ANNUAL REPORT 2007

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 George Richards (Non Executive Director)
Mr John Murphy (Non Executive Director)

Company Secretary

Ms Sophie Karzis

Registered Office

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

Solicitors

Norton Gledhill
Level 23, 459 Collins Street, Melbourne, Victoria, 3000
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Share Register

Computershare
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067
Local call 1300 850 505
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Auditor

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www.galepacific.com

TABLE OF CONTENTS

REPORT FROM THE CHAIRMAN AND THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

3 - 8

REPORT FROM THE CHAIRMAN AND THE MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Dear Shareholders,

The Year in Review

In last year's Annual Report, we reported that the Gale Pacific Group was in the progress of a challenging review of its strategy designed to ensure that the Group had a strengthened and stable platform to fund its future growth plans and operations. It is pleasing to report that this review, and the restructuring that has occurred consequently, is now complete.

The restructuring initiatives that have been taken during the year have led to the improvement in our balance sheet, strengthening of our management team and systems, and improvements in many operational areas within the business. Debt levels have been substantially reduced, efficiency levels in our China operation have increased, improvements have been made to working capital management, there is a renewed focus on research and development activities, and our senior management team is now in place worldwide.

A concentrated effort was made to streamline the business and to ensure that the Group's cost structure is better matched to projected revenue generation.

This resulted in 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. In addition, the German garden product distribution business, Jung, was sold in September 2006. After a detailed review, it was concluded that the New Zealand manufacturing operations should be transferred to the China manufacturing plant as this would assist the Group to operate more efficiently. The New Zealand plant is expected to be fully integrated into the China plant by early next calendar year.

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

Net proceeds from the equity placement were used to reduce long-term debt and provide working capital to assist in the growth of the Group.

Revenue

Sales revenues from continuing activities declined by 1.6% or $1.8 million to $110.4 million due mainly to foreign exchange differences year on year in consolidation of the accounts.

Operations

Asia / Pacific

Australia

Sales revenue in our Australian business increased by approximately 5%, or $2.6 million highlighted by a 15% increase in sales to retail channels, double digit growth in all major retail product categories and increased sales with all of our major retail customers. Strong export sales to Japan were achieved resulting from a new product range we developed in conjunction with our Japanese distributor. The ongoing drought resulted in tough market conditions in the agricultural sector, causing a reduction of sales in the commercial and industrial fabrics segment of approximately 15% on the previous year. Most of these sales losses were in the coated fabrics product range and were a direct result of these market conditions.

During the year we implemented new supply chain initiatives to improve forecasting and production planning which resulted in inventory reductions year on year. Selective price increases were implemented to offset the impact of global raw material increases which continue to challenge our business.

New Zealand

Sales in New Zealand remained flat compared with the previous year, with margin pressure continuing as a result of increased import competition, exacerbated by a strong New Zealand dollar. These factors, combined with the need to operate manufacturing plants at maximum efficiency levels all year round, led to the decision announced recently to relocate the New Zealand plant to the Group's wholly owned facility in Beilun, China. The plant relocation project is now well underway with the first pieces of equipment shipped to China at the end of August 2007. Our plan is to complete the necessary stock build in New Zealand to service the market fully and then have the majority of the extrusion and knitting equipment relocated to China by the end of the 2007 calendar year. Our objective is to have the plant and machinery installed in China early in 2008. The equipment used in the manufacture of the extruded plastics products will be relocated to the Melbourne, Australia plant and will be operational in the New Year.

China

We have successfully completed the relocation and recommissioning of the Australian extrusion and knitting equipment to China which is now operating at increased output and efficiency levels. During the year we closed the Shanghai sales office and restructured the China production, R&D and engineering departments to reduce staff headcount and provide a leaner operation with a focus on efficient manufacture of high quality product. The clearing of the remaining bottlenecks earlier this year have enabled us to free up more available capacity in the plant enabling us to produce even more efficiently in the future. Improved production planning and inventory management processes have enabled us to significantly reduce the level of inventory held in the China plant. The China operation also achieved ISO9001:2000 quality accreditation.

Sourcing of colour master batches, one of our key raw materials has been moved to local Chinese manufacturers. These master batches will continue to be manufactured to our strict formulations and quality levels but at reduced costs and shortened lead times. Resin prices remained high throughout the financial year and, where possible, price increases have been passed on to the market.

Europe / Middle East / Africa

Europe

Gale Europe completed its first season after the sale of the Jung business. As trading in the European market had been done previously through the Jung entity we had to establish all new customer listings and trading terms with all major customers. This process has been completed. During the year we processed, sorted and re-worked the previous season's returned inventory which resulted in us carrying high levels of inventory in Europe and reducing our ordering on the China plant as a result.

With European inventory being at very high levels following the seasonal returns, particularly of products not core to our product range or ongoing strategy, the decision was made in June 2007 to write down our European assets by $4.9 million to allow management to liquidate this inventory and focus on the opportunities for sustainable business growth in Europe.

We have now exited the Jung warehouse where all inventory had been held previously and are in the process of consolidating our European warehouse locations as we reduce our inventory holdings. Staffing levels in Europe have been reduced as we establish a base in this market.

A full review of our product range and distribution channels has been completed, and we are currently implementing a more focused strategy, including our commercial fabric range. Range review and customer presentations are well underway for the following season with existing and new customers.

Middle East / Africa

Sales in the Middle East / Africa were down 7.6% on last year as a result of earlier bottlenecks in the production process in China, which have now been cleared. Management of the Middle East / Africa business has now been merged with the European operation to reduce costs and increase the senior management focus of this business.

The Americas

USA

Sales in the USA have almost doubled since 2005, and grew by 29% in local currency over last year. During the year, we increased store coverage to 639 Home Depot stores, expanded retail fabric business into 1,327 Wal-Mart stores, and increased store coverage for Shade Sails at Costco.

We have expanded our manufacturers representative network to 17 who now service independent retail customers across all major markets in North America, and have also established a new warehouse facility in Georgia to provide shorter lead times and improved customer service to our east coast customers.

Sales of commercial / architectural fabrics grew during the year but not at the levels anticipated. We still see this as a strong growth area for the business and are currently exploring ways to expand our market penetration more rapidly.

Results

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

Research and Development (R & D)

We have now completed a full review of our R & D activities, structure and project list and have aligned our R & D strategy with that of the business. The R & D group now has a much clearer focus and is working on a number of projects under the direction of Dr Paul Cacioli, our new head of Research & Development appointed during the year. Our plan is to start to commercialise some of these projects within the FY08 financial year. Continuous product improvement and innovation will be a key factor to ensure the Group's future growth.

Information Technology

A new Group wide, global information system is currently being implemented in Australia with the other regions to follow shortly. We have also invested in improved demand forecasting and production planning systems, which are expected to provide further improvements to working capital management and customer service levels.

Cash Flow and Balance Sheet

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

Tax

During Gale's start up and entry into Europe over the past three years, our German subsidiary has accumulated tax losses that are available for offset against future profit in Europe, and would have been classified in the accounts as a "deferred tax asset". However, until such time that the European business demonstrates consistent profitability, it has been decided to write off the carrying value of this deferred tax asset. As the European operations generate profits, the ability to recover these tax losses will be an upside to the after tax profit of the Group.

Dividends

There will be no dividend paid for the 2006 / 2007 financial year, and Directors expect the payment of dividends will resume when the improved financial performance of the business has been demonstrated.

Annual General Meeting

A notice of the Company's Annual General Meeting to be held on 26 November 2007 and a proxy form for voting is enclosed with this report.

Directors

One of the items of business at the Annual General Meeting is the re-election of Mr George Richards who retires as a Director by rotation in accordance with the constitution of the Company and, being eligible, offers himself for re-election. The Board endorses Mr Richards' re-election.

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

Corporate Governance

The Group is committed to the principles of good corporate governance. A full discussion on the Group'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 Group seeks to align employee remuneration with Group 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.

Management and Staff

The Group has made a number of senior management appointments during the last twelve months. We are confident that this team will deliver improved performance for the business in the future.

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

Outlook

With the recently announced $20 million capital raising now complete, the Group will have a stronger Balance Sheet, significantly reduced borrowings and long term banking facilities in place.

Driven by improved operating efficiencies and sales growth from our northern hemisphere operations, improved agricultural market conditions in Australia and traction being gained from our refocused R & D activities, we remain confident about the future prospects of the business.

Mr Harry Boon
Chairman
28 September 2007

Mr Peter McDonald
Managing Director and Chief Executive Officer
28 September 2007

BOARD OF DIRECTORS

HARRY BOON,
LLB (HONS), B. Com

PETER MCDONALD,
Bachelor of Business (Marketing)

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

GEORGE RICHARDS,
CPA, AAICD

Harry Boon

Chairman & Non Executive Director since 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. Mr Boon is also Chairman of Tattersalls Limited, a Non Executive Director of Hastie Group Limited and Non Executive Director of Toll Group Limited.

Mr Boon has lived and worked in Australia, Europe, UK and Canada, and has broad based experience in global marketing and sales, large scale manufacturing operations, and product development. He is multi-lingual, has a strong track record of delivering business results through setting ambitious goals, building the appropriate organisation structures, and pursuing achievement.

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

Peter McDonald

Managing Director & Chief Executive Officer

Mr McDonald is the Company Managing Director and Chief Executive Officer since April 2006 and Executive Director since 1998.

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.

John Murphy

Non Executive Director since August 2007

Mr Murphy is the Managing Director of Investec Wentworth Private Equity Limited and in this capacity is a board member of the fund's investments, including the following listed companies: Ariadne Australia Limited, Staging Connections Group Limited and Gale Pacific Limited.

Mr Murphy is also a non executive director of First Opportunity Fund Limited and Investec Bank (Australia) Limited.

During the last 3 years, Mr Murphy was a non executive director of the following listed companies: Kids Campus Limited (2004-2006), Southcorp Limited (2003-2005), Invocare Limited (2001-2005) , SMS Management and Technology Limited (2001-2004), Fone Zone Group Limited (2005 -2006) and Australian Pharmaceutical Industries Limited (2004-2007).

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

George Richards

Non Executive Director since May 2004

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

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

SENIOR MANAGEMENT


JEFF COX


DR PAUL CACIOLI


STEPHEN CARROLL


MARTIN DENNEY


FRANK ALBERTSMEIER


EMMA XU


PAUL DUCRAY

Jeff Cox

Chief Financial Officer ("CFO")

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

Dr Paul Cacioli

General Manager, Research & Development and Technical Services

Dr Paul Cacioli joined Gale in late March 2007 and is responsible for planning and managing the Company's research and development activities. Paul spent 19 years with Ansell, 14 of which were spent overseas in Malaysia, Sri Lanka and the USA, rising to the position of Senior Vice President of Science and Technology and Regulatory Affairs. Paul brings to Gale a broad range of technical skills and a world class knowledge of polymers and research and development processes.

Stephen Carroll

Managing Director, Australia

In November 2005 Steve was appointed to the role of Managing Director for the Australian operation. Steve has been involved in helping manage the successful integration of numerous acquisitions into the Gale model whilst helping the brands, people and the Australian business strategy maintain its market leading position. Prior to this appointment, Steve held the positions of National Sales and Marketing Manager Consumer Products. As the business grew and acquired a larger industrial product portfolio, he was appointed Group Sales and Marketing Manager for Australia.

Martin Denney

Managing Director, USA

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

Frank Albertsmeier

Managing Director, Europe / Middle East / Africa

Frank has had extensive experience in managing sales, marketing and business development in the consumer and professional goods industry in various countries in Europe. Prior to joining Gale, Frank was the Director of Sales for ICI paints Europe for four years, responsible for a turnover of €85 million. He played a leading role in the strategic process to develop the future direction for ICI in Europe. Frank also managed more than 100 sales and marketing people within this division while doubling the bottom line. Frank has held many sales and management positions for Black and Decker Europe through his 18 year tenure, reaching the level of Commercial Director.

