

# ANNUAL REPORT

2018



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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)

Donna McMaster (Non-Executive Director)

John Murphy (Non-Executive Director)

Tom Stianos (Non-Executive Director)

### Company Secretary

Sophie Karzis

### Registered Office

145 Woodlands Drive, Braeside, Victoria, 3195

T + 61 3 9518 3333

### Auditors

Deloitte Touche Tohmatsu

550 Bourke Street, Melbourne, Victoria, 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, Victoria, 3067

T + 61 3 9415 4000

### Website Address

[www.galepacific.com](http://www.galepacific.com)

### 2018 Annual General Meeting

The Annual General Meeting will be held on Friday 26 October 2018.

The Notice of Meeting and Proxy Form are separate items accompanying this 2018 Annual Report.



# Who We Are

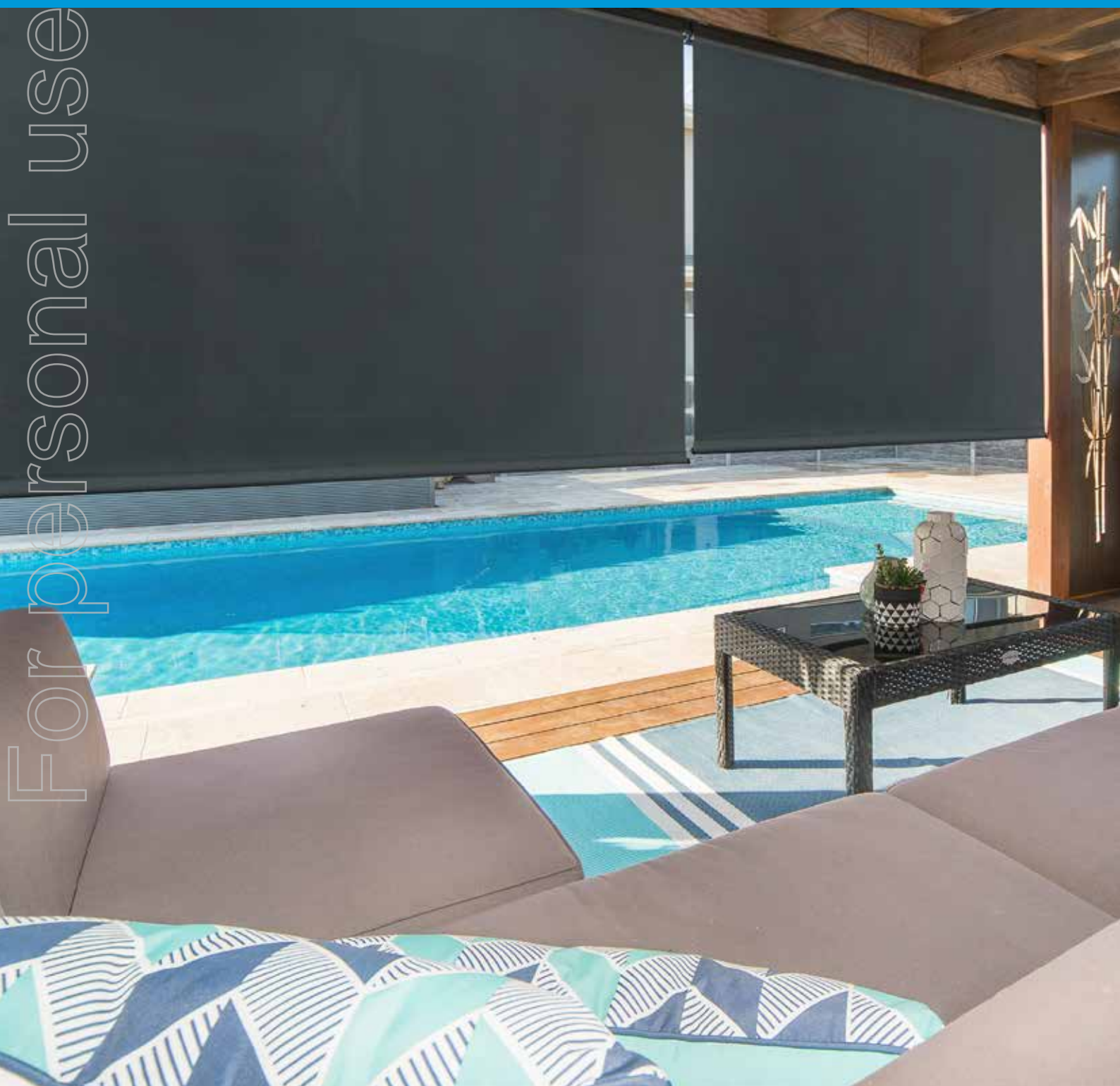
GALE Pacific is a world leader in specialised textiles and associated products. We are recognised in our markets as an innovator and long-term producer of premium quality products.

Based in Australia, we operate globally with more than half our revenues and profits coming from markets outside Australia.

Our products are marketed across commercial and retail sectors; with distribution into architectural, agricultural, horticultural, mining, construction, as well as home improvement, club and e-commerce channels. They are stocked by many of the world's largest retailers.

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

We are focused on growth through product innovation, customer development, selective geographic expansion, and brand building.



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# Results at a Glance

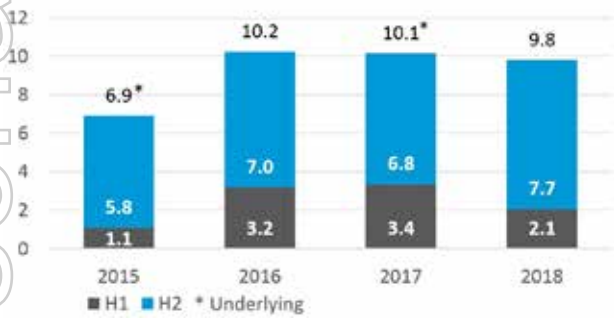
Revenue \$A million



Operating Cash Flow \$A million



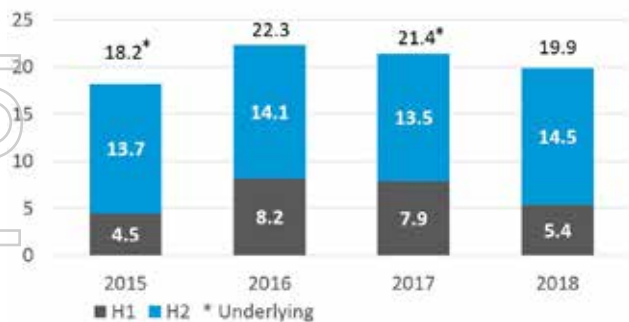
NPAT \$A million



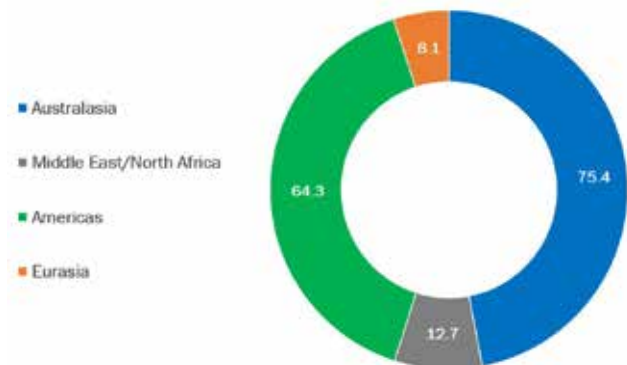
Net Debt \$A million



EBITDA \$A million



Sales by Region \$A million



# Chairmans' Letter



The financial results for FY2018 were somewhat disappointing and below our expectations at the beginning of the year. Profit before tax of \$12.5 million was 8% below prior year while earnings per share of 3.35 cents was 1% below prior year.

The results were affected by a number of adverse external factors, particularly raw material cost increases, exacerbated by currency movements which increased our product costs in China, and weather conditions impacting key markets in Australia and the USA. Management responded to these challenges with a white hot focus on cost reduction, productivity improvements and pricing initiatives. However there was no reduction in investment in resources required to support future growth.

During the year the company's infrastructure has been considerably improved, particularly in warehousing and IT systems, while additional resources have been allocated to new product development creating a pipeline of exciting products for future launch in targeted growth markets with the focus continuing to be North American retail and the commercial sector in Australia and other specific regions. Opportunities for growth in the commercial sector will be considerably increased following commissioning of the new coating line in early calendar 2019.

The FY 2018 year was challenging but the management team, under Nick Pritchard's leadership, dealt with the headwinds in an admirably professional way so that the impact on current year earnings was minimised, while good progress continued to be made in the execution of key strategies so that the company is well positioned for future growth. On behalf of the Board I would like to thank the management team and all our employees for their contribution.

## SHAREHOLDER RETURNS AND CAPITAL MANAGEMENT

The Board has declared a final dividend for FY 2018 of 1.0 cent per share which takes the total payout for the year to 2.0 cents per share representing a 60% payout ratio. The share buyback, as an additional capital management tool, remains in place reflecting the very strong balance sheet.

## BOARD CHANGES

During the year two new directors joined the Board. Tom Stianos commenced on 17 October 2017 and has now taken on the role of Chairman of the Remuneration Committee and Donna McMaster commenced on 29 March 2018. Both of these new directors are already making a considerable contribution. John Murphy has resigned from the Board effective 15 August 2018 after 11 years as a director. John was Chairman of the Remuneration Committee for a number of years and has been Chairman of the Audit and Risk Committee since 30 October 2015. We thank John for his contribution and wish him well for the future. Peter Landos who has been a director for four years has assumed the role of Chairman of the Audit and Risk Committee.

David Allman  
Chairman  
16 August 2018

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# Group Managing Director's Review



During the year we made strong progress in the execution of our strategy; and our transformation into a faster growing, more profitable, innovative global fabrics technology business.

We managed to achieve many important milestones despite being confronted with several significant economic and market conditions.

