a material impact on the assets and liabilities in the next financial year are discussed below:

(a) Estimated impairment of goodwill

Goodwill is allocated to cash generating units (CGU's) according to applicable business operations. The recoverable amount of a CGU is based on value-in-use calculations. These calculations are based on projected cash flows approved by management covering a period not exceeding five (5) years. Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future and is based on reasonable growth rates. The present value of future cash flows has been calculated using a discount rate of 12.5% to determine value-in-use. Any business risk has been limited to that which would be commonly anticipated in the current environment.

(b) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
NOTE 3: REVENUE				
Operating activities				
- Sale of goods	165,885	146,850	59,784	67,880
- SIP income	748	718	748	718
- Interest income – other parties	114	1,231	114	1,231
- Interest income – related parties	-	-	1,446	-
- Other revenue	422	211	120	-
Total revenue	167,169	149,010	62,212	69,829

NOTE 4: PROFIT

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

Cost of sales	108,439	87,771	45,146	49,517
Finance costs:				
- Other persons	6,157	4,926	4,349	3,350
Depreciation of non-current assets				
- Leasehold improvements	44	31	21	19
- Plant and equipment	5,690	3,691	2,158	2,401
- Motor vehicles	295	220	148	209
- Office equipment	720	613	240	150
Amortisation of non-current assets				
- Leased plant and equipment	162	289	162	289
- Leased motor vehicles	40	5	40	5
- Patents and trademarks	76	125	73	105
Research and development expenditure				
- Capitalised and amortised	2,445	598	2,445	598
- Expensed as incurred	-	308	-	308
Impairment of non current assets				
- Plant and equipment	1,464	-	728	-
- Goodwill	2,998	-	-	-
Impairment of investment in subsidiary	-	-	5,750	-
Increase/(decrease) in provision for obsolete inventory	3,855	(84)	632	47
Bad and doubtful debts				
- Bad debts written off - trade debtors	36	-	2	-
- Movement in provisions for doubtful debts - trade debtors	(179)	(123)	25	(2)

	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
NOTE 4: PROFIT (cont'd)				
Remuneration of the auditors of parent entity for				
- Auditing the financial report	117	102	117	102
- Taxation services	74	31	74	31
- General review and assistance	-	16	-	16
- Due diligence	-	17	-	17
Remuneration of other auditors of controlled entities – audit services				
- Auditing the financial report	193	115	-	-
- Taxation services	25	22	-	-
- General review and assistance	-	29	-	-
Total remuneration of auditors	409	332	191	166
Foreign currency translation losses/(gains)	984	(398)	984	(398)
Net loss on disposal of non-current assets				
- Plant and equipment	5	32	5	32
Operating lease rental expense	3,713	3,294	2,311	2,462

NOTE 5: TAX

(a) The components of tax expense:

Current tax	1,631	314	712	149
Deferred tax	(5,668)	646	(3,908)	482
Total income tax expense/(benefit)	(4,037)	960	(3,196)	631

(b) The prima facie income tax payable on profit is reconciled to the income tax expense as follows:

Prima facie tax payable on profit before income tax at 30%	(4,794)	1,872	(3,661)	569
Add:				
Tax effect of:				
Tax rate differentials in foreign countries	(271)	(523)	-	-
Impairment of goodwill	899	-	-	-
Tax losses not recognised	1,151	-	1,725	-
Attributed CFC income	303	262	303	262
Other non-allowable/(non-assessable items)	(12)	(443)	(250)	8
Movements in SIP income	(70)	(200)	(70)	(200)
	(2,794)	968	(1,953)	639
Less:				
(Under)/over provision for income tax in prior year	(1,243)	(8)	(1,243)	(8)
Income tax expense/(benefit) attributable to profit from ordinary activities	(4,037)	960	(3,196)	631

	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000

NOTE 5: TAX (cont'd)

(c) Current tax

Current tax asset	1,047	1,239	591	1,034
Current tax liability	344	165	-	-

(d) Deferred tax relates to the following:

Deferred tax liabilities

Accelerated depreciation for tax purposes	(2,788)	(3,550)	(1,526)	(2,014)
Foreign exchange	-	(2,032)	-	(2,032)
Income not derived	(524)	(754)	(524)	(754)
Leases	(55)	(50)	(55)	(50)
Research and development	(698)	(974)	(698)	(974)
Total deferred tax liabilities	(4,065)	(7,360)	(2,803)	(5,824)

Deferred tax assets

Provisions	324	160	240	51
Employee benefits	790	993	263	368
Other	314	50	22	112
Capitalised costs	519	200	263	200
Losses available for offset against future taxable income	2,987	1,158	830	-
Total deferred tax assets	4,934	2,561	1,618	731

Net deferred tax	869	(4,799)	(1,185)	(5,093)
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Represented by

Deferred tax asset	2,054	294	-	-
Deferred tax liability	(1,185)	(5,093)	(1,185)	(5,093)
	869	(4,799)	(1,185)	(5,093)

The entity has partially offset deferred tax assets and deferred tax liabilities where;

- (i) the entity has a legally enforceable right to set off current tax assets and current tax liabilities; and,
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (a) the same taxable entity; or
 - (b) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(e) Deferred income tax assets related to items charged or credited directly to equity

Equity raising costs	128	132	128	132
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	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
NOTE 5: TAX (cont'd)				
(f) Deferred tax assets not brought to account, as it is not probable that future taxable income will be available to utilise these losses.				
Tax losses – Income	1,151	-	-	-
Tax losses – Capital	1,725	-	1,725	-
	<u>2,876</u>	<u>-</u>	<u>1,725</u>	<u>-</u>

(g) Tax losses

The Group has recognised, as a deferred tax asset, income tax losses of \$2,987,000 (2005: \$1,158,000) in the tax jurisdictions where it is probable that future taxable income will be available to utilise these losses

NOTE 6: CASH AND CASH EQUIVALENTS

Cash on hand	2	2	2	2
Cash at bank	10,550	3,963	6,053	-
	<u>10,552</u>	<u>3,965</u>	<u>6,055</u>	<u>2</u>

NOTE 7: RECEIVABLES

CURRENT

Trade debtors	32,243	29,110	4,633	4,442
Less provision for doubtful debts	(135)	(314)	(28)	(3)
	<u>32,108</u>	<u>28,796</u>	<u>4,605</u>	<u>4,439</u>
Other debtors	4,594	3,957	1,809	2,679
	<u>36,702</u>	<u>32,753</u>	<u>6,414</u>	<u>7,118</u>

NON-CURRENT

Amounts receivable from Controlled entities	-	-	55,072	39,731
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NOTE 8: INVENTORIES

CURRENT

Raw materials at cost	4,891	4,121	452	841
Work in progress at cost	4,608	4,794	2,249	3,347
Finished goods at cost	42,334	42,041	9,327	15,193
Less provision for obsolescence	(4,234)	(379)	(771)	(139)
	<u>47,599</u>	<u>50,577</u>	<u>11,257</u>	<u>19,242</u>

NOTE 9: OTHER ASSETS

CURRENT

Prepayments	1,497	1,449	365	377
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NOTE 10: OTHER FINANCIAL ASSETS

NON-CURRENT

Shares in controlled entities at cost	-	-	25,909	24,816
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	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
NOTE 11: PLANT AND EQUIPMENT				
Plant and equipment				
At cost	85,807	67,950	29,034	33,290
Less accumulated depreciation	(19,773)	(14,088)	(11,687)	(11,819)
	<u>66,034</u>	<u>53,862</u>	<u>17,347</u>	<u>21,471</u>
Plant and equipment under lease				
At cost	1,376	1,376	1,376	1,376
Less accumulated amortisation	(661)	(499)	(661)	(499)
	<u>715</u>	<u>877</u>	<u>715</u>	<u>877</u>
Leasehold improvements				
At cost	409	391	318	318
Less accumulated depreciation	(177)	(132)	(122)	(101)
	<u>232</u>	<u>259</u>	<u>196</u>	<u>217</u>
Motor vehicles				
At cost	2,174	1,687	899	912
Less accumulated depreciation	(1,338)	(687)	(535)	(387)
	<u>836</u>	<u>1,000</u>	<u>364</u>	<u>525</u>
Motor vehicles under lease				
At cost	240	32	240	32
Less accumulated amortisation	(43)	(3)	(43)	(3)
	<u>197</u>	<u>29</u>	<u>197</u>	<u>29</u>
Office equipment				
At cost	5,430	3,767	2,082	1,937
Less accumulated depreciation	(3,224)	(2,029)	(1,494)	(1,254)
	<u>2,206</u>	<u>1,738</u>	<u>588</u>	<u>683</u>
Total plant and equipment	<u>70,220</u>	<u>57,765</u>	<u>19,407</u>	<u>23,802</u>