Emma Xu

Managing Director, China

Prior to joining Gale, Emma worked as an attorney in China with extensive experience in law and international business management. Emma's responsibilities initially included government relationships, finance, internal control and communication with the Board. Emma was promoted to Managing Director of Gale Pacific Special Textiles (Ningbo) Limited ("GPST") in September 2003 as GPST became a wholly owned overseas enterprise of Gale. Emma was responsible for managing the construction of the Gale facility in Ningbo and the relocation of the manufacturing equipment from Braeside, Australia to Ningbo, the installation of new machines purchased from Europe, the set up of aluminium extrusion and powder coating lines in-house, and selecting and leading the Chinese management team.

Paul Ducray

Chief Manufacturing Officer

Paul joined Gale in December 2004 and relocated to China in June 2006 and took on his current position of Chief Manufacturing Officer responsible for all manufacturing and logistics functions at GPST. Paul previously worked at BTR Dunlop in South Africa. In 2001 Paul migrated to New Zealand and joined Donaghy's NZ in the role of Manufacturing Manager. A successful turnaround of the company started with a management buyout, new management team and restructuring of the business. This led to the purchase of the Industrial Textiles division of Donaghys by Gale Pacific Limited in December 2004.

CORPORATE GOVERNANCE

9 - 14

CORPORATE GOVERNANCE STATEMENT

This statement sets out the corporate governance practices that were in operation throughout the financial year for Gale Pacific Limited ("the Company") and its controlled entities ("the Group"). 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 has continued its strategy of strengthening its Corporate Governance practices and believes that Gale Pacific now complies with the Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendation. A summary of how the Group 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 Group, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with ASX Principle 1. A copy of the Board Charter is posted on the Group's website.
Principle 2: Structure the Board to add value			
2.1	A majority of the board members should be independent.	Complying	The Board comprises four directors, three of whom are non executive and independent. The Directors considered by the Board to constitute independent directors are Mr H Boon, Mr G Richards and Mr J Murphy. The test to determine independence which is used by the Company is whether a Director is independent of management and any business or other relationship with the Group that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.
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. Mr H Boon is Chairman of the Nominations Committee.

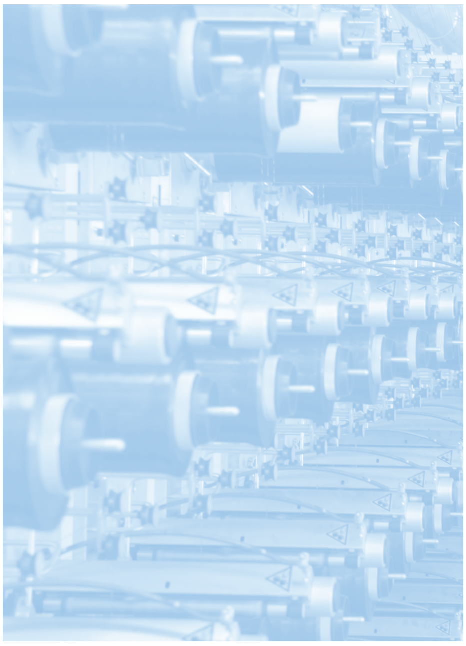
ASX Principle		Status	Reference / Comment
2.5	Provide the information indicated in the Guide to reporting on Principle 2.	Complying	The following information is set out in the Group's annual report: • The skills and experience of Directors. • The Directors considered by the Board to constitute independent Directors and the Group'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.
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 Group has formulated a Code of Conduct which can be viewed on its website.
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	Complying	The Group 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 Group'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 Group'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 Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.
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.

ASX Principle		Status	Reference / Comment
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 G Richards 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 Committee is given the necessary power and resources to meet its charter.
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 Group 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 Group'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 Group's Disclosure Policy is posted on its 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 Group's state of affairs as follows: 1. The annual report is distributed to all shareholders, including relevant information about the operations of the Group 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 Group during the period. 3. All major announcements are lodged with the Australian Stock Exchange, and posted on the Group's website. 4. Proposed major changes in the Group 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 Group's strategy and goals.

ASX Principle		Status	Reference / Comment
6.2	Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.	Complying	The Company's auditor attends the Annual General Meeting.
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 Group. The structure of the Audit & Risk Committee 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 Group'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 Group'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 Group's risk management policy and internal compliance and control systems has been documented and is posted on the Group's web site.
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 Group has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness. The Nomination Committee takes responsibility for evaluating the Board's performance and the Group'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 been completed. No material internal deficiencies or issues were identified through this process.

ASX Principle		Status	Reference / Comment
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.
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 Group 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. The Chairman of the Remuneration Committee is Mr J Murphy.
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.
9.5	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 Group's website.
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 Group's needs and the remuneration framework for Directors (as approved by shareholders). The Committee may consult with remuneration advisors to assist in its role.
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 Group has in place a Code of Conduct which sets standards for the Board and employees in dealing with the Group's customers, suppliers, shareholders and other stakeholders. A copy of this Code of Conduct has been posted on the Group's website.

DIRECTORS' REPORT



15 - 24

DIRECTORS' REPORT

The Directors of Gale Pacific Limited ("the Company") present their annual financial report of the consolidated entity, being the Company and its subsidiaries ("the Group") for the financial year ended 30 June 2007.

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 since 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 Tattersall's Limited, Hastie Group Limited, Toll Holdings Limited, Funtastic Limited.

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

Peter McDonald, Bachelor of Business (Marketing)

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

Mr McDonald was appointed Managing Director and Chief Executive Officer of Gale in April 2006. Mr McDonald joined Gale in 1988 and was appointed as an Executive Director of the Company in 1998. Mr McDonald has held the positions of Product Manager, National Marketing Manager, National Sales and Marketing Manager 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 2007.

John Murphy, CA, FCPA, B.Comm, M.Comm

Non Executive Director since August 2007

Mr Murphy is the Managing Director of Investec Wentworth Private Equity Limited and in this capacity is a board member of the fund's investments, including the following listed companies Ariadne Australia Limited and Staging Connections Group Limited. Mr Murphy is also a non executive director of First Opportunity Fund Limited and Investec Bank (Australia) Limited.

During the last 3 years, Mr Murphy was a non executive director of the following listed companies Kids Campus Limited (2004-2006), Southcorp Limited (2003-2005), Invocare Limited (2001-2005), SMS Management and Technology Limited (2001-2004), Fone Zone Group Limited (2005 -2006) and Australian Pharmaceutical Industries Limited (2004-2007).

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

George Richards, CPA, AAICD

Non Executive Director since May 2004

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

No other directorships of listed companies were held by Mr Richards at any time during the three years prior to 30 June 2007.

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

Gary Gale

Executive Director since 1998, Non Executive Director since April 2006, retired 21 November 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 remained on the Board as a Non Executive Director until his retirement at the 2006 Annual General Meeting.

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

Daryl Reilly, Graduate Diploma Of Business (Accounting), CPA, ACIS, FTMA, AICD

Non Executive Director since 1998, retired 21 November 2006

Mr Reilly was previously an Executive Director and principal of Advent Private Capital Pty Ltd ("APC") and was APC'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 APC. He was a significant former shareholder of APC. 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 his retirement at the 2006 Annual General Meeting.

Ms Sophie Karzis, B JURIS LLB

Company Secretary

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

Nature of Operations and Principal Activities

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

Review and Results of Operations

The consolidated loss of the Group for the financial year attributable to the members of Gale Pacific Limited was $16.4 million. Refer to the Chairman and Managing Director's & Chief Executive Officer's Report for further details on the Group'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

On 30 August 2007, the Company completed a $20 million capital raising via the private placement of 40,000,000 ordinary fully paid shares at a price of 50 cents per share.

Other than the matters discussed above, nothing has arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely Developments

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

Environmental Regulation and Performance

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

Dividends

In respect of the financial year ended 30 June 2007, no interim dividend was paid and the Directors have determined not to pay a final dividend.

Share Based Payments

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 750,000. The issue price of each option is zero. Each option entitles the option holder to one (1) ordinary share in Gale Pacific Limited in the event that the option is exercised.

Of the 750,000 options on issue, 180,000 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. 450,000 options were issued on 16 November 2005 and 120,000 options were issued on 24 October 2006 to executives and staff of Gale. Included in these issues are options issued to senior executives; 40,000 options issued to Mr Stephen Carroll Managing Director Australia, 40,000 issued options to Mr Zafar Fakroddin Business Unit Manager Gale Europe GmbH, and 20,000 options issued to Mr Paul Ducray Chief Manufacturing Officer. The exercise price of the 180,000 issued options is $3.00, the exercise price of the 450,000 issued options and the 120,000 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 180,000 options their vesting is determined in accordance with the achievement of certain levels of adjusted weighted average earnings per share and the vesting of the 450,000 options and 120,000 options is determined in accordance with the achievement of certain levels of adjusted weighted average earnings per share. The 180,000 options and the 450,000 options are not exercisable after 1 December 2008. The 120,000 options are not exercisable after 31 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. A Binomial or a Black – Scholes option pricing model was used and these models take 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.

Performance Rights

On 2 February 2007, the Company issued 150,000 performance rights to the Managing Director and Chief Executive Officer, Mr Peter McDonald. Each performance right entitles the holder to one (1) ordinary share in Gale Pacific Limited when exercised and is subject to the satisfying of relevant performance hurdles based on improvements in the Company's diluted earnings per share against the base year of the 2007 financial year. Performance rights are not exercisable until after 30 September 2009 and expire on 2 February 2017. No amount is payable on the vesting of a performance right. Performance rights carry no rights to dividends and no voting rights.

Further details of the options and performance rights are disclosed in Note 16 to the Financial Statements.

Indemnification of Officers and Auditors

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

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

Directors' Shareholdings

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

Directors	Fully Paid Ordinary Shares	Shares Options	Performance Rights
H Boon	73,000	-	-
G Richards	78,851	-	-
J Murphy	-	-	-
P McDonald	334,714	180,000	150,000

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 Meetings	
Directors	**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	14	13	4	4	1	1	1	1
P McDonald	14	14	0	0	0	0	0	0
G Richards	14	13	4	4	1	1	1	1
G Gale	7	6	0	0	0	0	0	0
D Reilly	7	6	3	3	1	1	1	1

Remuneration Report

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

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

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

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

Remuneration packages contain the following key elements:

- Primary benefits – salary / fees; and
- Benefits, including the provision of motor vehicles and incentive schemes, including share options under the executive share option plan as disclosed in Note 16 and Note 22 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 2007 is detailed below.

Senior Manager & Executive Director Remuneration

Objective

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

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

Structure

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

Options issued to executives as a form of compensation are dependant upon the performance conditions outlined in Note 16 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 / 2007	Short term benefits			Post employment	Share based payments		Termination benefits	Total	Performance related	
Directors	Salary & fees ($)	Bonus ($)	Non-monetary ($)	Super ($)	Options ($)	Performance rights ($)	($)	($)	Total %	Options %
Executive Directors										
P McDonald	354,215	32,000	44,609	27,929	47,138	19,930	-	525,821	18.8%	12.8%
Non Executive Directors										
H Boon	150,000	-	-	-	-	-	-	150,000	-	-
G Richards	71,667	-	-	-	-	-	-	71,667	-	-
D Reilly (i)	31,250	-	-	-	-	-	-	31,250	-	-
G Gale (ii)	-	-	-	-	-	-	-	-	-	-
Total	**607,132**	**32,000**	**44,609**	**27,929**	**47,138**	**19,930**	**-**	**778,738**	**-**	**-**

2005 / 2006	Short term benefits			Post employment	Share based payments		Termination benefits	Total	Performance related	
Directors	Salary & fees ($)	Bonus ($)	Non-monetary ($)	Super ($)	Options ($)	Performance rights ($)	($)	($)	Total %	Options %
Executive Directors										
P McDonald	359,942	-	62,401	5,171	72,580	-	-	500,094	14.5%	14.5%
G Gale (ii)	371,635	-	61,964	12,139	51,658	-	617,096	1,114,492	4.6%	4.6%
Non Executive Directors										
H Boon (iii)	137,500	-	-	-	-	-	-	137,500	-	-
G Richards	65,000	-	-	-	-	-	-	65,000	-	-
D Reilly (i)	75,000	-	-	-	-	-	-	75,000	-	-
T Eversteyn (iv)	14,166	-	-	-	-	-	-	14,166	-	-
Total	**1,023,243**	**-**	**124,365**	**17,310**	**124,238**	**-**	**617,096**	**1,906,252**		

The following table discloses the remuneration of the five highest remunerated executives of the Group.

