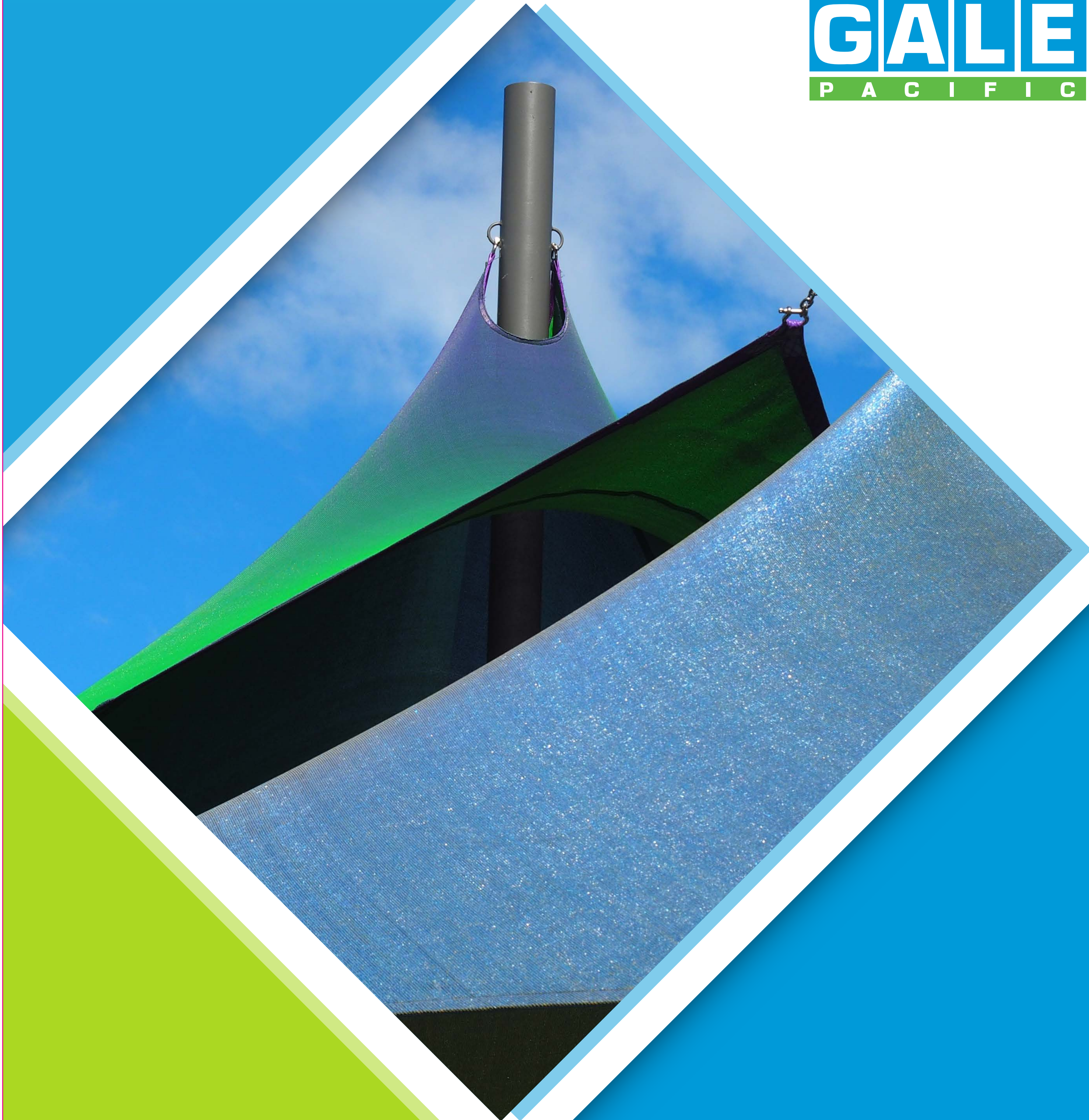
GALE PACIFIC



# 2019
# ANNUAL REPORT

GALE PACIFIC 2019 ANNUAL REPORT

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# Who We Are

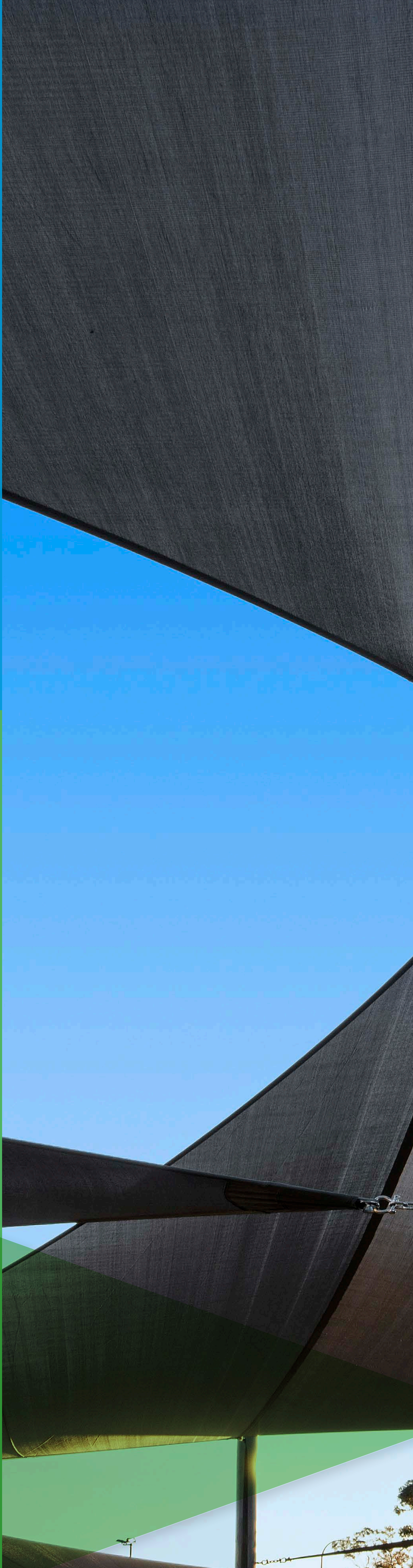
GALE Pacific is a world leader in specialised textiles and associated products. We are recognised in our markets as an innovator and long-term producer of premium quality products.

