



Annual Report 2017

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Corporate Directory

GALE Pacific Limited

ABN 80 082 263 778

Directors

David Allman (Chairman)

Nick Pritchard (Group Managing Director)

Peter Landos (Non Executive Director)

John Murphy (Non Executive Director)

Company Secretary

Sophie Karzis

Registered Office

145 Woodlands Drive

Braeside, VIC, 3195

T +61 3 9518 3333

Website Address

www.galepacific.com

Principal Places of Business

Australia

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Braeside, VIC, 3195

Tel: +61 3 9518 3333

New Zealand

Unit 9, 39 Apollo Drive

Rosedale, Auckland, 0632

Tel: +64 9 479 9119

China

777 Hengshan West Road

Beilun, Ningbo, 315800

Tel: +86 574 5626 8888

USA

Suite 1704, 285 West Central Parkway

Altamonte Springs, Florida 32714

Tel: +1 407 333 1038

UAE

PO Box 17696, Jebel Ali, Dubai

Tel: +971 4 881 7114

Solicitors

Norton Gledhill

Level 23, 459 Collins Street

Melbourne, VIC, 3000

T + 613 9614 8933

Auditors

Deloitte Touche Tohmatsu

550 Bourke Street

Melbourne, VIC, 3000

T + 61 3 9671 7000

Stock Exchange Listing

Gale Pacific Limited shares are

listed on the Australian Securities

Exchange (ASX code: GAP)

Share Registry

Computershare

Yarra Falls, 452 Johnston Street

Abbotsford, VIC, 3067

T + 61 3 9415 4000

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2017 Annual General Meeting

The Annual General Meeting will be held
on Friday 27 October 2017.

The Notice of Meeting and Proxy Form
are separate items accompanying this
2017 Annual Report.



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Who we are

GALE Pacific is a manufacturer and marketer of commercial and DIY products that protect and enhance environments around the world.

Based in Australia, we operate globally with approximately half our revenue coming from other markets. Our products are marketed across commercial and retail sectors, with distribution into architectural, horticultural, agricultural, mining, construction, and home improvement channels. They are stocked by many of the world's largest retailers and also have strong online distribution.

Key products include architectural shade fabrics, exterior window shades, shade sails and an array of specialised commercial fabrics used for crop protection, irrigation, water storage and screening. Retail shade and screening products are marketed under the Coolaroo brand. Commercial products are marketed under the GALE Pacific brand.

GALE Pacific is a world leader in specialised textiles and associated products and is recognised in our markets as an innovator and long-term producer of premium quality products. The company is focused on strengthening our global market position through product innovation and brand strength.

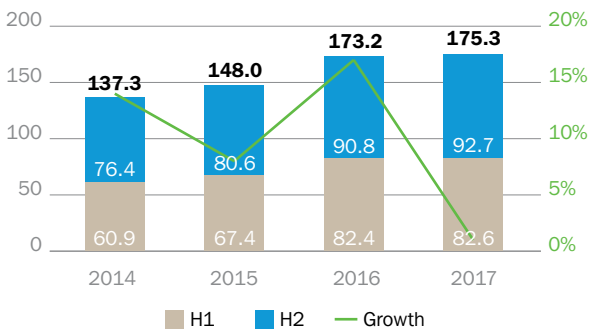
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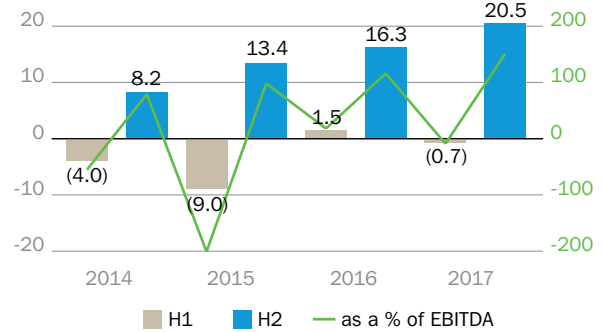
Results at a glance

Over the past three years, we have achieved compound annual revenue growth of 8.5% and compound underlying earnings growth of 10%, while transforming the company into a focused technical textiles business.

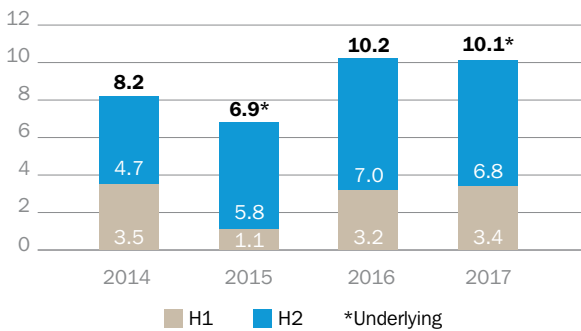
Revenue \$A million



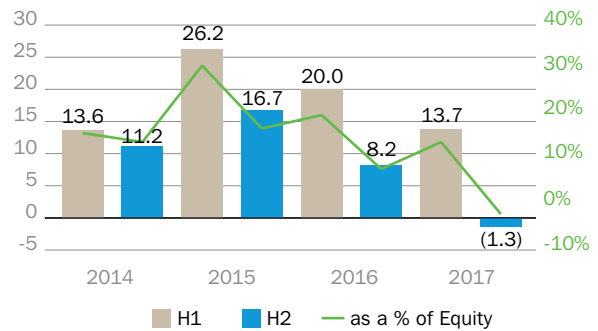
Operating Cash Flow \$A million



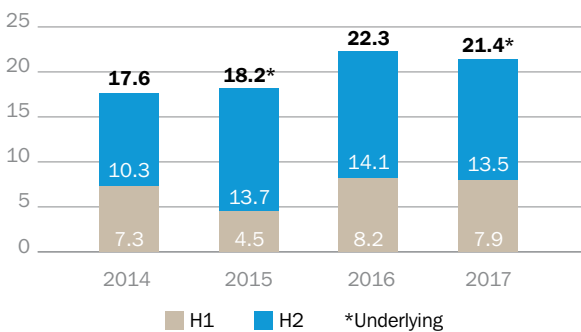
NPAT \$A million



Net Debt \$A million



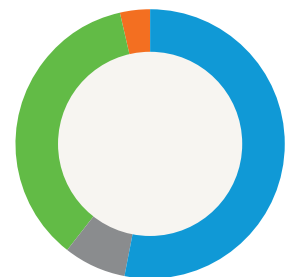
EBITDA \$A million



Sales by Region

\$A million '000s

- Australasia \$92,350
- Middle East/North Africa \$12,775
- Americas \$61,963
- Eurasia \$6,177



Chairman's letter

GALE Pacific has produced solid financial results for FY2017 while continuing to make excellent progress with the key strategic transformation initiatives previously announced.



Sales revenue of \$175.3 million was marginally ahead of prior year while underlying pre-tax profit of \$13.5 million was in line with prior year. Strong operating cash flow was a particular highlight and reflects continuing improvement in supply chain management and working capital control. The transformation phase of the company is now largely complete and, with a very strong balance sheet, we are well-positioned to take advantage of exciting organic and other growth opportunities.

Investment in Growth Initiatives

During the period, further growth in the commercial channel was, in part, constrained by the production capacity of our Melbourne-based coating equipment. We see the commercial channel as a significant growth opportunity and consequently have decided to invest in additional coating capacity. This investment in a new coater, which has been ordered and will be commissioned early in the 2019 financial year, will deliver increased capacity, flexibility and capability for our commercial customers.

Exit of Non-core Businesses

During the period, much of the focus in the Australia/ New Zealand business was on the efficient exit of non-core products, principally the company's glass business. The exit of non-core products was largely completed during the period and, in that regard, the Board made the decision to write off the goodwill and other items on the balance sheet related to these non-core products, resulting in a non-cash expense of \$18.4 million.

Shareholder Returns and Capital Management

The board has declared a final dividend for FY 2017 of 1.0 cent per share which takes the total payout for the year to 2.0 cents per share. This is a 14% increase on the prior year payout and represents 58% of underlying earnings per share of 3.4 cents. The record date for the final dividend is

25 September 2017. With a vastly improved balance sheet position, we initiated an on-market share buyback as an additional capital management tool as we continue our focus on improving shareholder returns.

Our People

Under Nick Pritchard's leadership, the management team has managed the difficult transformation process extremely well. They have been well supported by all our employees and, on behalf of the board, I would like to express our gratitude for their contribution.

Looking Ahead

The company is now in a good position to execute its growth strategy and we see potential in all selling regions, particularly the Americas. Investment in manufacturing capacity will be required to support this growth, and this is underway, together with a developing pipeline of exciting new products.

David Allman
Chairman
25 August 2017



GALE Pacific: Geared for Growth

Our vision is to be the leading provider of innovative and practical products that protect and enhance the environments and lifestyles of our customers.

Our values



Integrity

We do what is right. We are honest and ethical, worthy of the trust of others. It is the price of entry to our team.



Respect

Respect guides the way we operate at all levels – with consumers, customers, suppliers, investors, the community and our own team.



Collaboration

We believe in the power of working together in a collaborative way. Every function and every role is as important as each other.



People

People are the heart and soul of our business. We continually strive to provide a safe, supportive and engaging environment for our team to achieve their full potential.



Community

We are proud to be part of the communities we operate in globally. We are committed to supporting local causes and operating in an environmentally responsible manner at all times.



Innovation

Creative thinking inspires innovation in everything we do. We seek and value ideas from our team that improve our products and provide meaningful benefits to our consumers and customers.

Our strengths

- Innovation and Technology
- Premium Brands and Marketing
- Our People and Culture
- Our World Class Manufacturing
- Financial Discipline

How we plan to grow

- Accelerating the development of our Americas business, focusing on shading and screening, whilst simultaneously entering the market for commercial coated fabrics
- Extending our market-leading shading, screening and technical fabrics businesses in Australia and New Zealand
- Accelerating the growth in our Middle East and North Africa markets, focusing on commercial shading
- Investing in differentiated technologies and technical partnerships that support the development of innovative products driven by consumer need.

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Group Managing Director's Review

Over the last three years we have been transforming GALE Pacific into a focused, innovative, global, collaborative, and more service-driven business.



Whilst there is still much to do, the transformation phase is largely complete.

We have created an efficient facility footprint, upgrading our core facilities to a higher standard and closing four others.

Our brand portfolio has been rationalised, enabling us to invest more in a smaller number of brands and make them more meaningful to our consumers and customers.

We have focused on our core business and have largely completed the exit of non-core products. Typically, these non-core products were outside our core competence, of lower value and margin, and in categories where innovation is difficult. They created complexity and cost and, in many cases, considerable distraction.

On 30 June, the most significant of these exits occurred with the sale of our pool fencing, balustrade and mirrors business.

Whilst undertaking this transformation, over the last three years we have achieved compound annual revenue growth of 8.5% and underlying earnings growth of 10%. We have built a robust balance sheet underpinned by significant improvements in inventory and working capital. At year end, we closed with net cash of \$1.3 million.

During the year, despite significant economic challenges in the MENA (Middle East and North Africa) region and lower retail sales in Australia/New Zealand due to category exits and Masters' closure, sales revenues were \$175 million, up 1% on the prior year.

NPAT, on an underlying basis, was \$10.1 million, flat on the prior year primarily due to lower sales in MENA, our most profitable region.

Our Vision

Our goal is to become experts and global leaders in the innovation, development, manufacture, marketing and distribution of shade solutions and high performance technical textiles.

We are well on our way to achieving this goal, and everything we do is geared towards it.

Our Strategy

Our strategy since August 2014 has been about growth; but first we had to create a business platform capable of supporting and sustaining it.

The fundamental elements of our growth strategy remain unchanged.

Focus

Our plan is to focus on a small number of geographic markets to build larger, faster-growing and more sustainable businesses. We have concentrated our efforts on the USA and Canada, Australia and New Zealand, and a small number of countries in the Middle East, Europe and Asia where there is demand for high quality shade-related products.