	Note	Consolidated		Company	
		2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
NOTE 11: PLANT AND EQUIPMENT (cont'd)					
Movements in carrying amounts					
Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the year					
Leasehold Improvements					
Balance at the beginning of the year		259	208	217	192
Additions		7	82	-	44
Disposals		-	-	-	-
Depreciation expense		(44)	(31)	(21)	(19)
Impairment loss		-	-	-	-
Net foreign currency movements arising from foreign operations		10	-	-	-
Carrying amount at the end of the year		232	259	196	217
Plant & Equipment					
Balance at the beginning of the year		53,862	27,330	21,471	21,999
Additions		18,492	30,223	3,230	1,873
Disposals		(99)	-	(4,468)	-
Depreciation expense		(5,690)	(3,691)	(2,158)	(2,401)
Impairment loss	11(a)	(1,464)	-	(728)	-
Net foreign currency movements arising from foreign operations		933	-	-	-
Carrying amount at the end of the year		66,034	53,862	17,347	21,471
Leased Plant and Equipment					
Balance at the beginning of the year		877	1,291	877	1,291
Additions/(transfers)		-	(125)	-	(125)
Disposals		-	-	-	-
Depreciation expense		(162)	(289)	(162)	(289)
Net foreign currency movements arising from foreign operations		-	-	-	-
Carrying amount at the end of the year		715	877	715	877
Motor Vehicles					
Balance at the beginning of the year		1,000	1,021	525	792
Additions/(transfers)		65	398	-	133
Disposals		(28)	(199)	(13)	(191)
Depreciation expense		(295)	(220)	(148)	(209)
Net foreign currency movements arising from foreign operations		94	-	-	-
Carrying amount at the end of the year		836	1,000	364	525

	Consolidated		Company	
	2005/06	2004/05	2005/06	2004/05
	\$'000	\$'000	\$'000	\$'000

NOTE 11: PLANT AND EQUIPMENT (cont'd)

Movements in carrying amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the year

Office Equipment

Balance at the beginning of the year	1,738	2,272	683	716
Additions/(transfers)	879	79	153	117
Disposals	(12)	-	(8)	-
Depreciation expense	(720)	(613)	(240)	(150)
Net foreign currency movements arising from foreign operations	321	-	-	-
Carrying amount at the end of the year	<u>2,206</u>	<u>1,738</u>	<u>588</u>	<u>683</u>

Leased Motor Vehicles

Balance at the beginning of the year	29	46	29	46
Additions/(transfers)	208	(12)	208	(12)
Disposals	-	-	-	-
Depreciation expense	(40)	(5)	(40)	(5)
Net foreign currency movements arising from foreign operations	-	-	-	-
Carrying amount at the end of the year	<u>197</u>	<u>29</u>	<u>197</u>	<u>29</u>

(a) Impairment

The impairment charge in the parent entity of \$728,000 arose from the closure of the knitting plant in Braeside, Australia (allocated to the Asia/Pacific reportable segment) and transfer of plant and equipment to the China manufacturing facility. This process identified assets (that were not transferred) to be held below their recoverable amount based on the Directors' assessment of the fair value. The impairment charge represents a write-down to fair value less costs to sell.

The consolidated impairment charge represents a further \$736,000 (Total \$1,464,000) charge to plant and equipment. This arose from the post balance date decision to sell the Jung Garten business, an identified Cash Generating Unit (CGU) in Europe (and allocated to the Europe/Middle East/Africa segment). The post balance date sale of the business identified that the CGU was fully impaired at balance date and required a full write-down of the goodwill allocated to that CGU. The calculated impairment loss exceeded the goodwill write-down, and consequently required a further write-down of assets within the CGU.

	Note	Consolidated		Company	
		2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
NOTE 12: INTANGIBLE ASSETS					
Goodwill at cost		13,928	13,754	4,127	3,836
Less accumulated impairment		(4,437)	(1,439)	(1,054)	(1,054)
		<u>9,491</u>	<u>12,315</u>	<u>3,073</u>	<u>2,782</u>
Patents, trademarks and licenses at cost		1,169	1,072	937	811
Less accumulated amortisation		(500)	(424)	(423)	(350)
		<u>669</u>	<u>648</u>	<u>514</u>	<u>461</u>
Research and development		2,326	3,247	2,326	3,247
		<u>12,468</u>	<u>16,210</u>	<u>5,913</u>	<u>6,490</u>
Reconciliation of Intangible Assets					
Goodwill					
Balance at the beginning of the year		12,315	9,006	2,782	2,776
Net foreign currency movements arising from foreign operations		(120)	-	-	-
Impairment of goodwill	12(a)	(2,998)	-	-	-
Additions		294	3,309	291	6
Carrying amount at the end of the year		<u>9,491</u>	<u>12,315</u>	<u>3,073</u>	<u>2,782</u>
Patents, Trademarks & Licences					
Balance at the beginning of the year		648	635	461	414
Net foreign currency movements arising from foreign operations		(6)	-	-	-
Additions		103	138	126	152
Amortisation expense		(76)	(125)	(73)	(105)
Carrying amount at the end of the year		<u>669</u>	<u>648</u>	<u>514</u>	<u>461</u>
Research & Development					
Balance at the beginning of the year		3,247	1,382	3,247	1,382
Additions		1,524	2,463	1,524	2,463
Amortisation expense		(2,445)	(598)	(2,445)	(598)
Carrying amount at the end of the year		<u>2,326</u>	<u>3,247</u>	<u>2,326</u>	<u>3,247</u>

(a) Impairment

The goodwill impairment charge of \$2,998,000 arose from the post balance date decision to sell the Jung Garten business, an identified Cash Generating Unit (CGU) in Europe (and allocated to the Europe/Middle East/Africa segment). The post balance date sale of the business identified that the CGU was fully impaired at balance date and required a full write-down of the goodwill allocated to that CGU. The calculated impairment loss exceeded the goodwill write-down, and consequently required a further write-down of assets within the CGU, as detailed in Note 11(a).

Note	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000

NOTE 13: PAYABLES

CURRENT

Unsecured liabilities

Trade creditors	16,702	14,398	1,602	3,704
Sundry creditors and accruals	5,952	5,392	2,166	1,451
	<u>22,654</u>	<u>19,790</u>	<u>3,768</u>	<u>5,155</u>

NOTE 14: BORROWINGS

CURRENT

Secured liabilities

Bank overdrafts	21(d)	16,966	6,313	9,291	1,023
Bank loans	21(d)	53,587	51,885	36,620	36,044
Commercial bills	21(d)	9,700	1,600	9,700	1,600
Finance lease liability	25(a)	239	334	239	334
Hire purchase liability	25(b)	1,680	2,115	1,680	2,115
Convertible notes	30(d)	6,500	-	6,500	-
Convertible notes	30(d)	9,000	-	9,000	-
		<u>97,672</u>	<u>62,247</u>	<u>73,030</u>	<u>41,116</u>

NON-CURRENT

Secured liabilities

Bank loans	21(d)	8,848	-	4,015	-
Commercial bills	21(d)	-	9,800	-	9,800
Convertible notes	30(d)	-	6,500	-	6,500
Finance lease liability	25(a)	488	405	488	405
Hire purchase liability	25(b)	2,734	3,945	2,734	3,945
		<u>12,070</u>	<u>20,650</u>	<u>7,237</u>	<u>20,650</u>

NOTE 15: PROVISIONS

CURRENT

Employee entitlements	872	1,226	768	1,152
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NON-CURRENT

Employee entitlements	427	547	73	73
(a) Aggregate employee entitlements liability	1,299	1,773	841	1,225
(b) Number of employees at year end	1,218	1,197	109	196

NOTE 16: FOREIGN CURRENCY BALANCES

The Australian dollar equivalents of foreign currency balances included in the financial statements that are not effectively hedged are as follows:

	Note	Consolidated		Company	
		2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
US Dollars, Euro & NZD					
Receivables					
Current		30,288	24,537	3,553	233
Non-current		-	-	55,017	39,677
	30(e)	<u>30,288</u>	<u>24,537</u>	<u>58,570</u>	<u>39,910</u>
Payables					
Current		71,902	52,140	36,501	37,799
Non-current		2,013	2,382	-	-
	30(e)	<u>73,915</u>	<u>54,522</u>	<u>36,501</u>	<u>37,799</u>

NOTE 17: CONTRIBUTED EQUITY

	Company	
	2005/06 \$'000	2004/05 \$'000
Paid up capital		
55,069,815 fully paid ordinary shares (2005: 51,905,861)	<u>47,124</u>	<u>42,071</u>
Movement in Share Capital		
Shares issued at the beginning of the financial year	42,071	39,027
GST on IPO costs	-	(147)
Costs of capital raising (net of tax)	(162)	-
717,671 shares issued as part of the consideration for acquisition of a business – 15 December 2004	-	1,804
224,490 shares issued under Dividend Reinvestment Plan – 18 October 2004	-	591
427,942 shares issued under the Company option scheme – 29 November 2004	-	428
177,333 shares issued under Dividend Reinvestment Plan – 15 April 2005	-	368
99,969 shares issued under Dividend Reinvestment Plan – 17 October 2005	160	-
2,936,000 shares issued as part of a share placement offer – 9 March 2006	4,844	-
127,985 shares issued under Dividend Reinvestment Plan – 18 April 2006	211	-
	<u>47,124</u>	<u>42,071</u>

NOTE 17: CONTRIBUTED EQUITY (cont'd)

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

A dividend reinvestment plan was established on 5 September 2001, and is available to all shareholders.