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, sun umbrellas, 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.



# 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)

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

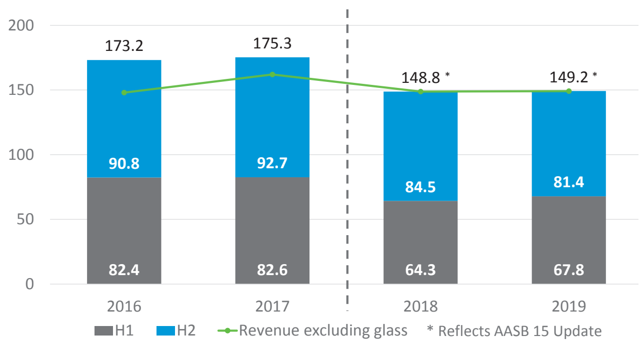
## 2019 Annual General Meeting

The Annual General Meeting will be held on Friday, 25 October 2019.

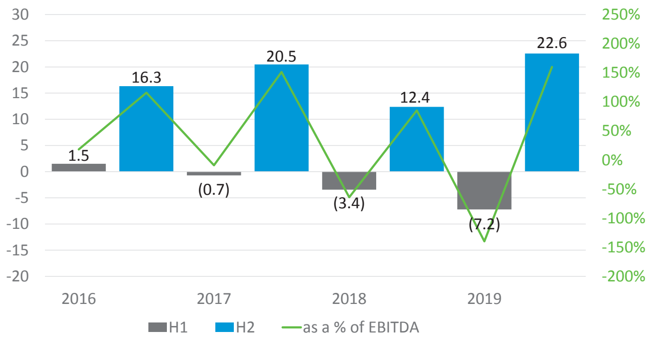
The Notice of Meeting and Proxy Form are separate items accompanying this 2019 Annual Report.

# Results at a Glance

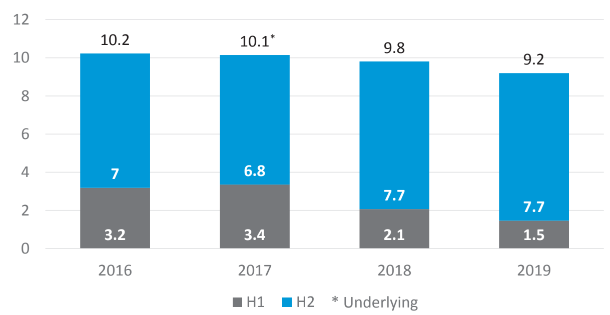
## Revenue $A million



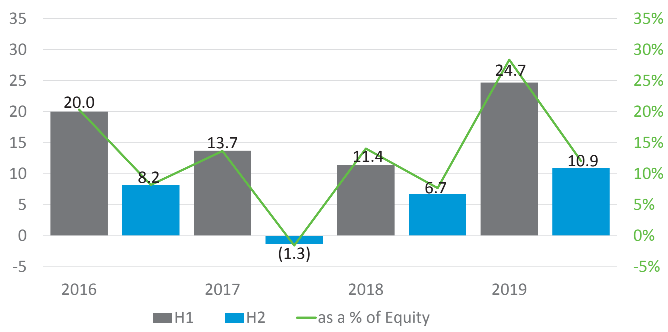

## Operating Cash Flow $A million



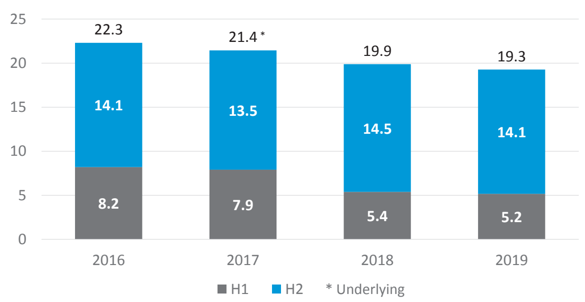

## NPAT $A million



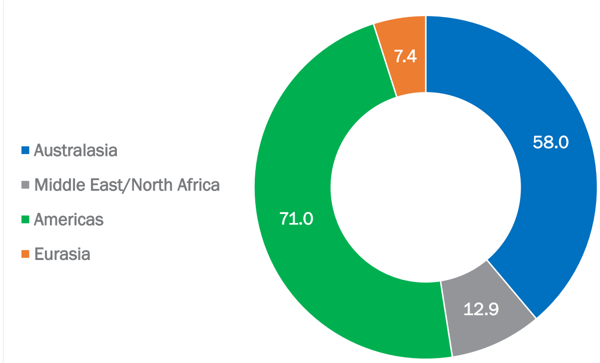

## Net Debt $A million




## EBITDA $A million




## Sales by Region $A million



# Chairman's Letter

David Allman

The financial results for FY2019 were somewhat disappointing with net profit after tax of $9.2 million declining 6% from prior year and earnings per share of 3.21 cents declining by 4%. However, importantly, cash flow generation was particularly strong with operating cash flow of $15.3 million representing 167% of net profit after tax. Net debt at 30 June 2019 of $10.9 million represents a conservative 56% of FY2019 EBITDA.