2006 / 2007	Short Term Benefits			Post Employ	Share Based Payments	Total	Performance Related	
Executives	Salary & Fees	Bonus (xii)	Non-monetary	Super	Options		Total	Options
	($)	($)	($)	($)	($)	($)	%	%
F Albertsmeier (v)	320,090	77,506	33,479	-	-	431,075	18.0%	-
Z Fakroddin (vi)	189,459	-	105,064	-	6,408	300,931	2.1%	2.1%
S Carroll	214,472	15,000	30,873	19,143	6,408	285,896	7.5%	2.2%
J Cox	229,358	25,000	-	20,642	-	275,000	9.1%	-
P Ducray (vii)	169,477	-	28,771	-	3,204	201,452	1.6%	1.6%
Total	**1,122,856**	**117,506**	**198,187**	**39,785**	**16,020**	**1,494,354**		

2005 / 2006	Short Term Benefits			Post Employ	Share Based Payments	Total	Performance Related	
Executives	Salary & Fees	Bonus	Non-monetary	Super	Options		Total	Options
	($)	($)	($)	($)	($)	($)	%	%
Z Fakroddin (viii)	148,610	129,111	60,031	-	3,950	341,702	38.9%	1.2%
E Jung (ix)	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%
C McCallum (x)	198,825	36,357	15,558	-	4,938	255,678	16.2%	1.9%
E Xu (xi)	150,013	24,318	18,919	-	48,600	241,850	30.2%	20.1%
Total	**962,288**	**228,324**	**137,362**	**24,698**	**61,438**	**1,414,110**		

(i) Mr Reilly retired from his role as a Non Executive Director on 21 November 2006 and therefore the details of his remuneration for the reporting period are to that date.

(ii) Mr Gale resigned from his role as an Executive Director on 26 April 2006 and retired as a Non Executive Director on 21 November 2006. The details of his remuneration for the 2006 reporting period are to 26 April 2006. Mr Gale did not receive any remuneration in his role as a Non Executive Director.

(iii) Mr Boon was appointed a Non Executive Director on 25 August 2005 and therefore the details of his remuneration for the reporting period are from that date.

(iv) Mr Eversteyn retired from his role as a Non Executive Director on 25 August 2005 and therefore the details of his remuneration for the reporting period are to that date.

(v) Mr Albertsmeier is based in Germany and is remunerated in Euro converted to Australian dollars in the table above.

(vi) Mr Fakroddin is based in Europe and is remunerated in Euro converted to Australian dollars in the table above.

(vii) Mr Ducray is based in China and is remunerated in United States dollars converted to Australian dollars in the table above. Mr Ducray was appointed Chief Manufacturing Officer on 1 July 2006. Prior to this appointment Mr Ducray was Manufacturing Manager Gale Pacific (New Zealand) Limited.

(viii) Mr Fakroddin was based in the Middle East and was remunerated in United States dollars converted to Australian dollars in the table above. The bonus payments related to the period ended 30 June 2005 and 30 June 2006 and were paid in United States dollars converted to Australian dollars in the table above.

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

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

(xi) Ms Xu is based in China and was remunerated in United States dollars converted to Australian dollars in the table above.

(xii) Incentive bonuses are granted annually. The grant date is tied to the performance review, which for the current year was completed by 30 June 2007. The service and performance criteria are set out in this report.

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

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

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Taxation services	84	99	36	74
Corporate secretarial services	46	-	-	-
Systems review	25	-	25	-
Capital raising related services	13	-	13	-
Jung divestment	5	-	5	-
Government grant review	3	-	3	-
General assistance	2	-	2	-
Total	**178**	**99**	**84**	**74**

Proceedings on Behalf of the Company

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

Rounding Off of Amounts

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

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

On behalf of the Directors;

Mr Harry Boon
Chairman
28 September 2007

Mr Peter McDonald
Managing Director and Chief Executive Officer
28 September 2007

Auditor's Independence Declaration

To the Directors of Gale Pacific Limited and its controlled entities.

In relation to the independent audit for the year ended 30 June 2007, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*;

(ii) No contraventions of any applicable code of professional conduct.

S Schonberg Partner 28 September 2007	PITCHER PARTNERS MELBOURNE

Directors' Declaration

The Directors of the Company declare that:

The financial statements and notes, as set out on pages 26 to 65 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 2007 and of the performance, as represented by the results of the operations and the cash flows, of the Company and the Group for the year ended on that date; and
- that the Directors have been given the declaration required under section 295A of the *Corporations Act 2001*.

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

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

Mr Harry Boon Chairman 28 September 2007	Mr Peter McDonald Managing Director and Chief Executive Officer 28 September 2007

Independent Auditor's Report

We have audited the accompanying financial report of Gale Pacific Limited and its controlled entities. The financial report comprises the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion,

(a) the financial report of Gale Pacific Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

S Schonberg
Partner
28 September 2007

PITCHER PARTNERS
MELBOURNE

FINANCIAL RESULTS

25 - 65

INCOME STATEMENT

For the year ended 30 June 2007

		Consolidated		Company	
	Note	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Revenue	2	110,404	112,190	57,801	62,212
Expenses	3				
Changes in inventories of finished goods & work in progress		5,776	(2,377)	(479)	(7,596)
Raw materials and consumables used		(57,624)	(50,667)	(32,147)	(23,539)
Employee benefits expense		(22,623)	(22,171)	(8,049)	(9,684)
Depreciation & amortisation expenses		(7,859)	(9,153)	(3,053)	(5,287)
Inventory write down		(4,339)	-	(440)	-
Impairment of goodwill & assets		(1,031)	(728)	(316)	(6,478)
Restructuring and termination costs		(4,672)	-	-	-
Provision for non recovery of related party receivables		-	-	(9,699)	-
Operating overheads		(25,343)	(23,813)	(8,080)	(14,439)
Other expenses		(228)	(4,630)	(2,728)	(3,043)
Finance costs		(5,598)	(5,408)	(4,379)	(4,349)
Loss from continuing operations before income tax		(13,137)	(6,757)	(11,569)	(12,203)
Income tax (expense) / benefit	4	(2,752)	4,037	2,884	3,196
Loss from continuing operations after income tax		(15,889)	(2,720)	(8,685)	(9,007)
Loss from discontinued operations	20(c)	(471)	(9,224)	-	-
Loss attributable to minority interests	19	-	2	-	-
Loss attributable to the members of the parent entity	18	(16,360)	(11,942)	(8,685)	(9,007)
Earnings Per Share					
From Continuing & Discontinued Operations:					
Basic earnings per share (cents per share)	29	(17.07)	(22.57)		
Diluted earnings per share (cents per share)	29	(17.07)	(22.57)		
From Continuing Operations:					
Basic earnings per share (cents per share)	29	(16.58)	(5.14)		
Diluted earnings per share (cents per share)	29	(16.58)	(5.14)		

The accompanying notes form part of these financial statements.

BALANCE SHEET

As at 30 June 2007

		Consolidated		Company	
	Note	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current Assets					
Cash and cash equivalents	5	7,642	10,552	3,654	6,055
Trade and other receivables	6	19,363	36,702	5,557	6,414
Inventories	7	30,143	47,599	10,581	11,257
Current tax assets	4	362	1,047	-	591
Other current assets	8	1,517	1,497	1,169	365
Total current assets		59,027	97,397	20,961	24,682
Non Current Assets					
Receivables	6	-	-	42,244	55,072
Other financial assets	9	-	-	25,326	25,909
Property, plant and equipment	10	60,893	70,220	9,339	19,407
Intangible assets	11	11,538	12,486	5,091	5,913
Deferred tax assets	4	270	2,054	2,908	-
Total non current assets		72,701	84,760	84,908	106,301
Total assets		131,728	182,157	105,869	130,983
Current Liabilities					
Trade and other payables	12	11,104	22,243	2,865	3,768
Income received in advance		-	-	-	1,026
Borrowings	13	47,073	97,672	27,074	73,030
Other financial liabilities	14	31	-	31	-
Current tax liabilities	4	658	344	382	-
Provisions	15	6,182	1,283	902	768
Total current liabilities		65,048	121,542	31,254	78,592
Non Current Liabilities					
Borrowings	13	4,348	12,070	4,348	7,237
Deferred tax liabilities	4	1,133	1,185	-	1,185
Provisions	15	998	974	78	73
Total non current liabilities		6,479	14,229	4,426	8,495
Total liabilities		71,527	135,771	35,680	87,087
Net assets		60,201	46,386	70,189	43,896
Equity					
Contributed equity	16	81,936	47,124	81,936	47,124
Reserves	17	(7,280)	(2,643)	344	178
Retained earnings	18	(14,444)	1,916	(12,091)	(3,406)
Parent entity interest		60,212	46,397	70,189	43,896
Minority interests	19	(11)	(11)	-	-
Total equity		60,201	46,386	70,189	43,896

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

		Consolidated		Company	
	Note	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Total Equity at the Beginning of the Period		46,386	54,534	43,896	49,373
Exchange differences on translation of foreign operations	17(a)	(4,803)	266	-	-
Employee share based payment reserve	17(b)	166	80	166	80
Net (loss) / income recognised directly in equity		(4,637)	346	166	80
Loss for the period		(16,360)	(11,944)	(8,685)	(9,007)
Total recognised income and expense for the period		(20,997)	(11,598)	(8,519)	(8,927)
Transaction with Equity Holders in their Capacity as Equity Holders					
Contributions, net of raising costs and tax	16	34,812	5,053	34,812	5,053
Dividends provided for or paid	23	-	(1,603)	-	(1,603)
		34,812	3,450	34,812	3,450
Total equity at the end of the period		60,201	46,386	70,189	43,896
Total Recognised Income and Expense for the Period is Attributable to					
Members of the parent		(16,360)	(11,944)	(8,685)	(9,007)
Minority interest		-	2	-	-
Total		(16,360)	(11,942)	(8,685)	(9,007)

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2007

		Consolidated		Company	
	Note	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Cash Flow From Operating Activities					
Receipts from customers		127,586	181,639	59,654	67,492
Payments to suppliers and employees		(113,027)	(176,266)	(55,849)	(56,648)
Interest received		489	114	2,785	1,560
Borrowing costs paid		(5,740)	(6,157)	(4,379)	(4,349)
Income tax payments		(768)	(1,260)	59	(721)
Net cash provided / (used) by operating activities	20(b)	8,540	(1,930)	2,270	7,334
Cash Flow From Investing Activities					
Proceeds from sale of plant and equipment		537	134	7,830	4,483
Proceeds from the disposal of business	20(c)	15,690	-	-	-
Payment for plant and equipment		(3,953)	(19,443)	(1,211)	(3,208)
Payment for intangible assets		(174)	(1,921)	(174)	(1,941)
Proceeds / (payments) for investments		-	-	83	(6,843)
Amounts advanced / (repaid) by related parties		-	-	3,129	(15,341)
Net cash provided / (used) by investing activities		12,100	(21,230)	9,657	(22,850)
Cash Flow From Financing Activities					
Proceeds from issue of equity securities		19,017	4,681	19,017	4,681
Proceeds from issue of convertible notes		-	9,000	-	9,000
(Repayment) of / proceeds from borrowings		(30,949)	8,849	(26,489)	2,891
Repayment of principal on finance leases		(226)	(219)	(226)	(220)
Repayment of principal on hire purchase		(1,783)	(1,646)	(1,783)	(1,819)
Dividends paid		-	(1,232)	-	(1,232)
Net cash (used) / provided by financing activities		(13,941)	19,433	(9,481)	13,301
Net increase / (decrease) in cash held		6,699	(3,727)	2,446	(2,215)
Cash at beginning of year		(6,414)	(2,348)	(3,236)	(1,021)
Effects of exchange rate changes on items denominated in foreign currencies		254	(339)	-	-
Cash at end of year	20(a)	539	(6,414)	(790)	(3,236)

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 and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

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

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

(a). Basis of Preparation of the Financial Report

The financial report of Gale Pacific Limited and controlled entities, and Gale Pacific Limited as an individual parent entity comply with Australian equivalents to International Financial Reporting Standards (AIFRS).