We have confidence that our team, infrastructure and new product pipeline position the company well for growth.

Over recent years we have been focused on building a platform capable of delivering and sustaining growth. We have substantially rationalised the company's product portfolio and brands, enabling a greater investment in Coolaroo and GALE product brands. Warehouses have been rationalised, all global facilities upgraded, IT, safety and other systems strengthened. These investments have created production capacity and support the company's aspirational growth plans.

We have added important skills to the team, broadening the teams' capability, and have seen an environment driven by a positive and engaged team.

Innovation is key to achieving sustained outcomes for the group. In early 2018 we launched our new Global Innovation Organisation, more closely linking Marketing, Research & Development, Product Engineering and Quality functions. We have further established critical technical alliances to support our innovation agenda. We have invested in additional research and development resources and have created a strong pipeline of genuinely innovative products.

Over the year we executed two major projects, seamlessly and without disruption to the business. As shared previously we see the USA market as attractive for its massive growth potential in our categories. In December 2017, to support our growth ambitions reflective of this opportunity, we opened our new USA warehouse. The larger warehouse dramatically improves our ability to meet service requirements, particularly during peak periods. The second major project completed was in July 2018 when we went live with our new ERP system in China. Today all parts of our business are on a single IT platform. This step will strengthen our processes and has improved visibility of the China manufacturing performance.

Last year we announced plans to invest \$8 million in a state-of-the-art production line for advanced coated fabrics. Preparations are currently underway at our Melbourne facility and the line is expected to become fully operational in March 2019. This investment will deliver unconstrained selling capacity and support the strategy of expanding our coated products business globally.

These investments are adding to our track record of building and delivering on major projects. Importantly, they are aligned to our clearly defined corporate strategy to deliver sustainable and superior returns to our shareholders.

## Our Vision

Our goal remains to become experts and global leaders in shade products and high-performance technical textiles in the commercial sector.

## Our Strategy

The fundamental elements of our growth strategy remain unchanged.

- Accelerating the growth of our Americas business, focusing on shading and screening, whilst simultaneously entering the market for commercial coated fabrics;
- Extending our market-leading shading and screening business in Australia and New Zealand;
- Growing our commercial fabrics businesses in Australia, and a small number of focus markets outside of Australia; and
- Investing in differentiated technologies and technical partnerships that support the development of innovative products driven by consumer needs.

## Group Performance

Throughout the year we experienced raw material price increases that materially impacted product costs. The cost of our key raw materials increased by more than 20%, with our primary product input, resin, reaching a ten-year high in Australian dollar terms. Further, unfavourable currency movements negatively impacted our Chinese manufacturing cost base.

We also experienced additional challenges from abnormal seasonal factors. Specifically, over the year, hurricanes in Texas and Florida, a weak Australian grain harvest, and unseasonal cool weather at the start of the USA season, combined to challenge our ability to increase sales. Additionally, we saw further impact from recessionary conditions in the Middle East.

In managing these challenges, we focused on strategies to improve our operating efficiencies and, where possible, passed on price increases. Despite these challenges we continued to invest in our core business in line with our strategic plans, to underpin future growth.

In the USA we have continued with our investment in the sales and marketing team, and in our facilities. With USA growth remaining a strategic priority, these investments will give us the greatest opportunity to capitalise on the potential. Over the year we were successful in securing window shade business at a large national home centre retailer, with the planned rollout over this year resulting in a window shade set in all stores nationally by December 2018.

In Australia, the sales results were impacted primarily by the exiting of the glass business in June 2017, with the weak grain harvest also impacting. The retail business grew, with encouraging growth in core product categories. We continued our focus on operational efficiencies, following a period of complexity and cost associated with the former non-core products.

The Middle East market continued to be a challenging region throughout the year. Encouragingly, demand remained strong for our products; though payments slowed. With careful attention to trading terms, growth was impacted.

Our Eurasia business, whilst small, is very important to the group, providing growth potential. We saw strong performance in commercial fabric sales in Europe; and see this driving continued improved profitability for the region.

### Health and Safety

We have an unwavering commitment to the health and safety of our employees, and anybody attending our facilities. During the year our strong performance continued to improve and, pleasingly, we can report another year free of major injury. Our hazard reporting culture continues to strengthen, and we are seeing the benefits of increased investments in safety leadership and training. Our Lost Time Injury Frequency Rate compares well versus industry benchmarks; yet we will never become complacent. Our audit activity, safety leadership, and broader employee training, will further intensify this year.

### Looking Forward

We now have a business that is considerably more focused and better positioned to grow.

Key elements of our 2019 plan include:

- **Coating Manufacturing Capacity** – effectively commissioning our new \$8 million coating line in early 2019. This new line will support the development of the coated products business and has capabilities that complement our existing line.
- **Product Innovation** – we are particularly focused on new product development in the commercial fabrics area, as well as in our core retail shade categories. We have many exciting developments underway with work continuing towards commercialisation of these in the coming periods.
- **Americas Region** – effectively rolling out new programs and gaining expanded ranging with existing and new customers is key to success in this market. We see great opportunity in the USA to lead the shade category, as well as build a larger commercial fabrics business.

- **China Manufacturing Operations** – consolidating two existing manufacturing facilities into a single site, to drive further efficiency and quality improvements.

### World Class Employee Engagement

This year we conducted our second global Employee Engagement Survey with 87% of our employees taking the opportunity to participate. The survey revealed that our engagement levels are 10% above a global benchmark representing more than 400 like-sized organisations and 400,000 individual participants across industries and geography.

Engagement levels were higher than the benchmark on 14 out of the 17 measured engagement metrics.

### Thank You

I would like to thank all GALE Pacific employees for their tremendous contribution this year. They have been critical to the transformation of our business and positioning us for future success.

I would like to thank our customers for their support of GALE Pacific, and our suppliers for the important role they play partnering with us to achieve our strategy.

I would also like thank Chairman David Allman and the Board for their ongoing support and counsel.

Finally, I would like to thank our shareholders, longstanding and new. We are working hard to reward your support.



Director

16 August 2018

*GALE Pacific employees at the new Fontana, California, manufacturing and warehousing facility, opened December 2017*



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# Our Values

Together with our employees, we established six important values that provide an important framework for how we operate worldwide.



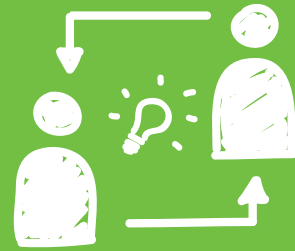
## Integrity

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.

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# Operational Report

	FY2018 A\$ million	FY2017 A\$ million	Change %
Revenue from continuing businesses	160.5	162.0	(1)
Underlying EBITDA	19.9	21.4	(7)
Underlying EBIT	14.0	15.1	(7)
Underlying profit before tax	12.5	13.5	(8)
Underlying profit after tax	9.8	10.1	(3)
Statutory revenue	160.5	175.3	(8)
Statutory profit before tax	12.5	(4.9)	357
Statutory profit after tax	9.8	(8.0)	222
Net cash provided by operating activities	8.9	19.7	(55)
Net cash / (debt)	(6.7)	1.3	(615)
Underlying basic earnings per share (cents)	3.35	3.39	(1)
Final dividend per share (unfranked) (cents)	1.00	1.00	0
Dividends per share (unfranked) (cents)	2.00	2.00	0

Please see page 13 for reconciliation from underlying earnings to statutory earnings.

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# Operational Report continued

## Australia/New Zealand

	FY2018 A\$ million	FY2017 A\$ million	Change %
Revenue from continuing businesses	75.4	79.1	(5)
Statutory revenue	75.4	92.4	(18)
Underlying EBITDA	4.2	2.9	45
Underlying PBT	3.5	1.9	82

The Australia/New Zealand region delivered a strong profit increase, driven principally by retail sales in core shade and screening categories growing 7%, operating margins increasing; a result of improved product mix following the exit of non-core products, and strategic investments to right size the cost base following their exit.

Commercial sales declined overall due to lower demand for grain cover fabrics due to the weak grain season, though continued growth in non-grain related categories attests to the strength and performance of the underlying business.

Many of the new product developments in the commercial sector are being driven by a closer working relationship with our key customers and, in many cases, their customers. These new products, at different stages of launch readiness, are extremely exciting and, though Australian-led, will also create selling opportunities abroad.

The product portfolio, largely cleansed of non-core products now, enabled substantial operational and other efficiencies. Inventory levels at year end were higher; a result of higher than expected grain fabric holdings due to the low yield grain harvest in 2017, and an earlier inventory build to better support the 2018 retail season.

## Americas

	FY2018 A\$ million	FY2017 A\$ million	Change %
Revenue	64.3	62.0	4
EBITDA	6.1	6.5	(6)
PBT	3.7	4.4	(15)

The Americas business increased sale 6% in local currency terms, with strong sales-out performance achieved across the major retailers, including a contribution from the largest e-commerce retailer. During the year the business was awarded a significant new ranging win at a large home improvement channel customer. Rollout of this expanded new program commenced in June 2018 and is scheduled to be completed by the end of the calendar year.

Performance during the period was negatively affected by the impact of the hurricanes at the end of the 2017 northern hemisphere summer which impacted replenishment orders in key selling states, whilst unseasonal cool weather at the beginning of the 2018 summer season saw subdued early sales out, conservative customer inventory management and sizeable late-season order cancellations, by some major retailers. These factors, along with increases in raw material costs, contributed to a margin contraction in the period. That being said, we are optimistic about the sell-through being achieved as the summer season has progressed and are encouraged by the environment for raw material costs stabilising.

FY 2018 was a year to gear the business for sustained growth. Aligned with our plan to aggressively grow our Americas region, we made additional investments in people, primarily sales and marketing resources, and in relocating our custom window shade manufacturing and warehousing operations to a larger facility in Fontana, California. This investment had a short-term impact on operating margin.