We continue to rationalise our product ranges to focus on products where we can innovate, and where our customers and consumers value superior performance and quality.

Our manufacturing has also been rationalised to focus on processes where we have capability and a globally competitive cost position.

Innovation

Our goal is to deliver meaningful innovation in our core categories. Over the last three years, we have focused our development activities and progressively increased our investment in research and development.

Whilst investing in additional internal resources, simultaneously we have built external technical partnerships that are helping to accelerate our new product development and assist in developing our manufacturing facilities' technical capability.

We are beginning to see the results of this strategy and plan to increase steadily our investment in this important area.

Collaborative

We are working hard at becoming a trusted supplier to our customers around the world. Our strategy involves working closely and effectively with existing customers and building stronger relationships with a smaller number of strategic supplier partners which are critical to our success.



Right: Warehousing operations, Melbourne, Australia

Far right: Investing in additional extrusion coating capacity to accelerate commercial sector growth.

We have made good progress in this area and have achieved improvements in quality and service, as well as cost reductions.

Service-Driven

During the year, we achieved further improvements in our service performance across most regions. At our China manufacturing operations, we reduced lead times and increased order fill rates. Our strategy to manufacture North American requirements earlier resulted in higher inventory at the end of December, but translated into service improvements and manufacturing cost reductions as planned.

Despite productivity improvements, continued growth in the commercial sector provided challenges for our production capacity. Consequently, we have committed to further investment to increase output at our Melbourne facility.

Health and Safety

Underpinning our strategy is an unwavering commitment to the health and safety of our employees.

Our safety performance in all regions improved during the year, with no major incidents or injuries. We have made tremendous progress in building a consistent safety culture across all parts of our business, but know that we can never rest on our laurels in this critical area. We have increased our investment in training our leaders and employees in key safety skills.

Looking Forward

Key elements of our 2018 plan include:

- **Fabrics Technology** – Continuing our transition towards leadership in technical fabrics through further innovation in our core product categories and a final 'clean up' of non-core product categories.
- **Coating Manufacturing Capacity** – We foresee considerable growth opportunities in the commercial coated fabrics market globally. As such, we have committed to invest \$8 million in the purchase of a new, state-of-the-art production line for advanced coated fabrics.

This coating line will be installed at our Melbourne facility and will support the development of our coated fabrics business, currently constrained by manufacturing

capacity, and allow us to develop additional domestic and export markets for new and existing products.

- **Americas Region** – We are excited about the potential for our products in North America. In 2017, we accelerated our growth in this region, and developed the right sales and marketing organisation for the future.

Our strategy is to build a strong retail shade category, under our Coolaroo brand, in retail and online markets. In 2017, we were successful in trialling many new products and categories with our retail customers and secured additional customer ranging and trials for 2018.

- **New USA Warehouse** – In 2017, we undertook a detailed review of our Americas region supply chain requirements to support our aggressive growth plan there.

Following that review, we leased a new, larger warehouse in Fontana, California, enabling the business to service our Americas customers from a single distribution facility. We took control of this facility in August 2017 and will spend the next few months setting it up in readiness for it to become operational in December.

The new warehouse is expected to enable us to achieve service, cost and other improvements.

- **China Manufacturing Operations** – In the last three years, we have made considerable improvements to our manufacturing facility in Ningbo, China. These have included upgrading buildings, amenities, dormitories, and production equipment, all factors which have contributed to a more cost-efficient operation and one delivering improved service and margins.

In 2018, we will invest in further enhancements, including new plant and equipment, to support our growth, improve quality and service, and reduce costs. In addition, our China manufacturing operations will transition to our global I.T. system.

We will also close our weaving facility in China and extend our sourcing arrangement with one of our key weaving suppliers, enabling us to increase the efficiency of our China manufacturing.

Group Managing Director's Review *continued*

- **Middle East North Africa** – despite the considerable economic and political challenges in 2017, we remain optimistic about the potential of this region. During the year, we invested in additional sales resources and in 2018 will invest further to provide our team with the resources to pursue the opportunities identified.

We are confident that we will see this region recover and return to growth during the year.

Outlook

Market conditions during the year are expected to be similar to those experienced in the prior year.

In the Middle East, uncertainty remains, though we anticipate a gradual improvement in market conditions that impacted negatively throughout last year.

In Australia and New Zealand, we will see revenue decline, a result of the exit of the non-core categories, primarily glass products. These exits will not impact profitability. Core product categories are expected to continue to grow and solid customer ranging in the retail shade category has been confirmed.

We expect the Americas region to accelerate its growth trajectory, driven by growth in retail shade sails and window shades. Seasonal commitments from North American retailers look very promising at this early stage.

Major investments will include the new warehouse in the USA, in-store racking to support new ranging that has been secured in North America, China manufacturing facility upgrades, and new production equipment to support growth. In Australia, we will commence preparations for the new extrusion coating line at the Melbourne facility.

Subject to economic conditions, we expect that 2017/18 net profit after tax will be higher than the 2016/17 underlying equivalent of \$10.1 million.

In line with previous years, second half earnings are expected to be considerably greater than those of the first half.

Our People

We have a wonderful team of people around the world. Some of these employees have joined our business recently as we have undertaken the transformational journey. Many are long-term employees who have committed to GALE Pacific over an extended period – in some cases more than thirty years.

I am proud of what our team has achieved, and would like to thank them for their efforts as we work hard to build our company's performance.

I would also like to thank our customers for their support of GALE Pacific, and our suppliers for the important role they play in our success.

Finally, I would like to thank our shareholders for their support. We are working hard to make GALE Pacific worthy of your investment.



Nick Pritchard
Group Managing Director
25 August, 2017



Operational Report

	FY2017 A\$ million	FY2016 A\$ million	Change %
Revenue	175.3	173.2	1%
Underlying EBITDA	21.4	22.3	(4)%
Underlying EBIT	15.1	15.1	–
Underlying profit before tax	13.5	13.5	–
Underlying profit after tax	10.1	10.2	(1)%
Statutory profit before tax	(4.9)	13.5	(136)%
Statutory profit after tax	(8.0)	10.2	(178)%
Net cash provided by operating activities	19.7	17.8	10%
Net cash/(debt)	1.3	(8.2)	116%
Underlying basic earnings per share (cents)	3.39	3.44	(1)%
Final dividend per share (cents)	1.00	1.00	–
Dividends per share	2.00	1.75	14%

Please see page 11 for reconciliation from underlying earnings to statutory earnings.

Australia/New Zealand	FY2017 A\$ million	FY2016 A\$ million	Change %
Revenue	92.4	97.5	(5)%
Underlying EBITDA	2.9	3.6	(18)%
Underlying PBT	1.9	2.6	(25)%

Sales to the commercial channel grew strongly, with increases in most product categories, although these were limited by capacity constraints during the peak period. Further investment in the coating operations improved output and quality, but production remained insufficient to capitalise on the full potential.

To take advantage of growth opportunities in the commercial coated fabrics market, the decision has been taken to invest \$8 million in a new, state-of-the-art coating production line. This will be installed at the Melbourne facility and will allow the development of additional domestic and export markets for new and existing products.

In the retail sector, sales declined due to the discontinuation of non-core products and the exit of Masters from the home improvement market, which caused short-term deflation and diverted consumers from GALE Pacific's retail partners. Retailers' sales of the company's products, however, increased. The year's result follows strong performance in FY2016 when there was substantial new business in the portable shade category.

The business continued to improve the efficiency of its supply chain, reduced inventory substantially, increased inventory turns, enhanced service and reduced operational costs.

Americas	FY2017 A\$ million	FY2016 A\$ million	Change %
Revenue	62.0	53.6	16%
EBITDA	6.5	4.9	33%
PBT	4.4	3.2	39%

Sales grew strongly in the retail channel, including online. The new retail business secured in the prior year was serviced efficiently and customers' sales were positive. Major retailers extended trials of the company's window shades and shade sails, and new ranging and trials are being extended to new geographic markets and more products in FY2018.

Following a detailed review of the Americas supply chain and to support growth, a new, larger warehouse has been leased in Fontana, California so customers can be serviced from a single distribution facility. This will become operational in December 2017 and will meet the business' medium-term requirements and enable it to make service and cost improvements.

The opportunity for growth in the Americas is significant, and with the business now focused on the shade category and commercial fabrics, we see considerable potential in both the retail and commercial sectors. To take advantage of this, new leadership was appointed to lead the commercial business expansion in the region from July 2017.

Middle East/North Africa

	FY2017 A\$ million	FY2016 A\$ million	Change %
Revenue	12.8	15.4	(17)%
EBITDA	2.5	3.2	(22)%
PBT	2.3	3.1	(24)%

Despite the scale of the opportunities in this region, market conditions remained subdued with a number of projects being postponed. The company remains confident in its ability to be successful with these projects and is positive about opportunities in the region; additional sales resources were recruited during the year, and further investment is planned in FY2018.

China Manufacturing & Eurasia

	FY2017 A\$ million	FY2016 A\$ million	Change %
Revenue	8.2	6.8	21%
Intersegment Sales (eliminated when consolidating group results)	49.8	58.4	(15)%
EBITDA	11.5	12.6	(9)%
PBT	8.0	7.0	13%

Sales in the Eurasia region increased, driven by demand for commercial fabrics. New distributors were appointed in focus markets and low-volume, low-margin retail products were exited.

Facility and plant upgrades continued at the China manufacturing operations, and refurbishment of the extrusion plant was completed, setting a new internal benchmark. Service and delivery performance improved.

As part of the strategy to focus on cost, quality and service, the business invested in building lean manufacturing capability and upgrading other management roles. Further investment in new plant and equipment is planned for FY2018, and the China manufacturing operations will transition to the company's global IT system. The weaving facility will also be closed and the sourcing arrangement with a key weaving supplier will be extended to increase manufacturing efficiency.

Balance Sheet and Cash Generation

GALE Pacific's balance sheet is now well positioned to increase investment in the company's core business. Operating cash flow of \$19.7 million was a new record for the company, exceeding the prior year record by 10%. Total group inventory declined by 15%, despite unfavourable exchange rate movements, with inventory days reduced by 22 days. The business also improved receivable collections and payment terms with key suppliers which, combined with inventory reductions, drove overall cash conversion improvement. The core business, in particular in the Americas and our commercial sectors in all markets, continue to contribute strong operating cash generation. We continue to see improved productivity in our manufacturing operations in China with improved supplier terms and inventory efficiency.

The company made a non-cash write-off of goodwill and other related items of \$18.4 million, which will have no impact on future trading or banking covenants. After non-cash items, after tax (loss) is \$(8.0) million. The write-off is one-off and relates largely to historical goodwill dating back to 2012. The businesses affected are considered non-core and do not form part of the company's strategy moving forward.

Reconciliation of Underlying Results to Statutory Results for FY2017

In FY2017, the company made a non-cash, non-recurring write-off of goodwill and other related items of \$18.4 million pre-tax and \$18.1 million after tax respectively. The following table reconciles the underlying results to the statutory results.

	EBITDA A\$ million	EBIT A\$ million	Profit before tax A\$ million	Profit after tax A\$ million	Basic earnings per share cents
Statutory	3.0	(3.3)	(4.9)	(8.0)	(2.71)
Goodwill write-off and associated costs	18.4	18.4	18.4	18.1	6.10
Underlying	21.4	15.1	13.5	10.1	3.39

Underlying profit, EBITDA and EBIT are the statutory profit, EBITDA and EBIT respectively adjusted for non-cash, non-recurring impairment of goodwill and other related items. The company believes that underlying profit, EBITDA and EBIT provide a better understanding of its financial performance and allow for a more relevant comparison of financial performance between financial periods.

Underlying profit, EBITDA and EBIT are useful as they remove significant items that are material items of revenue or expense that are unrelated to the underlying performance of the business, thereby facilitating a more representative comparison of financial performance between financial periods.