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.

Compliance with AIFRS ensures compliance with International Financial Reporting Standards (IFRS).

(b). Going Concern Basis of Accounting

Restructuring initiatives that have been taken during the year have led to the improvement in our balance sheet, strengthening of our management team and systems, and improvements in many operational areas within the business. Efficiency levels in our China operation have increased, improvements have been made to working capital management, there is a renewed focus on research and development activities, our senior management team is now in place worldwide and a concentrated effort was made to streamline the business and to ensure that the Group's cost structure is better matched to projected revenue generation.

In August 2007, the Company issued 40,000,000 shares at a price of $0.50 per share raising $20 million. The net proceeds of the placement have been used to repay banking facilities with HSBC and the CBA. A new long term multi option facility of $15 million has been arranged with the CBA. The remaining net proceeds of the placement will be used to fund the restructure of the New Zealand manufacturing operations and support the growth of the business.

Given the foregoing has been satisfactorily completed, Directors believe that the Company will continue to be able to pay its debts as and when they become due and payable.

(c). Principals of Consolidation

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

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

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

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

(d). Change in Accounting Estimate

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

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

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

		Consolidated	
	Note	2006 / 2007 ($000)	2005 / 2006 ($000)
Monetary item identified as a net investment in a foreign operation			
Related party receivable to the company from Gale Europe GmbH Vertriebsgesellschaft		16,855	-
Related party receivable to the company from Gale Pacific Special Textiles (Ningbo) Limited		13,421	-
Related party receivable to the company from Gale Pacific (New Zealand) Limited		5,238	-
Total		35,514	-
Exchange movement arising on monetary item forming part of the net investment in related party, recognised in foreign currency translation reserve	17(a)	(2,783)	-

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

(e). Revenue Recognition

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

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

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

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

(f). 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.

(g). 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.

(h). 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(k). The cost of fixed assets constructed within the Group 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
Buildings	2.25%	Straight line
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

(i). 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 Group 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 Group 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.

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.

(j). Intangibles

Goodwill

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

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

Patents and Trademarks

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

Research and Development

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

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

(k). 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.

(l). 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.

(m). Employee Benefits

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

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

Share Based Payments

The Group operates an employee share option plan for senior executives and a long term performance rights incentive plan for the Managing Director and Chief Executive Officer. The bonus element over the exercise price for these instruments is recognised as an expense in the income statement in the period(s) when the benefit is earned.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. The fair value of options and performance rights at grant date is determined using either the Binomial Tree or 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 or performance right.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an expense when the employees become entitled to the shares.

(n). Financial Instruments

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

Loans 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.

Investment in Controlled Entities

Investments in controlled entities are carried at cost and tested for impairment.

Fixed Assets at Fair Value Through Profit and Loss

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

(o). Foreign Currencies

Functional and Presentation Currency

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

Transactions and Balances

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

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.

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.

(p). 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.

(q). Comparatives

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

NOTE 2: REVENUE

	Consolidated			
	2006 / 2007 ($000)		2005 / 2006 ($000)	
	Continuing	Discontinuing	Continuing	Discontinuing
Operating Activities				
Sale of goods – other parties	109,338	8,184	110,931	54,954
SIP income	110	-	748	-
Interest income – other parties	626	-	114	-
Other revenue	330	28	397	25
Total revenue	110,404	8,212	112,190	54,979

	Company			
	2006 / 2007 ($000)		2005 / 2006 ($000)	
	Continuing	Discontinuing	Continuing	Discontinuing
Operating Activities				
Sale of goods – other parties	53,930	-	53,026	-
Sale of goods – related parties	969	-	6,758	-
SIP income	110	-	748	-
Interest income – other parties	446	-	114	-
Interest income – related parties	2,339	-	1,446	-
Other revenue	7	-	120	-
Total revenue	57,801	-	62,212	-

NOTE 3: LOSS

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

	Consolidated			
	2006 / 2007 ($000)		2005 / 2006 ($000)	
	Continuing	Discontinuing	Continuing	Discontinuing
Cost of sales	74,982	4,479	74,727	33,712
Finance Costs				
Other persons	5,598	142	5,408	749
Depreciation of Non Current Assets				
Buildings	195	-	178	-
Leasehold improvements	100	-	44	-
Plant and equipment	5,775	12	5,434	78
Motor vehicles	121	5	233	62
Office equipment	563	14	541	179
Amortisation of Non Current Assets				
Leased plant and equipment	46	-	162	-
Leased motor vehicles	80	-	40	-
Patents and trademarks	55	-	76	-
Research and Development Expenditure				
Capitalised and amortised	924	-	2,445	-
Expensed as incurred	652	-	-	-
Impairment	317	-	-	-
Impairment of Non Current Assets				
Plant and equipment	714	-	728	736
Goodwill	-	-	-	2,998
Inventory write down	4,339	-	-	2,143
Restructuring and termination costs	4,672	-	-	-
Increase in provision for obsolete inventory	1,338	-	1,353	2,502
Bad and Doubtful Debts				
Bad debts written off – trade debtors	107	-	36	-
Movement in provisions for doubtful debts – trade debtors	49	-	(179)	-
Remuneration of the Auditors of the Parent Entity For				
Auditing the financial report	316	-	117	-
Taxation services	36	-	74	-
Systems review	25	-	-	-
Capital raising related services	13	-	-	-
Jung divestment	5	-	-	-
Government grant review	3	-	-	-
General assistance	2	-	-	-
Total remuneration of the auditors of the parent entity	400	-	191	-
Remuneration of Other Auditors of Controlled Entities For				
Auditing the financial report	142	-	143	50
Taxation services	48	-	25	-
Corporate secretarial services	46	-	-	-
Total remuneration of other auditors	236	-	168	50
Total remuneration of auditors	636	-	359	50
Foreign currency translation (gains)	(1,238)	-	(984)	-
Net Loss on Disposal of Non Current Assets				
Plant and equipment	66	-	5	-
Motor vehicles	42	-	-	-
Office equipment	18	-	-	-
Operating lease rental expense	3,615	-	2,665	1,048
Net equity settled share based payment expense	166	-	80	-

NOTE 3: LOSS (CONTINUED)

	Company			
	2006 / 2007 ($000)		2005 / 2006 ($000)	
	Continuing	Discontinuing	Continuing	Discontinuing
Cost of sales	32,506	-	45,146	-
Finance Costs				
Other persons	4,379	-	4,349	-
Depreciation of Non Current Assets				
Leasehold improvements	22	-	21	-
Plant and equipment	1,581	-	2,158	-
Motor vehicles	62	-	148	-
Office equipment	227	-	240	-
Amortisation of Non Current Assets				
Leased plant and equipment	46	-	162	-
Leased motor vehicles	80	-	40	-
Patents and trademarks	111	-	73	-
Research and Development Expenditure				
Capitalised and amortised	924	-	2,445	-
Expensed as incurred	119	-	-	-
Impairment of Non Current Assets				
Plant and equipment	316	-	728	-
Impairment of investment in subsidiary	-	-	-	5,750
Inventory write down	440	-	-	-
Provision for non recoverability of related party balances	9,699	-	-	-
Loss on sale of investment in subsidiary	-	467	-	-
Increase in provision for obsolete inventory	649	-	632	-
Bad and Doubtful Debts				
Bad debts written off – trade debtors	38	-	2	-
Movement in provisions for doubtful debts – trade debtors	(28)	-	25	-
Remuneration of the Auditors of the Parent Entity For				
Auditing the financial report	316	-	117	-
Taxation services	36	-	74	-
Systems review	25	-	-	-
Capital raising related services	13	-	-	-
Jung divestment	5	-	-	-
Government grant review	3	-	-	-
General assistance	2	-	-	-
Total remuneration of the auditors of the parent entity	400	-	191	-
Foreign currency translation losses / (gains)	1,819	-	(984)	-
Net Loss on Disposal of Non Current Assets				
Plant and equipment	-	-	5	-
Motor vehicles	5	-	-	-
Office equipment	2	-	-	-
Operating lease rental expense	1,696	-	2,311	-
Net equity settled share based payment expense	166	-	80	-

NOTE 4: INCOME TAX EXPENSE

(a). The Components of Tax Expense

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current tax	811	1,631	914	712
Deferred tax	1,917	(5,668)	(3,798)	(3,908)
Total income tax expense / (benefit)	2,728	(4,037)	(2,884)	(3,196)
Disclosed in the financial statements as				
Income tax expense / (benefit) from continuing business	2,752	(4,037)	(2,884)	(3,196)
Income tax expense / (benefit) from discontinuing business	(24)	-	-	-
Total	2,728	(4,037)	(2,884)	(3,196)

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

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Prima facie tax payable on profit before income tax at 30%	(4,089)	(4,794)	(3,471)	(3,661)
Add tax effect of:				
Tax rate differentials in foreign countries	408	(271)	-	-
Impairment of goodwill	-	899	-	-
Tax losses not recognised / derecognised	5,910	1,151	-	1,725
Attributed CFC income	-	303	-	303
Interest expense non allowable	134	-	-	-
Capital loss on divestment of business	79	-	140	-
Other non allowable / (non assessable) items	249	(12)	277	(250)
Movements of SIP income	-	(70)	-	(70)
	2,691	(2,794)	(3,054)	(1,953)
Less tax effect of:				
Over/(under) provision for income tax in the prior year	37	(1,243)	170	(1,243)
Income tax expense / (benefit) attributed to profit from ordinary activities	2,728	(4,037)	(2,884)	(3,196)
Less income tax benefit from discontinuing business	(24)	-	-	-
Income tax expense / (benefit) from continuing business	2,752	(4,037)	(2,884)	(3,196)

(c). Income Tax Recognised Directly in Equity

The following current and deferred tax amounts were credited directly to equity during the period

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Deferred Tax				
Equity raising costs deductible over 5 years	(295)	-	(295)	-
Total	(295)	-	(295)	-

NOTE 4: INCOME TAX EXPENSE (CONTINUED)

(d). Current Tax

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current tax asset	362	1,047	-	591
Current tax liability	(658)	(344)	(382)	-
Total	(296)	703	(382)	591

(e). Deferred Tax

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Deferred Tax (Liabilities) / Assets Arise from the Following				
Property, plant and equipment	(1,172)	(2,788)	(866)	(1,526)
Foreign exchange	(250)	-	585	-
Income not derived	(153)	(524)	(153)	(524)
Finance leases	(15)	(55)	(15)	(55)
Research and development	(449)	(698)	(449)	(698)
Doubtful debts	22	-	-	-
Other financial liabilities	102	-	28	-
Provisions	379	324	3,064	240
Employee benefits	369	790	209	263
Capitalised costs	(170)	389	112	133
Borrowing costs	78	-	78	-
Equity raising costs	315	20	315	20
Other	81	424	-	132
Total	(863)	(2,118)	2,908	(2,015)
Unused Tax Losses and Credits				
Tax losses	-	2,987	-	830
Net deferred tax (liability) / asset	(863)	869	2,908	(1,185)
Represented By				
Deferred tax asset	270	2,054	2,908	-
Deferred tax liability	(1,133)	(1,185)	-	(1,185)
Total	(863)	869	2,908	(1,185)

NOTE 4: INCOME TAX EXPENSE (CONTINUED)

(f). Unrecognised Deferred Tax Assets

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

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Tax losses – income	4,071	1,151	-	-
Temporary differences not brought to account	1,567	-	-	-
Tax losses – capital	1,990	1,725	1,990	1,725
Total	7,628	2,876	1,990	1,725

Unrecognised deferred tax assets are calculated by applying to the pre tax value the tax rate of the jurisdiction in which the asset resides. Assets are converted to Australian dollars at the prevailing period end exchange rate.

(g). Tax Losses

The Group has recognised as a deferred tax asset income tax losses of nil (2006: $2,987,000) in tax jurisdictions where it is probable that future taxable income will be available to utilise these losses.

The Group has derecognised as a deferred tax asset previously recognised income tax losses of $1,248,000 (2006: Nil) as it is no longer probable that these can be recovered.