The improved logistics infrastructure supported service level improvements with a vastly improved ability to effectively manage peak season demand. Custom blind manufacturing lead times also reduced to less than five working days from more than 15 working days in the prior year, driven by the strategy to focus on customer service, and our expanded operating scale.

## Middle East/North Africa

	FY2018 A\$ million	FY2017 A\$ million	Change %
Revenue	12.7	12.8	(1)
EBITDA	2.7	2.5	8
PBT	2.4	2.3	5

At constant currency the Middle East North Africa region increased revenue by 2%, with operating margin improvement due to product mix changes, and lower quality and supply chain related costs. Throughout the year we saw increasing support for the newly launched Commercial Heavy architectural shade fabric, designed specifically for larger structures, as well as ongoing growth in our core commercial fabric ranges.

Market conditions in the region remain restrained resulting from interruptions in planned government stimulus initiatives that drove project delays and lower cash flows. The business maintained a conservative posture as it relates to market conditions.

## China Manufacturing & Eurasia

	FY2018 A\$ million	FY2017 A\$ million	Change %
Revenue	8.1	8.2	(1)
Intersegment Sales (eliminated when consolidating group results)	52.6	49.8	6
EBITDA	4.8	11.5	(58)
PBT	1.4	8.0	(82)

Despite higher volumes and intersegment sales, adverse price movements in key raw materials, and an unfavourable appreciation in the Chinese Renminbi, against the Australian and US dollars, contributed to lower profit performance.

Whilst the business is continuing to deliver lower labour and overhead costs driven by core process efficiencies, improved IT systems, and stronger procurement, the sudden movement in raw materials and currency drove short-term margin reduction.

Our wholly-owned China manufacturing operations continue to undertake a significant transformation. Throughout the year we made major improvements including the exit of our weaving and powder coating operations which we considered to be non-core. Our facility upgrade works continued, and we are well advanced in the consolidation of our two currently separate cutting and assembly operations into a single site. These are major works, and combined with other plant, equipment and facility upgrades, will help to drive further cost reductions and service improvements.

Eurasia region operating margins increased throughout 2018 despite currency and raw material headwinds. A strategic pivoting of the business away from high product count, low margin business, towards more profitable customers and product ranges drove the positive result, as did strong commercial fabric sales to southern Europe.



*The Extrusion Team at GALE's wholly-owned manufacturing facility in Beilun, China*



# Operational Report continued

## Balance Sheet and Cash Generation

Operating cash flow for the period closed the year at just under \$9 million which was \$11 million lower than the prior corresponding period. Increases in group inventory and receivables were the key contributor to the result.

The inventory result was impacted by currency, though the primary explanation was due to carryover raw materials and finished product inventory from the weaker than expected grain season in Australia, an unseasonal slow start to the spring/summer seasons and unexpected USA retail customer destocking activities. The delay in USA customer orders also contributed to a higher receivable at balance date. That, combined with modest increases in year over year retail sales, and a change in customer mix, will generate positive cash flows in July and August 2018.

Through ongoing supplier consolidation and the strategy to leverage our global scale, the business continues to see improved payment terms translating to improved payables performance. Lower tax payments were primarily due to a lower tax payable in China; a result of unfavourable raw material and currency movements reducing operating margins, and changes to the USA's corporate tax regime.

The business maintains a conservative balance sheet with net debt closing at just under \$7 million. Increased investments in working capital, detailed above, along with strategic investments in plant, equipment, and information technology contributed to the movement back to net debt at June 30. Higher than prior year borrowings, and a stable cash balance, is in preparation for staged payments of the investment in the coating operations scheduled in H1 FY 2019. Low interest-bearing finance was also leveraged to protect against short term currency exposure in working capital.

## Reporting Operating Segments

To continuously improve the transparency of GALE Pacific's segment reporting, in FY 2019 GALE Pacific Limited will move to an activity-based allocation method of reporting. Intersegment sales/margin and central costs will be allocated to the external revenue generating segments where the final economic benefit is derived. This enhanced method of reporting will be used by the Group Managing Director (who is identified as the Chief Operating Decision Maker ('CODM')), to target product costing, product line profitability analysis, customer profitability analysis, and service pricing structures.

From July 1st 2018, the Group will be organised into five operating segments identified by external revenue generating geographic locations. These operating segments will be based on the internal reports that are reviewed and used by the CODM in assessing performance and in determining the allocation of resources. A reconciliation between fully allocated segments and statutory segments can be found below. Statutory segments will be presented in the segment note of the annual report.

Under the improved reporting regime, in FY 2019 comparative FY 2018 fully allocated segments will be restated to reflect the following:

	Profit Before Tax \$A 000's					Group
	Australasia	Americas	MENA	Eurasia	Corporate / Other	
Statutory Segment	3,500	3,749	2,438	1,432	1,365	12,484
Activity Based Allocations	(380)	4,565	1,245	79	(5,509)	-
Fully Allocated Profit Before Tax	3,120	8,314	3,683	1,511	(4,144)	12,484

## Reconciliation of Underlying Results to Statutory Results for FY2017

In FY2017, the company made a non-cash, non-recurring impairment 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.

*During the year, further investments were made in sales and marketing resources in the USA. Pictured here are the USA Product Management and Marketing Communication teams.*



# Board of Directors, Company Secretary & Chief Financial Officer

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Left to right: David Allman, Nick Pritchard, Donna McMaster, Sophie Karzis, John Murphy, Tom Stianos, Matt Parker, Peter Landos



**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, Managing Director of Cascade Group Limited. David also 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. David is Chairman of Careers Training Group Pty Ltd.

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

**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 in consumer goods markets across both retail and commercial sectors.

**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 whom 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 in mergers and acquisitions, divestments, business restructurings and capital markets. Peter is also a Non Executive Chairman of Adacel Technologies Limited.

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

**Donna McMaster, GAICD**

*Non-Executive Director since March 2018.*

Donna has extensive experience in senior executive and strategic roles within public and private retail companies, with a proven track record in developing proprietary brands, and spearheading brand acquisitions and licence agreements. Donna serves on multiple Boards and is currently the Chair of a Victorian School Education Board, Chair & Non Executive Director of YMCA E-Store Pty Ltd & a Non-Executive Director of Dandenong Market Pty Ltd.

Donna is a member of the Company's Nomination 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 from 2002 until September, 2011. On that date John changed from being an executive to a non-executive director of Investec Bank (Australia) Limited. John is currently also a director of Ariadne Australia Limited.

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

**Tom Stianos, B.App.Sc., FAICD**

*Non-Executive Director since October 2017.*

Tom is an experienced director who is currently Chairman of Empired (ASX: EPD), a non-executive director of Inabox (ASX: IAB), and the Chairman of Escient. He has extensive experience in executive/senior positions particularly in sales growth and is well versed in listed company board processes, corporate governance and delivering performance as well as compliance.

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

**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 General Manager 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.

**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.

# Executive Leadership



## Nick Pritchard

*Group Managing Director*

Nick re-joined GALE Pacific in August 2013 following 11 years in senior leadership positions at Newell Brands (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, window shades and pet beds. Nick has a Bachelor of Business (Marketing) and 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, Matt 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 Brands where his responsibilities included leading warehouse facilities, logistics, procurement and customer service functions across the Asia Pacific region.



## XinHua (Cliff) Zhang

*General Manager - China 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. Cliff holds a Bachelor of Science (Mechanical Engineering), from Nanjing University of Science & Technology, China.





### John Paul Marcantonio

*General Manager – Americas*

John Paul joined GALE Pacific in October 2017. He has extensive experience working across both retail and commercial sectors. Over the last fifteen years he has built an impressive career at Newell Brands. He held many senior roles including Senior Product Manager; Regional Marketing Director (Australia & New Zealand) Global Marketing Director, and Global Director of Marketing. In his most recent role at Newell, John Paul was Global Vice-President of Marketing for the Food & Beverage segment of the Rubbermaid Consumer brand.



### Ali Haidar

*General Manager – Middle East North Africa*

Ali joined GALE Pacific in August 2004 and has 13 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 expansion in the Middle East/North Africa region.



### Mark Nicholls

*General Manager – Eurasia*

Mark joined GALE Pacific in June 2016. He has considerable experience in the UK, Europe, Asia, South Africa and Israel. Mark has knowledge across retail and commercial sectors and experience appointing and managing distributors, and large, multi-country retailers. 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 Brands and SANDVIK.



### Andrew Nasarczyk

*Senior Manager - Research & Development*

Andrew joined GALE Pacific in July 2002, moving into the company through the acquisition of Visy Industrial Textiles. Andrew has held various Production and Technical roles within GALE Pacific, including a 3-year secondment to GALE's manufacturing plant in China. During his time at GALE, Andrew has introduced numerous technical improvements and led key product innovations working closely with technical partners and customers. Andrew was recently a Standards Committee member for the update to Australia's Synthetic Shade Standard. Andrew has a Bachelor of Engineering (Polymers).



# Corporate Governance



Custom Window Shade Manufacturing -  
Orlando, USA

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](http://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](http://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 2018.

## 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, no other matter or circumstance has arisen since 30 June 2018 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:

	2017/2018
Final ordinary dividend for the year ending 30 June 2017 (paid 2 October 2017) (unfranked)	1.00 cent
Interim ordinary dividend for the half year ended 31 December 2017 (paid 3 April 2018) (unfranked)	1.00 cent

In addition to the above dividends, on the 16 of August 2018 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 2018, payable on 4 October 2018 to shareholders on the register at 27 September 2018. 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 \$2,866,000. Including the final dividend of 1.0 cents per share declared above, a dividend of 2.0 cents is on earnings of 3.35 cents per share.

## Share Based Payments

### Performance Rights

The number of performance rights on issue at the date of this report is 4,936,000. No amount is payable on the vesting of a performance right. Each performance right entitles the holder to one (1) ordinary share in GALE Pacific Limited in the event that the performance right is exercised. Performance rights carry no rights to dividends and no voting rights.