Following this year's result, Directors considered it prudent not to pay a final dividend this financial year.

(a) Movement in Share Capital

During the financial year, the Company undertook a capital raising via a private placement on 9 March 2006 where 2,936,000 shares were issued at \$1.65 per share (raising \$4,844,400)

On 18 April 2006, the Company issued 127,985 shares to shareholders under its Dividend Reinvestment Plan at \$1.65 per share.

Subsequent to the financial year, (3 July 2006) the Company raised \$20 million through a combination of a private placement and a Share Purchase Plan where 23,529,412 shares were issued at \$0.85

On 5 July 2006, the Company issued 10,941,177 ordinary shares in conversion of 4,270,271 convertible notes.

On 1 August 2006, the Company issued 7,294,112 ordinary shares in conversion of 2,594,593 convertible notes.

(b) Options

The Company maintains an option scheme for certain staff and executives, including executive Directors, as approved by shareholders at an annual general meeting. The number of unissued ordinary shares under option as at the date of this report is 870,000. The issue price of each option is zero. Each option entitles the option holder to 1 ordinary share in Gale Pacific Limited in the event that the option is exercised.

Of the 870,000 options on issue, 50,000 options were issued on 5 May 2004, 240,000 options were issued under the Company's executive share plan to the Managing Director and Chief Executive Officer, Mr. Peter McDonald on 30 December 2004, as approved by the Company's shareholders at the Company's Annual General Meeting held on 15 November 2004 and 580,000 options were issued on 16 November 2005. The exercise price of the 50,000 options is \$1.50, the exercise price of the 240,000 options is \$3.00, and the exercise price of the 580,000 options is \$1.52. The vesting of options is determined in accordance with specific share price and/or performance hurdles. In the case of the 50,000 options, their vesting is determined by the performance of the Company's share price over time; the vesting of the 240,000 options is determined in accordance with the achievement of certain levels of adjusted weighted average earnings per share of the Company's share price over time and the vesting of the 580,000 options is determined in accordance with the achievement of certain levels of adjusted weighted average earnings per share of the Company's share price over time. The 50,000 options are not exercisable after 1 December 2006, the 240,000 options and the 580,000 options are not exercisable after 1 December 2008. Options carry no rights to dividends and no voting rights.

The principal terms of the issue of the 50,000 options issued to a senior executive of the Company on 5 May 2004 are as follows:

The holder of Options may only exercise the following number of Options on or after 1 September 2005 and no later than 11.59 p.m. on 1 December 2006 on the following conditions:

45% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms provided that at any time before the day on which Options are exercised by the holder, the Market Price on each day for a consecutive period of 30 days on which there was a sale of the Company's shares on the stock market of ASX was equal to or exceeded \$3.20;

NOTE 17: CONTRIBUTED EQUITY (cont'd)

a further 30% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, in addition to any other Options the holder has previously become entitled to exercise, provided that at any time before the day on which Options are exercised by the holder, the Market Price on each day for a consecutive period of 30 days on which there was a sale of the Company's shares on the stock market of ASX was equal to or exceeded \$3.60; and

a further 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, in addition to any other Options the holder has previously become entitled to exercise, provided that at any time before the day on which Options are exercised by the holder, the Market Price on each day for a consecutive period of 30 days on which there was a sale of the Company's shares on the stock market of ASX was equal to or exceeded \$3.95.

The principal terms of the issue of the 240,000 options issued to Mr. Peter McDonald are as follows:

1. The expiry date of the options is 31 December 2008.
2. The holder may, on and from the later of:
 - (A) 1 November 2005; and
 - (B) the date on which the Company lodges its audited financial report (as defined in the *Corporations Act 2001 (Commonwealth)*) for the year ended 30 June 2005 with ASIC and, if the Company is listed, with ASX, exercise:
 - (i) 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share (see below) for the year ended 30 June 2005 increased by 15% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2004; and
 - (ii) a further 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2005 increased by 25% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2004;
3. The holder may, on and from the later of:
 - (A) 1 November 2006; and
 - (B) the date on which the Company lodges its audited financial report (as defined in the *Corporations Act 2001 (Commonwealth)*) for the year ended 30 June 2006 with the ASIC and, if the Company is listed, with ASX,
in addition to any other Options the holder has previously become entitled to exercise:
 - (i) 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2006 increased by 15% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2005; and
 - (ii) a further 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2006 increased by 25% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2005;
4. The holder may, on and from the later of:
 - (A) 1 November 2007; and
 - (B) the date on which the Company lodges its audited financial report (as defined in the *Corporations Act 2001 (Commonwealth)*) for the year ended 30 June 2007 with the ASIC and, if the Company is listed, with ASX,
in addition to any other Options the holder has previously become entitled to exercise:

NOTE 17: CONTRIBUTED EQUITY (cont'd)

- (i) unless the holder has previously become entitled to exercise all of the holder's Options, 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2007 increased by 15% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2006; and
 - (ii) unless the holder has previously, or as a result of becoming entitled to exercise Options under paragraph (3)(B)(i), become entitled to exercise all of the holder's Options, a further 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2007 increased by 25% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2006; and
5. The holder may, on and from the later of:
- (A) 1 November 2008; and
 - (B) the date on which the Company lodges its audited financial report (as defined in the Corporations Act 2001 (Commonwealth)) for the year ended 30 June 2008 with the ASIC and, if the Company is listed, with ASX,
- in addition to any other Options the holder has previously become entitled to exercise:
- (i) unless the holder has previously become entitled to exercise all of the holder's Options, 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2008 increased by 15% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2007; and
 - (ii) unless the holder has previously, or as a result of becoming entitled to exercise Options under paragraph (4)(B)(i), become entitled to exercise all of the holder's Options, a further 25% of the total number of Options (rounded to the nearest whole number) issued to the holder, subject to any adjustments made under clause 5 of these terms, provided that the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2008 increased by 25% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2007.

For the purpose of the above paragraphs "**Adjusted Weighted Average Earnings Per Share**" means:

- (1) for the financial year ended 30 June 2004, 17.85 cents; and
- (2) for any other financial year ("Relevant Financial Year"), the diluted earnings per share of the Company as disclosed in the Company's audited financial report (as defined in the Corporations Act 2001 (Commonwealth)) for the Relevant Financial Year ("Relevant Report"). However, if:
 - (A) there is any change to the accounting standards (as defined in the Corporations Act 2001 (Commonwealth)), including without limitation, as a result of the adoption of International Financial Reporting Standards; and
 - (B) that change results in the earnings specified in the Relevant Report as having been used in the calculation of diluted earnings per share ("Total Earnings") for the Relevant Financial Year being determined on a basis different from that on which Total Earnings for the financial year immediately preceding the Relevant Financial Year ("Prior Year Total Earnings") was determined,

then, for the purpose of:

- (C) calculating Adjusted Weighted Average Earnings Per Share for the Relevant Financial Year; or
- (D) determining whether there has been any increase in Adjusted Weighted Average Earnings Per Share for the Relevant Financial Year over Adjusted Weighted Average Earnings Per Share for the financial year prior to the Relevant Financial Year,

Total Earnings for the Relevant Financial Year or Prior Year Total Earnings must be adjusted to the extent necessary to ensure that Total Earnings for the Relevant Financial Year and Prior Year Total Earnings are determined on the same or a comparable basis.

NOTE 17: CONTRIBUTED EQUITY (cont'd)

The principal terms of the 580,000 options issued to key management on 16 November 2005 are as follows:

- (1) Provided that the Company meets its NPAT target for the financial year ended June 2006 (as evidenced by the Company's Audited Financial Report), the holder may from 12 months after the date the Company lodges with the ASIC and ASX its Audited Financial Report, exercise 50% of the total number of Options.
- (2) Provided that the Adjusted Weighted Average Earnings Per Share of the Company for the year ended 30 June 2007 increases by 15% or more over the Adjusted Weighted Average Earnings Per Share for the year ended 30 June 2006 (as evidenced by the Company's relevant Audited Financial Reports), the holder may from 12 months after the date the Company lodges with the ASIC and ASX its Audited Financial Report, exercise 50% of the total number of Options.