Underlying profit is presented with reference to the Australian Securities and Investments Commission Regulatory Guide 230 "Disclosing non-IFRS financial information" issued in December 2011. The company's policy for reporting underlying profit is consistent with this guidance. The directors had the consistency of the application of the policy reviewed by the external auditor.

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Board of Directors & Chief Financial Officer



From left: Nick Pritchard, John Murphy, Peter Landos, David Allman and Matt Parker.

David Allman, B.Sc.

Chairman and Non Executive Director since November 2009. David was Managing Director of McPherson's Limited from 1995 to 2009 and prior to that was Managing Director of Cascade Group Limited for seven years. Before this, he held senior positions with Elders IXL Limited and Castlemaine Tooheys Limited. David holds a degree in engineering and, prior to obtaining general management positions, held managerial roles in production management, finance and marketing. He is Chairman of Catalyst Education Pty Ltd. In the three years prior to 30 June 2017, he was also a director of McPherson's Group Limited and Muir Engineering Pty Ltd.

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

Nick Pritchard, B Bus. (Marketing)

Group Managing Director appointed 22 August 2014. Nick was appointed to the position of Group Managing Director in August 2014. Prior to joining GALE Pacific, he held senior leadership positions at Newell Brands (Newell Rubbermaid) for 11 years, most recently Vice-President/General Manager – Australia & New Zealand, where he led all business segments. Nick has considerable local and international experience leading a highly profitable, high growth organisation.

Peter Landos, B.Econ., CA

Non Executive Director since May 2014. Peter is the Chief Operating Officer of the Thorney Investment Group of Companies with which he has been since September 2000, having previously worked at Macquarie Bank Limited. Peter has extensive business and corporate experience specialising in advising boards and management on mergers and acquisitions, divestments, business restructurings and capital markets. He is also Non Executive Chairman of Adacel Technologies Limited. In the three years prior to

30 June 2017, Peter was also a director of McPherson's Group Limited and Rattoon Holdings Limited.

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

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

Non Executive Director since August 2007. John was the Managing Director of Investec Wentworth Private Equity Limited ("IWPE") from 2002 until 2012, when he changed from being an executive to a non-executive director of Investec Bank (Australia) Limited. He is currently the Managing Director of private equity firm Adexum Capital Limited. John has extensive director experience having sat on the boards of the 28 investments made by IWPE and Adexum over the last 15 years. John is currently a director of Ariadne Australia Limited and, in the three years prior to 30 June 2017, he was also a director of Clearview Wealth Limited, Kresta Holdings Limited, Redflex Holdings Limited and Vocus Communications Limited.

John is the Chairman of the Company's Remuneration Committee, the Audit and Risk Committee and is a member of the Nomination Committee.

Sophie Karzis, B Juris LLB

Company Secretary since June 2004. Sophie is a practising lawyer with over 15 years' experience as a corporate and commercial lawyer, company secretary and general counsel for a number of private and public companies. Sophie is principal of Corporate Counsel, a corporate law practice with a focus on equity capital markets, mergers and acquisitions, corporate governance for ASX-listed entities, as well as the more general aspects of corporate and commercial law. She is currently the company secretary of a number of ASX-listed and unlisted entities, and is a member of the Law Institute of Victoria as well as the Governance Institute of Australia.

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Executive Leadership



Nick Pritchard

Group Managing Director

Nick re-joined GALE Pacific in August 2013 following 11 years in senior leadership positions at Newell Rubbermaid (IRWIN Tools, Rubbermaid, Waterman, Parker, Sharpie, PaperMate, DYMO, Liquid

Paper). He led the GALE Australia/New Zealand business until August 2014 when he was appointed Group Managing Director. Nick was formerly Marketing Manager and Product Manager of GALE Pacific between 1996 and 2003. He developed the Coolaroo brand and many of the company's highly successful products, including DIY shade sails and window shades. Nick is a registered member of the Australian Institute of Company Directors.



Matt Parker

Chief Financial Officer

Matt joined GALE Pacific in April 2015. Matt is an experienced finance professional having held key finance roles at Ford Motor Company Australia, Nissan Motor Company Australia and Cadbury

Schweppes. Prior to joining GALE Pacific, he was the CFO of Paragon Care Ltd (ASX:PGC). Matt is a certified practising accountant and holds a Bachelor's Degree in Business and Arts (Japanese). He is a registered member of CPA Australia and an affiliate of the Securities Institute of Australia.



Bruno Marotta

General Manager – Supply Chain

Bruno joined GALE Pacific in October 2014 and has over 30 years' experience in the supply chain arena. He spent 18 years in senior supply chain roles at American Tool Company/Newell

Rubbermaid where his responsibilities included leading warehouse facilities, logistics, procurement and customer service functions across the Asia Pacific region.



Vicki Klunyck

General Manager – People & Culture

Vicki joined GALE Pacific in February 2017. She is an accomplished HR professional with experience in national and Asia-Pacific roles in publicly listed

entities and emerging/high growth entrepreneurial companies. Previously, she was employed by Harris Scarfe, a leading

Australian retailer with 58 stores across Australia employing over 2,000 staff. At Harris Scarfe, Vicki led the human resources function, as well as group payroll, for seven years. Prior to Harris Scarfe, she held roles of increasing seniority at Skilled Group, Apis Consulting Group, Bristol-Myers Squibb, Coles Myer and Myer Grace Brothers. She holds a Bachelor's Degree in Business Administration (HR Management) from Monash University.



Cliff XinHua Zhang

General Manager – Manufacturing

Cliff joined GALE Pacific in May 2016. He is an experienced manufacturing leader having held senior manufacturing and product quality roles at Bosch Power Tools over 13 years,

and operations, logistics and production roles at Andrews Telecommunications, Honeywell CATIC Engine Co. and Solectron Technology Co., Ltd., a U.S.-based manufacturer of electronics products. Cliff has a Bachelor of Science (Mechanical Engineering), from Nanjing University of Science & Technology, China.



Ali Haidar

General Manager – Middle East North Africa

Ali joined GALE Pacific in August 2004 and has 12 years' experience in sales and marketing with a strong record of business development in the region. He

has led GALE Pacific's profitable growth in the Middle East and was recently given responsibility to lead the company's focused expansion in the Middle East/North Africa region.



Mark Nicholls

General Manager – Eurasia

Mark joined GALE Pacific in June 2016. He has tremendous experience in the UK, Europe, Asia, South Africa and Israel, with knowledge of both retail and commercial sectors and

experience of appointing new distributors, managing large, multi-country retailers, etc. Mark's most recent role was Business Development Manager (UK/Ireland) for FISKARS and prior to that held Business Development Manager and International Sales Manager roles for Trisport (a division of Pride Sports), Newell Rubbermaid and SANDVIK.

Corporate Governance

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (Third Edition) (Recommendations) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (Corporate Governance Statement).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on Gale Pacific's website (www.galepacific.com), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX. The Appendix 4G will particularise each Recommendation that needs to be reported against by Gale Pacific, and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on Gale Pacific's website (www.galepacific.com).

Directors' Report

The Directors of Gale Pacific Limited ("the Company") present their annual financial report for the Company and its controlled entities ("the Group") for the financial year ended 30 June 2017.

State of Affairs

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

Events Subsequent to Balance Date

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs 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's Letter of this Annual Report.

Environmental Regulation and Performance

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

Dividends

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

	2016/2017 (\$'000)
Final ordinary dividend for the year ended 30 June 2016 of 1.00 cent per share paid on 3 October 2016 (unfranked)	1.0 cent
Interim ordinary dividend for the half year ended 31 December 2016 of 1.00 cents per share paid on 3 April 2017 (unfranked)	1.0 cent

In addition to the above dividends, on the 25 of August 2017 the Directors declared a dividend of 1 cent per share to the holders of fully paid ordinary shares in respect of the year ended 30 June 2017, payable on 2 October 2017 to shareholders on the register at 25 September 2017. The final dividend will be unfranked. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$2,972,000.

For the full year, the dividend of 2.0 cents per share has been declared on earnings of (2.71) cents per share (underlying 3.39).

Share Based Payments

Performance Rights

The number of performance rights on issue at the date of this report is 4,757,802. No amount is payable on the vesting of a performance right. Each performance right entitles the holder to one (1) ordinary share in GALE Pacific Limited in the event that the performance right is exercised. Performance rights carry no rights to dividends and no voting rights.

1,569,000 performance rights were granted to executives and the Group Managing Director on 21 September 2016. The performance rights will vest subject to a continuation of employment to 30 June 2019 and the satisfying of relevant performance hurdles based on the Group's diluted earnings per share over the three year period from 1 July 2016 to 30 June 2019. None of these performance rights can vest until 30 June 2019 and expire on 1 December 2019.

As at 30 June 2017, 413,603 performance rights lapsed during the year to 30 June 2017 as the relevant personnel ceased employment with the Company.

The performance rights are subject to a continuation of employment for three years and then the satisfying of relevant performance hurdles based on improvements in the Group's diluted earnings per share over the three year period.

Further details of the options and performance rights movements during the reporting period are disclosed in the Remuneration Report.

Directors' Shareholdings

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

Directors	Fully Paid Ordinary Shares	Options	Performance Rights
D Allman	2,400,000	–	–
P Landos	–	–	–
J Murphy	4,416,599	–	–
N Pritchard	212,804	–	2,356,385

Directors' Meetings

The table below sets out the attendance by Directors.

Directors	Directors' Meetings		Audit and Risk Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	No of Meetings Eligible to Attend	Attended	No of Meetings Eligible to Attend	Attended	No of Meetings Eligible to Attend	Attended	No of Meetings Eligible to Attend	Attended
D Allman	13	12	4	4	1	1	1	1
P Landos	13	12	4	3	1	1	1	1
J Murphy	13	13	4	4	1	1	1	1
N Pritchard	13	13	–	–	–	–	–	–

As at the date of this report, the Company has an Audit & Risk Committee, a Remuneration Committee and a Nomination Committee of the Board of Directors.

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

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

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

Remuneration Report

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

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

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

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

Directors' Report continued

Remuneration packages contain the following key elements:

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

Relationship between the remuneration policy and company performance

The table below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to 30 June 2017:

	30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Sales	175,265	173,191	147,993	137,304	119,988
Underlying profit before tax*	13,546	13,509	8,707	10,988	12,016
Underlying profit after tax*	10,078	10,228	6,911	8,233	9,094
Net profit before tax	(4,861)	13,509	6,221	10,988	12,016
Net profit after tax	(8,044)	10,228	5,170	8,233	9,094
Share price at start of year	36 cents	17 cents	23 cents	26 cents	24 cents
Share price at end of year	40 cents	36 cents	17 cents	23 cents	26 cents
Interim dividend	1.00 cent	0.75 cents	–	1.30 cents	1.20 cents
Final dividend	1.00 cent	1.00 cents	1.00 cent	1.35 cents	1.35 cents
Basic earnings per share	(2.71) cents	3.44 cents	1.74 cents	2.77 cents	3.07 cents
Diluted earnings per share	(2.71) cents	3.40 cents	1.72 cents	2.72 cents	3.00 cents

*Reconciliation from underlying earnings to statutory earnings 2017 is on page 11.

Remuneration Practices

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

Remuneration Structure

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

Non Executive Director Remuneration

Objective

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

Structure

The Company's Constitution and the Australian Securities Exchange Listing Rules specify that the aggregate remuneration of Non Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The last determination was at the Annual General Meeting held on 26 October 2012 when shareholders' approved the Company's constitution which provides for an aggregate remuneration of \$500,000 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.

Senior Manager and Executive Director Remuneration

Objective

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

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

Structure

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

(a) Share Based Payments

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

- Improvement in earnings per share; and
- Improvement in return to shareholders.