1,918,000 performance rights were granted to executives and the Group Managing Director on 22 November 2017. The performance rights will vest subject to a continuation of employment to 30 June 2020 and satisfying of relevant performance hurdles based on the Group's diluted earnings per share over the three year period from 1 July 2017 to 30 June 2020. None of these performance rights can vest until 30 June 2020 and expire on 1 December 2020.

As at 30 June 2018, 414,000 performance rights lapsed during the year to 30 June 2018 as the relevant personnel ceased employment with the Company.

On the 28th of September 2017, 1,325,802 performance rights vested. The vesting of those performance rights were subject to a continuation of employment for three years and the satisfactory achievement of performance hurdles based on improvements in the Group's diluted earnings per share over the three period between July 2014 and June 30 2017.

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.

Personal use only



# Directors' Report continued

## Directors' Shareholdings

Directors	Fully Paid Ordinary Shares	Options	Performance Rights
D Allman	2,400,000	N/A	N/A
P Landos	Nil	N/A	N/A
D McMaster	Nil	N/A	N/A
J Murphy	4,416,599	N/A	N/A
N Pritchard	521,593	N/A	2,097,000
T Stianos	100,000	N/A	N/A

## Directors' Meetings

Directors	Directors' Meetings		Audit & Risk Committee Meetings		Remunerations 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	13	3	3	3	3	1	1
P Landos	13	12	4	3	3	2	1	1
D McMaster	5	5	N/A	N/A	1	1	N/A	N/A
J Murphy *	13	13	4	4	3	3	1	1
N Pritchard	13	13	N/A	N/A	N/A	N/A	N/A	N/A
T Stianos	10	10	3	3	2	2	1	1

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.

Throughout the reporting period of this report the members of the Audit & Risk Committee are John Murphy, Peter Landos and Tom Stianos. The Chairman of the Audit & Risk Committee is John Murphy.

Throughout the reporting period of this report the members of the Remuneration Committee are Tom Stianos, David Allman, Donna McMaster and John Murphy. The current Chairman of the Remuneration Committee is Tom Stianos who was appointed during FY18 on 17 October 2017. Prior to this the Chairman was John Murphy.

Throughout the reporting period of this report the members of the Nomination Committee are David Allman, Peter Landos, Donna McMaster, John Murphy and Tom Stianos. The Chairman of the Nomination Committee is David Allman.

\* On the 15 August 2018, Non Executive Director John Murphy retired from the Board of Directors, Audit and Risk, Remuneration and Nomination Committees. Upon his retirement, the role of the company's Audit and Risk committee will be assumed by Director Peter Landos.

## Remuneration Report

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

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

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

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



Remuneration packages contain the following key elements:

- Primary benefits – salary/fees;
- 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 sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to 30 June 2018:

	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
Sales	160,456	175,265	173,191	147,993	137,304
Net profit before tax	12,483	(4,861)	13,509	6,221	10,988
Net profit after tax	9,806	(8,044)	10,228	5,170	8,233
Share price at start of year	40 cents	36 cents	17 cents	23 cents	26 cents
Share price at end of year	35.5 cents	40 cents	36 cents	17 cents	23 cents
Interim dividend	1.00 cents	1.00 cent	0.75 cents	-	1.30 cents
Final dividend	1.00 cents	1.00cent	1.00 cents	1.00 cent	1.35 cents
Basic earnings per share	3.35 cents	(2.71) cents	3.44 cents	1.74 cents	2.77 cents
Diluted earnings per share	3.29 cents	(2.71) cents	3.40 cents	1.72 cents	2.72 cents

## 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.

# Directors' Report *continued*

## 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 2018 was 4,936,000. 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). 1,299,000 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). A further 1,918,000 of these shares were granted on 22 November 2017 and will not vest until the time of the company's 2020 annual report is released on the ASX (on or around 1 October 2020). In the period between 1 July 2017 and 30 June 2018, 414,000 shares lapsed as the relevant personnel ceased employment with the company. On the 28th of September 2017, 1,325,802 performance rights vested due to satisfactory performance and time hurdles being delivered. The vested rights were in relation to the period of July 1 2014 to June 30 2017. 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. Options and performance rights issued to executives during the year were issued in accordance with the Group's remuneration policy which:

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

#### (b) Cash Bonuses

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

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

### Directors

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

### Executives

A Haidar (General Manager – Middle East & North Africa)  
J P Marcantonio (General Manager – Americas)  
B Marotta (General Manager – Supply Chain)  
M Nicholls (General Manager – Eurasia)  
M Parker (Chief Financial Officer)  
C Zhang (General Manager – China)

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

2017/2018	Short Term Benefits			Post Employment	Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees	Bonus	Non Monetary					Total	Rights
	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Directors</b>									
<i>Executive Directors</i>									
N Pritchard	492,273	127,050	-	25,000	48,635	-	692,958	25%	7%
<i>Non Executive Directors</i>									
D Allman	115,460	-	-	21,712	-	-	137,172		
J Murphy	108,342	-	-	9,450	-	-	117,792		
P Landos	77,626	-	-	6,146	-	-	83,771		
T Stianos	55,293	-	-	5,252	-	-	60,545		
D McMaster	19,885	-	-	1,889	-	-	21,774		
<b>Total</b>	<b>868,878</b>	<b>127,050</b>	<b>-</b>	<b>69,449</b>	<b>48,635</b>	<b>-</b>	<b>1,114,012</b>		

2016/2017	Short Term Benefits			Post Employment	Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees	Bonus	Non Monetary					Total	Rights
	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Directors</b>									
<i>Executive Directors</i>									
N Pritchard	451,500	230,590	-	30,000	168,182	-	880,272	45%	19%
<i>Non Executive Directors</i>									
D Allman	99,673	-	-	31,742	-	-	131,415		
J Murphy	85,312	-	-	8,979	-	-	94,291		
P Landos	74,581	-	-	7,259	-	-	81,840		
<b>Total</b>	<b>711,066</b>	<b>230,590</b>	<b>-</b>	<b>77,980</b>	<b>168,182</b>	<b>-</b>	<b>1,187,818</b>		



During the year, new plant and equipment was commissioned at the company's wholly-owned manufacturing facility in China



# Directors' Report continued

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

2017/2018	Short Term Benefits			Post Employment	Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees	Bonus	Non Monetary					Super	Rights
Key Management Personnel	\$	\$	\$	\$	\$	\$	\$	%	%
J P Marcantonio <sup>11</sup>	424,959	77,391	9,693	8,527	-	-	520,570	15%	0%
M Parker	283,954	59,400	-	25,000	17,026	-	385,380	20%	4%
B Marotta	242,501	52,368	-	23,037	16,430	-	334,336	21%	5%
A Haidar	237,918	22,673	-	-	8,191	-	268,782	11%	3%
M Nicholls <sup>12</sup>	194,725	-	-	9,028	-	-	203,753	0%	0%
C Zhang	164,263	41,684	33,760	-	(5,130)	-	234,578	16%	(2)%
V Klunyk	159,836	12,956	-	15,567	-	-	188,359	7%	0%
L Klebenow	46,808	-	-	-	(13,192)	142,658	176,273	(7)%	(7)%
<b>Total</b>	<b>1,754,964</b>	<b>266,472</b>	<b>43,454</b>	<b>81,159</b>	<b>23,326</b>	<b>142,658</b>	<b>2,312,032</b>		

2016/2017	Short Term Benefits			Post Employment	Share Based Payments	Termination Benefits	Total	Performance Related	
	Salary & Fees	Bonus	Non Monetary					Super	Rights
Key Management Personnel	\$	\$	\$	\$	\$	\$	\$	%	%
L Klebenow <sup>1</sup>	367,586	-	20,563	-	13,192	-	401,341	3%	3%
M Parker <sup>2</sup>	263,750	107,609	-	25,056	38,165	-	434,580	34%	9%
B Marotta <sup>3</sup>	235,749	100,530	-	22,396	54,967	-	413,642	38%	13%
E Varani <sup>4</sup>	196,116	42,898	66,822	-	(11,184)	-	294,652	11%	(4)%
A Haidar <sup>5</sup>	191,849	40,678	43,536	-	30,013	-	306,076	23%	10%
C Fuller <sup>6</sup>	216,157	13,951	-	19,791	-	-	249,899	6%	0%
C Zhang <sup>7</sup>	157,705	-	33,080	-	5,130	-	195,915	3%	3%
M Denney <sup>8</sup>	-	-	-	-	-	165,991	165,991	0%	0%
S Elding <sup>9</sup>	92,085	-	-	8,281	(17,351)	-	83,015	(21)%	(21)%
V Klunyk <sup>10</sup>	62,769	-	-	5,963	-	-	68,732	0%	0%
<b>Total</b>	<b>1,783,767</b>	<b>305,666</b>	<b>164,000</b>	<b>81,487</b>	<b>112,932</b>	<b>165,991</b>	<b>2,613,843</b>		

<sup>1</sup> 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.

<sup>2</sup> Mr Parker is the Chief Financial Officer. He is located in Australia and remunerated in Australian dollars.

<sup>3</sup> Mr Marotta is General Manager – Supply Chain. He is located in Australia and remunerated in Australian dollars.

<sup>4</sup> 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. Mr Varani resigned 10 July 2017.

<sup>5</sup> 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.

<sup>6</sup> Mr Fuller was the General Manager - Australia and New Zealand. Mr Fuller resigned 27 April 2017.

<sup>7</sup> 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.

<sup>8</sup> 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.

<sup>9</sup> Ms S Elding was the Manager - People and Culture. She is located in Australia and remunerated in Australian dollars. Ms Elding resigned 3 March 2017.

<sup>10</sup> Ms Klunyk was the General Manager – People and Culture. She is located in Australia and remunerated in Australian dollars. Ms Klunyk resigned 23 May 2018.

<sup>11</sup> J P Marcantonio is the General Manager - Americas, remunerated in United States dollars converted to Australian dollars in the table above.