For the purpose of the above paragraphs:

"Adjusted Weighted Average Earnings Per Share" means:

(1) for any financial year ("Relevant Financial Year"), the diluted earnings per share of the Company as disclosed in the Company's Audited Financial Report for the Relevant Financial Year ("Relevant Report"). However, if:

- (A) there is any change to the accounting standards (as defined in the Corporations Act 2001 (Commonwealth), including without limitation, as a result of the adoption of International Financial Reporting Standards; and
- (B) that change results in the earnings specified in the Relevant Report as having been used in the calculation of diluted earnings per share ("Total Earnings") for the Relevant Financial Year being determined on a basis different from that on which Total Earnings for the financial year immediately preceding the Relevant Financial Year ("Prior Year Total Earnings") was determined,

then, for the purpose of:

- (C) calculating Adjusted Weighted Average Earnings Per Share for the Relevant Financial Year; or
- (D) determining whether there has been any increase in Adjusted Weighted Average Earnings Per Share for the Relevant Financial Year over Adjusted Weighted Average Earnings Per Share for the financial year prior to the Relevant Financial Year,

Total Earnings for the Relevant Financial Year or Prior Year Total Earnings must be adjusted to the extent necessary to ensure that Total Earnings for the Relevant Financial Year and Prior Year Total Earnings are determined on the same or a comparable basis.

Options Valuation Assumptions

Options Series	5 May 2004	15 December 2004	16 November 2005
Grant Date Share Price	2.64	3.00	1.60
Exercise Price	1.50	3.00	1.52
Expected Volatility	37%	35%	40%
Option Life			
Tranche 1	2.02 years	2.50 years	2.49 years
Tranche 2	2.05 years	3.00 years	2.99 years
Tranche 3	2.08 years	3.50 years	-
Tranche 4	-	4.00 years	-
Dividend Yield	2.76%	2.47%	2.96%
Risk Free Interest Rate			
Tranche 1	5.39%	4.86%	5.21%
Tranche 2	5.39%	4.87%	5.21%
Tranche 3	5.39%	4.91%	-
Tranche 4	-	4.95%	-

NOTE 17: CONTRIBUTED EQUITY (cont'd)

	Number of options	
	2006 No.	2005 No.
Balance at the beginning of the financial year	610,000	477,942
Granted during the financial year	1,260,000	560,000
Options exercised during the financial year	-	(427,942)
Lapsed during the financial year	(1,000,000)	-
Balance at the end of the financial year	<u>870,000</u>	<u>610,000</u>

As at 30 June 2006, no options on issue were exercisable.

	Note	Consolidated		Company	
		2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
NOTE 18: RESERVES					
Foreign currency reserve		(2,274)	(3,087)	-	-
Share based payment reserve		178	98	178	98
		<u>(2,096)</u>	<u>(2,989)</u>	<u>178</u>	<u>98</u>

(a) Foreign currency reserve					
Opening balance		(3,087)	(273)	-	-
Foreign currency movement on consolidation for the year		813	(2,814)	-	-
Closing balance	1(m)	<u>(2,274)</u>	<u>(3,087)</u>	<u>-</u>	<u>-</u>

(b) Share based payment reserve					
Opening balance		98	5	98	5
Net movement for the year		80	93	80	93
Closing balance		<u>178</u>	<u>98</u>	<u>178</u>	<u>98</u>
Total reserve		<u>(2,096)</u>	<u>(2,989)</u>	<u>178</u>	<u>98</u>

NOTE 19: RETAINED PROFITS

Retained profits at the beginning of the financial year		15,461	14,001	7,204	9,763
Net profit attributable to members of the entity		(11,942)	5,285	(9,007)	1,266
Dividends paid		(1,603)	(3,825)	(1,603)	(3,825)
Retained profits at reporting date		<u>1,916</u>	<u>15,461</u>	<u>(3,406)</u>	<u>7,204</u>

NOTE 20: MINORITY INTERESTS

Minority interest in controlled entities comprises:

Opening balance		(9)	(7)
Net loss attributable to minority interest		(2)	(2)
		<u>(11)</u>	<u>(9)</u>

NOTE 21: CASH FLOW INFORMATION

	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
(a) Reconciliation of cash				
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	2	2	2	2
Cash at bank	10,550	3,963	6,053	-
Bank overdrafts	(16,966)	(6,313)	(9,291)	(1,023)
	<u>(6,414)</u>	<u>(2,348)</u>	<u>(3,236)</u>	<u>(1,021)</u>
(b) Reconciliation of cash flow from operations with profit				
Profit/(loss) after income tax	(11,942)	5,285	(9,007)	1,266
Non-cash flows in profit				
Attributable to minority interest	(2)	(2)	-	-
Loss on disposal of fixed assets	5	32	5	32
Amortisation of intangible assets	2,521	723	2,720	703
Impairment of goodwill	2,998	-	-	-
Depreciation and amortisation of plant and equipment	6,951	4,849	2,567	3,073
Impairment of assets	1,464	-	6,478	
Other	-	(609)	80	(620)
Changes in assets and liabilities:				
(Increase)/decrease in receivables	(3,949)	(5,310)	704	822
Decrease in other assets	(48)	1,704	12	1,570
(Increase) in inventories	2,978	(12,291)	7,985	(2,373)
Increase/(decrease) in payables and accruals	2,391	3,531	(745)	2,954
Increase/(decrease) in provision for tax	371	(1,798)	443	(742)
Increase/(decrease) in deferred tax balance	(5,668)	1,169	(3,908)	727
Net cash inflow/(outflow) provided by operations	<u>(1,930)</u>	<u>(2,717)</u>	<u>7,334</u>	<u>7,412</u>

NOTE 21: CASH FLOW INFORMATION (cont'd)

(c) Acquisition of business

During the 2005 financial year the Company acquired the assets of Donaghys in New Zealand.

Details of the acquisition are as follows:

	Consolidated		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
Consideration				
Cash	-	11,646	-	11,646
Ordinary shares	-	1,804	-	1,804
	-	13,450	-	13,450
Fair value of net assets acquired				
Inventories	-	4,562	-	4,562
Non-current assets				
Plant and equipment	-	6,108	-	6,108
Goodwill	-	3,309	-	3,309
Current liabilities				
Creditors & accruals	-	(529)	-	(529)
Net assets acquired	-	13,450	-	13,450
Less				
Ordinary shares issued	-	1,804	-	1,804
Net cash outflow on acquisition	-	11,646	-	11,646

It is impractical to provide an estimation of revenue and profit/(loss) for the period as though they traded for the whole period.

(d) Multi Option Facility and Bills Discount Facility

The Company has access to a Multi Option Facility (including an AUD overdraft, USD overdraft, Euro overdraft, commercial bills, fixed rate trade advances, documentary credit and trade finance), a Bills Discount Facility and a Bank Guarantee facility to a maximum of \$81,829,000 as at 30 June 2006 (2005 \$72,195,000), leaving an unused facility of \$3,278,000 (2005 \$2,162,000).

This facility is secured by a First Ranking Registered Equitable Mortgage by Gale Pacific Limited over all its assets and undertakings including uncalled capital, and a First Ranking registered Equitable Mortgage by Gale Pacific USA Inc over all its assets and undertakings including uncalled capital and a fixed and floating charge (or equivalent) over all assets of Jung Garten & Freizeit Vertriebsgesellschaft mbH, Gale Europe Vertriebsgesellschaft mbH and Gale Pacific (New Zealand) Limited.

(e) Convertible Notes

The Company issued convertible notes to the value of \$6,500,000 on 9 December 2004, at an interest rate of 8.5% per annum.

The Company issued further convertible notes to the value of \$9,000,000 on 9 September 2005, at an interest rate of 8.8%.

Subsequent to balance date, all notes were converted into ordinary fully paid shares at a conversion price of 85 cents.

NOTE 22: COMPANY DETAILS

The registered office of the Company is: Gale Pacific Limited
145 Woodlands Drive
Braeside Victoria 3195

NOTE 23: DIRECTORS' AND EXECUTIVES' COMPENSATION

The key management personnel of the economic entity who held office during the year were:

Directors

H Boon (Chairman, Non-Executive) – Appointed 25 August 2005

T J Eversteyn (Chairman, Non-Executive) – Resigned 25 August 2005

P R McDonald (Managing Director and Chief Executive Officer) – Appointed Managing Director and Chief Executive Officer 26 April 2006

G S Gale (Non-Executive Director) – Resigned as Managing Director on 26 April 2006, and appointed as non-executive Director on 26 April 2006

D E J Reilly (Non-Executive)

G H Richards (Non-Executive)

Executives

(at date of this report)

F Albertsmeier (Managing Director, Gale Europe)

S Carroll (Managing Director, Gale Australia)

J Cox (Chief Financial Officer)

Z Fakroddin (Regional Manager, Gale Middle East)

C McCallum (Managing Director, Gale New Zealand)

E Xu (Managing Director, Gale China)

Key Management Personnel's Compensation

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 advisers in relation to their structure.

Remuneration packages contain the following key elements:

- a. Salary/fees;
- b. Benefits, including the provision of motor vehicles and superannuation; and
- c. Incentive schemes, including share options under the Executive Share Option Plan as disclosed in note 17 to the Financial Statements.