The results were adversely affected by difficult trading conditions in Australia, across both the retail and commercial sectors, and also in the Middle East.

During the year considerable progress continued to be made in positioning GALE Pacific as a global leader in shade products and high-performance technical products in the commercial sector. Important capital expenditure projects were completed including the commissioning of the new coating line in Melbourne and a number of efficiency and capacity enhancing projects at our manufacturing facility in China. Capital expenditure during the year totalled $11.4 million, well above previous years, and our major capital projects are now complete.

The 17% revenue growth achieved in the American business during FY19 was very encouraging and we continue to invest resources in the region to drive further growth. Increased penetration of the American retail market and the development of a wider range of technically advanced commercial products are seen as the main drivers of future growth. Opportunities for growth in the commercial sector are considerably increased following the commissioning of the new coating line.

The FY2019 year was challenging on a number of fronts but the management team led by Nick Pritchard continued with the execution of key strategies while dealing with the day to day challenges in a highly professional way. 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 2019 of 1.0 cents per share which takes the total payout for the year to 2.0 cents per share representing a 62% payout ratio. The share buyback, as an additional capital management tool remains in place reflecting the low debt level and strong cash flow generation.

D.T. Allman

David Allman
Chairman
19 August 2019

# Group Managing Director's Review

**Nick Pritchard**

When talking with our team, I stress that good businesses are built on strong foundations.

Following several years of difficult transformation effort, I am confident that the requisite foundations are now in place to support a stronger, healthier, and more sustainable business.

Our vision from the outset was to create a business that was clear about where it had competitive advantage, was clear about where it could operate successfully, and was clear on how it would win.

Along the way we have done much heavy lifting. Safe environments, strong and capable global leadership, effective systems and processes, suitable facilities, sufficient manufacturing capacity, professional supplier and customer partnerships, and the right values and culture, were all considered foundation stones of a business that could support and sustain growth.

We have achieved this now.

With the commissioning of our new coating line in Melbourne earlier this year, and various improvements at our China manufacturing facilities over the last twelve months, our major capital investment programs are now complete.

The installation of the new Melbourne coating line more than doubles our coated products production capacity and provides complementary capability to our existing line. It now supports our ability to sell coated products outside of Australia, as well as more effectively serve our Australian customers, particularly during peak periods. At various times over the last several years we have been constrained by our manufacturing capacity limiting our ability to take our unique coated products to international markets and, at times, limiting our Australian customers' ability to grow. With the additional capacity now on-stream we are excited about the ability to expand internationally and provide an improved level of service and new product development to our existing customers.

At our China manufacturing facility, GALE Pacific Special Textiles, we have seen the most significant change. A facility transformation including site consolidations, a move to a significantly upgraded warehouse facility, new equipment, idle equipment being brought back into production, quality improvements, and meaningful efficiency improvements. With the creation of the GALE Living Centre, following the refurbishment of our dormitory accommodation for employees boarding at GPST, the whole facility is barely recognisable from when we began our journey.

Perhaps more important than the facility upgrade is the transformation in the culture of our manufacturing facilities in China, and Australia, with an intense focus on safety, quality, cost and service.

Whilst we were managing many of these transformational initiatives in parallel, our strategy also involved us managing and servicing our existing customers more professionally, earning respect and trust, and investing in the programs that would drive growth for us in the future.

Investments were made in research and development, with additional internal resources, as well as developing alliances with technical partners that could help to bring our ideas to market more quickly, and with those with technologies we could adapt to our own products.

It is pleasing to see some of these developments coming to fruition now. During the year we launched our most innovative new product program for many years with the launch of the new Commercial DualShade 350 architectural shade fabric range. This patented new fabric has been launched in all markets with outstanding feedback from customers. We are looking forward to seeing the new projects as its use accelerates around the world.

Commercial DualShade 350 is the first of many breakthrough new products in the pipeline with other key launches expected in FY2020.

Our strategy to invest to grow the North American market began to pay dividends in FY2019 with the Americas region experiencing strong growth and now being our largest geographic region. The trade war between China and the USA is making managing this region more difficult, yet we remain very positive about the potential to grow in both retail and commercial channels in the USA. The retail opportunity is tremendous, and our strategy remains to broaden our ranging beyond window shades, to a broader mix of DIY shade products, in line with what we do in markets such as Australia, New Zealand and South Africa. There is opportunity with our existing customers, as well as with new customers.

We invested ahead of the growth in the USA and we will continue to invest in that region to take advantage of the opportunity we see there.