The number of unissued ordinary shares under the performance rights scheme at 30 June 2017 was 4,757,802. 1,325,802 of these shares were granted on 11 December 2014 and will not vest until the time of the company's 2017 annual report is released on the ASX (on or around 1st October 2017). 1,863,000 of these shares were granted on 9 October 2015 and will not vest until the time of the company's 2018 annual report is released on the ASX (on or around 1st October 2018). A further 1,569,000 of these shares were granted on 21 September 2016 and will not vest until the time of the company's 2019 annual report is released on the ASX (on or around 1 October 2019). In the period between 1 July 2016 and 30 June 2017, 413,603 shares lapsed

as the relevant personnel ceased employment with the company. Each performance right entitles the holder to one (1) ordinary share in Gale Pacific Limited and is subject to satisfying the relevant performance hurdles based on improvements in the Group's diluted earnings per share.

Actual results will be normalised by the board as considered necessary (at the board's absolute discretion) so that it reflects underlying profit.

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

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

(b) Cash Bonuses

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

Actual results will be normalised by the board as considered necessary (at the board's absolute discretion) so that it reflects underlying profit.

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

Directors

D Allman (Chairman Non Executive)
P Landos (Non Executive)
J Murphy (Non Executive)
N Pritchard (Group Managing Director)

Executives

M Parker (Chief Financial Officer)
C Fuller (General Manager Australia & New Zealand)
L Klebenow (General Manager – Americas)
C Zhang (General Manager – China)
B Marotta (General Manager – Supply Chain)
A Haidar (General Manager – Middle East & North Africa)
T Varani (General Manager – EurAsia)

Directors' Report continued

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

2016/2017	Short Term Benefits			Post Employment	Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees \$	Bonus \$	Non Monetary \$	Super \$	Rights \$	\$		Total %	Rights %
Directors									
Executive Directors									
N Pritchard	451,500	230,590	–	30,000	101,344	–	813,434	41%	12%
Non-Executive Directors									
D Allman	99,673	–	–	31,742	–	–	131,415		
J Murphy	85,312	–	–	8,979	–	–	94,291		
P Landos	74,581	–	–	7,259	–	–	81,840		
Total	711,066	230,590	–	77,980	101,344	–	1,120,980	30%	9%
2015/2016									
Directors	Short Term Benefits			Post Employment	Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees \$	Bonus \$	Non Monetary \$	Super \$	Rights \$	\$		Total %	Rights %
Executive Directors									
N Pritchard	420,000	–	–	30,000	111,611	–	561,611	20%	20%
Non-Executive Directors									
D Allman	92,720	–	–	32,280	–	–	125,000		
G Richards ¹	16,667	–	–	5,833	–	–	22,500		
J Murphy	83,508	–	–	8,158	–	–	91,666		
P Landos	68,493	–	–	6,507	–	–	75,000		
Total	681,388	–	–	82,778	111,611	–	875,777	13%	13%

1. Mr Richards retired 29 September 2015.

The following table discloses the remuneration of the Group's key management personnel:

2016/2017 Key Management Personnel	Short Term Benefits			Post Employ- ment	Share Based Payments	Termina- tion Benefits	Total	Performance Related	
	Salary & Fees \$	Bonus \$	Non Monetary \$	Super \$	Rights \$	\$	\$	Total %	Rights %
L Klebenow ¹	367,586	–	20,563	–	47,341	–	435,489	11%	11%
M Parker ²	263,750	107,609	–	25,056	35,593	–	432,009	33%	8%
B Marotta ³	235,749	100,530	–	22,396	31,385	–	390,060	34%	8%
E Varani ⁴	196,116	42,898	66,822	–	–	–	305,836	14%	0%
A Haidar ⁵	191,849	40,678	43,536	–	25,599	–	301,662	22%	8%
C Fuller ⁶	216,157	13,951	–	19,791	–	–	249,899	6%	0%
C Zhang ⁷	157,705	–	33,080	–	18,410	–	209,195	9%	9%
M Denney ⁸	–	–	–	–	–	165,991	165,991	0%	0%
S Elding ⁹	92,085	–	–	8,281	–	–	100,366	0%	0%
V Klunyk ¹⁰	62,769	–	–	5,963	–	–	68,732	0%	0%
Total	1,783,766	305,666	164,000	81,487	158,329	165,991	2,659,238	17%	6%

2015/2016 Key Management Personnel	Short Term Benefits			Post Employ- ment	Share Based Payments	Termina- tion Benefits	Total	Performance Related	
	Salary & Fees \$	Bonus \$	Non Monetary \$	Super \$	Rights \$	\$	\$	Total %	Rights %
B Wang ¹¹	109,377	102,529	14,911	514	–	287,082	514,413		
M Denney	365,836	106,597	29,138	–	–	–	501,571		
M Parker	245,000	–	–	23,275	18,260	–	286,535	6%	6%
B Marotta	228,883	–	–	21,744	36,945	–	287,572	13%	13%
E Varani	240,490	–	6,195	–	11,184	–	257,869	4%	4%
A Haidar	178,890	–	46,036	–	17,219	–	242,144	7%	7%
S Elding	131,553	–	–	12,497	13,583	–	157,633	9%	9%
A Richardson ¹²	79,514	–	–	7,554	–	–	87,068		
C Fuller	70,192	–	–	6,668	–	–	76,860		
C Zhang	23,923	–	11,186	694	–	–	35,803		
L Klebenow	21,061	–	–	–	–	–	21,061		
Total	1,694,719	209,126	107,465	72,947	97,191	287,082	2,468,530	4%	4%

1. Mr Klebenow was the General Manager – Americas, remunerated in United States dollars converted to Australian dollars in the table above. Mr Klebenow departed on 7 August 2017.
2. Mr Parker is the Chief Financial Officer. He is located in Australia and remunerated in Australian dollars.
3. Mr Marotta is General Manager – Supply Chain. He is located in Australia and remunerated in Australian dollars.
4. Mr Varani is the General Manager – EurAsia. He is based in Shanghai and remunerated in United States dollars converted to Australian dollars in the table above.
5. Mr Haidar is the General Manager – Middle East and North Africa and is based in Dubai. He is remunerated in United States dollars converted to Australian dollars in the table above.
6. Mr Fuller was the General Manager – Australia and New Zealand. Mr Fuller resigned 27 April 2017.
7. Mr Zhang is the General Manager – China and is based in China and remunerated in Chinese renminbi converted to Australian dollars in the above table.
8. Mr Denney was the General Manager – Americas, remunerated in United States dollars converted to Australian dollars in the table above. Mr Denney resigned 10 May 2016.
9. Ms Elding was the Manager – People and Culture. Ms Elding resigned 3 March 2017.
10. Ms Klunyk is the General Manager – People and Culture. She is located in Australia and remunerated in Australian dollars. Ms Klunyk commenced 23 February 2017.
11. Mr Wang was the General Manager – China, remunerated in Chinese renminbi converted to Australian dollars in the above table. Mr Wang resigned 21 October 2015.
12. Mr A Richardson was the General Manager, Australia and New Zealand located in Australia. Mr Richardson resigned 16 October 2015.

Directors' Report continued

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

2016/2017	Balance 30 June 2016 No.	Granted as Compensation No.	Received on Exercise of Options No.	Other Movements No.	Balance 30 June 2017 No.
Executive Directors					
N Pritchard	212,804	–	–	–	212,804
Non-Executive Directors					
J Murphy	4,416,599	–	–	–	4,416,599
D Allman	2,400,000	–	–	–	2,400,000
Executives					
None	–	–	–	–	–
Total	7,029,403	–	–	–	7,029,403

2015/2016	Balance 30 June 2015 No.	Granted as Compensation No.	Received on Exercise of Options No.	Other Movements No.	Balance 30 June 2016 No.
Executive Directors					
N Pritchard	212,804	–	–	–	212,804
Non-Executive Directors					
J Murphy	3,316,599	–	–	1,100,000	4,416,599
D Allman	1,443,804	–	–	956,196	2,400,000
G Richards ¹	491,899	–	–	–	491,899
Executives					
M Denney ²	800,000	–	–	(300,000)	500,000
B Wang ³	1,500,000	–	–	(1,500,000)	–
Total	7,765,106	–	–	256,196	8,021,302

1. Mr Richards retired 29 September 2015

2. Mr Denney resigned 10 May 2016

3. Mr Wang resigned 21 October 2015

Share Based Compensation

The terms and conditions of each grant of performance rights granted but not vested as at 30 June 2016 affecting remuneration in the current or a future reporting period are as follows:

Grant Date

Value per performance rights at grant date

35 cents

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

The performance rights granted on 11 December 2014 are subject to a continuation of employment to 30 June 2017 and then the satisfying of relevant performance hurdles based on improvements in the Group's diluted earnings per share over the three year period from 1 July 2014 to 30 June 2017. None of these performance rights can vest until the Company releases its FY17 Annual Report to the ASX (on or around 20th September 2017) and expire on 1 December 2017.

The performance rights granted on 9th of October 2015 are subject to the continuation of employment to 30 June 2018 and then the satisfying of relevant performance hurdles based on improvements in the Groups diluted earnings per share over the three year period from 1 July 2015 to 30 June 2018. None of these rights can vest until the company releases its FY18 annual report to the ASX (on or around 20th September 2018) and expire on 1 December 2018.

The performance rights granted on 21st of October 2016 are subject to the continuation of employment to 30 June 2019 and then the satisfying of relevant performance hurdles based on improvements in the Groups diluted earnings per share over the three year period from 1 July 2016 to 30 June 2019. None of these rights can vest until the company releases its FY19 annual report to the ASX (on or around 20th September 2018) and expire on 1 December 2019.

Directors' and Executives' Equity Holdings, Compensation Options and Performance Rights: Granted and Vested during the year

2016/2017	Vested Number	Granted Number	Grant Date	Value Per Option/Right at Grant Date	Terms and Conditions for Each Grant			
					Exercise Price	Expiry Date	First Exercise Date	Last Exercise Date
Executive Directors (Performance Rights)								
N Pritchard	–	578,000	21/09/16	0.3507	Nil	01/12/19	01/10/19	01/10/19
Non-Executive Directors								
None								
Management Personnel (Performance Rights)								
Other Management	–	991,000	21/09/16	0.3507	Nil	01/12/19	01/10/19	01/10/19
Total	–	1,569,000						

2015/2016	Vested Number	Granted Number	Grant Date	Value Per Option/Right at Grant Date	Terms and Conditions for Each Grant			
					Exercise Price	Expiry Date	First Exercise Date	Last Exercise Date
Executive Directors (Performance Rights)								
N Pritchard	–	913,000	09/10/2015	\$0.2143	Nil	01/12/2018	01/10/2018	01/10/2018
Non-Executive Directors								
None								
Management Personnel (Performance Rights)								
Other Management	–	2,109,000	09/10/2015	\$0.2143	Nil	01/12/2018	01/10/2018	01/10/2018
Total	–	3,022,000						

Directors' Report continued

Directors' and Executives' Equity Holdings Compensation Options and Performance Rights: Movements during the year

	Balance 1 July 2016 No.	Granted as Compensation No.	Exercised No.	Lapsed No.	Net Other Change No.	Balance 30 June 2017 No.	Balance Held Nominally No.	Value of Lapsed Options/ Rights \$
2016/2017								
Executive Directors (Performance Rights)								
N Pritchard	1,778,385	578,000	–	–	–	2,356,385	–	–
Non-Executive Directors								
None								
Executives (Performance Rights)								
B Marotta	588,122	179,000	–	–	–	767,122	–	–
M Parker	320,000	203,000	–	–	–	523,000	–	–
A Haidar	281,364	146,000	–	–	–	427,364	–	–
S Elding	217,603	–	–	(217,603)	–	–	–	44,528
E Varani	196,000	–	–	(196,000)	–	–	–	44,989
Cliff Zhang	–	105,000	–	–	–	105,000	–	–
Lindsay Klebenow	–	270,000	–	–	–	270,000	–	–
Other Management Personnel (Performance Rights)								
Other								
Management	220,931	88,000	–	–	–	308,931	–	–
Total	3,602,405	1,569,000	–	(413,603)	–	4,757,802	–	89,516
	Balance 1 July 2015 No.	Granted as Compensation No.	Exercised No.	Lapsed No.	Net Other Change No.	Balance 30 June 2016 No.	Balance Held Nominally No.	Value of Lapsed Options/ Rights \$
2015/2016								
Executive Directors (Performance Rights)								
N Pritchard	865,385	913,000	–	–	–	1,778,385	–	–
Non-Executive Directors								
None								
Executives (Performance Rights)								
B Marotta	289,122	299,000	–	–	–	588,122	–	–
M Parker	–	320,000	–	–	–	320,000	–	–
A Haidar	99,364	182,000	–	–	–	281,364	–	–
S Elding	99,603	118,000	–	–	–	217,603	–	–
E Varani	–	196,000	–	–	–	196,000	–	–
B Wang	247,793	367,000	–	(614,793)	–	–	–	122,025
M Denney	343,805	478,000	–	(821,805)	–	–	–	162,621
Other Management Personnel (Performance Rights)								
Other								
Management	419,066	149,000	–	(347,135)	–	220,931	–	60,791
Total	2,364,138	3,022,000	–	(1,783,733)	–	3,602,405	–	345,437

Employment Agreements

Executives serve under terms and conditions contained in a standard executive employment agreement, that allows for termination under certain conditions with two to three months' notice. The agreements include restraints of trade on the employee as well as confidentiality and intellectual property agreements.