NOTE 23: DIRECTORS' AND EXECUTIVES' COMPENSATION (cont'd)

2006	Short Term Benefits		Post Employment		Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees	Non Monetary	Super	Prescribed Benefits	Options			Total	Options
	\$	\$	\$	\$	\$	\$	\$	%	%
Executive Director									
G S Gale (i)	371,635	61,964	12,139	-	51,658	102,849	600,245	8.6	8.6
P R McDonald	359,942	62,401	5,171	-	72,580	-	500,094	14.5	14.5
Non-Executive Directors									
H Boon	95,833	-	41,667	-	-	-	137,500	-	-
T J Eversteyn	14,166	-	-	-	-	-	14,166	-	-
D E J Reilly	75,000	-	-	-	-	-	75,000	-	-
G H Richards	65,000	-	-	-	-	-	65,000	-	-
TOTAL	981,576	124,365	58,977	-	124,238	102,849	1,392,005	-	-

2005	Short Term Benefits		Post Employment		Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees	Non Monetary	Super	Prescribed Benefits	Options			Total	Options
	\$	\$	\$	\$	\$	\$	\$	%	%
Executive Director									
G S Gale (i)	396,951	66,500	11,549	-	33,922	-	508,922	6.7	6.7
P R McDonald	269,414	39,037	11,549	-	25,442	-	345,442	7.4	7.4
Non-Executive Directors									
T J Eversteyn	144,992	-	-	-	-	-	144,992	-	-
D E J Reilly	119,124	-	-	-	-	-	119,124	-	-
G H Richards	68,000	-	-	-	-	-	68,000	-	-
TOTAL	998,481	105,537	23,098	-	59,364	-	1,186,480	-	-

2006	Short Term Benefits			Post Employment		Share Based Payments	Total	Performance Related	
	Salary & Fees	Bonus	Non Monetary	Super	Prescribed Benefits	Options		Total	Options
	\$	\$	\$	\$	\$	\$	\$	%	%
J. Cox (ii)	69,833	-	-	6,285	-	-	76,118	-	-
A London (iii)	157,888	-	17,007	10,956	-	6,406	192,257	3.3	3.3
F Albertsmeier (iv)	79,888	-	2,422	4,650	-	-	86,960	-	-
E Jung (v)	255,940	38,538	15,784	4,171	-	-	314,433	12.3	-
S Carroll	208,900	-	27,070	20,527	-	3,950	260,447	1.5	1.5
Z Fakroddin (vi)	148,610	67,549	60,031	-	-	3,950	280,140	25.5	1.4
C McCallum (vii)	198,825	36,357	15,558	-	-	4,938	255,678	16.2	1.9
E Xu (viii)	150,013	24,318	18,919	-	-	48,600	241,850	30.2	20.1
TOTAL	1,269,897	166,762	156,791	46,589	-	67,844	1,707,883	-	-

NOTE 23: DIRECTORS' AND EXECUTIVES' COMPENSATION (cont'd)

2005	Short Term Benefits			Post Employment		Share Based Payments	Total	Performance Related	
	Key Management Personnel	Salary & Fees	Bonus	Non Monetary	Super	Prescribed Benefits		Options	Total
	\$	\$	\$	\$	\$	\$	\$	%	%
A London (ix)	11,694	-	1,700	1,075	-	-	14,469	-	-
L Doddridge (x)	176,458	-	23,077	15,881	-	-	215,416	-	-
E Jung (xi)	222,603	51,370	31,906	6,545	-	-	312,424	16.4	-
Z Fakroddin (vi)	147,200	27,813	20,850	50,850	-	-	246,713	11.3	-
E Xu (viii)	128,958	31,919	61,621	-	-	33,281	255,779	25.5	13.0
D Whyte (xii)	261,815	31,915	34,000	-	-	-	327,730	9.7	-
S Carroll	175,100	-	24,677	15,759	-	-	215,536	-	-
TOTAL	1,123,828	143,017	197,831	90,110	-	33,281	1,588,067	-	-

- (i) Mr. Gale resigned from his role as a Managing Director and Chief Executive Officer on 26 April 2006, and therefore the details of his remuneration for the reporting period are to that date. Mr. Gale was appointed a non-executive director on 26 April 2006 has not received any remuneration in his role as Non-Executive Director.
- (ii) Mr. Cox was appointed as Chief Financial Officer on 1 March 2006 and therefore the details of his remuneration for the reporting period are from that date.
- (iii) Mr. London resigned on 1 March 2006 and therefore the details of his remuneration for the reporting period are to that date.
- (iv) Mr. Albertsmeier was appointed Managing Director Gale Jung and Europe on 1 April 2006 and is based in Germany and remunerated in Euro converted to Australian dollars in the table above.
- (v) Mr. Jung (resigned 31 March 2006) was based in Germany and therefore the details of his remuneration for the reporting period are to that date. He was remunerated in Euro converted to Australian dollars in the table above.
- (vi) Mr. Fakroddin was based in the Middle East and is remunerated in US dollars converted to Australian dollars in the table above.
- (vii) Mr. McCallum is based in New Zealand and is remunerated in New Zealand dollars converted to Australian in the table above.
- (viii) Ms. Xu is based in China and is remunerated in US dollars converted to Australian dollars in the table above.
- (ix) Mr. London was appointed as Chief Financial Officer on 2 June 2005 and therefore the details of his remuneration for the reporting period were from that date.
- (x) Mr. Doddridge resigned from the position of Chief Financial Officer on the 2 June 2005 and therefore the details of his remuneration for the reporting period are to that date.
- (xi) Mr. Jung was based in Germany and was remunerated in Euro converted to Australian dollars in the table above.
- (xii) Mr. Whyte (resigned July 2005) was based in the USA and was remunerated in US dollars converted to Australian dollars in the table above.

Compensation by Category

	Consolidated		Company	
	2005/06	2004/05	2005/06	2004/05
	\$'000	\$'000	\$'000	\$'000
Short-term employment benefits	2,699	2,569	1,587	1,517
Post employment benefits	106	113	97	56
Termination benefits	103	-	103	-
Share-based payments	192	93	135	59
	3,100	2,775	1,922	1,632

NOTE 23: DIRECTORS' AND EXECUTIVES' COMPENSATION (cont'd)

Directors' Equity Holdings

Fully Paid Ordinary Shares	Balance 1 July 2005	Received as Remuneration	Options Exercised	Net Change	Balance 30 June 2006
Executive Directors					
G S Gale	15,329,709	-	-	70,000	15,399,709
P R Mc Donald	306,295	-	-	28,419	334,714
Non Executive Directors					
H Boon	-	-	-	73,000	73,000
D E J Reilly	316,065	-	-	107,076	423,141
G H Richards	57,778	-	-	21,073	78,851
Total	16,009,847	-	-	299,568	16,309,415

Directors' and Executives' Equity Holdings

Compensation Options: Granted and vested during the year

Share Options – Key Management Personnel	Vested Number	Granted Number	Grant Date	Value per option at grant date	Terms and conditions for each grant			
					Exercise Price \$	Expiry Date	First Exercise Date	Last Exercise Date
Executive Directors								
P R McDonald	-	-	-	-	-	-	-	-
G S Gale	-	-	-	-	-	-	-	-
Non Executive Directors								
None	-	-	-	-	-	-	-	-
Executives								
S Carroll	-	80,000	16/11/2005	\$0.445	\$1.52	1/12/2008	28/9/2007	1/12/2008
Z Fakroddin	-	80,000	16/11/2005	\$0.445	\$1.52	1/12/2008	28/9/2007	1/12/2008
A London	-	80,000	16/11/2005	\$0.445	\$1.52	1/12/2008	28/9/2007	1/12/2008
C McCallum	-	100,000	16/11/2005	\$0.445	\$1.52	1/12/2008	28/9/2007	1/12/2008
E Xu	-	-	-	-	-	-	-	-
Total		340,000						

NOTE 23: DIRECTORS' AND EXECUTIVES' COMPENSATION (cont'd)

Share Options – Key Management Personnel	Balance 1 July 2005	Received as Remuneration	Options Exercised	Options Lapsed	Balance 30 June 2006	Total Vested 30 June 2005	Total exercisable 30 June 2006
Executive Directors							
P R Mc Donald	240,000	-	-	-	240,000	-	-
G S Gale	320,000	-	-	320,000	-	-	-
Non Executive Directors							
None	-	-	-	-	-	-	-
Executives							
S Carroll	-	80,000	-	40,000	40,000	-	-
Z Fakroddin	-	80,000	-	40,000	40,000	-	-
A London	-	80,000	-	80,000	-	-	-
C McCallum	-	100,000	-	50,000	50,000	-	-
E Xu	50,000	-	-	-	50,000	-	-
Total	610,000	340,000	-	530,000	420,000	-	-

Directors acquired shares through the Dividend Reinvestment Plan on the same terms and conditions available to other shareholders.