Commercial growth opportunities exist in Australia, and beyond, and our strategy is unchanged. We seek to take our most innovative coated products, including some new products, to our international markets; as well as grow our commercial business domestically. We believe our new product road, combined with our manufacturing capability in both China and Australia, effectively supports this plan.

Our supply model involves a combination of manufactured and sourced products. We believe that manufacturing our own products provides a competitive advantage, but that position only holds true if we have the lowest cost manufacturing for an equivalent quality product. At each of our manufacturing facilities we are laser focused on reducing waste, improving quality, managing labour effectively and, where possible, improving automation with relatively short payback periods. Our plants are continuing to deliver efficiencies, and service improvements, but this is an endless task; something we must continue to pursue with vigour.

## GROUP PERFORMANCE

The FY2019 year was a challenging one with the impact of record high raw material costs impacting first half margins, recessionary conditions in key Middle East markets impeding sales, and weaker economic and drought conditions significantly impacting our Australian business.

Offsetting these declines was encouraging growth in the Americas region, driven by new ranging and additional distribution points with our major customers. We now have distribution of Coolaroo shade products in more than 4,000 stores in the USA, as well as substantial online distribution.

Importantly, we executed the additional product ranging well. Our manufacturing operations provided strong service support, and our new California warehouse coped particularly well shipping large volumes of product within short delivery windows. This would not have been possible with our previous distribution infrastructure.

Our Eurasian business performed strongly growing sales 12%, with margins improving as a result of an improved product mix including more branded and higher margin products. Distribution was expanded, particularly in South East Asia and the United Kingdom, and we have received positive take-up of our new products which is encouraging.

The Middle East North Africa region is experiencing ongoing challenges and we saw sales declines in our two key markets, Saudi Arabia and the United Arab Emirates, largely as a result of weaker day to day business and slower payments from customers. Outside of Saudi Arabia and the UAE, emerging markets including Oman, Qatar, Kuwait and India grew strongly. This region will benefit from the new products recently launched, as well as those in the pipeline. We continued to adopt a conservative approach to the issuing of credit and believe this strategy to be prudent whilst weakened economic conditions persist.

## OUR VISION

Our vision remains unchanged. We strive to become experts and global leaders in shade products, and high-performance technical products in the commercial sector. Everything we do is in line with this goal.

Over the course of the last several years we have cleansed our product portfolio of the products we considered did not fit with that vision. We have exited around $30 million of non-core products and replaced that by nearly as much growth in core product categories.

We've done this through distribution expansion in some regions, particularly in the USA; though we are still yet to see the benefits of the real product innovation we have been working so hard on.

# Group Managing Director's Review continued

It's pleasing to see this effort now translating to the commercialisation of some of these programs, and the excitement within the business about these new product innovations, is palpable. Whilst some of these may begin as commercial sector innovations our strategy is to transfer them into retail product opportunities as quickly as possible.

## OUR STRATEGY

The key elements of our strategy remain largely unchanged, though, with most of our key infrastructure projects now complete, attention turns squarely to delivering sales growth, accelerating product innovation, and continuing to deliver operational efficiencies.

**Key elements of our 2020 plan include:**

- **Americas Region -** continuing to develop the DIY shade category with retail and eCommerce customers, expanding our range beyond window shades to a broader range of DIY shade products. Increasing the number of distribution points, increasing the number of products ranged with existing customers, and building consumer awareness of our brands and products.

- **Growing the Commercial Business Globally -** maximising the selling opportunity created by our new products, together with the additional manufacturing capacity for coated fabrics, by expanding into new geographic markets and new selling channels. Increasing the geographic and channel diversity to have a reduced reliance upon the seasonal Australian grain business.

- **Australia & New Zealand Retail Business -** growing our core products through retail and eCommerce channels via additional product ranging, new products, and working closely with our customers on their multi-channel distribution strategies.

- **Product Innovation -** continuing to deliver meaningful innovation in core product categories through the exploration of new materials and the adoption of technologies that complement our own core competencies.

- **Operational Efficiencies -** continuing to drive operational efficiencies including quality improvements, waste reduction, improved labour utilisation, and improved service at all facilities.

## HEALTH AND SAFETY

We continue to have an unwavering commitment to the health and safety of our employees. During the year our strong safety performance continued and, pleasingly, we can report another year free of major injury.

We continued to see strong improvements in hazard reporting which we believe is a strong indicator of a positive safety culture. We implemented new online reporting tools across all regions and this translated to more effective and increased reporting at all facilities.

We continued to invest in safety-related infrastructure and safety training across all facilities, including safety management training for all leaders.

Our Lost Time Injury Frequency Rate, and All Injury Frequency Rate, compare favourably versus industry benchmarks.

In the coming year we will invest further in broader employee wellness and support initiatives in all regions.

## LOOKING FORWARD

Whilst there will always be a lot to do, our attentions will largely move from facility upgrades, capacity improvement projects, organisational restructuring, major IT upgrades, and other transformational work; more squarely towards sales, product innovation and delivering further operational efficiencies.

In terms of the product innovation, we will not be constrained by our origins of High-Density Polyethylene and Polypropylene materials. We believe there are opportunities in exploring new materials for specific market applications and expect developments in the future that move us into more technical materials, and more technical applications.

We have some exciting technical partnerships in place, we are clear on where we're going and what we need to do, and believe we have the right team in place to execute our strategy.

## THANK YOU

I would like to thank our customers for their support of GALE Pacific, our products, and our people.