Indemnity and Insurance of Officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability 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.

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

Non Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 31 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 30 to the financial statements do not compromise

the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are Former Partners of Deloitte Touche Tohmatsu

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

Rounding of Amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

Auditor's Independence Declaration

Deloitte.

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The Board of Directors
Gale Pacific Limited
145 Woodlands Drive
BRAESIDE VIC 3195

25 August 2017

Dear Board Members

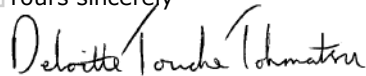
Gale Pacific Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Gale Pacific Limited.

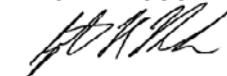
As lead audit partner for the audit of the financial statements of Gale Pacific Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the members of Gale Pacific Limited

Report on the Financial Report

Opinion

We have audited the financial report of Gale Pacific Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the Directors' of the Company, would be in the same terms if given to the Directors' as at the time of this auditor's report.

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Carrying value of intangible assets</p> <p>As at 30 June 2017 the Group recognised a \$17.5 million impairment of goodwill relating to the Australasian CGU predominantly associated with current forecasts not supporting the carrying value as disclosed in note 13.</p> <p>The evaluation of the recoverable amount of goodwill and other assets requires significant judgement in determining the key assumptions supporting the expected future cash flows of the business and the utilisation of the relevant assets including:</p> <ul style="list-style-type: none"> • discount rate • revenue growth rates • EBITDA margin 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • obtaining an understanding of management's process associated with the preparation of the valuation models used to assess the recoverable amount of the Australia CGU; • in conjunction with our valuation experts, assessing and challenging: <ul style="list-style-type: none"> ○ the identification of CGUs including the allocation of indefinite life intangible assets and property, plant and equipment and the associated identification and allocation of cash flows for the purposes of assessing the recoverable amount of the cash generating units; ○ the key assumptions for long-term growth rates in the forecast cash flows by comparing them to historical results, economic and industry forecasts; and ○ the discount rate applied. • evaluating management's assessment of the sensitivity to a change in key assumptions that either individually or collectively would be required for assets to be impaired and considering the likelihood of such a movement in those key assumptions arising; and • re-calculating the mathematical accuracy of the cash flow models, agreeing forecast cash flows to the latest Board approved forecasts and assessing the historical accuracy of forecasting by Gale. <p>We also assessed the appropriateness of the disclosures in note 13 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

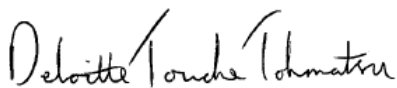
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 24 of the Directors' Report for the year ended 30 June 2017.


In our opinion, the Remuneration Report of Gale Pacific Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



Stephen Roche
Partner
Chartered Accountants
Melbourne, 25 August 2017

Gale Pacific Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	Consolidated 2017 \$'000	2016 \$'000
Revenue			
Sale of goods		175,265	173,191
Other income	5	1,067	5,234
Expenses			
Raw materials and consumables used		(96,972)	(96,863)
Employee benefits expense	6	(27,442)	(28,511)
Depreciation and amortisation expense	6	(6,368)	(7,180)
Impairment of assets - goodwill		(17,455)	-
Marketing and advertising		(2,145)	(3,200)
Occupancy costs		(5,175)	(5,160)
Warehouse and related costs		(12,107)	(11,178)
Other expenses		(12,004)	(11,203)
Finance costs	6	(1,525)	(1,621)
Profit/(loss) before income tax expense		(4,861)	13,509
Income tax expense	7	(3,183)	(3,281)
Profit/(loss) after income tax expense for the year attributable to the owners of Gale Pacific Limited		(8,044)	10,228
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax	19	665	(1,949)
Foreign currency translation	19	(3,173)	(1,523)
Other comprehensive income for the year, net of tax		(2,508)	(3,472)
Total comprehensive income for the year attributable to the owners of Gale Pacific Limited		(10,552)	6,756
		Cents	Cents
Basic earnings per share	8	(2.71)	3.44
Diluted earnings per share	8	(2.71)	3.40

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Gale Pacific Limited
Statement of financial position
As at 30 June 2017

	Note	Consolidated 2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	24,974	24,563
Trade and other receivables	10	29,497	30,226
Inventories	11	37,449	44,577
Prepayments		1,419	969
Total current assets		93,339	100,335
Non-current assets			
Prepayments		58	357
Property, plant and equipment	12	26,955	30,414
Intangibles	13	7,283	25,210
Deferred tax	7	4,274	4,068
Total non-current assets		38,570	60,049
Total assets		131,909	160,384
Liabilities			
Current liabilities			
Trade and other payables	14	19,451	19,598
Borrowings	15	7,268	13,192
Derivative financial instrument - cash flow hedges		471	1,421
Current tax liabilities	7	863	2,771
Employee benefits		1,718	1,832
Provisions	16	286	318
Total current liabilities		30,057	39,132
Non-current liabilities			
Borrowings	17	16,400	19,523
Deferred tax	7	1,946	2,000
Employee benefits		109	106
Total non-current liabilities		18,455	21,629
Total liabilities		48,512	60,761
Net assets		83,397	99,623
Equity			
Issued capital	18	71,365	71,485
Reserves	19	(2,591)	(988)
Retained profits		14,623	29,126
Total equity		83,397	99,623

The above statement of financial position should be read in conjunction with the accompanying notes

Gale Pacific Limited
Statement of changes in equity
For the year ended 30 June 2017

Consolidated	Issued Capital \$'000	Reserves (Note 19) \$'000	Retained Profits \$'000	Total equity \$'000
Balance at 1 July 2015	71,485	1,598	24,705	97,788
Profit after income tax expense for the year	-	-	10,228	10,228
Other comprehensive income for the year, net of tax	-	(3,472)	-	(3,472)
Total comprehensive income for the year	-	(3,472)	10,228	6,756
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 29)	-	187	-	187
Statutory transfers from retained earnings	-	699	(699)	-
Other	-	-	98	98
Dividends paid (note 20)	-	-	(5,206)	(5,206)
Balance at 30 June 2016	<u>71,485</u>	<u>(988)</u>	<u>29,126</u>	<u>99,623</u>

Consolidated	Issued Capital \$'000	Reserves (Note 19) \$'000	Retained Profits \$'000	Total equity \$'000
Balance at 1 July 2016	71,485	(988)	29,126	99,623
Loss after income tax expense for the year	-	-	(8,044)	(8,044)
Other comprehensive income for the year, net of tax	-	(2,508)	-	(2,508)
Total comprehensive income for the year	-	(2,508)	(8,044)	(10,552)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 29)	-	303	-	303
Transfer to Enterprise Reserve Fund	-	602	(602)	-
Share Buy Back	(120)	-	-	(120)
Other	-	-	93	93
Dividends paid (note 20)	-	-	(5,950)	(5,950)
Balance at 30 June 2017	<u>71,365</u>	<u>(2,591)</u>	<u>14,623</u>	<u>83,397</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Gale Pacific Limited
Statement of cash flows
For the year ended 30 June 2017

	Note	Consolidated	
		2017 \$'000	2016 \$'000
Cash flows from operating activities			
Profit/(loss) before income tax expense for the year		(4,861)	13,509
Adjustments for:			
Depreciation and amortisation		6,368	7,180
Impairment of assets		17,454	-
Share-based payments		303	187
Foreign currency gain		(1,391)	(151)
Interest and other finance costs paid		1,525	1,621
		19,398	22,346
Decrease/(increase) in trade and other receivables		728	(3,145)
Decrease/(increase) in inventories		7,128	(5,348)
Increase in derivative assets		-	(586)
Increase in prepayments		(151)	(507)
Decrease in other operating assets		1	-
Increase/(decrease) in trade and other payables		(147)	6,711
Increase/(decrease) in derivative liabilities		(285)	1,421
Increase/(decrease) in employee benefits		(111)	84
Increase/(decrease) in other provisions		(32)	256
		26,529	21,232
Interest and other finance costs paid		(1,525)	(1,621)
Income taxes paid		(5,351)	(1,797)
Net cash from operating activities		19,653	17,814
Cash flows from investing activities			
Payments for property, plant and equipment	12	(3,785)	(3,841)
Payments for intangibles	13	(523)	(712)
Proceeds from disposal of property, plant and equipment		292	343
Net cash used in investing activities		(4,016)	(4,210)
Cash flows from financing activities			
Proceeds from borrowings		933	25,386
Payments for share buy-backs		(120)	-
Other		93	(112)
Dividends paid	20	(5,950)	(5,206)
Repayment of borrowings		(9,980)	(27,095)
Net cash used in financing activities		(15,024)	(7,027)
Net increase in cash and cash equivalents		613	6,577
Cash and cash equivalents at the beginning of the financial year		24,563	17,769
Effects of exchange rate changes on cash and cash equivalents		(202)	217
Cash and cash equivalents at the end of the financial year	9	24,974	24,563

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial report covers Gale Pacific Limited ('Company' or 'parent entity') and controlled entities as a consolidated entity (referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Gale Pacific Limited's functional and presentation currency.

Gale Pacific Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

145 Woodlands Drive
Braeside, VIC 3195

A description of the nature of the Group's operations is included in the directors' report, which is not part of the financial statements.

The entity's principal activities are the manufacture of branded screening and shading products for domestic, commercial and industrial applications

The financial statements were authorised for issue, in accordance with a resolution of directors, on 25 August 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Gale Pacific Limited as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Note 2. Significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currencies and translations

Foreign currency transactions

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), the cumulative amount in the foreign currency translation reserve in respect of that operation is then recognised in profit or loss.

Monetary items forming net investment in foreign operations

The Group classifies monetary items of a non-current nature where settlement is not planned in the foreseeable future as part of the net investment in foreign operations. All foreign exchange differences on these items are recognised in other comprehensive income through the foreign currency reserve in equity. As and when settlements occur, the cumulative amount in the foreign currency translation reserve is then recognised in profit or loss.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Government grant

Where a government grant, including Strategic Investment Plan income ('SIP'), is received or receivable relating to 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

Other revenue is recognised when it is received or when the right to receive payment is established.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

Note 2. Significant accounting policies (continued)

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease. The Group has no finance leases.

Impairment of assets

Goodwill, other intangible assets that have an indefinite useful life, and assets not yet ready for use as intended by management, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Where the asset does not generate independent cash flows, the Group estimates the recoverable amount of the cash generating unit ('CGU') to which the asset belongs.