<sup>12</sup> M Nicholls is the General Manager – EurAsia. He is based in United Kingdom and remunerated in Pounds converted to Australian dollars in the table above.

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

<b>2017/2018</b>	<b>Balance 30 June 2017 No.</b>	<b>Granted as Compensation No.</b>	<b>Received on Exercise of Options No.</b>	<b>Other Movements No.</b>	<b>Balance 30 June 2018 No.</b>
<i>Executive Directors</i>					
N Pritchard	212,804	865,385	-	(556,596)	521,593
<i>Non Executive Directors</i>					
D Allman	2,400,000	-	-	-	2,400,000
J Murphy	4,416,599	-	-	-	4,416,599
T Stianos	-	-	-	100,000	100,000
<i>Executives</i>					
B Marotta	-	289,122	-	-	289,122
A Haidar	235,000	99,364	-	-	334,364
<b>Total</b>	<b>7,264,403</b>	<b>1,253,871</b>	<b>-</b>	<b>(456,596)</b>	<b>8,061,678</b>

<b>2016/2017</b>	<b>Balance 30 June 2016 No.</b>	<b>Granted as Compensation No.</b>	<b>Received on Exercise of Options No.</b>	<b>Other Movements No.</b>	<b>Balance 30 June 2017 No.</b>
<i>Executive Directors</i>					
N Pritchard	212,804	-	-	-	212,804
<i>Non Executive Directors</i>					
D Allman	2,400,000	-	-	-	2,400,000
J Murphy	4,416,599	-	-	-	4,416,599
<i>Executives</i>					
A Haidar	235,000	-	-	-	235,000
<b>Total</b>	<b>7,264,403</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,264,403</b>

## Share Based Compensation

The terms and conditions of each grant of performance rights granted but not vested as at 30 June 2018 affecting remuneration in the current or a future reporting period are as follows:

### Grant Date

Value per performance rights at grant date	31 cents
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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 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 2019) and expire on 1 December 2019.

The performance rights granted on 22nd of November 2017 are subject to the continuation of employment to 30 June 2020 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 2017 to 30 June 2020. None of these rights can vest until the company releases its FY20 annual report to the ASX (on or around 20th September 2020) and expire on 1 December 2020.

# Directors' Report continued

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

2017/2018	Terms and Conditions for Each Grant							
	Vested Number	Granted Number	Grant Date	Value Per Option/Right at Grant Date	Exercise Price	Expiry Date	First Exercise Date	Last Exercise Date
<i>Executive Directors (Performance Rights)</i>								
N Pritchard	-	606,000	22/11/17	0.3087	Nil	01/12/20	01/10/20	01/10/20
<i>Non Executive Directors</i>								
None								
<i>Management Personnel (Performance Rights)</i>								
Other Management	-	1,312,000	22/11/17	0.3087	Nil	01/12/20	01/10/20	01/10/20
<b>Total</b>		1,918,000						

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



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

<b>2017/2018</b>	<b>Balance 1 July 2017 No.</b>	<b>Granted as Compensa- tion No.</b>	<b>Exercised No.</b>	<b>Lapsed No.</b>	<b>Net Other Change No.</b>	<b>Balance 30 June 2018 No.</b>	<b>Balance Held Nominally No.</b>	<b>Value of Lapsed Options/ Rights \$</b>
<i>Executive Directors (Performance Rights)</i>								
N Pritchard	2,356,385	606,000	(865,385)	-	-	2,097,000	-	-
<i>Non Executive Directors</i>								
None								
<i>Executives (Performance Rights)</i>								
B Marotta	767,122	187,000	(289,122)	-	-	665,000	-	-
M Parker	523,000	212,000	-	-	-	735,000	-	-
A Haidar	427,364	144,000	(99,364)	-	-	472,000	-	-
L Klebenow	270,000	-	-	(270,000)	-	-	-	-
C Zhang	105,000	104,000	-	-	-	209,000	-	-
J P Marcantonio	-	270,000	-	-	-	270,000	-	-
V Klunyk	-	144,000	-	(144,000)	-	-	-	-
Mark Nicholls	-	113,000	-	-	-	113,000	-	-
<i>Other Management Personnel (Performance Rights)</i>								
Other Management	308,931	138,000	(71,931)	-	-	375,000	-	-
<b>Total</b>	<b>4,757,802</b>	<b>1,918,000</b>	<b>(1,325,802)</b>	<b>(414,000)</b>	<b>-</b>	<b>4,936,000</b>	<b>-</b>	<b>-</b>

<b>2016/2017</b>	<b>Balance 1 July 2016 No.</b>	<b>Granted as Compensa- tion No.</b>	<b>Exercised No.</b>	<b>Lapsed No.</b>	<b>Net Other Change No.</b>	<b>Balance 30 June 2017 No.</b>	<b>Balance Held Nominally No.</b>	<b>Value of Lapsed Options/ Rights \$</b>
<i>Executive Directors (Performance Rights)</i>								
N Pritchard	1,778,385	578,000	-	-	-	2,356,385	-	-
<i>Non Executive Directors</i>								
None								
<i>Executives (Performance Rights)</i>								
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
C Zhang	-	105,000	-	-	-	105,000	-	-
L Klebenow	-	270,000	-	-	-	270,000	-	-
<i>Other Management Personnel (Performance Rights)</i>								
Other Management	220,931	88,000	-	-	-	308,931	-	-
<b>Total</b>	<b>3,602,405</b>	<b>1,569,000</b>	<b>-</b>	<b>(413,603)</b>	<b>-</b>	<b>4,757,802</b>	<b>-</b>	<b>89,516</b>

# Directors' Report continued

## 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.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

550 Bourke Street  
Melbourne VIC 3000  
GPO Box 78  
Melbourne VIC 3001 Australia

Tel: +61 (0) 3 9671 7000  
Fax: +61 (0) 3 9671 7001  
www.deloitte.com.au

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

16 August 2018

Dear Board Members

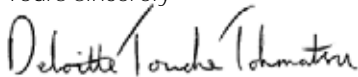
### Gale Pacific Limited

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 2018, 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

Member of Deloitte Touche Tohmatsu Limited

Liability limited by a scheme approved under Professional Standards Legislation.



# Independent Auditors Report

## Deloitte.

Deloitte Touche Tohmatsu  
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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 2018, 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 2018 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.

Member of Deloitte Touche Tohmatsu Limited

Liability limited by a scheme approved under Professional Standards Legislation.

# Deloitte.

## 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><b>Recoverability of trade receivables in Middle East and North Africa</b></p> <p>As at 30 June 2018, the carrying amounts of Middle East and North Africa ("MENA") trade receivable was AU\$8.55 million with AU\$0.47 million of the outstanding balance aged over 365 days as disclosed in Note 10. The balance of provision for impairment of receivables in MENA accounts for 46% of trade receivables greater than 365 days.</p> <p>The determination as to whether the receivables are collectable requires a high level of management judgment and estimates, whereby the management considers specific factors including the age of the balances, historical payment patterns and any other relevant information concerning the creditworthiness of the counterparties.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding on how the provision for impairment of receivables is estimated by management and assessing management's process in determining the estimated future cash flows of accounts receivables;</li> <li>• Engaging our Dubai audit team to assist with assessment procedures in the context of their knowledge of the local market conditions;</li> <li>• Evaluating the aging analysis and subsequent settlement of the accounts receivable, on a sample basis, to the source documents including invoices and bank statements;</li> <li>• Assessing the reasonableness of provision for impairment of receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the accounts receivables on a sample basis; and</li> <li>• Evaluating the historical accuracy of the management's assessment of impairment for receivables on a sample basis by examining the actual write-offs, the reversal of previous recorded provision and new provision recorded in the current year in respect of accounts receivables at the end of the previous financial year.</li> </ul> <p>We also assessed the appropriateness of the disclosures included in Note 10 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 2018, but does not include the financial report and our auditor's report thereon.

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,

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# Independent Auditors Report continued

## Deloitte.

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.
- 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.



## Deloitte.

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 19 to 28 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Gale Pacific Limited, for the year ended 30 June 2018, 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, 16 August 2018

# Directors' Report

## Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.



David Allman  
Chairman  
16 August 2018

**Gale Pacific Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2018**

	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Revenue</b>			
Sale of goods		160,456	175,265
Other income	5	1,317	1,067
<b>Expenses</b>			
Raw materials and consumables used		(86,516)	(96,972)
Employee benefits expense	6	(26,329)	(27,442)
Depreciation and amortisation expense	6	(5,934)	(6,368)
Impairment of assets - goodwill		-	(17,455)
Marketing and advertising		(1,601)	(2,145)
Occupancy costs		(5,450)	(5,175)
Warehouse and related costs		(10,919)	(12,107)
Other expenses		(11,068)	(12,004)
Finance costs	6	(1,472)	(1,525)
<b>Profit/(loss) before income tax expense</b>		12,484	(4,861)
Income tax expense	7	(2,677)	(3,183)
<b>Profit/(loss) after income tax expense for the year attributable to the owners of Gale Pacific Limited</b>		9,807	(8,044)
<b>Other comprehensive income</b>			
<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	503	665
Foreign currency translation	19	3,655	(3,173)
Other comprehensive income for the year, net of tax		4,158	(2,508)
<b>Total comprehensive income for the year attributable to the owners of Gale Pacific Limited</b>		13,965	(10,552)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	8	3.35	(2.71)
Diluted earnings per share	8	3.29	(2.71)