NOTE 5: CASH & CASH EQUIVALENTS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Cash on hand	13	2	1	2
Cash at bank	3,806	10,550	1,173	6,053
Cash on deposit	3,823	-	2,480	-
Total	7,642	10,552	3,654	6,055

NOTE 6: TRADE & OTHER RECEIVABLES

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current				
Trade debtors	18,784	32,243	5,012	4,633
Less provision for doubtful debt	(159)	(135)	-	(28)
	18,625	32,108	5,012	4,605
Other receivables	738	4,594	545	1,809
Total	19,363	36,702	5,557	6,414
Non Current				
Amounts receivable from controlled entities	-	-	51,943	55,072
Less provision for non recoverability	-	-	(9,699)	-
Total	-	-	42,244	55,072

NOTE 7: INVENTORIES

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current				
Raw materials at cost	3,892	4,891	255	452
Work in progress at cost	3,369	4,608	1,031	2,249
Finished goods at cost	24,406	42,334	9,478	9,327
Less provision for obsolescence	(1,524)	(4,234)	(183)	(771)
Total	30,143	47,599	10,581	11,257

NOTE 8: OTHER ASSETS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current				
Prepayments	1,517	1,497	1,169	365
Total	1,517	1,497	1,169	365

NOTE 9: OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Non Current				
Investments in subsidiaries at cost	-	-	25,326	25,909

NOTE 10: PROPERTY, PLANT & EQUIPMENT

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Buildings				
At cost	7,842	8,618	-	-
Less accumulated depreciation	(415)	(261)	-	-
	7,427	8,357	-	-
Plant and Equipment				
At cost	62,047	77,189	13,479	29,034
Less accumulated depreciation	(13,269)	(19,512)	(5,968)	(11,687)
	48,778	57,677	7,511	17,347
Plant and Equipment Under Lease				
At cost	270	1,376	270	1,376
Less accumulated amortisation	(254)	(661)	(254)	(661)
	16	715	16	715
Leasehold Improvements				
At cost	578	409	328	318
Less accumulated depreciation	(264)	(177)	(145)	(122)
	314	232	183	196
Motor Vehicles				
At cost	594	2,174	306	899
Less accumulated depreciation	(271)	(1,338)	(130)	(535)
	323	836	176	364
Motor Vehicles Under Lease				
At cost	342	240	342	240
Less accumulated amortisation	(125)	(43)	(125)	(43)
	217	197	217	197
Office Equipment				
At cost	3,673	5,430	2,188	2,082
Less accumulated depreciation	(2,638)	(3,224)	(1,717)	(1,494)
	1,035	2,206	471	588
Capital Work in Progress	2,783	-	765	-
Total property, plant and equipment	60,893	70,220	9,339	19,407

NOTE 10: PROPERTY, PLANT & EQUIPMENT (CONTINUED)

Movements in Carrying Amounts

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

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Buildings				
Balance at the beginning of the year	8,357	5,637	-	-
Additions / (transfers)	53	2,475	-	-
Depreciation expense	(195)	(178)	-	-
Net foreign currency movements arising from foreign operations	(788)	423	-	-
Carrying amount at the end of the year	7,427	8,357	-	-
Plant and Equipment				
Balance at the beginning of the year	57,677	48,225	17,347	21,471
Reclassifications	6	-	(23)	-
Additions / (transfers)	384	16,017	80	3,230
Disposals	(623)	(99)	(7,996)	(4,468)
Depreciation expense	(5,787)	(5,512)	(1,581)	(2,158)
Impairment loss	(714)	(1,464)	(316)	(728)
Net foreign currency movements arising from foreign operations	(2,165)	510	-	-
Carrying amount at the end of the year	48,778	57,677	7,511	17,347
Plant and Equipment Under Lease				
Balance at the beginning of the year	715	877	715	877
Reclassifications	(38)	-	(38)	-
Additions / (transfers)	(615)	-	(615)	-
Depreciation expense	(46)	(162)	(46)	(162)
Carrying amount at the end of the year	16	715	16	715
Leasehold Improvements				
Balance at the beginning of the year	232	259	196	217
Reclassifications	46	-	(1)	-
Additions / (transfers)	133	7	10	-
Depreciation expense	(100)	(44)	(22)	(21)
Net foreign currency movements arising from foreign operations	3	10	-	-
Carrying amount at the end of the year	314	232	183	196
Motor Vehicles				
Balance at the beginning of the year	836	1,000	364	525
Reclassifications	(25)	-	9	-
Additions / (transfers)	71	65	-	-
Disposals	(408)	(28)	(135)	(13)
Depreciation expense	(126)	(295)	(62)	(148)
Net foreign currency movements arising from foreign operations	(25)	94	-	-
Carrying amount at the end of the year	323	836	176	364
Motor Vehicles Under Lease				
Balance at the beginning of the year	197	29	197	29
Additions / (transfers)	100	208	100	208
Depreciation expense	(80)	(40)	(80)	(40)
Carrying amount at the end of the year	217	197	217	197
Office Equipment				
Balance at the beginning of the year	2,206	1,738	588	683
Reclassifications	9	-	-	-
Additions / (transfers)	218	879	132	153
Disposals	(556)	(12)	(22)	(8)
Depreciation expense	(577)	(720)	(227)	(240)
Net foreign currency movements arising from foreign operations	(265)	321	-	-
Carrying amount at the end of the year	1,035	2,206	471	588

NOTE 11: INTANGIBLE ASSETS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Goodwill at cost	10,313	13,928	4,127	4,127
Less accumulated impairment	(986)	(4,437)	(1,054)	(1,054)
	9,327	9,491	3,073	3,073
Patents, trademarks and licenses at cost	1,281	1,169	1,057	937
Less accumulated amortisation	(565)	(500)	(534)	(423)
	716	669	523	514
Research and development	4,865	4,772	4,865	4,772
Less accumulated amortisation	(3,370)	(2,446)	(3,370)	(2,446)
	1,495	2,326	1,495	2,326
Total intangible assets	11,538	12,486	5,091	5,913
Movements in Carrying Amounts				
Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the year				
Goodwill				
Balance at the beginning of the year	9,491	12,315	3,073	2,782
Additions / (transfers)	-	294	-	291
Impairment loss	-	(2,998)	-	-
Net foreign currency movements arising from foreign operations	(164)	(120)	-	-
Carrying amount at the end of the year	9,327	9,491	3,073	3,073
Patents, Trademarks and Licences				
Balance at the beginning of the year	669	648	514	461
Additions / (transfers)	120	103	120	126
Amortisation expense	(55)	(76)	(111)	(73)
Net foreign currency movements arising from foreign operations	(18)	(6)	-	-
Carrying amount at the end of the year	716	669	523	514
Research and Development				
Balance at the beginning of the year	2,326	3,247	2,326	3,247
Reclassifications	356	-	39	-
Additions / (transfers)	54	1,524	54	1,524
Amortisation expense	(924)	(2,445)	(924)	(2,445)
Impairment loss	(317)	-	-	-
Carrying amount at the end of the year	1,495	2,326	1,495	2,326

NOTE 12: TRADE & OTHER PAYABLES

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current				
Unsecured Liabilities				
Trade creditors	6,751	16,702	1,268	1,602
Sundry creditors and accruals	4,353	5,541	1,597	2,166
Total	11,104	22,243	2,865	3,768

NOTE 13: BORROWINGS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current				
Secured liabilities:				
Bank overdrafts	7,103	16,966	4,444	9,291
Bank loans	35,197	52,906	19,215	35,939
Other loans	747	681	747	681
Commercial bills	-	9,700	-	9,700
Finance lease liability	228	239	228	239
Hire purchase liability	2,225	1,680	2,225	1,680
Convertible notes	-	6,500	-	6,500
Convertible notes	-	9,000	-	9,000
	45,500	97,672	26,859	73,030
Unsecured liabilities:				
Bank loans	1,358	-	-	-
Other loans	215	-	215	-
	1,573	-	215	-
Non Current				
Secured liabilities:				
Bank loans	-	4,833	-	-
Other loans	3,267	4,015	3,267	4,015
Finance lease liability	273	488	273	488
Hire purchase liability	406	2,734	406	2,734
	3,946	12,070	3,946	7,237
Unsecured liabilities:				
Other loans	402	-	402	-
	402	-	402	-
Total	51,421	109,742	31,422	80,267
Disclosed in the Financial Statements As				
Current borrowings	47,073	97,672	27,074	73,030
Non current borrowings	4,348	12,070	4,348	7,237

Security

Liabilities are secured by:

(i) First ranking registered equitable mortgage by Gale Pacific Limited over its assets and undertakings including uncalled capital.

(ii) First ranking registered equitable mortgage by Gale Pacific USA Inc. over its assets and undertakings including uncalled capital.

(iii) Mortgage over the buildings of Gale Pacific Special Textiles (Ningbo) Limited.

(iv) Fixed and floating charges (or equivalent) over assets of Gale Europe GmbH Vertriebsgescellsehaft, Gale Pacific (New Zealand) Limited and Gale Pacific Special Textiles (Ningbo) Limited.

NOTE 14: OTHER FINANCIAL LIABILITIES

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Derivatives carried at fair value:				
Current				
Foreign currency forward contracts	31	-	31	-
Total	31	-	31	-

NOTE 15: PROVISIONS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current				
Employee benefits	1,181	1,283	652	768
Restructuring and termination costs	4,751	-	-	-
Factory make good costs	250	-	250	-
Non Current				
Employee benefits	998	974	78	73
	7,180	2,257	980	841
Disclosed in the Financial Statements As				
Current provisions	6,182	1,283	902	768
Non current provisions	998	974	78	73
(a) Aggregate employee benefits liability	2,179	2,257	730	841
(b) Number of employees at year end	815	1,218	86	109

Restructuring and termination costs comprise costs associated with the New Zealand plant closure and the relocation of its equipment to China and Australia.

NOTE 16: CONTRIBUTED EQUITY

	Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)
Paid Up Capital		
96,834,516 fully paid ordinary shares (2006: 55,069,815)	81,936	47,124
Movement in Share Capital		
Shares issued at the beginning of the financial year	47,124	42,071
Costs of capital raising (net of tax)	(688)	(162)
99,969 shares used 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
23,529,412 shares issued as part of a private placement and a Share Purchase Plan – 3 July 2006	20,000	-
10,941,177 shares issued in conversion of 4,270,271 convertible notes – 5 July 2006	9,000	-
7,294,112 shares issued in conversion of 2,594,593 convertible notes – 1 August 2006	6,500	-
	81,936	47,124

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 consider it prudent not to pay a dividend this financial year.

(a). Movement in Share Capital

During 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 85 cents.

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.

Subsequent to the financial year, (30 August 2007) the Company raised $20 million through private placements of 40,000,000 shares issued at 50 cents per share.

(b). Share Based Payments

The Group maintains an option scheme for certain staff and executives, including executive Directors, as approved by shareholders at an annual general meeting. This scheme is designed to reward key personnel when the Group meets performance hurdles relating to:

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

The number of unissued ordinary shares under option as at the date of this report is 750,000. The issue price of each option is zero. Each option entitles the holder to one (1) ordinary share in Gale Pacific Limited in the event that the option is exercised.

Additionally, during the year the Group issued 150,000 performance rights to the Managing Director and Chief Executive Officer. Each performance right entitles the holder one (1) ordinary share in Gale Pacific Limited when exercised and is subject to the satisfying of relevant performance hurdles based on improvements in the Company's diluted earnings per share.