REMUNERATION PRACTICES

The Company 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 Company. The contracts of service between the Company 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, stock options and other incentive payments are made at the discretion of the Remuneration Committee to key executives of the Company based predominantly on an objective review of the Company'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.

Options issued to executives as a form of compensation are dependant upon the performance conditions outlined in note 17(b). Cash bonuses granted to executives are based on the respective performance of their regional business unit. Bonuses are paid out at various times during the year and are determined at the discretion of the Remuneration Committee.

	2005/06		2004/05	
	Cents per Share	Total \$'000	Cents per Share	Total \$'000

NOTE 24: DIVIDENDS

Ordinary Shares

Interim dividend – fully franked	1.5	779	4.0	2,015
Final dividend – fully franked	1.5	824	3.5	1,810
		1,603		3,825
Adjusted franking account balance		508		723

Since the end of the financial year, Directors have not declared a final dividend.

NOTE 25: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated		Company	
		2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
(a) Finance Leasing Commitments					
Payable					
- not later than one year		444	389	444	389
- later than one year and not later than five years		691	603	691	603
Minimum lease payments		1,135	992	1,135	992
Less future finance charges		(408)	(253)	(408)	(253)
Total lease liability		727	739	727	739
Represented by:					
Current liability	14	239	334	239	334
Non-current liability	14	488	405	488	405
		727	739	727	739

The consolidated entity leases production plant and equipment under finance leases expiring from one to five years. At the end of the lease term the consolidated entity has the option to purchase the equipment deemed to be a bargain purchase option.

(b) Hire Purchase Commitments

Payable					
not later than one year		2,002	2,186	2,002	2,186
later than one year and not later than five years		2,909	4,252	2,909	4,252
Minimum hire purchase payments		4,911	6,438	4,911	6,438
Less future finance charges		(497)	(378)	(497)	(378)
Total hire purchase liability		4,414	6,060	4,414	6,060
Represented by:					
Current liability	14	1,680	2,115	1,680	2,115
Non-current liability	14	2,734	3,945	2,734	3,945
		4,414	6,060	4,414	6,060

(c) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the accounts:

Payable					
- not later than one year		3,156	3,860	1,818	2,532
- later than one year and not later than five years		6,146	7,334	2,007	2,987
- later than five years		3,321	4,014	171	-
		12,623	15,208	3,996	5,519

The Company leases property and equipment under operating leases expiring in 1 to 10 years. Leases of property generally provide the Company with a right of renewal at which time all leases are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on the consumer price index.

NOTE 26: RELATED PARTY TRANSACTIONS

Equity Investments in Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 27 to the financial statements.

Directors' Remuneration

Details of Directors' remuneration are disclosed in Note 23.

(a) Directors' Equity Holdings

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		Company	
	2005/06 \$'000	2004/05 \$'000	2005/06 \$'000	2004/05 \$'000
Current	5	11	5	11

Mr. T Eversteyn was a Partner of the chartered accounting firm Bentleys MRI. In addition to Directors fees received (and disclosed in Note 23) Bentleys MRI provided other business services during the year ended 30 June 2006 to Gale Pacific Limited. The value of services provided was \$10,000 (2005: \$68,329).

During the financial year, key management personnel and their Director-related entities purchased goods, which were domestic or trivial in nature, from the Company on the same terms and conditions available to other employees and customers.

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.

Amounts receivable from entities in the wholly-owned group are disclosed in Note 7. These amounts are repayable at call, and interest is charged on outstanding balances.

Transactions that occurred during the financial year between entities in the wholly owned group were:

- Sale and purchase of goods at cost plus mark up of up to 20%. Total value of these purchases were \$22,958,000 (2005: \$22,837,000)
- Reimbursement of certain operating costs including interest charges of \$1,446,000 (2005: \$1,231,000).
- Plant and equipment transferred at written down value \$3,274,260.

(b) Transactions With Non-wholly Owned Controlled Entity

Transactions that occurred during the financial year with a non-wholly owned controlled entity were:

- Net sales of goods at cost of \$139,000 (2005: \$22,000).

NOTE 27: CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest (%)	
		2005/06	2004/05
Parent Entity:			
Gale Pacific Limited	Australia	-	-
Controlled Entities:			
Gale Pacific USA Inc.	USA	100%	100%
Gale Pacific FZE	United Arab Emirates	100%	100%
Aquaspan Pty Ltd	Australia	50%	50%
Gale Pacific Special Textiles Company Limited	China	100%	100%
Jung Garten & Freizeit Vertriebsgesellschaft mbH	Germany	100%	100%
Gale Europe Vertriebsgesellschaft mbH	Germany	100%	100%
Gale Pacific (New Zealand) Limited	New Zealand	100%	100%

NOTE 28: SEGMENT REPORTING

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Inter-segment pricing is predominantly determined on an arm's length basis.

Geographical segment

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The consolidated entity comprises the following main geographical segments, based on the consolidated entity's management reporting system:

Asia/Pacific	Manufacturing and distribution facilities are located in Australia, China and New Zealand which supplies products to Australia, New Zealand, Europe, USA and the Middle East. Sales offices are located in all states in Australia and through distribution agreements in New Zealand.
Americas	Sales offices are located in Florida and custom-awning manufacturing and distribution facilities are located in California which service the North American region.
Europe/Middle East/Africa	Sales offices and distribution facilities are located in the United Arab Emirates and Germany which service those regional markets
Business Segment	The consolidated entity operates predominantly in one business segment, being the advanced polymer fabrics industry. The consolidated entity manufactures and markets advanced durable knitted and woven polymer fabrics and value added structures made from these fabrics. With the 2004 acquisition of "Jung" the Company marketed domestic garden products to the home hardware sector in Europe. Subsequent to balance date, the Jung business has been sold.

NOTE 28: SEGMENT REPORTING (cont'd)

Primary Reporting – Geographical Segments

	Asia/ Pacific	Americas	Europe/ Middle East/Africa	Eliminations	Consolidation
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2006					
Revenue outside the economic entity	80,402	22,511	64,256	-	167,169
Inter-segment revenue	32,703	-	-	(32,703)	-
Total revenue	113,105	22,511	64,256	(32,703)	167,169
Segment operating profit/(loss)	(10,954)	340	(5,202)	(165)	(15,981)
Income tax (expense)/benefit	2,931	(145)	1,278	(27)	4,037
Operating profit/(loss) after tax	(8,023)	195	(3,924)	(192)	(11,944)
Depreciation and amortisation	8,198	453	940	(119)	9,472
Individually significant items					
Reimbursement of R&D expenditure	748	-	-	-	748
Impairment of assets	(728)	-	(3,734)	-	(4,462)
Segment assets	117,313	14,099	48,622	1,790	181,824
Unallocated assets					333
Total assets					182,157
Segment liabilities	119,958	1,360	13,001	-	134,319
Unallocated liabilities					905
Total liabilities					135,224
Acquisition of non-current assets	17,749	583	1,319	-	19,651
30 June 2005					
Revenue outside the economic entity	69,812	15,430	63,768	-	149,010
Inter-segment revenue	32,625	-	-	(32,625)	-
Total revenue	102,437	15,430	63,768	(32,625)	149,010
Segment operating profit/ (loss)	5,850	(959)	1,609	(257)	6,243
Income tax (expense)/benefit	(932)	351	(576)	197	(960)
Operating profit/(loss) after tax	4,918	(608)	1,033	(60)	5,283
Depreciation and amortisation	4,892	211	181	288	5,572
Individually significant items					
Reimbursement of R&D expenditure	718	-	-	-	718
Segment assets	109,490	11,722	39,769	3,109	164,090
Unallocated assets					294
Total assets					164,384
Segment liabilities	93,491	878	10,628	-	104,997
Unallocated liabilities					4,853
Total liabilities					109,850
Acquisition of non-current assets	27,157	596	2,892	-	30,645

NOTE 29: EARNINGS PER SHARE

	Company 2005/06	2004/05
Earnings used in the calculations of basic and diluted earnings per share	(\$11,942,000)	\$5,285,000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	52,910,527	51,189,261
Weighted average number of share options on issue during the year	1,305,123	52,516
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	54,215,650	51,241,777

NOTE 30: FINANCIAL INSTRUMENTS

(a) Financial instruments

Derivative financial instruments may be used by the economic entity to limit exposure to exchange rate risk associated with foreign currency borrowings. The derivative financial instruments are recognised in the financial statements. Transactions to reduce foreign currency exposure are undertaken without the use of collateral as the Company only deals with reputable institutions with sound financial positions.