*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 2018**

	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	22,991	24,974
Trade and other receivables	10	33,862	29,497
Inventories	11	46,736	37,449
Prepayments		1,493	1,419
Total current assets		<u>105,082</u>	<u>93,339</u>
<b>Non-current assets</b>			
Prepayments		58	58
Property, plant and equipment	12	30,123	26,955
Intangibles	13	7,364	7,283
Deferred tax	7	2,468	4,274
Total non-current assets		<u>40,013</u>	<u>38,570</u>
<b>Total assets</b>		<u>145,095</u>	<u>131,909</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	23,153	19,451
Borrowings	15	16,195	7,268
Derivative financial instrument - cash flow hedges		480	471
Current tax liabilities	7	171	863
Employee benefits		1,825	1,718
Provisions	16	475	286
Total current liabilities		<u>42,299</u>	<u>30,057</u>
<b>Non-current liabilities</b>			
Borrowings	17	13,520	16,400
Deferred tax	7	1,679	1,946
Employee benefits		117	109
Total non-current liabilities		<u>15,316</u>	<u>18,455</u>
<b>Total liabilities</b>		<u>57,615</u>	<u>48,512</u>
<b>Net assets</b>		<u>87,480</u>	<u>83,397</u>
<b>Equity</b>			
Issued capital	18	67,641	71,365
Reserves	19	1,752	(2,591)
Retained profits		18,087	14,623
<b>Total equity</b>		<u>87,480</u>	<u>83,397</u>

*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 2018**

<b>Consolidated</b>	<b>Issued Capital \$'000</b>	<b>Reserves (Note 19) \$'000</b>	<b>Retained Profits \$'000</b>	<b>Total equity \$'000</b>
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>
<b>Consolidated</b>	<b>Issued Capital \$'000</b>	<b>Reserves (Note 19) \$'000</b>	<b>Retained Profits \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	71,365	(2,591)	14,623	83,397
Profit after income tax expense for the year	-	-	9,807	9,807
Other comprehensive income for the year, net of tax	-	4,158	-	4,158
Total comprehensive income for the year	-	4,158	9,807	13,965
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 29)	-	80	-	80
Transfer to Enterprise Reserve Fund	-	105	(105)	-
Share Buy Back	(3,724)	-	-	(3,724)
Other	-	-	(382)	(382)
Dividends paid (note 20)	-	-	(5,856)	(5,856)
Balance at 30 June 2018	<u>67,641</u>	<u>1,752</u>	<u>18,087</u>	<u>87,480</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 2018**

	Note	Consolidated 2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Profit/(loss) before income tax expense for the year		12,484	(4,861)
Adjustments for:			
Depreciation and amortisation		5,934	6,368
Impairment of assets		-	17,454
Share-based payments		80	303
Foreign currency gain		1,464	(1,391)
Interest and other finance costs		1,472	1,525
		<u>21,434</u>	<u>19,398</u>
Change in operating assets and liabilities:			
Decrease/(increase) in trade and other receivables		(4,365)	728
Decrease/(increase) in inventories		(9,287)	7,128
Increase in prepayments		(74)	(151)
Decrease in other operating assets		-	1
Increase/(decrease) in trade and other payables		3,702	(147)
Increase/(decrease) in derivative liabilities		512	(285)
Increase/(decrease) in employee benefits		115	(111)
Increase/(decrease) in other provisions		189	(32)
		<u>12,226</u>	<u>26,529</u>
Interest and other finance costs paid		(1,472)	(1,525)
Income taxes paid		(1,830)	(5,351)
		<u>8,924</u>	<u>19,653</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	12	(7,137)	(3,785)
Payments for intangibles	13	(655)	(523)
Proceeds from disposal of property, plant and equipment		246	292
		<u>(7,546)</u>	<u>(4,016)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		9,326	933
Payments for share buy-backs		(3,724)	(120)
Other		(382)	93
Dividends paid	20	(5,856)	(5,950)
Repayment of borrowings		(3,279)	(9,980)
		<u>(3,915)</u>	<u>(15,024)</u>
Net cash used in financing activities		<u>(3,915)</u>	<u>(15,024)</u>
Net increase/(decrease) in cash and cash equivalents		(2,537)	613
Cash and cash equivalents at the beginning of the financial year		24,974	24,563
Effects of exchange rate changes on cash and cash equivalents		554	(202)
		<u>22,991</u>	<u>24,974</u>
Cash and cash equivalents at the end of the financial year	9	<u>22,991</u>	<u>24,974</u>

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



**Gale Pacific Limited**  
**Notes to the financial statements**  
**30 June 2018**

**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 17 August 2018. 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 2018 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 receivables*

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

#### *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).

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**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*

*Cash Flow Hedges*

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.

*Fair Value Hedges*

Forward foreign exchange contracts, designated as fair value hedges, are measured as such. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date

**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 2018 approximately 29% (2017: 32%) of the Group's external revenue was derived from sales to one (2017: one) customer in the Australasian region.

Note 4. Operating segments (continued)

Operating segment information

	Australasia \$'000	Americas \$'000	MENA \$'000	China Manuf. and EurAsia \$'000	Other segments \$'000	Total \$'000
<b>Consolidated - 2018</b>						
<b>Revenue</b>						
Sales to external customers	75,432	64,253	12,698	8,073	-	160,456
Intersegment sales	747	18	61	52,623	(53,449)	-
<b>Total revenue</b>	<b>76,179</b>	<b>64,271</b>	<b>12,759</b>	<b>60,696</b>	<b>(53,449)</b>	<b>160,456</b>
Segment EBITDA	4,213	6,142	2,654	4,845	2,036	19,890
Depreciation and amortisation	(588)	(1,611)	(3)	(3,119)	(613)	(5,934)
Finance costs	(125)	(782)	(213)	(294)	(58)	(1,472)
<b>Profit before income tax expense</b>	<b>3,500</b>	<b>3,749</b>	<b>2,438</b>	<b>1,432</b>	<b>1,365</b>	<b>12,484</b>
Income tax expense						(2,677)
<b>Profit after income tax expense</b>						<b>9,807</b>
<b>Assets</b>						
Segment assets	29,107	50,043	13,961	33,341	18,643	145,095
<b>Total assets</b>						<b>145,095</b>
<b>Liabilities</b>						
Segment liabilities	9,944	12,891	531	13,968	20,281	57,615
<b>Total liabilities</b>						<b>57,615</b>
<b>Consolidated - 2017</b>						
<b>Revenue</b>						
Sales to external customers	92,350	61,963	12,775	8,177	-	175,265
Intersegment sales	2,644	14	-	49,761	(52,419)	-
<b>Total revenue</b>	<b>94,994</b>	<b>61,977</b>	<b>12,775</b>	<b>57,938</b>	<b>(52,419)</b>	<b>175,265</b>
Segment EBITDA (Underlying)	2,924	6,542	2,457	11,513	(1,997)	21,439
Goodwill Impairment	(17,455)	-	-	-	-	(17,455)
Other Related Items	(952)	-	-	-	-	(952)
Depreciation and amortisation	(808)	(1,559)	(3)	(3,454)	(544)	(6,368)
Finance costs	(180)	(594)	(130)	(109)	(512)	(1,525)
<b>Profit/(loss) before income tax expense</b>	<b>(16,471)</b>	<b>4,389</b>	<b>2,324</b>	<b>7,950</b>	<b>(3,053)</b>	<b>(4,861)</b>
Income tax expense						(3,183)
<b>Loss after income tax expense</b>						<b>(8,044)</b>
<b>Assets</b>						
Segment assets	30,465	41,117	12,074	33,637	14,616	131,909
<b>Total assets</b>						<b>131,909</b>
<b>Liabilities</b>						
Segment liabilities	10,997	6,232	745	9,074	21,464	48,512
<b>Total liabilities</b>						<b>48,512</b>

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**Note 4. Operating segments (continued)**

*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**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Other income (including sales of scrap material from manufacturing)	<u>1,317</u>	<u>1,067</u>

**Note 6. Expenses**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Property, plant and equipment (note 12)	<u>4,805</u>	<u>5,328</u>
<i>Amortisation</i>		
Intangible assets (note 13)	<u>1,129</u>	<u>1,040</u>
Total depreciation and amortisation	<u>5,934</u>	<u>6,368</u>
<i>Employee benefit expense</i>		
Employment costs and benefits	26,249	27,139
Share-based payment expense	<u>80</u>	<u>303</u>
Total employee benefit expense	<u>26,329</u>	<u>27,442</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	<u>1,472</u>	<u>1,525</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>4,886</u>	<u>4,487</u>

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Note 7. Income tax

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	2,929	2,659
Deferred tax - origination and reversal of temporary differences	281	435
Adjustment recognised for prior periods	(533)	89
	<u>2,677</u>	<u>3,183</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets	281	435
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit/(loss) before income tax expense	12,484	(4,861)
Tax at the statutory tax rate of 30%	3,745	(1,458)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	-	5,236
Non allowable/(non assessable) items	153	38
	3,898	3,816
Adjustment recognised for prior periods	(533)	89
Difference in overseas tax rates	(688)	(722)
	<u>2,677</u>	<u>3,183</u>
Income tax expense		
	<u>2,677</u>	<u>3,183</u>
<i>Amounts charged directly to equity</i>		
Deferred tax assets	216	285

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Note 7. Income tax (continued)

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Deferred tax asset</i>		
Deferred taxes comprises temporary differences attributable to:		
Amounts recognised in P&L:		
Tax losses	830	1,872
Property, plant and equipment	(635)	(546)
Foreign exchange	(735)	(817)
Capitalised costs	(895)	(1,107)
Provisions	(224)	(224)
Impairment of receivables	15	14
Other financial liabilities	227	394
Employee benefits	469	452
Franking Deficit Credit	1,590	1,590
Other	147	700
Deferred tax asset	<u>789</u>	<u>2,328</u>
Movements:		
Opening balance	2,328	2,068
Charged to profit or loss	(281)	(435)
Charged to equity	(216)	(285)
Transfer from current tax liability	(1,042)	980
Closing balance	<u>789</u>	<u>2,328</u>
	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Provision for income tax</i>		
Provision for income tax	<u>171</u>	<u>863</u>

The 2018 tax asset of \$789,000 (2017: \$2,328,000) is comprised of \$2,468,000 in deferred tax assets (2017: \$4,742,000) and \$1,679,000 (2017: \$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.