I would also like to thank our suppliers who have played, and will always play, such a key part of our success.

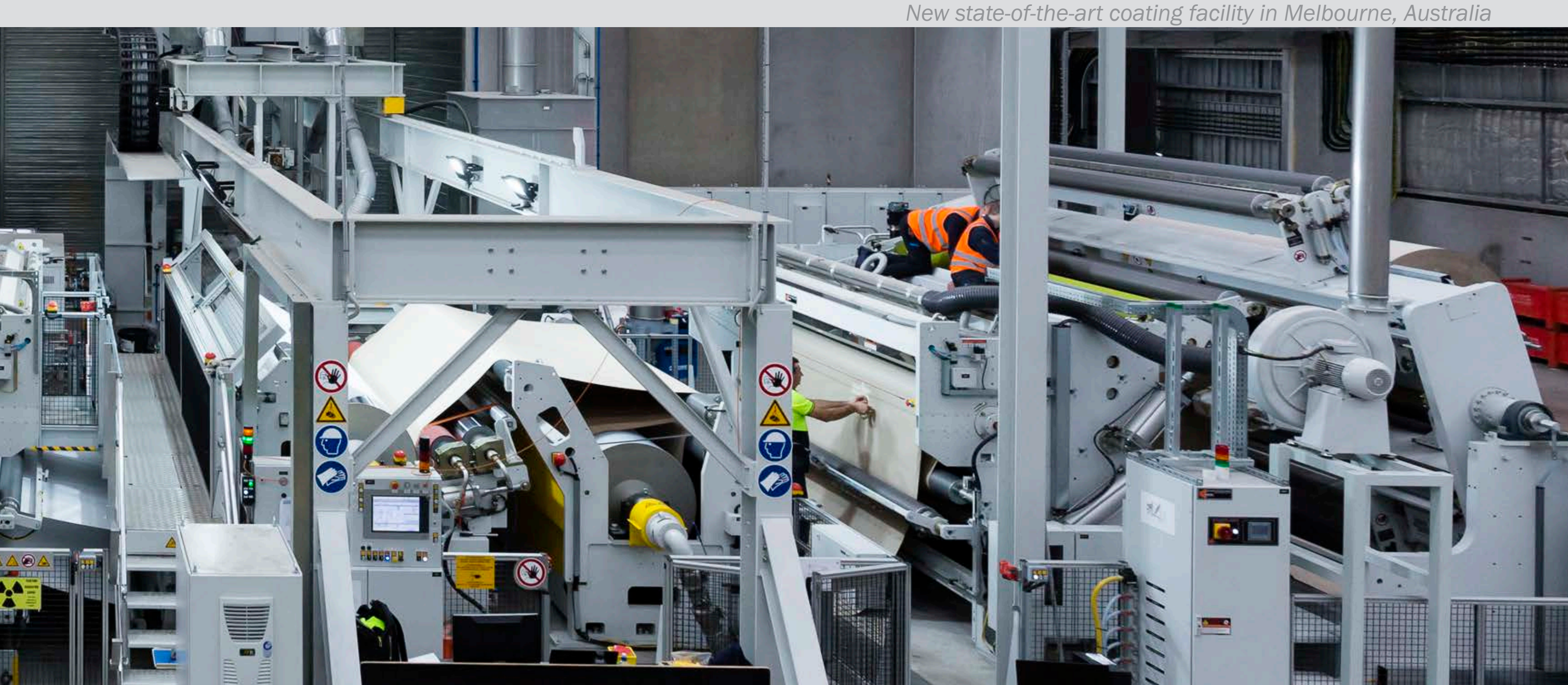
Thank you also to our employees, in every role, in every location. Ultimately businesses are about people and you are all making a great contribution. Thank you sincerely for your efforts.

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

Lastly, thank you to our shareholders for their ongoing interest and support as we have undertaken such substantial change, and embark upon making GALE Pacific not just a good company, but a great company.

Nick Pritchard
Group Managing Director
19 August 2019

*New state-of-the-art coating facility in Melbourne, Australia*



# Our Values

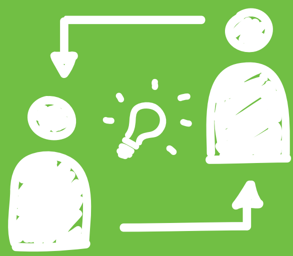
Together with our employees, we established six important values that provide an important framework for how we operate worldwide.

## 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.

# Operational Report

| Results for the full year to: | 30 June 2019 A$ million | 30 June 2018 A$ million | Change % |
|---|---|---|---|
| Net Revenue | 149.2 | 148.8 | 0 |
| EBITDA | 19.3 | 19.9 | (3) |
| EBIT | 13.1 | 14.0 | (6) |
| Profit before tax | 11.2 | 12.5 | (10) |
| Profit after tax | 9.2 | 9.8 | (6) |
| Net cash provided by operating activities | 15.3 | 8.9 | 72 |
| Net cash / (debt) | (10.9) | (6.7) | (62) |
| Basic earnings per share (cents) | 3.21 | 3.35 | (4) |
| Final dividend per share (cents) | 1.00 | 1.00 | 0 |
| Dividends per share (cents) | 2.00 | 2.00 | 0 |

*New Aquacon™ 345 coated material was fabricated into a dam cover for Wilmar Sugar in Queensland*

# Operational Report continued

## AMERICAS

| Results for the full year to: | FY2020 A$ million | FY2019 A$ million | Change % |
|---|---|---|---|
| Net Revenue | 71.0 | 60.5 | 17 |
| EBITDA | 13.8 | 12.5 | 11 |

FY19 was a successful year with strong growth in the Retail/eCommerce channel primarily driven by the expanded programs with major home centre customers. Additional store distribution was achieved, as well as additional products within those stores. These expanded programs were well executed, and our new warehouse facility in California helped to ensure strong service performance throughout the year. Our ability to deliver high volumes of product, in short delivery windows, has considerably improved, providing confidence in our ability to support future growth.