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

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

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

NOTE 16: CONTRIBUTED EQUITY (CONTINUED)

Options

Grant Date	Expiry Date	Exercise Price	Balance at Start of the Year No.	Granted During the Year No.	Exercised During the Year No.	Lapsed During the Year No.	Balance at End of the Year No.	Exercisable at End of the Year No.
Consolidated and Parent Entity - 2007								
5 May 2004	1 Dec 2006	$1.50	50,000	-	-	(50,000)	-	-
15 Dec 2004	1 Dec 2008	$3.00	240,000	-	-	(60,000)	180,000	-
16 Nov 2005	1 Dec 2008	$1.52	580,000	-	-	(130,000)	450,000	-
24 Oct 2006	31 Dec 2008	$1.52	-	370,000	-	(250,000)	120,000	-
Total			**870,000**	**370,000**	**-**	**(490,000)**	**750,000**	**-**
Weighted average exercise price			$1.93	$1.52	-	$1.70	$1.88	-
Consolidated and Parent Entity – 2006								
5 May 2004	1 Dec 2006	$1.50	50,000	-	-	-	50,000	-
15 Dec 2004	1 Dec 2008	$3.00	560,000	-	-	(320,000)	240,000	-
16 Nov 2005	1 Dec 2008	$1.52	-	1,260,000	-	(680,000)	580,000	-
Total			**610,000**	**1,260,000**	**-**	**(1,000,000)**	**870,000**	**-**
Weighted average exercise price			$2.88	$1.52	-	$1.99	$1.93	-

	Grant Date 15 December 2004	Grant Date 16 November 2005	Grant Date 24 October 2006
Options Valuation Assumptions			
Option Series			
Grant date share price	$3.00	$1.60	$0.90
Exercise price	$3.00	$1.52	$1.52
Expected volatility	35%	40%	45%
Option Life			
Tranche 1	2.50 years	2.49 years	2.10 years
Tranche 2	3.00 years	2.99 years	-
Tranche 3	3.50 years	-	-
Tranche 4	4.00 years	-	-
Dividend yield	2.47%	2.96%	1.70%
Risk Free Interest Rate			
Tranche 1	4.86%	5.21%	6.04%
Tranche 2	4.87%	5.21%	-
Tranche 3	4.91%	-	-
Tranche 4	4.95%	-	-

NOTE 16: CONTRIBUTED EQUITY (CONTINUED)

Performance Rights

Grant Date	Expiry Date	Exercise Price	Balance at Start of the Year No.	Granted During the Year No.	Exercised During the Year No.	Lapsed During the Year No.	Balance at End of the Year No.	Exercisable at End of the Year No.
Consolidated and Parent Entity - 2007								
2 Feb 2007	2 Feb 2017	N/A	-	150,000	-	-	150,000	-

	Grant Date 2 February 2007
Performance Rights Valuation Assumptions	
Grant date share price	$0.83
Exercise price	N/A
Expected volatility	N/A
Expected life	2.40 years
Dividend yield	1.80%
Risk free interest rate	N/A

NOTE 17: RESERVES

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Foreign currency translation reserve	(7,624)	(2,821)	-	-
Employee share based payment reserve	344	178	344	178
Total	(7,280)	(2,643)	344	178

(a). Foreign Currency Translation Reserve

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Balance at the beginning of the year	(2,821)	(3,087)	-	-
Translation of foreign subsidiaries for the year	(1,789)	266	-	-
Movement arising from the reclassification of non current related party monetary items to net investments in foreign operations	(2,783)	-	-	-
Gain realised on disposal of foreign subsidiary	(231)	-	-	-
Balance at the end of the year	(7,624)	(2,821)	-	-

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

NOTE 17: RESERVES (CONTINUED)

(b). Employee Share Based Payment Reserve

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Balance at the beginning of the year	178	98	178	98
Net equity settled share based payment expense	166	80	166	80
Balance at the end of the year	344	178	344	178

NOTE 18: RETAINED EARNINGS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Balance at the beginning of the year	1,916	15,461	(3,406)	7,204
Net loss attributable to members of the parent entity	(16,360)	(11,942)	(8,685)	(9,007)
Dividends paid	-	(1,603)	-	(1,603)
Balance at the end of the year	(14,444)	1,916	(12,091)	(3,406)

NOTE 19: MINORITY INTERESTS

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Minority interest in controlled entities comprises:				
Opening balance	(11)	(9)	-	-
Net loss attributable to minority interest	-	(2)	-	-
Balance at the end of the year	(11)	(11)	-	-

NOTE 20: CASH FLOW INFORMATION

(a). Reconciliation of Cash

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:				
Cash on hand	13	2	1	2
Cash at bank	3,806	10,550	1,173	6,053
Cash on deposit	3,823	-	2,480	-
Bank overdrafts	(7,103)	(16,966)	(4,444)	(9,291)
	539	(6,414)	(790)	(3,236)

(b). Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Loss after income tax	(16,360)	(11,942)	(8,685)	(9,007)
Non Cash Flows in Loss from Ordinary Activities				
Attributable to minority interest	-	(2)	-	-
Loss on disposal of fixed assets	126	5	7	5
Loss on disposal of investments	-	-	467	-
Depreciation of fixed assets	6,911	6,951	2,018	2,567
Impairment of fixed assets	714	1,464	316	6,478
Impairment of related party balances	-	-	9,699	-
Amortisation / impairment of intangible assets	1,296	5,519	1,035	2,720
Equity settled share based payments	166	-	166	-
Other	-	-	-	80
Changes in tax balances processed directly in equity	295	-	295	-
Changes in tax balances due to foreign exchange movements	(15)	-	-	-
Changes in assets and liabilities from the divestment of Jung	(15,914)	-	76	-
Changes in Assets and Liabilities				
Decrease / (increase) in receivables	17,339	(3,949)	857	704
Decrease in inventories	17,456	2,978	676	7,985
Increase in other assets	(20)	(48)	(804)	12
(Increase) / decrease in payables, accruals and other financial liabilities	(6,185)	2,391	(733)	(745)
Decrease / (increase) in tax balances	2,731	(5,297)	(3,120)	(3,465)
Net cash inflow /(outflow) provided by operations	8,540	(1,930)	2,270	7,334

NOTE 20: CASH FLOW INFORMATION (CONTINUED)

(c). Discontinued Business

On 24 August 2006 the Group announced the sale of its German garden products entity Jung Garten Freizeit Vertriebsgesellschaft mbH ("Jung"). The entity was sold on 1 September 2006 and is reported in the financial report as a discontinued operation. As the details of this sale were finalised prior to the completion of the Group's accounts for the year end 30 June 2006, the impairment loss identified by the sale was recognised in these accounts so that the loss on disposal generated in the current period relates only to the adjustments to the final settlement.

Financial information relating to the discontinued operation for the period to the date of the disposal is set out below. Further information is set out in Note 27 Segment Reporting.

	Consolidated	
	2006 / 2007 ($000)	2005 / 2006 ($000)
Profit From Discontinued Operations		
Revenue	8,212	54,979
Expenses	(8,442)	(64,203)
Loss before income tax	(230)	(9,224)
Income tax benefit	24	-
Loss after income tax of discontinued operations	(206)	(9,224)
Loss on sale of division before income tax	(265)	-
Income tax (expense) / benefit	-	-
Loss on sale of division after income tax	(265)	-
Loss from discontinued operations	(471)	(9,224)
Cash Flows From Discontinued Operations		
Net cash inflow / (outflow) from ordinary activities	1,400	(2,208)
Net cash inflow / (outflow) from investing activities	15,674	(427)
Effect of exchange rate changes on items nominated in foreign currencies	(1,111)	-
Net increase / (decrease) in cash generated by Jung	15,963	(2,635)
Carrying Amounts of Assets and Liabilities		
The carrying amounts of assets and liabilities as at 1 September 2006 were:		
Property, plant and equipment	968	-
Receivables	13,426	-
Inventories	7,290	-
Total assets	21,684	-
Payables	(21,030)	-
Net assets	654	-
Details of Sale of Jung		
Consideration received	83	-
Foreign currency translation reserve realised on sale	231	-
	314	-
Carrying amount of net assets sold	(654)	-
Foreign currency movements on deferred consideration from date of sale written off on final settlement	75	-
Loss on sale before income tax	(265)	-
Income tax (expense) / benefit	-	-
Loss on sale after income tax	(265)	-
Reconciliation of Proceeds From Disposal of Business		
Repayment of related party balances by the purchaser	12,416	-
Assumption of debt	3,191	-
Sale consideration received from the purchaser	83	-
Total proceeds from disposal of business	15,690	-

NOTE 21: COMPANY DETAILS

The registered office of the Company is:

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

NOTE 22: DIRECTORS AND EXECUTIVES' COMPENSATION

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

Directors

H Boon (Chairman, Non Executive)

G Richards (Non Executive)

P McDonald (Managing Director and Chief Executive Officer)

G Gale (Non Executive), retired 21 November 2006

D Reilly (Non Executive), retired 21 November 2006

Executives

F Albertsmeier (Managing Director, Europe / Middle East / Africa)

P Cacioli (General Manager, Research & Development and Technical Services), appointed 30 March 2007

S Carroll (Managing Director, Australia)

J Cox (Chief Financial Officer)

M Denney (Managing Director, USA), appointed 25 September 2006

P Ducray (Chief Manufacturing Officer)

Z Fakroddin (Business Unit Manager, Gale Europe GmbH)

C McCallum (Managing Director, New Zealand)

E Xu (Managing Director, China)

Key Management Personnel 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 bonus and share options under the Executive Share Option Plan as disclosed in Note 16 to the Financial Statements.

NOTE 22: DIRECTORS AND EXECUTIVES' COMPENSATION (CONTINUED)

2006 / 2007	Short Term Benefits			Post Employ	Share Based Payments		Termin. Benefits	Total	Performance Related	
Directors	Salary & Fees	Bonus	Non-monetary	Super	Options	Perform. Rights			Total	Options
	($)	($)	($)	($)	($)	($)	($)	($)	%	%
Executive Directors										
P McDonald	354,215	32,000	44,609	27,929	47,138	19,930	-	525,821	18.8%	12.8%
Non Executive Directors										
H Boon	150,000	-	-	-	-	-	-	150,000	-	-
G Richards	71,667	-	-	-	-	-	-	71,667	-	-
D Reilly (i)	31,250	-	-	-	-	-	-	31,250	-	-
G Gale (ii)	-	-	-	-	-	-	-	-	-	-
Total	**607,132**	**32,000**	**44,609**	**27,929**	**47,138**	**19,930**	**-**	**778,738**	**-**	**-**

2005 / 2006	Short Term Benefits			Post Employ	Share Based Payments		Termin. Benefits	Total	Performance Related	
Directors	Salary & Fees	Bonus	Non-monetary	Super	Options	Perform. Rights			Total	Options
	($)	($)	($)	($)	($)	($)	($)	($)	%	%
Executive Directors										
P McDonald	359,942	-	62,401	5,171	72,580	-	-	500,094	14.5%	14.5%
G Gale (ii)	371,635	-	61,964	12,139	51,658	-	617,096	1,114,492	4.6%	4.6%
Non Executive Directors										
H Boon (iii)	137,500	-	-	-	-	-	-	137,500	-	-
G Richards	65,000	-	-	-	-	-	-	65,000	-	-
D Reilly (i)	75,000	-	-	-	-	-	-	75,000	-	-
T Eversteyn (iv)	14,166	-	-	-	-	-	-	14,166	-	-
Total	**1,023,243**	**-**	**124,365**	**17,310**	**124,238**	**-**	**617,096**	**1,906,252**		

(i) Mr Reilly retired from his role as a Non Executive Director on 21 November 2006 and therefore the details of his remuneration for the reporting period are to that date.

(ii) Mr Gale resigned from his role as an Executive Director on 26 April 2006 and retired as a Non Executive Director on 21 November 2006. The details of his remuneration for the 2005 / 2006 reporting period are to 26 April 2006. Mr Gale did not receive remuneration in his role as Non Executive Director.

(iii) Mr Boon was appointed a Non Executive Director on 25 August 2005 and therefore the details of his remuneration for the reporting period are from that date.

(iv) Mr Eversteyn retired from his role as a Non Executive Director on 25 August 2005 and therefore the details of his remuneration for the reporting period are to that date.