Recoverable amount is the higher of fair value less cost of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. In assessing fair value less cost of disposal, recognised valuation methodologies are applied, utilising current and forecast financial information as appropriate, benchmarked against relevant market data.

Note 2. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date is measured at the amounts expected to be paid when the liabilities are settled.

Long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

An impairment loss of \$17.455 million relating to goodwill in the Australasia CGU was recognised in the 2017 financial year, due to current forecasts not supporting the carrying value. This primarily relates to the goodwill acquired with the previous business acquisitions (Zone Hardware Pty Ltd, Riva Window Fashions Pty Ltd and Highgrove Pty Ltd).

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and tax losses only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Derivative financial instruments

Forward foreign exchange contracts, designated as cash flow hedges, are measured at fair value. Reliance is placed on future cash flows and judgement is made on a regular basis, through prospective and retrospective testing, including at the reporting date, that the hedges are still highly effective.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into four operating segments identified by geographic location and identity of the service line manager, together with Corporate. These operating segments are based on the internal reports that are reviewed and used by the Group Managing Director (who is identified as the Chief Operating Decision Maker ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The Group operates predominantly in one business segment, being branded shading, screening and home improvement products.

The CODM reviews revenue and segment earnings, before interest, tax, depreciation and amortisation ('EBITDA'). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

Discrete financial information about each of these segments is reported on a monthly basis.

The operating segments are as follows:

Australasia	Manufacturing and distribution facilities are located in Australia, and distribution facilities are located in New Zealand. Sales offices are located in all states in Australia and in New Zealand.
China Manuf. and EurAsia	Manufacturing facilities are located in Beilun, China which supply to the Group's sales and marketing operations throughout the world.
Americas	Sales offices are located in Florida and custom blind assembly and distribution facilities are located in California which service the North American region.
Middle East and North Africa ('MENA')	A sales office and distribution facility is located in the United Arab Emirates to service this market.

The 'Other Segments' represents Corporate and Intersegment eliminations.

Major customers

During the year ended 30 June 2017 approximately 32% (2016: 36%) of the Group's external revenue was derived from sales to one (2016: one) customer in the Australasian region.

Note 4. Operating segments (continued)

Operating segment information

	Australasia \$'000	China Manuf. and EurAsia \$'000	America \$'000	MENA \$'000	Other segments \$'000	Total \$'000
Consolidated - 2017						
Revenue						
Sales to external customers	92,350	8,177	61,963	12,775	-	175,265
Intersegment sales	2,644	49,761	14	-	(52,419)	-
Total revenue	94,994	57,938	61,977	12,775	(52,419)	175,265
Segment EBITDA*						
	2,924	11,513	6,542	2,457	(1,997)	21,439
Goodwill Impairment	(17,455)	-	-	-	-	(17,455)
Other Related Items	(952)	-	-	-	-	(952)
Depreciation and amortisation	(808)	(3,454)	(1,559)	(3)	(544)	(6,368)
Finance costs	(180)	(109)	(594)	(130)	(512)	(1,525)
Loss before income tax expense	(16,471)	7,950	4,389	2,324	3,053	(4,861)
Income tax expense						(3,183)
Loss after income tax expense						(8,044)
Assets						
Segment assets	30,465	33,637	41,117	12,074	14,616	131,909
Total assets						131,909
Liabilities						
Segment liabilities	10,997	9,074	6,232	745	21,464	48,512
Total liabilities						48,512

* Reported in line with information provided to the CODM.

Note 4. Operating segments (continued)

	Australasia \$'000	China Manuf. and EurAsia \$'000	Americas \$'000	MENA \$'000	Other segments \$'000	Total \$'000
Consolidated - 2016						
Revenue						
Sales to external customers	97,470	6,766	53,603	15,352	-	173,191
Intersegment sales	3,077	58,451	37	20	(61,585)	-
Total revenue	100,547	65,217	53,640	15,372	(61,585)	173,191
Segment EBITDA						
Depreciation and amortisation	(813)	(4,547)	(1,321)	(3)	(496)	(7,180)
Finance costs	(190)	(1,037)	(452)	(88)	146	(1,621)
Profit before income tax expense	2,575	7,036	3,147	3,057	(2,306)	13,509
Income tax expense						(3,281)
Profit after income tax expense						10,228
Assets						
Segment assets	58,544	36,089	32,203	10,738	22,810	160,384
Total assets						160,384
Liabilities						
Segment liabilities	15,168	13,109	5,680	674	26,130	60,761
Total liabilities						60,761

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the CODM. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Other income

	Consolidated	
	2017	2016
	\$'000	\$'000
Net foreign exchange gain	-	4,219
Other income (including sales of scrap material from manufacturing)	1,067	1,015
Other income	1,067	5,234

Note 6. Expenses

	Consolidated	
	2017 \$'000	2016 \$'000
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Property, plant and equipment (note 12)	5,328	6,165
<i>Amortisation</i>		
Intangible assets (note 13)	1,040	1,015
Total depreciation and amortisation	6,368	7,180
<i>Employee benefit expense</i>		
Employment costs and benefits	27,139	28,324
Share-based payment expense	303	187
Total employee benefit expense	27,442	28,511
<i>Finance costs</i>		
Interest and finance charges paid/payable	1,525	1,621
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	4,487	4,505

Note 7. Income tax

	Consolidated	
	2017 \$'000	2016 \$'000
<i>Income tax expense</i>		
Current tax	2,659	3,719
Deferred tax - origination and reversal of temporary differences	435	(325)
Adjustment recognised for prior periods	89	(113)
Aggregate income tax expense	3,183	3,281
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	435	(325)
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit/(loss) before income tax expense	(4,861)	13,509
Tax at the statutory tax rate of 30%	(1,458)	4,053
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	5,236	-
Non allowable/(non assessable) items	38	340
Adjustment recognised for prior periods	89	(113)
Difference in overseas tax rates	(722)	(999)
Income tax expense	3,183	3,281

Note 7. Income tax (continued)

	Consolidated	
	2017 \$'000	2016 \$'000
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets	285	(835)
	Consolidated	
	2017 \$'000	2016 \$'000
<i>Deferred tax asset</i>		
Deferred taxes comprises temporary differences attributable to:		
Amounts recognised in P&L:		
Tax losses	1,872	1,450
Property, plant and equipment	(546)	(642)
Foreign exchange	(817)	(1,183)
Capitalised costs	(1,107)	(957)
Provisions	(224)	(223)
Impairment of receivables	14	14
Other financial liabilities	394	304
Employee benefits	452	717
Franking Deficit Credit	1,590	1,590
Other	700	998
Deferred tax asset	<u>2,328</u>	<u>2,068</u>
Movements:		
Opening balance	2,068	(397)
Credited/(charged) to profit or loss	(435)	325
Credited/(charged) to equity	(285)	835
Transfer from current tax liability	980	1,305
Closing balance	<u>2,328</u>	<u>2,068</u>
	Consolidated	
	2017 \$'000	2016 \$'000
<i>Provision for income tax</i>		
Provision for income tax	<u>863</u>	<u>2,771</u>

The 2017 tax asset of \$2,328,000 (2016: \$2,068,000) is comprised of \$4,742,000 in deferred tax assets (2016: \$4,068,000) and \$1,946,000 (\$2,000,000) in deferred tax liabilities, reflecting various tax positions in different jurisdictions.

Accounting policy for income tax

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Note 7. Income tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Gale Pacific Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 8. Earnings per share

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of Gale Pacific Limited	(8,044)	10,228
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	297,162,696	297,474,396
Adjustments for calculation of diluted earnings per share:		
Performance rights	-	3,768,003
Weighted average number of ordinary shares used in calculating diluted earnings per share	297,162,696	301,242,399
	Cents	Cents
Basic earnings per share	(2.71)	3.44
Diluted earnings per share	(2.71)	3.40

Accounting policy for earnings per share

Note 8. Earnings per share (continued)

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Gale Pacific Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 9. Current assets - cash and cash equivalents

	Consolidated	
	2017 \$'000	2016 \$'000
Cash on hand	3	12
Cash at bank	24,838	24,413
Cash on deposit	133	138
	<u>24,974</u>	<u>24,563</u>

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 10. Current assets - trade and other receivables

	Consolidated	
	2017 \$'000	2016 \$'000
Trade receivables	29,346	29,649
Less: Provision for impairment of receivables	(111)	(80)
	<u>29,235</u>	<u>29,569</u>
Other receivables	262	657
	<u>29,497</u>	<u>30,226</u>

The Group has recognised a loss of \$42,000 (2016: \$66,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

The ageing of the impaired receivables provided for above are as follows:

	Consolidated	
	2017 \$'000	2016 \$'000
Over 6 months overdue	<u>111</u>	<u>80</u>

Note 10. Current assets - trade and other receivables (continued)

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2017 \$'000	2016 \$'000
Opening balance	80	97
Additional provisions recognised	42	66
Receivables written off during the year as uncollectable	(11)	(83)
	<u>111</u>	<u>80</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$6,184,000 as at 30 June 2017 (\$6,763,000 as at 30 June 2016).

The Group did not consider a credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

The ageing of trade receivables not impaired at the reporting date was:

	Consolidated	
	2017 \$'000	2016 \$'000
Outside credit terms 0-30 days	2,906	3,522
Outside credit terms 31-120 days	1,720	1,954
Outside credit terms 121 days to one year	1,172	1,083
More than one year	386	204
	<u>6,184</u>	<u>6,763</u>

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 11. Current assets - inventories

	Consolidated	
	2017	2016
	\$'000	\$'000
Raw materials - at cost	3,710	5,723
Work in progress - at cost	4,778	4,508
Finished goods - at cost	30,443	35,283
Less: Provision for impairment	(1,482)	(937)
	<u>28,961</u>	<u>34,346</u>
	<u>37,449</u>	<u>44,577</u>

Accounting policy for inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2017	2016
	\$'000	\$'000
Buildings and leasehold improvements - at cost	14,961	14,125
Less: Accumulated depreciation	(5,409)	(5,162)
	<u>9,552</u>	<u>8,963</u>
Plant and equipment - at cost	100,130	102,949
Less: Accumulated depreciation	(83,470)	(82,199)
	<u>16,660</u>	<u>20,750</u>
Motor vehicles - at cost	304	374
Less: Accumulated depreciation	(204)	(247)
	<u>100</u>	<u>127</u>
Capital work-in-progress - at cost	643	574
	<u>26,955</u>	<u>30,414</u>

Note 12. Non-current assets - property, plant and equipment (continued)

Reconciliations

Reconciliations of the movements in property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

Consolidated	Buildings and leasehold improvements \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Capital work- in-progress \$'000	Total \$'000
Balance at 1 July 2015	7,390	26,665	162	655	34,872
Additions	871	2,197	-	773	3,841
Disposals	-	(334)	(9)	-	(343)
Exchange differences	(262)	(1,507)	1	(23)	(1,791)
Transfers in/(out)	1,327	(496)	-	(831)	-
Depreciation expense	(363)	(5,775)	(27)	-	(6,165)
Balance at 30 June 2016	8,963	20,750	127	574	30,414
Additions	67	1,167	-	2,551	3,785
Disposals	-	(285)	(7)	-	(292)
Exchange differences	(443)	(934)	(2)	(32)	(1,411)
Transfers in/(out)	1,419	819	-	(2,451)	(213)
Depreciation expense	(454)	(4,856)	(18)	-	(5,328)
Balance at 30 June 2017	<u>9,552</u>	<u>16,661</u>	<u>100</u>	<u>642</u>	<u>26,955</u>

Accounting policy for property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over their estimated useful lives as follows:

Buildings	45 years
Leasehold improvements	Over lease term
Plant and equipment	2-15 years
Motor vehicles	2-5 years

Depreciation commences from the time the asset is held ready for use. The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. When changes are made, adjustments are reflected in current and future periods only.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 13. Non-current assets - intangibles