Retail product sales-out performance with major customers was strong. We now have product distribution in more than 4,000 stores nationally.

Our strategy of expanding our largely window shade business to a broader range of shade products (shade cloth, shade sails and portable shade items) continues. We are being given increased opportunities to present these programs to retail and eCommerce accounts.

With respect to import tariffs due to the USA/China trade war, some product categories were affected during the year, with the new threat of higher tariffs on other parts of our range. We are addressing this by a combination of pricing and manufacturing efficiency initiatives.

## AUSTRALIA / NEW ZEALAND

| Results for the full year to: | FY2020 A$ million | FY2019 A$ million | Change % |
|---|---|---|---|
| Net Revenue | 58.0 | 68.8 | (16) |
| EBITDA | 2.8 | 5.4 | (49) |

Sales performance was impacted by weaker conditions within the retail sector and led to a reduction of inventory within the stores of our largest customer. The result was also impacted by exiting further non-core categories, including insect screening and frames. These are commoditised products, fall outside our core competence and focus, and are misaligned with our strategy.

Sales out performance was weaker overall, although strong sales out growth in key shade categories was pleasing.

The commercial sector business was impacted by worsening drought conditions. The eastern seaboard grain harvests, from where the bulk of our grain cover business is driven, was particularly impacted. Harvest yields across Queensland and New South Wales were reported as being down nearly 70% on the prior year which had been down substantially on the year before.

Considering the severe drought conditions, our strategy included focusing on water retention fabrics (dam liners, water tank liners and evaporation covers) as efforts to collect and retain water intensified. New fabrics were introduced and selling efforts were increased. Growth in these products was achieved, but this was not enough to offset the further decline in grain cover products.

Costs were carefully managed with a focus on rightsizing the business and managing expenses to match sales.

## MIDDLE EAST/NORTH AFRICA

| Results for the full year to: | FY2020 A$ million | FY2019 A$ million | Change % |
|---|---|---|---|
| Net Revenue | 12.9 | 13.0 | 0 |
| EBITDA | 4.0 | 4.4 | (10) |

The region's economic challenges continued with Saudi Arabia and the United Arab Emirates particularly impacted. Some large-scale projects continued, but the day to day business in these key markets declined. Strong growth was achieved in secondary markets including Kuwait, Qatar, Oman and India, but was not enough to offset the decline in Saudi Arabia, where sales fell by more than 30% on the prior year.

During the year we saw further evidence of slower payments from customers, leading to the adoption of an increasingly cautious approach to the issuing of credit. This approach impacted sales, though we believe the strategy to be prudent whilst weakened economic conditions persist. We continue to consider the risk of bad debts to be minimal.

## EURASIA

| Results for the full year to: | FY2020 A$ million | FY2019 A$ million | Change % |
|---|---|---|---|
| Net Revenue | 7.4 | 6.6 | 12 |
| EBITDA | 2.3 | 1.6 | 45 |

Sales growth of 12% drove EBITDA growth of 45%, due largely to the continued strategic move away from unbranded, lower margin retail products to branded, higher margin commercial products.

New distribution partners were appointed in Asia, and in the UK, in line with the strategy to expand distribution in this small, but profitable region.

# Operational Report continued

## MANUFACTURING PERFORMANCE

Performance at our China manufacturing operations was strong with further productivity, quality and service improvements. Key to this performance was the completion of important projects including the consolidation of two manufacturing sites into one, the establishment of a new and improved warehouse facility, the refurbishment of the employee accommodation facility, and the introduction of various automation initiatives to improve labour efficiency.

The investment brought previously idle, or underutilised, equipment back into production and achieved faster start-ups of new products than in previous years.

In Australia, the new extrusion coating/laminating line was commissioned and is now in production. The new line more than doubles production capacity and, with complementary capability to our existing line, enables matching of product to the most suitable production line. We are pleased with the project management supporting this new line and the effective commissioning provides further evidence of our ability to manage large-scale, complex projects.

## BALANCE SHEET AND CASH GENERATION

Strong operating cash flow of $15.3 million was up $6.4 million (72%) on prior year and represents 167% of net profit after tax.

The improvement versus last year was primarily driven by inventory movements. Inventory increased slightly year on year, attributable to currency movements, with underlying inventory values lower than the prior corresponding period.

The reduction in trade and other receivables was primarily driven by the execution of our plan in the Americas. This allowed the business to deliver stock to our major retail customers earlier in the spring/summer season, driving growth and improving our cash collections in FY2019. Trade Payables decreased year on year due to lower imports in ANZ and bringing forward production in China to support the Americas growth strategy.

Net debt of $10.9 million at 30 June 2019 is up A$4.2 million on the prior corresponding period driven primarily by the investment in the new Australian coating line.