NOTE 22: DIRECTORS AND EXECUTIVES' COMPENSATION (CONTINUED)

2006 / 2007	Short Term Benefits			Post Employment	Share Based Payments	Total	Performance Related	
Key Management Personnel	Salary & Fees	Bonus (xiii)	Non-monetary	Superann-uation	Options		Total	Options
	($)	($)	($)	($)	($)	($)	%	%
F Albertsmeier (i)	320,090	77,506	33,479	-	-	431,075	18.0%	-
Z Fakroddin (ii)	189,459	-	105,064	-	6,408	300,931	2.1%	2.1%
S Carroll	214,472	15,000	30,873	19,143	6,408	285,896	7.5%	2.2%
J Cox	229,358	25,000	-	20,642	-	275,000	9.1%	-
P Ducray (iii)	169,477	-	28,771	-	3,204	201,452	1.6%	1.6%
C McCallum (iv)	190,748	-	-	-	8,010	198,758	4.0%	4.0%
E Xu (v)	179,517	12,457	4,028	-	2,493	198,495	7.5%	1.3%
M Denney (vi)	126,964	55,017	-	-	-	181,981	30.2%	-
P Cacioli (vii)	62,713	-	1,507	5,644	-	69,864	-	-
Total	**1,682,798**	**184,980**	**203,722**	**45,429**	**26,523**	**2,143,452**		

2005 / 2006	Short Term Benefits			Post Employment	Share Based Payments	Total	Performance Related	
Key Management Personnel	Salary & Fees	Bonus	Non-monetary	Superann-uation	Options		Total	Options
	($)	($)	($)	($)	($)	($)	%	%
Z Fakroddin (viii)	148,610	129,111	60,031	-	3,950	341,702	38.9%	1.2%
E Jung (ix)	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%
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%
A London (x)	157,888	-	17,007	10,956	6,406	192,257	3.3%	3.3%
F Albertsmeier (xi)	79,888	-	2,422	4,650	-	86,960	-	-
J Cox (xii)	69,833	-	-	6,285	-	76,118	-	-
Total	**1,269,897**	**228,324**	**156,791**	**46,589**	**67,844**	**1,769,445**		

(i) Mr Albertsmeier is based in Germany and remunerated in Euro converted to Australian dollars in the table above.

(ii) Mr Fakroddin is based in Europe and is remunerated in Euro converted to Australian dollars in the table above.

(iii) Mr Ducray is based in China and remunerated in US dollars converted to Australian dollars in the table above. Mr Ducray was appointed Group Manufacturing Manager on 1 July 2006. Prior to this appointment Mr Ducray was Manufacturing Manager Gale Pacific (New Zealand) Limited.

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

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

(vi) Mr Denney was appointed Managing Director Gale Pacific USA on 1 August 2006 and therefore the details of his remuneration for the reporting period are from that date. He is based in USA and remunerated in US dollars converted to Australian dollars in the table above.

(vii) Mr Cacioli was appointed General Manager of R & D Technical Services on 1 March 2007 and therefore the details of his remuneration for the reporting period are from that date.

(viii) Mr Fakroddin was based in the Middle East and is remunerated in US dollars converted to Australian dollars in the table above. The bonus payments related to the period ended 30 June 2005 and 30 June 2006 and were paid in USD converted to Australian dollars in the table above.

(ix) Mr Jung resigned 31 March 2006 and therefore the details of his remuneration for the reporting period are to that date. He is based in Germany and remuneration is in Euro converted to Australian dollars in the table above.

(x) Mr London resigned on 1 March 2006 and therefore the details of his remuneration for the reporting period are to that date.

(xi) Mr Albertsmeier was appointed Managing Director Gale Jung and Europe on 1 April 2006 and therefore the details of his remuneration for the reporting period are from that date. He is based in Germany and remunerated in Euro converted to Australian dollars in the table above.

(xii) Mr Cox was appointed as Chief Financial Officer on 1 March 2006 and therefore the details of this remuneration for the reporting period are form that date.

(xiii) Incentive bonuses are granted annually. The grant date is tied to the performance review, which for the current year was completed by 30 June 2007. The service and performance criteria are set out in this report.

NOTE 22: DIRECTORS AND EXECUTIVES' COMPENSATION (CONTINUED)

Compensation by Category

	Consolidated		Company	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Short term employment benefits	2,755	2,380	1,263	1,206
Post employment benefits	73	59	73	50
Share based payments	94	120	73	62
Termination benefits	-	617	-	617
Total	2,922	3,176	1,409	1,935

Directors' Equity Holdings: Fully Paid Ordinary Shares

2006 / 2007	Balance 30 June 2006	Received as Remuneration	Options Exercised	Net Change	Balance 30 June 2007
Executive Directors					
P McDonald	334,714	-	-	-	334,714
Non Executive Directors					
H Boon	73,000	-	-	-	73,000
G Richards	78,851	-	-	-	78,851
Total	**486,565**	**-**	**-**	**-**	**486,565**

2005 / 2006	Balance 30 June 2005	Received as Remuneration	Options Exercised	Net Change	Balance 30 June 2006
Executive Directors					
G Gale	15,329,709	-	-	70,000	15,399,709
P McDonald	306,295	-	-	28,419	334,714
Non Executive Directors					
H Boon	-	-	-	73,000	73,000
D Reilly	316,065	-	-	107,076	423,141
G Richards	57,778	-	-	21,073	78,851
Total	**16,009,847**	**-**	**-**	**299,568**	**16,309,415**

NOTE 22: DIRECTORS AND EXECUTIVES' COMPENSATION (CONTINUED)

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

					Terms & Conditions for Each Grant			
2006 / 2007	**Vested Number**	**Granted Number**	**Grant Date**	**Value Per Option / Right at Grant Date**	**Exercise Price**	**Expiry Date**	**First Exercise Date**	**Last Exercise Date**
Executive Directors (Performance Rights)								
P McDonald	-	150,000	02/02/2007	$0.79	Nil	02/02/2017	30/09/2009	02/02/2017
Non Executive Directors								
None								
Executives (Options)								
E Xu	-	80,000	24/10/2006	$0.10	$1.52	31/12/2008	29/09/2008	31/12/2008
Total	**-**	**230,000**						

					Terms & Conditions for Each Grant			
2005 / 2006	**Vested Number**	**Granted Number**	**Grant Date**	**Value Per Option / Right at Grant Date**	**Exercise Price**	**Expiry Date**	**First Exercise Date**	**Last Exercise Date**
Executive Directors								
None								
Non Executive Directors								
None								
Executives (Options)								
S Carroll	-	80,000	16/11/2005	$0.445	$1.52	01/12/2008	28/09/2007	01/12/2008
Z Fakroddin	-	80,000	16/11/2005	$0.445	$1.52	01/12/2008	28/09/2007	01/12/2008
A London	-	80,000	16/11/2005	$0.445	$1.52	01/12/2008	28/09/2007	01/12/2008
C McCallum	-	100,000	16/11/2005	$0.445	$1.52	01/12/2008	28/09/2007	01/12/2008
Total		**340,000**						

NOTE 22: DIRECTORS AND EXECUTIVES' COMPENSATION (CONTINUED)

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

2006 / 2007	Balance 30 June 2006	Received as Remuneration	Options / Rights Exercised	Options / Rights Lapsed	Balance 30 June 2007	Total Vested 30 June 2006	Total Exercisable 30 June 2007
Executive Directors (Options)							
P McDonald	240,000	-	-	(60,000)	180,000	-	-
Executive Directors (Performance Rights)							
P McDonald	-	150,000	-	-	150,000	-	-
Non Executive Directors							
None							
Executives (Options)							
S Carroll	40,000	-	-	-	40,000	-	-
P Ducray	20,000	-	-	-	20,000	-	-
Z Fakroddin	40,000	-	-	-	40,000	-	-
C McCallum	50,000	-	-	-	50,000	-	-
E Xu	50,000	80,000	-	(90,000)	40,000	-	-
Total	**440,000**	**230,000**	**-**	**(150,000)**	**520,000**	**-**	**-**

2005 / 2006	Balance 30 June 2006	Received as Remuneration	Options / Rights Exercised	Options / Rights Lapsed	Balance 30 June 2007	Total Vested 30 June 2006	Total Exercisable 30 June 2007
Executive Directors (Options)							
G Gale	320,000	-	-	(320,000)	-	-	-
P McDonald	240,000	-	-	-	240,000	-	-
Non Executive Directors							
None							
Executives (Options)							
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**	**-**	**-**

Remuneration Practices

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

Options and performance rights issued to executives as a form of compensation are dependant upon the performance conditions outlined in Note 16(b). For the current year bonuses have been granted as at the 30 June 2007. Bonuses are paid out in cash as determined at the discretion of the Remuneration Committee.

NOTE 23: DIVIDENDS

	2006 / 2007		2005 / 2006	
	Cents Per Share	Total ($000)	Cents Per Share	Total ($000)
Ordinary Shares				
Interim dividend – fully franked	-	-	1.5	779
Final dividend – fully franked	-	-	1.5	824
		-		1,603
Adjusted franking account balance		1,076		508

NOTE 24: CAPITAL AND LEASING COMMITMENTS

		Consolidated		Company	
	Note	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Finance Leasing Commitments					
Payable:					
Not later than one year		438	444	438	444
Later than one year and not later than five years		365	691	365	691
Minimum lease payments		803	1,135	803	1,135
Less future finance charges		(302)	(408)	(302)	(408)
Total lease liability		501	727	501	727
Represented By					
Current liability	13	228	239	228	239
Non current liability	13	273	488	273	488
		501	727	501	727
Hire Purchase Commitments					
Payable:					
Not later than one year		2,376	2,002	2,376	2,002
Later than one year and not later than five years		430	2,909	430	2,909
Minimum hire purchase payments		2,806	4,911	2,806	4,911
Less future finance charges		(175)	(497)	(175)	(497)
Total hire purchase liability		2,631	4,414	2,631	4,414
Represented By					
Current liability	13	2,225	1,680	2,225	1,680
Non current liability	13	406	2,734	406	2,734
		2,631	4,414	2,631	4,414
Operating Lease Commitments					
Non cancellable operating leases contracted for but not capitalised in the accounts:					
Payable:					
Not later than one year		3,009	3,156	1,596	1,818
Later than one year and not later than five years		9,256	6,146	6,828	2,007
Later than five years		752	3,321	-	171
		13,017	12,623	8,424	3,996

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

NOTE 25: RELATED PARTY TRANSACTIONS

Equity Investments in Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 26 to the financial statements.

Directors' Remuneration

Details of Directors' remuneration are disclosed in Note 22.

(a) 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 or payable to entities in the wholly owned group are disclosed in Note 6. These amounts are unsecured and are subordinate to other liabilities. These amounts outstanding will be settled in cash. At 30 June 2007 a review was undertaken on the timing of recovery of related party balances owed to the parent by wholly owned controlled entities. Using discounted projected cash flows it was concluded that the timeframes for recovery of the balances owed by Gale Europe GmbH Vertriebsgesellschaft and Gale (New Zealand) Limited were of sufficient length to warrant the creation of a provision for impairment totalling $9,699,000 in the parent's accounts against these two balances. This provision is reversed on consolidation of the parent and wholly owned controlled entities so that the consolidated result is unaffected by this provision.

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

- Sale and purchase of goods totalling $39,624,000 (2006: $22,958,000)
- Gale Pacific Limited received interest income from its subsidiaries totalling $2,339,000 (2006: $1,446,000)
- Gale Pacific Limited made interest payments to its subsidiaries totalling $1,337,000 (2006: $336,000)
- Plant and equipment was transferred at written down value totalling $9,084,000 (2006: $3,274,000)
- Reimbursement of certain operating costs totalling $1,577,000 (2006: $313,000)

(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 nil (2006: $139,000)

(c) 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	
	2006 / 2007 ($000)	2005 / 2006 ($000)	2006 / 2007 ($000)	2005 / 2006 ($000)
Current – accrued bonus and director fees	38	5	38	5

NOTE 26: CONTROLLED ENTITIES

	Country of Incorporation	Ownership Interest (%)	
		2006 / 2007	2005 / 2006
Parent Entity			
Gale Pacific Limited	Australia	-	-
Controlled Entities			
Gale Pacific USA Inc	United States of America	100%	100%
Gale Pacific FZE	United Arab Emirates	100%	100%
Aquaspan Pty Ltd	Australia	50%	50%
Gale Pacific Special Textiles (Ningbo) Limited	China	100%	100%
Jung Garten & Freizeit Vertriebsgesellschaft mbH	Germany	-	100%
Gale Europe GmbH Vertriebsgesellschaft	Germany	100%	100%
Gale Pacific (New Zealand) Limited	New Zealand	100%	100%

NOTE 27: 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 Group comprises the following main geographical segments, based on the Group'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.