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

(c) Net Fair Values

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

NOTE 30: FINANCIAL INSTRUMENTS (cont'd)

(d) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

30 June 2006	Note	Weighted Average Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non Interest Bearing \$'000	Total \$'000	Maturing		
							1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000
Financial assets									
Cash assets	6	5.5%	10,550	-	2	10,552	10,552	-	-
Receivables	7	-	-	-	36,702	36,702	36,702	-	-
			10,550	-	34,704	47,254	47,254	-	-
Financial liabilities									
Payables	13	-	-	-	22,654	22,654	22,654	-	-
Bank overdrafts and loans	14	8.1%	16,966	-	-	16,966	16,966	-	-
Bank loan	14	9.1%	-	4,697	-	4,697	682	4,015	-
Bank loan	14	6.2%	57,739	-	-	57,739	52,905	4,834	-
Commercial bills	14	6.0%	-	1,200	-	1,200	1,200	-	-
Commercial bills	14	6.2%	-	1,900	-	1,900	1,900	-	-
Commercial bills	14	6.2%	6,600	-	-	6,600	6,600	-	-
Convertible notes	14	8.5%	-	6,500	-	6,500	6,500	-	-
Convertible notes	14	8.8%	-	9,000	-	9,000	9,000	-	-
Lease liabilities	14	7.5%	-	727	-	727	239	488	-
Hire purchase liabilities	14	8.2%	-	4,414	-	4,414	1,680	2,734	-
Employee entitlements	15	-	-	-	1,299	1,299	872	427	-
			81,305	28,437	23,953	133,695	121,198	12,498	-

30 June 2005	Note	Weighted Average Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non Interest Bearing \$'000	Total \$'000	Maturing		
							1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000
Financial assets									
Cash assets	6	5.4%	3,963	-	2	3,965	3,965	-	-
Receivables	7	-	-	-	32,753	32,753	32,753	-	-
			3,963	-	32,755	36,718	36,718	-	-
Financial liabilities									
Payables	13	-	-	-	19,790	19,790	19,790	-	-
Bank overdrafts and loans	14	5.5%	6,313	-	-	6,313	6,313	-	-
Commercial bills	14	5.5%	51,885	-	-	51,885	51,885	-	-
Commercial bills	14	6.0%	-	2,300	-	2,300	1,000	1,300	-
Commercial bills	14	6.3%	-	2,500	-	2,500	600	1,900	-
Commercial bills	14	6.0%	6,600	-	-	6,600	-	6,600	-
Convertible notes	14	8.5%	-	6,500	-	6,500	-	6,500	-
Lease liabilities	14	7.5%	-	739	-	739	334	405	-
Hire purchase liabilities	14	8.2%	-	6,060	-	6,060	2,115	3,945	-
Employee entitlements	15	-	-	-	1,773	1,773	1,226	547	-
			64,798	18,099	21,563	104,460	83,263	21,197	-

NOTE 30: FINANCIAL INSTRUMENTS (cont'd)

(e) Forward Exchange Contracts

The consolidated entity enters into forward exchange contracts to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated entity against unfavourable exchange rate movements for both the contracted and anticipated future sales and purchases undertaken in foreign currencies.

The full amount of the foreign currency the consolidated entity will be required to pay or purchase when settling the brought forward exchange contracts should the counterparty not pay the currency it is committed to deliver to the consolidated entity has been recognised in the Company's balance sheet. At balance date the net amount payable was \$78,169.

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

At balance date, the details of outstanding forward exchange contracts are:

	2005/06 \$'000	2004/05 \$'000	2005/06 Average Exchange Rate	2004/05 Average Exchange Rate
Buy United States Dollars				
Settlement				
Less than 6 months	1,620	-	0.7405	-
Buy Euro				
Settlement				
Less than 6 months	74	-	0.6075	-
Buy United States Dollars				
Settlement				
Less than 6 months	955	-	1.2133	-

NOTE 31: SUBSEQUENT EVENTS

In July 2006, the Company completed a \$20 million capital raising via a combination of a share purchase plan and a private placement resulting in the Company issuing 23,529,412 ordinary fully paid shares at a price of 85 cents. In addition, the Company negotiated with holders of convertible notes issued by the Company in December 2004 and September 2005 to convert the notes into ordinary fully paid shares at a conversion price of 85 cents. 18,235,289 shares were issued in conversion of 6,864,864 notes. The Company's shareholders approved the above share issues at the Company's Extraordinary General Meeting held on 30 June 2006.

On 5 September 2006, the Company announced that it had sold its German garden products distribution business, Jung Garten, and that it had received cash for the sale of approximately \$12.5 million and a further \$1.5 million receivable in October 2006.

Other than the matter discussed 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 consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

NOTE 32: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Entities complying with AIFRS for the first time are required to restate their comparative financial statements to reflect the application of AIFRS. The majority of AIFRS transition adjustments will be made retrospectively against opening retained earnings as at 1 July 2004.

Set out below are the key areas where accounting policies are expected to change on adoption of IFRS and are management's best estimate at date of preparing 30 June 2006. These figures may change due to ongoing work by management and potential amendments to

AIFRS, and emerging practice in respect to interpretation and application of AIFRS.

NOTE 32: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

FIRST-ADOPTION OF AIFRS - RECONCILIATION OF EQUITY REPORTED UNDER AGAAP TO EQUITY UNDER AIFRS

(a) At the date of transition of AIFRS - 1 July 2004

	Consolidated			Company		
	AGAAP \$'000	Adjustment \$'000	AIFRS \$'000	AGAAP \$'000	Adjustment \$'000	AIFRS \$'000
CURRENT ASSETS						
Cash and cash equivalents	6,710	-	6,710	2,513	-	2,513
Receivables	28,605	-	28,605	8,932	-	8,932
Inventories	34,093	-	34,093	16,886	-	16,886
Other	1,058	-	1,058	512	-	512
TOTAL CURRENT ASSETS	70,466	-	70,466	28,843	-	28,843
NON-CURRENT ASSETS						
Plant and equipment	32,168	-	32,168	25,036	-	25,036
Intangible assets	11,023	-	11,023	4,571	-	4,571
Deferred tax assets	346	-	346	-	-	-
TOTAL NON-CURRENT ASSETS	43,537	-	43,537	29,607	-	29,607
TOTAL ASSETS	114,003	-	114,003	58,450	-	58,450
CURRENT LIABILITIES						
Payables	15,942	-	15,942	6,557	-	6,557
Short term borrowings	20,783	-	20,783	17,386	-	17,386
Current tax liabilities	724	-	724	-	-	-
Provisions	989	-	989	936	-	936
TOTAL CURRENT LIABILITIES	38,438	-	38,438	24,879	-	24,879
NON-CURRENT LIABILITIES						
Long term borrowings	18,046	-	18,046	18,046	-	18,046
Deferred tax liabilities	4,213	442	4,655	3,923	442	4,365
Provisions	110	-	110	110	-	110
TOTAL NON-CURRENT LIABILITIES	22,369	442	22,811	22,079	442	22,521
TOTAL LIABILITIES	60,807	442	61,249	46,958	442	47,400
NET ASSETS	53,196	(442)	52,754	11,492	(442)	11,050
EQUITY						
Contributed equity	38,899	128	39,027	38,899	128	39,027
Reserves	(273)	5	(268)	-	5	5
Retained profits	14,576	(575)	14,001	10,338	(575)	9,763
PARENT ENTITY INTEREST	53,202	(442)	52,760	49,237	(442)	48,795
Minority interest	(6)	-	(6)	-	-	-
TOTAL EQUITY	53,196	(442)	52,754	49,237	(442)	48,795

NOTE 32: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

(b) At the end of the last annual reporting period under AGAAP - 30 June 2005

	Consolidated			Company		
	AGAAP \$'000	Adjustment \$'000	AIFRS \$'000	AGAAP \$'000	Adjustment \$'000	AIFRS \$'000
CURRENT ASSETS						
Cash & cash equivalents	3,965	-	3,965	2	-	2
Receivables	32,753	-	32,753	7,118	-	7,118
Inventories	50,577	-	50,577	19,242	-	19,242
Current tax asset	1,239	-	1,239	1,034	-	1,034
Other	1,449	-	1,449	377	-	377
TOTAL CURRENT ASSETS	89,983	-	89,983	27,773	-	27,773
NON-CURRENT ASSETS						
Receivables	-	-	-	39,731	-	39,731
Other financial assets	-	-	-	24,816	-	24,816
Plant and equipment	57,765	-	57,765	23,802	-	23,802
Intangible assets	15,715	495	16,210	6,293	197	6,490
Deferred tax assets	294	-	294	-	-	-
TOTAL NON-CURRENT ASSETS	73,774	495	74,269	94,642	197	94,839
TOTAL ASSETS	163,757	495	164,252	122,415	197	122,612
CURRENT LIABILITIES						
Payables	19,790	-	19,790	5,155	-	5,155
Short term borrowings	62,247	-	62,247	41,116	-	41,116
Current tax liabilities	165	-	165	-	-	-
Provisions	1,226	-	1,226	1,152	-	1,152
TOTAL CURRENT LIABILITIES	83,428	-	83,428	47,423	-	47,423
NON-CURRENT LIABILITIES						
Long term borrowings	20,650	-	20,650	20,650	-	20,650
Deferred tax liabilities	4,853	240	5,093	4,853	240	5,093
Provisions	547	-	547	73	-	73
TOTAL NON-CURRENT LIABILITIES	26,050	240	26,290	25,576	240	25,816
TOTAL LIABILITIES	109,478	240	109,718	72,999	240	73,239
NET ASSETS	54,279	255	54,534	49,416	(43)	49,373
EQUITY						
Contributed equity	41,939	132	42,071	41,939	132	42,071
Reserves	(3,087)	98	(2,989)	-	98	98
Retained profits	15,436	25	15,461	7,477	(273)	7,204
PARENT ENTITY INTEREST	54,288	255	54,543	49,416	(43)	49,373
Minority interests	(9)	-	(9)	-	-	-
TOTAL EQUITY	54,279	255	54,534	49,416	(43)	49,373