*Showcasing products at international trade shows - SuperExpo on the Gold Coast, Australia (above) and IFAI in Dallas, USA (below)*

# Board of Directors

## David Allman,

### B.Sc.

*Chairman and Non Executive Director since November 2009.*

David was Managing Director of McPherson's Limited from 1995 to 2009 and prior to that was Managing Director of Cascade Group Limited for seven years. Before this David 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 Catalyst Education Pty Ltd.

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

## Nick Pritchard,

### B Bus. (Marketing)

*Group Managing Director appointed 22 August 2014.*

Nick was appointed to the position of Group Managing Director in August 2014. Prior to joining GALE Pacific, Nick 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.

## 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 Deputy Chair & Non Executive Director of YMCA Service Pty Ltd where she is also Chair of the HR & Governance Committee & is a Non-Executive Director of Dandenong Market Pty Ltd.

Donna is a member of the Company's Nomination and Remuneration Committees.

## Peter Landos,

### B.Econ., CA

*Non Executive Director since May 2014.*

Peter is the Chief Operating Officer of the Thorney Investment Group of Companies, which he joined in 2000. Prior to joining Thorney, Peter 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 a non-executive director of Adacel Technologies Limited, and a non-executive director of Rural Press Pty Ltd.

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

## Tom Stianos,

### B.App.Sc., FAICD

*Non-Executive Director since October 2017.*

Tom has extensive experience as a non-executive director of listed companies including many years as Managing Director. Tom is currently Chairman of Empired (ASX:EPD) and Chairman of Escient. Tom was previously a non-executive director of Inabox Group (ASX:IAB), CEO of SMS Management & Technology (ASX:SMX), and Director of the Australian Information Industry Association.

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

# 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 Insitute of Company Directors.

## 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 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.

## 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.

## 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).

## Bruno Marotta

### Senior Manager – Global Procurement & Logistics

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.

## Ali Haidar

### General Manager – Middle East North Africa

Ali joined GALE Pacific in August 2004 and has 15+ 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 broader 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.

# Corporate Governance

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

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

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on GALE Pacific's website (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).

# 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 2019.

## 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 2019 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:

| | 2018/2019 |
|---|---|
| Final ordinary dividend for the year ending 30 June 2018 (paid 4 October 2018) | 1.00 cent |
| Interim ordinary dividend for the half year ended 31 December 2018 (paid 9 April 2019) | 1.00 cent |

In addition to the above dividends, on the 19 of August 2019 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 2019, payable on 8 October 2019 to shareholders on the register at 24 September 2019. 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 $2,850,000.

For the full year, the dividend of $0.02 cents per share has been declared on earnings of 3.21 cents per share.

## SHARE BASED PAYMENTS

### Performance Rights

The number of performance rights on issue at the date of this report is 4,894,000. 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.

1,821,000 performance rights were granted to executives and the Group Managing Director on 29 October 2018. The performance rights will vest subject to a continuation of employment to 30 June 2021 and the satisfying of relevant performance hurdles based on the Group's diluted earnings per share over the three year period from 1 July 2018 to 30 June 2021. None of these performance rights can vest until 30 June 2021 and expire on 1 December 2021.

On the 1st of October 2018, 1,863,000 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 year period between July 2015 and June 30 2018.

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

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

# Directors' Report continued

## DIRECTORS' SHAREHOLDINGS

| Directors | Fully Paid Ordinary Shares | Options | Performance Rights |
|---|---|---|---|
| D Allman | 3,000,000 | N/A | N/A |
| P Landos | Nil | N/A | N/A |
| D McMaster | Nil | N/A | N/A |
| N Pritchard | 1,434,594 | N/A | N/A |
| T Stianos | 200,000 | N/A | N/A |

## DIRECTORS' MEETINGS

| | Directors' Meetings | | Audit & Risk Committee Meetings | | Remunerations Committee Meetings | | Nomination Committee Meetings | |
|---|---|---|---|---|---|---|---|---|
| Directors | No of Meetings Eligible to Attend | Attended | No of Meetings Eligible to Attend | Attended | No of Meetings Eligible to Attend | Attended | No of Meetings Eligible to Attend | Attended |
| D Allman | 13 | 13 | 2 | 2 | 2 | 2 | 1 | 1 |
| P Landos | 13 | 12 | 3 | 3 | N/A | N/A | 1 | 1 |
| D McMaster | 13 | 13 | N/A | N/A | 2 | 2 | N/A | N/A |
| J Murphy * | 2 | 1 | 1 | 1 | N/A | N/A | N/A | N/A |
| N Pritchard | 13 | 13 | N/A | N/A | N/A | N/A | N/A | N/A |
| T Stianos | 13 | 13 | 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.

As at the date of this report the members of the Audit & Risk Committee are Peter Landos, Tom Stianos and David Allman. The Chairman of the Audit & Risk Committee is Peter Landos.

As at the date of this report the members of the Remuneration Committee are Tom Stianos, David Allman and Donna McMaster. The current Chairman of the Remuneration Committee is Tom Stianos.