NOTE 27: SEGMENT REPORTING (CONTINUED)

Business Segment

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

Segment Information Primary Reporting – Geographical Segments

	Asia / Pacific ($000)	Americas ($000)	Europe / Middle East / Africa ($000)	Discontinued Business ($000)	Eliminations ($000)	Consolidation ($000)
30 June 2007						
Revenue outside the Group	72,787	27,837	10,279	8,212	(499)	118,616
Inter-segment revenue	23,938	43	222	-	(24,203)	-
Total revenue	96,725	27,880	10,501	8,212	(24,702)	118,616
Segment operating profit / (loss)	(4,298)	1,947	(10,472)	(495)	(314)	(13,632)
Income tax (expense) / benefit	(492)	(737)	(1,609)	24	86	(2,728)
Operating profit / (loss) after tax	(4,790)	1,210	(12,081)	(471)	(228)	(16,360)
Depreciation and amortisation	6,524	564	771	31	-	7,890
Individually Significant Items						
Reimbursement of R & D expenditure	110	-	-	-	-	110
Impairment of assets	(1,031)	-	-	-	-	(1,031)
Inventory write down	(440)	-	(3,899)	-	-	(4,339)
Restructuring and termination costs	(4,672)	-	-	-	-	(4,672)
Segment assets	101,856	18,052	13,280	-	(1,564)	131,624
Unallocated assets	-	-	-	-	-	104
Total assets	101,856	18,052	13,280	-	(1,564)	131,728
Segment liabilities	66,436	2,714	2,672	-	(89)	71,733
Unallocated liabilities	-	-	-	-	-	(206)
Total liabilities	66,436	2,714	2,672	-	(89)	71,527
Acquisition of non current assets	3,570	453	88	16	-	4,127
30 June 2006						
Revenue outside the Group	80,402	22,511	9,277	54,979	-	167,169
Inter-segment revenue	32,703	-	-	-	(32,703)	-
Total revenue	113,105	22,511	9,277	54,979	(32,703)	167,169
Segment operating profit / (loss)	(5,204)	340	(1,728)	(9,224)	(165)	(15,981)
Income tax (expense) / benefit	2,931	(145)	1,278	-	(27)	4,037
Operating profit / (loss) after tax	(2,273)	195	(450)	(9,224)	(192)	(11,944)
Depreciation and amortisation	8,198	453	621	319	(119)	9,472
Individually Significant Items						
Reimbursement of R & D expenditure	748	-	-	-	-	748
Impairment of assets	(728)	-	-	(3,734)	-	(4,462)
Inventory write down	-	-	-	(2,143)	-	(2,143)
Segment assets	117,313	14,099	7,396	41,226	1,790	181,824
Unallocated assets	-	-	-	-	-	333
Total assets	117,313	14,099	7,396	41,226	1,790	182,157
Segment liabilities	120,505	1,360	636	12,365	-	134,866
Unallocated liabilities	-	-	-	-	-	905
Total liabilities	120,505	1,360	636	12,365	-	135,771
Acquisition of non current assets	19,558	592	963	459	-	21,572

NOTE 29: EARNINGS PER SHARE

	Consolidated	
	2006 / 2007 (Cents Per Share)	2005 / 2006 (Cents Per Share)
Basic Earnings Per Share		
From continuing operations	(16.58)	(5.14)
From discontinued operations	(0.49)	(17.43)
Total basic earnings per share	(17.07)	(22.57)
Diluted Earnings Per Share		
From continuing operations	(16.58)	(5.14)
From discontinued operations	(0.49)	(17.43)
Total diluted earnings per share	(17.07)	(22.57)

	Consolidated	
	2006 / 2007 ($000)	2005 / 2006 ($000)
Earnings Per Share		
The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:		
Net loss	(16,360)	(11,944)
Earnings Used in the Calculation of Basic and Diluted EPS		
Adjustments to exclude loss for the period from discontinued operations	471	9,224
Earnings used in the calculation of basic and diluted EPS from continuing operations	(15,889)	(2,720)

	Consolidated	
	2006 / 2007 (No. 000)	2005 / 2006 (No. 000)
Weighted average number of ordinary shares for the purposes of basic earnings per share	95,852	52,911

Potential ordinary shares have not been included in the calculation of diluted EPS as losses for the current and comparative periods means that they are anti-dilutive in nature.

NOTE 30: FINANCIAL INSTRUMENTS

(a). Financial Instruments

Derivative financial instruments may be used by the Group 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 Group 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 Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

(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.

(d). Interest Rate Risk

The Group'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 2007	Note	Weighted Average Effective Interest Rate	Balance with Variable Interest Rate	Balance with Fixed Interest Maturing In			Balance That is Non Interest Bearing	Total
				Less Than 1 Year	1 to 2 Years	2 to 5 Years		
		(%)	($000)	($000)	($000)	($000)	($000)	($000)
Financial Assets								
Cash and cash equivalents	5	3.47%	4,691	2,142	-	-	809	7,642
Trade receivables	6	-	-	-	-	-	18,625	18,625
Other receivables	6	-	-	-	-	-	738	738
Current tax assets	4	-	-	-	-	-	362	362
Total		-	4,691	2,142	-	-	20,534	27,367
Financial Liabilities								
Bank overdrafts	13	10.22%	7,103	-	-	-	-	7,103
Trade creditors	12	-	759	-	-	-	5,992	6,751
Other payables (sundry creditors and accruals)	12	-	-	-	-	-	4,353	4,353
Foreign currency forward contracts	14	-	-	-	-	-	31	31
Current tax liabilities	4	-	-	-	-	-	658	658
Bank loans	13	5.90%	1,459	32,576	-	-	2,520	36,555
Other loans	13	8.80%	-	1,364	3,267	-	-	4,631
Finance lease liabilities	13	7.04%	-	228	273	-	-	501
Hire purchase liabilities	13	8.77%	-	2,225	406	-	-	2,631
Employee benefit provisions	15	-	-	-	-	-	2,179	2,179
Total			9,321	36,393	3,946	-	15,733	65,393

NOTE 30: FINANCIAL INSTRUMENTS (CONTINUED)

30 June 2006	Note	Weighted Average Effective Interest Rate (%)	Balance with Variable Interest Rate ($000)	Balance with Fixed Interest Maturing In			Balance That is Non Interest Bearing ($000)	Total ($000)
				Less Than 1 Year ($000)	1 to 2 Years ($000)	2 to 5 Years ($000)		
Financial Assets								
Cash and cash equivalents	5	5.50%	10,550	-	-	-	2	10,552
Trade receivables	6	-	-	-	-	-	32,108	32,108
Other receivables	6	-	-	-	-	-	4,594	4,594
Current tax assets	4	-	-	-	-	-	1,047	1,047
Total			10,550	-	-	-	37,751	48,301
Financial Liabilities								
Bank overdrafts	13	8.10%	16,966	-	-	-	-	16,966
Trade creditors	12	-	-	-	-	-	16,702	16,702
Other payables (sundry creditors and accruals)	12	-	-	-	-	-	5,541	5,541
Current tax liabilities	4	-	-	-	-	-	344	344
Bank loans	13	6.20%	57,739	9,700	-	-	-	67,439
Other loans	13	9.10%	-	681	4,015	-	-	4,696
Convertible notes	13	8.67%	-	15,500	-	-	-	15,500
Finance lease liabilities	13	7.50%	-	239	488	-	-	727
Hire purchase liabilities	13	8.20%	-	1,680	2,734	-	-	4,414
Employee benefit provisions	15	-	-	-	-	-	1,299	1,299
Total			74,705	27,800	7,237	-	23,886	133,628

(e). Forward Exchange Contracts

The Group 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 Group 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 Group 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 Group has been recognised in the Company's balance sheet. At balance date the net amount payable was $31,200.

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

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

	Average Exchange Rate		Foreign Currency		Contract Value		Fair Value	
	2007	2006	2007 (FC000)	2006 (FC000)	2007 ($000)	2006 ($000)	2007 ($000)	2006 ($000)
Buy United States Dollars / Sell Australian Dollars								
Less than 6 months	0.7741	0.7405	57	1,200	73	1,620	(6)	(29)
Buy European Euro / Sell Australian Dollars								
Less than 6 months	0.5742	0.6075	176	45	306	74	(25)	6
Buy United States Dollars / Sell European Euro								
Less than 6 months	-	1.2133	-	955	-	1,705	-	(55)
Total							(31)	(78)

NOTE 31: SUBSEQUENT EVENTS

On 30 August 2007, the Company completed a $20 million capital raising via the private placement of 40,000,000 ordinary fully paid shares at a price of 50 cents per share.

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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

ADDITIONAL STOCK EXCHANGE INFORMATION

86 - 87

ADDITIONAL STOCK EXCHANGE INFORMATION

Number of Holdings of Equity Securities as at 18 September 2007

The fully paid issued capital of the Company consisted of 136,834,516 ordinary fully paid shares held by 967 shareholders. Each share entitles the holder to one vote.

Thirty five holders hold 750,000 options and 150,000 performance rights over ordinary shares. Options and performance rights do not carry a right to vote.

Distribution of Holders of Equity Securities

	Number of Shareholders	
Size of Shareholding	Fully Paid Ordinary Shares	Options Over Ordinary Shares
1 – 1,000	137	57,481
1,001 – 5,000	334	947,306
5,001 – 10,000	174	1,344,702
10,001 – 100,000	272	7,413,080
100,001 and over	50	127,071,947
Total	967	136,834,516

Unmarketable Parcels as at 18 September 2007	Minimum Parcel Size	Holders	Units
Minimum $500 parcel at $0.52 per unit	962	118	39,507
Total	962	118	39,507

Substantial Shareholders as at 18 September 2007

Shareholder	No.	%
Investec Wentworth Private Equity Limited	30,300,000	22.14
Thorney Holdings Pty Ltd	27,336,560	19.98
UBS Nominees Pty Ltd	16,647,761	12.17
Monterrey Investment Management Limited	14,051,045	10.30
Gale Australia Pty Ltd	13,927,844	10.18
Warakirri Asset Management Pty Ltd	10,354,702	7.57
Regal Funds Management Pty Ltd	9,599,656	7.02

Twenty Largest Holders of Quoted Equity Securities

Shareholder	No.	%
Thorney Holdings Pty Ltd	16,567,324	12.11
Gale Australia Pty Ltd	13,927,844	10.18
IWPE Nominees Pty Ltd <IWPE Fund 2 A/C>	12,120,000	8.86
Invia Custodian Pty Limited <White A/C>	10,501,938	7.67
ANZ Nominees Limited <Income Reinvest Plan A/C>	8,903,912	6.51
Citicorp Nominees Pty Limited	8,639,263	6.31
UBS Nominees Pty Ltd	8,387,722	6.13
IWPE Nominees Pty Ltd <Mg Private Equity Fund A/C>	7,791,428	5.69
HSBC Custody Nominees (Australia) Limited-GSI ECSA	7,237,940	5.29
Investec Bank (Australia) Limited	6,060,000	4.43
National Nominees Limited <Equipsuper Account>	5,153,587	3.77
MGB Equity Growth Pty Limited <MGB Equity Growth Fund 2 A/C>	4,328,572	3.16
Equity Trustees Limited <SGH PI Smaller Co's Fund>	3,978,058	2.91
Ruminator Pty Ltd	2,164,705	1.58
ANZ Nominees Limited <Cash Income A/C>	1,528,548	1.12
National Australia Trustees Limited	1,410,791	1.03
Gwynvill Trading Pty Limited	916,213	0.67
Crystal Transport Pty Ltd	853,243	0.62
GFS Securities Pty Ltd <Glenfare Super Fund A/C>	554,638	0.41
Mr Daryl Edward James Reilly	377,731	0.28
Top 20 Holders of Ordinary Fully Paid Shares as at 17 September 2007	**121,403,457**	**88.73**

Other Information

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

Melbourne, Australia

Christchurch, New Zealand

Orlando, USA

Jebel Ali, Dubai

Neunkirchen, Germany

Beilun, China

Synthesis
Advanced Polymer Fabrics

coolaroo
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GALE PACIFIC
Gale Pacific Limited
ABN 80 082 263 778