NOTE 32: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

(i) Share Based Options

Under AASB 2 Share-based payments, the Company is required to expense the fair value of share rights and awards granted to employees as remuneration over the vesting period. This standard applies to all share rights and awards issued after 7 November 2002 which have not vested as at 1 January 2005 with a corresponding increase in a share-based payment reserve. Options are granted to senior executives of Gale Pacific Limited as part of the performance based package. The fair value and other details on share options are disclosed in the Remuneration Report.

(ii) Goodwill

Under AASB 3 Business Combinations, amortisation of goodwill will no longer be able to be amortised and will be replaced by impairment testing on an annual basis. Impairment testing will focus on the discounted cash flows of the related cash generating units.

This resulted in a change to the accounting policy, whereby goodwill was amortised on a straight line basis over the period during which the benefits are expected to arise but not exceeding 20 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired.

(iii) Impairment of Assets

AASB136 Impairment of Assets determines the recoverable amount of cash generating units (CGUs) by assessing the higher of net selling price and value in use. This resulted in a change to the accounting policy, whereby undiscounted expected net cash flows used in determining the recoverable amounts of non-current assets.

Gale Pacific Limited describes CGUs as a group of assets working together to generate cash flows. Those CGUs were defined, the impairment testing policy was reassessed and assets tested for impairment as at 30 June 2005. The assessment required no write down in the 2005 financial year.

(iv) Foreign Currency

Under AASB 121 The Effect of Changes in Foreign Exchange Rates, each entity in the consolidated entity determines its functional currency, being the currency of the primary economic environment in which the entity operates. Each entity maintains its books and records in its functional currency.

Foreign operations are translated into the function currency of the consolidated entity based on an average rate for the profit and loss, and the exchange rate at reporting date for the balance sheet. Foreign exchange differences arising on translation are recognised directly in a separate reserve component of equity.

There are no expected changes in functional currency for the Company or its overseas entities.

(v) Income Taxes

Under AIFRS a balance sheet approach has been adopted under which temporary differences are identified for each asset and liability rather than the accounting for the effect of timing and permanent differences between taxable and account profit. A deferred tax asset is recognised for tax losses where their realisation is considered probable.

Note 33: FIRST-ADOPTION OF AIFRS - RECONCILIATION OF PROFIT REPORTED UNDER AGAAP TO PROFIT UNDER AIFRS

(a) Reconciliation of profit for the year ended 30 June 2005

	AGAAP \$'000	Consolidated Adjustment \$'000	AIFRS \$'000	AGAAP \$'000	Company Adjustment \$'000	AIFRS \$'000
Revenue						
Sales revenue	146,850	-	146,850	67,880	-	67,880
Other income	2,327	(167)	2,160	2,106	(157)	1,949
	149,177	(167)	149,010	69,986	(157)	69,829
Changes in inventories of finished goods and work in progress	(16,484)	-	(16,484)	2,356	-	2,356
Raw materials, consumables and other cost of sale	(58,114)	-	(58,114)	(35,785)	-	(35,785)
Employee benefits expense	(21,731)	(93)	(21,824)	(12,853)	(93)	(12,946)
Depreciation and amortisation expenses	(6,067)	495	(5,572)	(3,973)	197	(3,776)
Finance costs	(4,926)	-	(4,926)	(3,350)	-	(3,350)
Operating overheads	(33,734)	167	(33,567)	(12,895)	157	(12,738)
Other expense	(2,280)	-	(2,280)	(1,693)	-	(1,693)
Profit before income tax	5,841	402	6,243	1,793	104	1,897
Income tax (expense)/income tax benefit	(1,158)	-	(960)	(829)	198	(631)
Profit for the year	4,683	600	5,283	964	302	1,266
Profit attributable to minority interests	2	-	2	-	-	-
Profit attributable to the members of the parent	4,685	600	5,285	964	302	1,266

(b) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

Additional Stock Exchange Information

Number of Holdings of Equity Securities as at 18 September 2006

The fully paid issued capital of the Company consisted of 96,834,516 ordinary fully paid shares held by 1,167 shareholders. Each share entitles the holder to one vote.

Thirty-three option holders hold 870,000 options over ordinary shares. Options do not carry a right to vote.

Distribution of Holders of Equity Securities

Size of Shareholding	Number of Shareholders	
	Fully Paid Ordinary Shares	Options Over Ordinary Shares
1 – 1,000	167	-
1,001 - 5,000	427	-
5,001 - 10,000	230	-
10,001 - 100,000	300	32
100,001 and over	43	1
	<hr/> 1,167	<hr/> 33
	<hr/>	<hr/>
Holdings less than a marketable parcel	96	-
	<hr/>	<hr/>

Substantial Shareholders as at 18 September 2006

Shareholder	No.	%
Gary Stephen Gale (i)	15,399,709	15.90%
Gale Australia Pty Ltd (ii)	13,927,844	14.46%
Barbara Gale (ii)	13,927,844	14.46%
UBS Nominees Pty Ltd	14,031,101	14.19%
Thorney Holdings Pty Ltd (iii)	13,316,632	13.75%
Monterrey Investment Management Limited	11,147,453	11.51%
Regal Funds Management Pty Ltd	9,651,101	9.97%
Equisuper Pty Ltd	5,572,797	5.75%

- (i) The substantial shareholding for Gary Stephen Gale includes the shares held by Gale Australia Pty Ltd and Barbara Gale (see note (ii) below).
- (ii) The substantial shareholdings for Gale Australia Pty Ltd and Barbara Gale relate to the same shares.
- (iii) The substantial shareholding of Thorney Holdings Pty Ltd includes holdings of Invia Custodian Pty Ltd, being numbers 2, and 14 on the schedule of Twenty Largest Holders of Quoted Equity Securities and includes a holding that is outside of the top twenty holdings.

Additional Stock Exchange Information (cont'd)

Twenty Largest Holders of Quoted Equity Securities as at 18 September 2006

1	GALE AUSTRALIA PTY LTD	13,927,844	14.38
2	INVIA CUSTODIAN PTY LIMITED <THIRTY FIVE A/C>	12,247,396	12.65
3	ANZ NOMINEES LIMITED <CASH INCOME A/C>	8,934,736	9.23
4	UBS NOMINEES PTY LTD	8,414,617	8.69
5	NATIONAL NOMINEES LIMITED	7,207,665	7.44
6	CITICORP NOMINEES PTY LIMITED	6,530,194	6.74
7	NATIONAL NOMINEES LIMITED <EQUIPSUPER ACCOUNT>	5,572,797	5.75
8	ANZ NOMINEES LIMITED <INCOME REINVEST PLAN A/C>	5,455,987	5.63
9	EQUITY TRUSTEES LIMITED <SGH PI SMALLER CO'S FUND>	3,978,058	4.11
10	NATIONAL AUSTRALIA TRUSTEES LIMITED	1,577,353	1.63
11	CONTEMPLATOR PTY LTD <A R G PENSION FUND A/C>	1,176,471	1.21
12	RUMINATOR PTY LTD	982,352	1.01
13	J P MORGAN NOMINEES AUSTRALIA LIMITED	835,857	0.86
14	INVIA CUSTODIAN PTY LIMITED <WHITE A/C>	801,938	0.83
15	MRS ANNE LESLEY GALE	773,923	0.80
16	GWYNVILL TRADING PTY LIMITED	716,213	0.74
17	COGENT NOMINEES PTY LIMITED <SMP ACCOUNTS>	690,235	0.71
18	ATKONE PTY LTD	588,234	0.61
19	WOMBY INVESTMENTS PTY LTD	570,957	0.59
20	CITICORP NOMINEES PTY LIMITED <CFSIL CWLTH BOFF SUPER A/C>	530,580	0.55
		81,513,407	84.16

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, Victoria 3195, Tel: (03) 9518 3333

The Company is listed on the Australian Stock Exchange. The home exchange is Melbourne.

Registers of securities are held by Computershare Investor Services Pty Ltd, Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067, Tel: Local call 1300 850 505 International call + 613 9415 4000