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.

Note 7. Income tax (continued)

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	
	2018	2017
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of Gale Pacific Limited	9,807	(8,044)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	293,054,259	297,162,696
Adjustments for calculation of diluted earnings per share:		
Performance rights	4,716,521	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	297,770,780	297,162,696
	Cents	Cents
Basic earnings per share	3.35	(2.71)
Diluted earnings per share	3.29	(2.71)

Accounting policy for earnings per share

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.

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**Note 9. Current assets - cash and cash equivalents**

	Consolidated	
	2018	2017
	\$'000	\$'000
Cash on hand	2	3
Cash at bank	22,851	24,838
Cash on deposit	138	133
	22,991	24,974
	22,991	24,974

*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	
	2018	2017
	\$'000	\$'000
Trade receivables	33,954	29,346
Less: Provision for impairment of receivables	(277)	(111)
	33,677	29,235
Other receivables	185	262
	33,862	29,497
	33,862	29,497

The Group has recognised a loss of \$172,000 (2017: \$42,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2018.

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Over 6 months overdue	277	111
	277	111

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Opening balance	111	80
Additional provisions recognised	172	42
Receivables written off during the year as uncollectable	(6)	(11)
	277	111
Closing balance	277	111

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$7,898,000 as at 30 June 2018 (\$6,184,000 as at 30 June 2017).

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



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

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

	Consolidated	
	2018 \$'000	2017 \$'000
Outside credit terms 0-30 days	3,562	2,906
Outside credit terms 31-120 days	2,189	1,720
Outside credit terms 121 days to one year	1,903	1,172
More than one year	244	386
	<u>7,898</u>	<u>6,184</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	
	2018 \$'000	2017 \$'000
Raw materials - at cost	6,084	3,710
Work in progress - at cost	5,487	4,778
Finished goods - at cost	37,046	30,443
Less: Provision for impairment	(1,881)	(1,482)
	<u>35,165</u>	<u>28,961</u>
	<u>46,736</u>	<u>37,449</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.

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Buildings and leasehold improvements - at cost	16,197	14,961
Less: Accumulated depreciation	(6,119)	(5,409)
	<u>10,078</u>	<u>9,552</u>
Plant and equipment - at cost	104,516	100,130
Less: Accumulated depreciation	(88,251)	(83,470)
	<u>16,265</u>	<u>16,660</u>
Motor vehicles - at cost	311	304
Less: Accumulated depreciation	(214)	(204)
	<u>97</u>	<u>100</u>
Capital work-in-progress - at cost	<u>3,683</u>	<u>643</u>
	<u><u>30,123</u></u>	<u><u>26,955</u></u>

*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:

	Buildings and leasehold improvements	Plant and equipment	Motor vehicles	Capital work- in-progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>					
Balance at 1 July 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	9,552	16,661	100	642	26,955
Additions	481	2,131	-	4,525	7,137
Disposals	-	(236)	-	(10)	(246)
Exchange differences	515	853	1	117	1,486
Transfers in/(out)	86	1,101	-	(1,591)	(404)
Depreciation expense	(556)	(4,245)	(4)	-	(4,805)
Balance at 30 June 2018	<u>10,078</u>	<u>16,265</u>	<u>97</u>	<u>3,683</u>	<u>30,123</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

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

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 2018 \$'000	2017 \$'000
Goodwill - at cost	21,620	21,512
Less: Impairment	<u>(18,508)</u>	<u>(18,508)</u>
	3,112	3,004
Development - at cost	1,713	1,070
Less: Accumulated amortisation	<u>(47)</u>	<u>(20)</u>
	1,666	1,050
Patents, trademarks and licenses - at cost	1,648	1,632
Less: Accumulated amortisation	<u>(1,321)</u>	<u>(1,260)</u>
	327	372
Application software - at cost	7,490	6,955
Less: Accumulated amortisation	<u>(5,231)</u>	<u>(4,098)</u>
	2,259	2,857
	<u>7,364</u>	<u>7,283</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 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	3,004	1,050	372	2,857	7,283
Additions	-	643	-	12	655
Exchange differences	108	-	4	39	151
Transfers in/(out)	-	-	-	404	404
Amortisation expense	-	(27)	(49)	(1,053)	(1,129)
Balance at 30 June 2018	<u>3,112</u>	<u>1,666</u>	<u>327</u>	<u>2,259</u>	<u>7,364</u>

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

*Impairment testing for goodwill*

In accordance with the accounting policies, the Group performs an annual impairment assessment of goodwill. The review did not result in an impairment charge being recognised by the Group for the year ended 30 June 2018 (2017: \$17.455 million impairment loss).

*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 rate 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):

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Goodwill</b>		
USA (2017/2018: US\$2,077,000; 2016/2017: US\$ 2,077,000)	2,765	2,657
China	347	347
	<u>3,112</u>	<u>3,004</u>

**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.

*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.



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

*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	
	2018	2017
	\$'000	\$'000
Trade payables	17,066	12,647
Sundry payables and accruals	6,087	6,804
	<u>23,153</u>	<u>19,451</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	
	2018	2017
	\$'000	\$'000
Bank loans	16,195	7,025
Other loans	-	243
	<u>16,195</u>	<u>7,268</u>

Refer to note 22 for further information on financial instruments.

**Note 16. Current liabilities - provisions**

	Consolidated	
	2018	2017
	\$'000	\$'000
Warranties	<u>475</u>	<u>286</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 - 2018	Warranties \$'000
Carrying amount at the start of the year	286
Additional provision recognised	631
Claims	<u>(442)</u>
Carrying amount at the end of the year	<u>475</u>

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**Note 16. Current liabilities - provisions (continued)**

*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	
	2018 \$'000	2017 \$'000
Total Bank loans	<u>13,520</u>	<u>16,400</u>

Refer to note 22 for further information on financial instruments.

*Total secured liabilities*

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

	Consolidated	
	2018 \$'000	2017 \$'000
Total Bank loans	<u>29,715</u>	<u>23,425</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**

	2018 Shares	2017 Shares	Consolidated	
			2018 \$'000	2017 \$'000
Ordinary shares - fully paid	<u>288,181,757</u>	<u>297,162,696</u>	<u>67,641</u>	<u>71,365</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 ran from 3 March 2017 to 2 March 2018. Up until June 30 2017, 311,700 shares were bought by the Company. On March 6th 2018 an on-market share buy-back was announced. It will run from 19th March 2018 to 18th March 2019. Between the period of July 1st 2017 and June 30 2018, 10,306,741 shares were bought by the Company.

**Note 18. Equity - issued capital (continued)**

*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**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Foreign currency reserve	(2,374)	(6,029)
Hedging reserve - cash flow hedges	173	(330)
Share-based payments reserve	1,145	1,065
Enterprise reserve fund	2,808	2,703
	<u>1,752</u>	<u>(2,591)</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.

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Note 19. Equity - reserves (continued)

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 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	(6,029)	(330)	1,065	2,703	(2,591)
Foreign currency translation *	3,655	-	-	-	3,655
Movement in hedge	-	719	-	-	719
Income tax	-	(216)	-	-	(216)
Share-based payment	-	-	80	-	80
Statutory transfers from retained earnings	-	-	-	105	105
Balance at 30 June 2018	<u>(2,374)</u>	<u>173</u>	<u>1,145</u>	<u>2,808</u>	<u>1,752</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	
	2018 \$'000	2017 \$'000
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
Final Dividend for the year ended 30 June 2017 of 1.00 cents per ordinary share (unfranked)	2,968	-
Interim Dividend for the year ended 30 June 2018 of 1.00 cents per ordinary share (unfranked)	<u>2,888</u>	<u>-</u>
	<u>5,856</u>	<u>5,950</u>

On 17 August 2018 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 2018. This dividend has not been included as a liability in these financial statements. Including the final dividend with respect to 30 June 2018, for the full year, the dividends of [2.00] cents per ordinary share have been declared on earnings of [3.35] 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	
	2018	2017
	\$'000	\$'000
Related party receivable to the Company from Gale Pacific Special Textiles (Ningbo) Limited	9,474	-
Related party receivable to the Company from Gale Pacific (New Zealand) Limited	4,593	4,613
Monetary items identified as a net investment in a foreign operation	<u>14,067</u>	<u>4,613</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.

The Group adopts hedge accounting and classifies applicable 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 Group adopts fair value hedge accounting on forward exchange contracts that are designated and qualify as fair value hedges. Forward exchange contracts are recognised in the profit and loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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**Note 22. Financial instruments (continued)**

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	
	2018	2017	2018	2017
	\$'000	\$'000		
<b>Buy US dollars/sell Australian dollars</b>				
Maturity:				
Less than 6 months	7,805	10,814	0.7687	0.7398
6 - 12 months	655	2,694	0.7631	0.7424

	Sell US dollars		Average exchange rates	
	2018	2017	2018	2017
	\$'000	\$'000		
<b>Buy Euros/sell Australian Dollars</b>				
Maturity:				
Less than 6 months	4,127	1,149	0.6234	0.6789
6 - 12 months	325	1,167	0.6063	0.6681

	Sell US dollars		Average exchange rates	
	2018	2017	2018	2017
	\$'000	\$'000		
<b>Buy Chinese Yuan/sell US Dollars</b>				
Maturity:				
Less than 6 months	16,000	-	6.3943	-

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

	Assets		Liabilities	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
US dollars	32,250	29,327	18,072	5,423
New Zealand dollars	411	936	318	285
Chinese renminbi	5,564	7,940	-	-
UAE dirham	2,195	1,265	-	-
	<u>40,420</u>	<u>39,468</u>	<u>18,390</u>	<u>5,708</u>