	Consolidated	
	2017 \$'000	2016 \$'000
Goodwill - at cost	21,512	21,607
Less: Impairment	(18,508)	(1,054)
	<u>3,004</u>	<u>20,553</u>
Development - at cost	1,070	565
Less: Accumulated amortisation	(20)	-
	<u>1,050</u>	<u>565</u>
Patents, trademarks and licenses - at cost	1,632	1,562
Less: Accumulated amortisation	(1,260)	(1,210)
	<u>372</u>	<u>352</u>
Application software - at cost	6,955	6,917
Less: Accumulated amortisation	(4,098)	(3,177)
	<u>2,857</u>	<u>3,740</u>
	<u><u>7,283</u></u>	<u><u>25,210</u></u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill \$'000	Development \$'000	Patents, trademarks and licenses \$'000	Application software \$'000	Total \$'000
Balance at 1 July 2015	20,462	-	502	4,347	25,311
Additions	-	565	-	147	712
Exchange differences	91	-	4	107	202
Transfers in/(out)	-	-	(121)	121	-
Amortisation expense	-	-	(33)	(982)	(1,015)
Balance at 30 June 2016	20,553	565	352	3,740	25,210
Additions	-	505	18	-	523
Exchange differences	(94)	-	(5)	(69)	(168)
Impairment of assets	(17,455)	-	-	-	(17,455)
Transfers in/(out)	-	-	53	160	213
Amortisation expense	-	(20)	(46)	(974)	(1,040)
Balance at 30 June 2017	<u><u>3,004</u></u>	<u><u>1,050</u></u>	<u><u>372</u></u>	<u><u>2,857</u></u>	<u><u>7,283</u></u>

Impairment testing for goodwill

In accordance with the accounting policies, the Group performs an annual impairment assessment of goodwill. An impairment loss of \$17.455 million relating to goodwill in the Australasia CGU was recognised in the 2017 financial year, primarily due to the cessation of the Glass business and current forecasts not supporting the carrying value. This primarily relates to the goodwill acquired with the previous business acquisitions (Zone Hardware Pty Ltd, Riva Window Fashions Pty Ltd and Highgrove Pty Ltd). (2016: no impairment).

Note 13. Non-current assets - intangibles (continued)

Impairment testing approach

Impairment testing compares the carrying value of a CGU with its recoverable amount, based on value-in-use. Value-in-use was calculated based on the present value of cash flow projections over a five year period with the period extending beyond five years extrapolated using estimated revenue growth rates between of 2.5%. Years one to three are based on budgets and forecasts, with years four onwards extrapolated at the rate of 4%. These growth rates are based on management's expectations, industry knowledge and other features specific to the CGU. Cash flows are discounted using the weighted average cost of capital with mid-year discounting.

Goodwill acquired through business combinations have been allocated to the following cash generating units (CGU):

	Consolidated	
	2017	2016
	\$'000	\$'000
Goodwill		
Australasia	-	17,455
USA (2016/2017: US\$2,077,000; 2015/2016: US\$ 2,077,000)	2,657	2,751
China	347	347
	<u>3,004</u>	<u>20,553</u>

Australasia

In assessing the recoverable amount of the Australasian CGU, management considered information available from industry analysts and other sources in relation to the key assumptions used. Management considers that it has taken a conservative view of the market conditions and business operations.

The following assumptions were used in the value-in-use calculations in the model for Australasia:

Discount Factor

The discount factor used in the model is 10.5% (2016: 10.5%)

Revenue growth rate assumption

Average actual revenue growth rate from 2014 to 2017 was 5%. The values assigned in the assumptions for 2018 to 2022 is an average of 1% which is lower than historical values. This average is influenced by the one time effect of the cessation of the glass business at the end of FY 2017. Management believe this is achievable based on historical trends and the plans to continue to invest in product development. A 1% plus or minus change in the revenue growth rate will have a ~\$1m effect on the recoverable amount.

EBITDA margin assumption

Margin achieved in the period immediately before the budget period, increasing for expected efficiency improvements. Management expect efficiency improvements averaging 0.6% per year to be achievable for years 2018 to 2022.

Working capital assumption

Key components affecting working capital include inventory on hand, debtor day collections and accounts payable days. Management believes the assumptions used in the cash flow projection period are conservative based on historic performance and measures to improve inventory positions going forward.

USA

In assessing the recoverable amount of the USA CGU, management made a number of significant assumptions including foreign exchange rates and risk adjustments to future cash flows. Management considered information available from industry analysts and other sources in relation to key assumptions used. Management considers that it has taken a conservative view of the market conditions and business operations.

Management believe that any reasonably possible further change in the key assumptions on which recoverable amount is based would not cause the USA CGU's carrying amount to exceed its recoverable amount.

Note 13. Non-current assets - intangibles (continued)

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

Patents, trademarks and licenses

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 20 years.

Application software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 5 years.

Note 14. Current liabilities - trade and other payables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade payables	12,647	10,161
Sundry payables and accruals	6,804	9,437
	<u>19,451</u>	<u>19,598</u>

Refer to note 22 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 15. Current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	7,025	12,691
Other loans	243	501
	<u>7,268</u>	<u>13,192</u>

Refer to note 22 for further information on financial instruments.

Note 16. Current liabilities - provisions

	Consolidated	
	2017	2016
	\$'000	\$'000
Warranties	<u>286</u>	<u>318</u>

Warranties

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

Consolidated - 2017	Warranties \$'000
Carrying amount at the start of the year	318
Additional provision recognised	429
Claims	<u>(461)</u>
Carrying amount at the end of the year	<u>286</u>

Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost in profit or loss.

Note 17. Non-current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	16,400	19,280
Other loans	-	243
	<u>16,400</u>	<u>19,523</u>

Refer to note 22 for further information on financial instruments.

Note 17. Non-current liabilities - borrowings (continued)

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2017 \$'000	2016 \$'000
Bank loans	<u>23,425</u>	<u>31,971</u>

Assets pledged as security

The bank loans are secured by a fixed and floating charge (or equivalent foreign charge) over all the assets and undertakings, including uncalled capital of each entity in the Group.

Accounting policy for borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 18. Equity - issued capital

	2017 Shares	Consolidated 2016 Shares	2017 \$'000	2016 \$'000
Ordinary shares - fully paid	<u>297,162,696</u>	<u>297,474,396</u>	<u>71,365</u>	<u>71,485</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

On February 16th 2017, an on-market share buy-back was announced. It will run from 3 March 2017 to 2 March 2018. Up until June 30 2017, 311,700 shares have been bought by the Company.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. This is achieved through monitoring of historical and forecast performance and cash flows.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Accounting policy for issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 19. Equity - reserves

	Consolidated	
	2017	2016
	\$'000	\$'000
Foreign currency reserve	(6,029)	(2,856)
Hedging reserve - cash flow hedges	(330)	(995)
Share-based payments reserve	1,065	762
Enterprise reserve fund	2,703	2,101
	<u>(2,591)</u>	<u>(988)</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Enterprise reserve fund

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

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency \$'000	Hedging \$'000	Share-based payments \$'000	Enterprise reserve fund \$'000	Total \$'000
Balance at 1 July 2015	(1,333)	954	575	1,402	1,598
Foreign currency translation *	(1,523)	-	-	-	(1,523)
Movement in hedge	-	(2,784)	-	-	(2,784)
Income tax	-	835	-	-	835
Share-based payment	-	-	187	-	187
Statutory transfers from retained earnings	-	-	-	699	699
Balance at 30 June 2016	(2,856)	(995)	762	2,101	(988)
Foreign currency translation *	(3,173)	-	-	-	(3,173)
Movement in hedge	-	950	-	-	950
Income tax	-	(285)	-	-	(285)
Share-based payment	-	-	303	-	303
Statutory transfers from retained earnings	-	-	-	602	602
Balance at 30 June 2017	<u>(6,029)</u>	<u>(330)</u>	<u>1,065</u>	<u>2,703</u>	<u>(2,591)</u>

* Refer to note 21 for details of monetary items identified as a net investment in a foreign operation

Note 20. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2017 \$'000	2016 \$'000
Final dividend for the year ended 30 June 2015 of 1.00 cents per ordinary share (unfranked)	-	2,975
Interim dividend for the year ended 30 June 2016 of 0.75 cents per ordinary share (unfranked)	-	2,231
Final Dividend for the year ended 30 June 2016 of 1.00 cents per ordinary share (unfranked)	2,975	-
Interim Dividend for the year ended 30 June 2017 of 1.00 cents per ordinary share (unfranked)	2,975	-
	<u>5,950</u>	<u>5,206</u>

For the full year, the dividends of [2.00] cents per ordinary share have been declared on earnings of [3.18] cents per share.

Accounting policy for dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Note 21. Monetary items identified as a net investment in a foreign operation

	Consolidated	
	2017 \$'000	2016 \$'000
Related party receivable to the Company from Gale Pacific (New Zealand) Limited	<u>4,613</u>	<u>5,049</u>

The foreign exchange gain arising during the financial year on monetary items forming part of the net investment in related party, recognised in foreign currency translation reserve is detailed in note 19.

Note 22. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

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

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

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The Group enters into foreign exchange contracts to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. The objective of entering into forward exchange contracts is to protect the Group against exchange rate movements for both contracted and anticipated future sales and purchases undertaken in foreign currencies. There was no cash flow hedge ineffectiveness during the reporting period.

Note 22. Financial instruments (continued)

The Group adopts hedge accounting and classifies forward exchange contracts as cash flow hedges where these contracts are hedging highly probable forecasted transactions and they are timed to mature when the cash flow from the underlying transaction is scheduled to occur. Cash flows are expected to occur during the next financial year.

The maturity, settlement amounts and the average contractual exchange rates of the Group's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Sell Australian dollars		Average exchange rates	
	2017 \$'000	2016 \$'000	2017	2016
Buy US dollars/sell Australian dollars				
Maturity:				
Less than 6 months	10,814	28,831	0.7398	0.7096
6 - 12 months	2,694	8,371	0.7424	0.7168
Buy Euros/sell Australian Dollars				
Maturity:				
Less than 6 months	1,149	-	0.6789	-
6 - 12 months	1,167	-	0.6681	-

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
US dollars	29,327	20,514	5,423	4,043
New Zealand dollars	936	1,564	285	229
Chinese renminbi	7,940	6,489	-	1,668
UAE dirham	1,265	890	-	-
	<u>39,468</u>	<u>29,457</u>	<u>5,708</u>	<u>5,940</u>

The Group had net assets denominated in foreign currencies of \$33,760,000 (assets of \$39,468,000 less liabilities of \$5,708,000 as at 30 June 2017 (2016: \$23,519,000 (assets of \$29,457,000 less liabilities of \$5,940,000)). Based on this exposure, had the Australian dollars strengthened by 10% / weakened by 10% (2016: strengthened by 10% / weakened by 10%) against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have been \$904,000 higher/lower (2016: \$308,000 lower/ higher) and equity would have been \$1,840,000 higher/lower (2016: \$1,746,000 higher/lower). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

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

Note 22. Financial instruments (continued)

As at the reporting date, the Group had the following variable rate bank balances and borrowings outstanding:

Consolidated	2017		2016	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	-	24,974	-	24,563
Bank loans	3.20%	(23,425)	3.65%	(31,971)
Other loans	6.96%	(243)	6.96%	(744)
Net exposure to cash flow interest rate risk		<u>1,306</u>		<u>(8,152)</u>

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

An official increase/decrease in interest rates of 100 (2016: 100) basis points would have an adverse/favourable effect on profit before tax of \$237,000 (2016: \$327,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Before accepting any new customer, the Group uses internal resources and criteria to assess the potential customer's credit quality and defines credit limits by customer. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

Liquidity risk

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

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2017	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	12,647	-	-	-	12,647
Sundry payables and accruals	-	6,667	-	-	-	6,667
<i>Interest-bearing - variable</i>						
Bank loans	3.20%	7,250	17,157	-	-	24,407
Other loans	6.96%	260	-	-	-	260
Total non-derivatives		<u>26,824</u>	<u>17,157</u>	<u>-</u>	<u>-</u>	<u>43,981</u>

Note 22. Financial instruments (continued)

	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated - 2016						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	10,161	-	-	-	10,161
Sundry payables and accruals	-	9,437	-	-	-	9,437
<i>Interest-bearing - variable</i>						
Bank loans	3.65%	13,858	3,584	17,597	-	35,039
Other loans	6.96%	553	260	-	-	813
Total non-derivatives		34,009	3,844	17,597	-	55,450

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 23. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2017				
<i>Liabilities</i>				
Forward foreign exchange contracts	-	471	-	471
Total liabilities	-	471	-	471

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2016				
<i>Liabilities</i>				
Forward foreign exchange contracts	-	1,421	-	1,421
Total liabilities	-	1,421	-	1,421

There were no transfers between levels during the financial year.