The Group had net assets denominated in foreign currencies of \$22,030,000 (assets of \$40,420,000 less liabilities of \$18,390,000 as at 30 June 2018 (2017: \$33,760,000 (assets of \$39,468,000 less liabilities of \$5,708,000)). Based on this exposure, had the Australian dollar strengthened by 10% / weakened by 10% (2017: 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 \$184,000 higher/lower (2017: \$904,000 lower/ higher) and equity would have been \$1,786,000 higher/lower (2017: \$1,840,000 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 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	2018		2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	-	22,991	-	24,974
Bank loans	3.74%	(29,715)	3.20%	(23,425)
Other loans	-	-	6.96%	(243)
Net exposure to cash flow interest rate risk		<u>(6,724)</u>		<u>1,306</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 (2017: 100) basis points would have an adverse/favourable effect on profit before tax of \$297,000 (2017: \$237,000) 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 - 2018	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	17,066	-	-	-	17,066
Sundry payables and accruals	-	6,087	-	-	-	6,087
<i>Interest-bearing - fixed rate</i>						
Bank loans	3.74%	16,799	14,652	-	-	31,451
Total non-derivatives		<u>39,952</u>	<u>14,652</u>	<u>-</u>	<u>-</u>	<u>54,604</u>

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**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
<b>Consolidated - 2017</b>						
<b>Non-derivatives</b>						
<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		26,824	17,157	-	-	43,981

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
<b>Consolidated - 2018</b>				
<i>Liabilities</i>				
Forward foreign exchange contracts	-	480	-	480
Total liabilities	-	480	-	480
<b>Consolidated - 2017</b>				
<i>Liabilities</i>				
Forward foreign exchange contracts	-	471	-	471
Total liabilities	-	471	-	471

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**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	4,451	-
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	4,682	4,688
One to five years	10,633	13,563
	<u>15,315</u>	<u>18,251</u>

The above capital commitment relates to the purchase of the new coating line located in Australia.

The above operating 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.

**Gale Pacific Limited**  
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**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:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	3,060,818	3,195,089
Post-employment benefits	150,607	159,467
Termination benefits	142,658	165,991
Share-based payments	71,961	281,114
	<u>3,426,044</u>	<u>3,801,661</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*

	<b>Parent</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax	7,401	(13,134)
Total comprehensive income	<u>7,904</u>	<u>(12,469)</u>

*Statement of financial position*

	<b>Parent</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	28,301	34,766
Total assets	<u>103,940</u>	<u>108,014</u>
Total current liabilities	16,189	15,460
Total liabilities	<u>29,826</u>	<u>31,969</u>
Equity		
Issued capital	67,641	71,365
Hedging reserve - cash flow hedges	173	(330)
Share-based payments reserve	1,145	1,065
Retained profits	5,155	3,945
Total equity	<u>74,114</u>	<u>76,045</u>

#### Note 27. Parent entity information (continued)

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

The parent entity has guarantees in relation to the debts of its subsidiaries in fixed and floating charges (or equivalent foreign charge) over all the assets and undertakings, including uncalled capital of each entity in the Group as at 30 June 2018 and 30 June 2017.

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 2018 and 30 June 2017.

##### *Capital commitments - Property, plant and equipment*

The parent entity has capital commitments for plant and equipment in relation to the new coating line located in Australia to the value of \$4,451,000 as at 30 June 2018. The detail of which is in note 24 of this report. The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017.

##### *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	
		2018 %	2017 %
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.

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Note 29. Share-based payments (continued)

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.

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

2018

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	1,325,802	-	(1,325,802)	-	-
09/10/2015	01/12/2018	\$0.23	1,863,000	-	-	-	1,863,000
21/09/2016	01/12/2019	\$0.35	1,569,000	-	-	(270,000)	1,299,000
22/11/2017	01/12/2020	\$0.31	-	1,918,000	-	(144,000)	1,774,000
			<u>4,757,802</u>	<u>1,918,000</u>	<u>(1,325,802)</u>	<u>(414,000)</u>	<u>4,936,000</u>

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>

*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 \$0.31 (2017: \$0.35).

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.

**Note 29. Share-based payments (continued)**

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.

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 2018 \$	2017 \$
<i>Audit services - Deloitte Touche Tohmatsu</i> Audit or review of the financial statements	267,532	247,150
<i>Other services - Deloitte Touche Tohmatsu</i> Other services (including tax services)	113,138	147,217
	<u>380,670</u>	<u>394,367</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 2018. 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 replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

**Assessment of Impact**

The Group has assessed the new standard and based on its financial assets and liabilities, the key impact of the standard on the Group will be in relation to trade debtors and the assessment of the provision for doubtful debtors under the expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes. The Group has assessed the impact of applying the expected credit loss model and has concluded that the provision for impairment of trade receivables will increase upon the adoption of AASB 9 on 1 July 2018 due to the earlier recognition of credit losses. Additional disclosures regarding expected credit losses will also be required.

**Transition**

The Group will apply the standard to items not de-recognised at 1 July 2018 with the cumulative effect of initial application being recognised as an adjustment to the opening balance of retained earnings.



**Note 31. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)****AASB 15 Revenue from Contracts with Customers**

AASB 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts and the related interpretations when it becomes effective.

The five steps in the model are:

- Identify the contract with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

**Assessment of Impact**

The Group has assessed the impact of adopting AASB 15 on its key revenue streams and notes the following impacts:  
Rebates and discounts payable to customers: The Group provides both fixed and variable rebates and discounts to its customers. As the consideration payable to these customers does not relate to distinct goods or services provided to the customer, it is required to be recorded as a reduction of revenue. This will result in some rebates requiring reclassification from cost of goods sold to revenue. AASB 15 will not impact the measurement of the Group's rebates and discounts.

Return of goods: AASB 15 requires the Group to factor into the transaction price an estimate of probable returns from franchisees and wholesale customers. The Group's existing treatment of returns will not be impacted as a result of the new standard.

Additional disclosures of the following information by revenue stream will be required:

- The nature, amount, timing and uncertainty of revenue and cash flows.
- The performance obligations and the determination and allocation of the transaction price to performance obligations.
- Significant judgements applied in implementing the five-step model.

**Transition**

The Group will apply the standard to contracts that are not completed at 1 July 2018, with the cumulative effect of initial application being recognised as an adjustment to the opening balance of retained earnings. This adjustment is not expected to be material.

**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 2018 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 6 August 2018 (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 (<https://www.galepacific.com/investor-info/corporate-governance>) 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 (<https://www.galepacific.com/investor-info/corporate-governance>).

## 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:

Class of Equity Securities	Number of Holders
Fully paid ordinary shares	1,648
Performance rights expiring 1 December 2018	5
Performance rights expiring 1 December 2019	6
Performance rights expiring 1 December 2020	8

## 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 1,648 holders of a total of 288,179,007 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.

## Distribution of Holders of Equities Securities

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

Ordinary Fully Paid Shares			
Range	Total Holders	Units	% of Issued Capital
1 - 1,000	122	26,506	0.01%
1,001 - 5,000	334	1,014,252	0.35%
5,001 - 10,000	276	2,214,551	0.77%
10,001 - 100,000	727	26,600,886	9.23%
100,001 and over	189	258,322,812	89.64%
Total	1,648	288,179,007	100.00%

Performance Rights			
Range	Holders Expiring 1 December 2018	Holders Expiring 1 December 2019	Holders Expiring 1 December 2020
1 - 1,000	0	0	0
1,001 - 5,000	0	0	0
5,001 - 10,000	0	0	0
10,001 - 100,000	0	1	0
100,001 and over	5	5	8
Total	5	6	8

## 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 6 August 2018	Minimum Parcel Size	Holders	Units
Minimum parcel at \$0.345 per unit	1,450	147	57,598

## 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	No . of Ordinary Full Paid Shares	%
Thorney Holdings Proprietary Limited	79,702,646	27.66%
Windhager Holding AG	43,225,781	15.00%

# Additional Securities Exchange Information continued

## 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	No .	%
HSBC Custody Nominees (Australia) Limited	77,000,198	26.72%
Windhager Holding AG	43,225,781	15.00%
JP Morgan Nominees Australia Limited	25,235,114	8.76%
Gale Australia Pty Ltd	13,997,844	4.86%
UBS Nominees Pty Ltd	7,718,384	2.68%
National Nominees Limited	4,851,506	1.68%
Contemplator Pty Ltd <ARG Pension Fund A/C>	4,691,433	1.63%
BNP Paribas Noms Pty Ltd <DRP>	3,883,260	1.35%
BFA Super Pty Ltd <GND Super Fund A/C>	3,327,428	1.15%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	3,302,728	1.15%
Stitching Pty Ltd <SSG Superannuation Fund A/C>	3,050,000	1.06%
APM Enterprises Pty Ltd <Murphy Family No 3 A/C>	2,916,599	1.01%
Chillen Pty Limited (Tallen)	2,431,317	0.84%
W Donnelly Services Pty Ltd <The Donnelly Super Fund A/C>	2,412,000	0.84%
Bond Street Custodians Limited <Zcerna - D02137 A/C>	2,400,000	0.83%
Gallium Pty Ltd	2,279,359	0.79%
Venn Milner Superannuation Pty Ltd	2,000,000	0.69%
Tuwele Pty Limited <Rosella Superannuation A/C>	1,500,000	0.52%
Haroldswick Corporation Pty Ltd <Robertson Family A/C>	1,492,537	0.52%
GFS Securities Pty Ltd <Glenfare Super Fund A/C>	1,154,853	0.40%
<b>TOTAL: TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 6 AUGUST 2018</b>	<b>208,870,341</b>	<b>72.48%</b>
<b>TOTAL: REMAINING HOLDERS BALANCE</b>	<b>79,308,666</b>	<b>27.52%</b>

## Voluntary Escrow

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

## 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
Performance Rights	4,936,000	8

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 6 March 2018 and covers the period 19 March 2018 to 18 March 2019. The maximum number of shares the Company proposes to acquire under the on-market buy-back is approximately up to 28,888,975, 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, 710,752 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