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

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Note 23. Fair value measurement (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 24. Commitments

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	4,688	3,142
One to five years	13,563	4,560
	18,251	7,702

The above lease commitments relate to property leases. The Group has no rights to purchase the properties at the end of the lease term.

Note 25. Related party transactions

Parent entity

Gale Pacific Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the directors' report.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 26. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2017	2016
	\$	\$
Short-term employee benefits	3,195,087	2,692,699
Post-employment benefits	159,467	155,724
Termination benefits	165,991	287,082
Share-based payments	259,673	208,802
	<u>3,780,218</u>	<u>3,344,307</u>

Note 27. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2017	2016
	\$'000	\$'000
Profit/(loss) after income tax	(13,134)	4,706
Total comprehensive income	(12,469)	2,757

Statement of financial position

	Parent	
	2017	2016
	\$'000	\$'000
Total current assets	34,766	55,880
Total assets	108,014	135,241
Total current liabilities	15,460	21,208
Total liabilities	31,969	40,837
Equity		
Issued capital	71,365	71,485
Hedging reserve - cash flow hedges	(330)	(995)
Share-based payments reserve	1,065	762
Retained profits	3,945	23,152
Total equity	<u>76,045</u>	<u>94,404</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

Please note comparative year has been changed to reflect consolidation entries between group entities.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Note 27. Parent entity information (continued)

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 28. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2017 %	2016 %
Gale Pacific (New Zealand) Limited	New Zealand	100.00%	100.00%
Gale Pacific FZE	United Arab Emirates	100.00%	100.00%
Gale Pacific Special Textiles (Ningbo) Limited	China	100.00%	100.00%
Gale Pacific Trading (Ningbo) Limited	China	100.00%	100.00%
Gale Pacific USA, Inc.	USA	100.00%	100.00%
Zone Hardware Pty Ltd	Australia	100.00%	100.00%
Riva Window Fashions Pty Ltd	Australia	100.00%	100.00%

Note 29. Share-based payments

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

- Improvement in earnings per share; and
- Improvement in return to shareholders.

Each performance right entitles the holder one ordinary share in the Company when exercised and is subject to the satisfying of relevant performance hurdles based on improvements in the Group's diluted earnings per share.

Performance rights issued to executives during the financial 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.

Refer to note 6 for the amount expensed to profit or loss during the financial year.

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the Company to certain key management personnel of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Note 29. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

2017							
Grant date	Expiry date	Grant price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
11/12/2014	01/12/2017	\$0.18	1,425,405	-	-	(99,603)	1,325,802
09/10/2015	01/12/2018	\$0.23	2,177,000	-	-	(314,000)	1,863,000
21/09/2016	01/12/2019	\$0.35	-	1,569,000	-	-	1,569,000
			<u>3,602,405</u>	<u>1,569,000</u>	<u>-</u>	<u>(413,603)</u>	<u>4,757,802</u>
2016							
Grant date	Expiry date	Grant price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
11/12/2014	01/12/2017	\$0.18	2,364,138	-	-	(938,733)	1,425,405
09/10/2015	01/12/2018	\$0.23	-	3,022,000	-	(845,000)	2,177,000
			<u>2,364,138</u>	<u>3,022,000</u>	<u>-</u>	<u>(1,783,733)</u>	<u>3,602,405</u>

Accounting policy for share-based payments

Equity-settled share-based compensation benefits are provided to certain employees including executive directors. Equity-settled transactions are awards of performance rights over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

The weighted average fair value of the share options granted during the financial year is \$0.35 (2016: \$0.23).

Expected volatility is based on the historical share price volatility over the past 3 years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price is two and a half times the exercise price.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

Note 29. Share-based payments (continued)

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Company:

	Consolidated	
	2017	2016
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	247,150	223,250
<i>Other services - Deloitte Touche Tohmatsu</i>		
Other services (including tax services)	147,217	57,484
	<u>394,367</u>	<u>280,734</u>

Note 31. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets and makes minor amendments for financial liabilities. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' model to recognise an allowance. The Group will adopt this standard from 1 July 2018 but it is not expected to significantly impact the financial statements on the basis that the main financial assets recognised represent cash and cash equivalent and trade receivables that do not carry a significant financing component and involve a single cash flow representing the repayment of principal, which in the case of trade receivables is the transaction price. Both asset classes will continue to be measured at face value. Other financial asset classes are not material to the Group. Financial liabilities of the Group are not impacted as the Group does not carry them at fair value.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group will adopt this standard from 1 July 2018 but it is not expected to significantly impact the financial statements on the basis that most of the Group's revenue is recognised at the time of transfer of units to customer which represents the satisfaction of the primary performance obligation.

Note 31. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard will eliminate the classifications of operating leases and finance leases for lessees. Subject to exceptions (short-term leases of 12 months or less and leases of low-value assets), a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset and an interest expense on the recognised lease liability. In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117 'Leases'. However EBITDA results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Group.

Other amending accounting standards

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the Group as their amendments provide either clarification of existing accounting treatment or editorial amendments.

Note 32. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Additional Securities Exchange Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 14 August 2017 (**Reporting Date**).

Corporate Governance Statement

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on Gale Pacific's website (www.galepacific.com), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX. The Appendix 4G will particularise each Recommendation that needs to be reported against by Gale Pacific, and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on Gale Pacific's website (www.galepacific.com).

Number of Holdings of Equity Securities

As at the Reporting Date, the number of holders in each class of equity securities on issue in Gale Pacific is as follows:

- The fully paid issued capital of the Company consisted of 297,162,696 ordinary fully paid shares held by 1,573 shareholders. Each share entitles the holder to one vote.
- 10 holders have been granted 4,757,802 performance rights over ordinary shares. Performance rights do not carry a right to vote.

Voting Rights of Equity Securities

The only class of equity securities on issue in the Company which carry voting rights is ordinary shares.

As at the Reporting Date, there were 1,573 holders of a total of 297,162,696 ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 54 of the Company's Articles of Association are:

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held and in respect of each partly paid share, is entitled to a fraction of a vote equivalent to the proportion which the amount paid up (not credited) on that partly paid share bears to the total amounts paid and payable (excluding amounts credited) on that share. Amounts paid in advance of a call are ignored when calculating the proportion.

Additional Securities Exchange Information continued

Distribution of Holders of Equity Securities

The distribution of holder of equity securities on issue in the Company as at the Reporting Date is as follows:

Range	Ordinary Fully Paid Shares		
	Total Holders	Units	% of Issued Capital
1 – 1,000	120	28,323	0.01
1,001 – 5,000	339	1,020,695	0.34
5,001 – 10,000	232	1,846,989	0.62
10,001 – 100,000	691	25,602,152	8.62
100,001 and over	191	268,664,537	90.41
Total	1,573	297,162,696	100.00

Range	Performance Rights		
	Total Holders	Units	% of Performance Rights
1 – 1,000	0	0	0.00
1,001 – 5,000	0	0	0.00
5,001 – 10,000	0	0	0.00
10,001 – 100,000	0	0	0.00
100,001 and over	10	4,757,802	100.00
Total	10	4,757,802	100.00

Unmarketable Parcels

The number of holders of less than a marketable parcel of ordinary shares based on the closing market price as at the Reporting Date is as follows:

Unmarketable Parcels as at 14 August 2017	Minimum Parcel Size	Holders	Units
Minimum \$500 parcel at \$0.38 per unit	1,316	139	50,251

Substantial Shareholders

As at the Reporting Date, the names of the substantial holders of Gale Pacific and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to Gale Pacific, are as follows:

Shareholder	Class of securities	No.	%
THORNEY HOLDINGS PTY LTD	ORDINARY		
	SHARES	79,702,646	26.82%
WINDHAGER HOLDING AG	ORDINARY		
	SHARES	41,925,781	14.11%
JP MORGAN NOMINEES AUSTRALIA LIMITED	ORDINARY		
	SHARES	21,308,955	7.17%

Twenty Largest Holders of Quoted Equity Securities

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, and the number of ordinary shares and percentage of capital held by each holder is as follows:

Shareholder	No.	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	84,116,584	28.31
WINDHAGER HOLDING AG	41,925,781	14.11
J P MORGAN NOMINEES AUSTRALIA LIMITED	21,308,955	7.17
GALE AUSTRALIA PTY LTD	13,997,844	4.71
UBS NOMINEES PTY LTD	7,718,384	2.60
GERNIS HOLDINGS PTY LIMITED	7,409,665	2.49
CONTEMPLATOR PTY LTD <ARG PENSION FUND A/C>	4,691,433	1.58
BFA SUPER PTY LTD <GDN SUPER FUND A/C>	3,327,428	1.12
NATIONAL NOMINEES LIMITED	3,284,882	1.11
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	3,279,598	1.10
STITCHING PTY LTD <SSG SUPERANNUATION FUND A/C>	3,050,000	1.03
CHILLEN PTY LIMITED (TALLEN)	2,431,317	0.82
BOND STREET CUSTODIANS LIMITED <ZCERNA – D02137 A/C>	2,400,000	0.81
GALLIUM PTY LTD	2,279,359	0.77
BNP PARIBAS NOMS PTY LTD <DRP>	2,163,617	0.73
W DONNELLY SERVICES PTY LTD <THE DONNELLY SUPER FUND A/C>	2,010,000	0.68
VENN MILNER SUPERANNUATION PTY LTD	2,000,000	0.67
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,853,260	0.62
APM ENTERPRISES PTY LTD <MURPHY FAMILY NO 3 A/C>	1,816,599	0.61
GDL INVESTMENTS PTY LIMITED	1,717,564	0.58
TOTAL: TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 14 AUGUST 2017	212,782,270	71.60
TOTAL: REMAINING HOLDERS BALANCE	84,380,426	28.40

Voluntary Escrow

There are no securities on issue in Gale Pacific that are subject to voluntary escrow.

Additional Securities Exchange Information *continued*

Unquoted Equity Securities

The number of each class of unquoted equity securities on issue, and the number of their holders, are as follows:

Class of Equity Securities	Number of unquoted Equity Securities	Number of holders
Shares	0	0
Options	0	0
Convertible Notes	0	0
Performance Rights	4,757,802	10

There are no persons who hold 20% or more of equity securities in each unquoted class other than under an employee incentive scheme.

On Market Buyback

The Company is currently conducting an on-market buy-back. It was announced to the market on 16 February 2017 and covers the period 3 March 2017 to 2 March 2018. The maximum number of shares the Company proposes to acquire under the on-market buy-back is approximately up to 30 million, or up to 10% of the lowest number of ordinary shares on issue during the previous 12 months. Accordingly, the on-market buy-back will not require shareholder approval. To date, 311,700 shares have been bought back under the buyback.

Issues of Securities

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

Securities purchased on-market

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

Stock Exchange Listing

Gale Pacific's ordinary shares are quoted on the Australian Securities Exchange (ASX issuer code: GAP)

Other Information

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

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