As at the date of this report the members of the Nomination Committee are David Allman, Peter Landos, Donna McMaster, 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 was 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 2019:

| | 30 June 2019 | 30 June 2018 | 30 June 2017 | 30 June 2016 | 30 June 2015 |
|---|---|---|---|---|---|
| Sales | 149,217* | 148,811* | 175,265 | 173,191 | 147,993 |
| Net profit before tax | 11,208 | 12,484 | (4,861) | 13,509 | 6,221 |
| Net profit after tax | 9,198 | 9,807 | (8,044) | 10,228 | 5,170 |
| Share price at start of year | 35.5 cents | 40.0 cents | 36.0 cents | 17.0 cents | 23.0 cents |
| Share price at end of year | 32.0 cents | 35.5 cents | 40.0 cents | 36.0 cents | 17.0 cents |
| Interim dividend | 1.00 cent | 1.00 cent | 1.00 cent | 0.75 cents | - |
| Final dividend | 1.00 cent | 1.00 cent | 1.00 cent | 1.00 cent | 1.00 cent |
| Basic earnings per share | 3.21 cents | 3.35 cents | (2.71) cents | 3.44 cents | 1.74 cents |
| Diluted earnings per share | 3.16 cents | 3.29 cents | (2.71) cents | 3.40 cents | 1.72 cents |

** Sales in 2019 and 2018 reflect the adoption of the accounting standard AASB 15 Revenue from Contracts with Customers*

## 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 2019 was 4,894,000. 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). 1,774,000 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). 1,821,000 of these shares were granted on 13 November 2018 and will not vest until the time of the company's 2021 annual report is released on the ASX (on or around 1 October 2021). 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)

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 (Senior Manager – Global Procurement & Logistics)

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:

| 2018/2019 | Short Term Benefits | | | Post Employe-ment | Share Based Payments | Termi-nation Benefits | Total | Performance Related | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | Bonus | Non Monetary | Super | Rights | | | Total | Rights |
| Directors | $ | $ | $ | $ | $ | $ | $ | % | % |
| *Executive Directors* | | | | | | | | | |
| N Pritchard | 524,717 | - | - | 25,000 | 4,101 | - | 553,818 | 1% | 1% |
| *Non Executive Directors* | | | | | | | | | |
| D Allman | 121,048 | - | - | 19,752 | - | - | 140,800 | | |
| T Stianos | 87,884 | - | - | 8,566 | - | - | 96,450 | | |
| P Landos | 84,444 | - | - | 7,989 | - | - | 92,433 | | |
| D McMaster | 77,169 | - | - | 7,331 | - | - | 84,500 | | |
| J Murphy | 3,570 | - | - | 1,265 | - | - | 4,835 | | |
| **Total** | 898,832 | - | - | 69,903 | 4,101 | - | 972,836 | | |

| 2017/2018 | Short Term Benefits | | | Post Employe-ment | Share Based Payments | Termi-nation Benefits | Total | Performance Related | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | Bonus | Non Mon-etary | Super | Rights | | | Total | Rights |
| Directors | $ | $ | $ | $ | $ | $ | $ | % | % |
| *Executive Directors* | | | | | | | | | |
| N Pritchard | 492,273 | 127,050 | - | 25,000 | 48,635 | - | 692,958 | 25% | 7% |
| *Non Executive Directors* | | | | | | | | | |
| 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 | | |
| **Total** | 868,878 | 127,050 | - | 69,449 | 48,635 | - | 1,114,012 | | |

*Shade fabric rolls in the Braeside warehouse and production facility*

# Directors' Report continued

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

| 2018/2019 | Short Term Benefits | | | Post Employe-ment | Share Based Payments | Termi-nation Benefits | Total | Performance Related | |
|---|---|---|---|---|---|---|---|---|---|
| **Key Management** | **Salary & Fees** | **Bonus** | **Non Mon-etary** | **Super** | **Rights** | | | **Total** | **Rights** |
| **Personnel** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **%** | **%** |
| J P Marcantonio [1] | 397,523 | - | 12,304 | 19,642 | 1,887 | - | 431,356 | 0% | 0% |
| M Parker [2] | 308,194 | - | - | 25,000 | 1,448 | - | 334,643 | 0% | 0% |
| A Haidar [4] | 257,099 | - | - | - | 1,039 | - | 258,138 | 0% | 0% |
| C Zhang [6] | 197,053 | 34,109 | 21,515 | - | 724 | - | 253,402 | 14% | 0% |
| M Nicholls [5] | 201,231 | 15,764 | - | 16,138 | 706 | - | 233,839 | 7% | 0% |
| B Marotta [3] | 198,998 | - | - | 18,905 | - | - | 217,903 | 0% | 0% |
| **Total** | 1,560,099 | 49,873 | 33,819 | 79,685 | 5,805 | - | 1,729,281 | | |

| 2017/2018 | Short Term Benefits | | | Post Employe-ment | Share Based Payments | Termi-nation Benefits | Total | Performance Related | |
|---|---|---|---|---|---|---|---|---|---|
| **Key Management** | **Salary & Fees** | **Bonus** | **Non Mon-etary** | **Super** | **Rights** | | | **Total** | **Rights** |
| **Personnel** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **%** | **%** |
| J P Marcantonio [1] | 424,959 | 77,391 | 9,693 | 8,527 | - | - | 520,570 | 15% | 0% |
| M Parker [2] | 283,954 | 59,400 | - | 25,000 | 17,026 | - | 385,380 | 20% | 4% |
| B Marotta [3] | 242,501 | 52,368 | - | 23,037 | 16,430 | - | 334,336 | 21% | 5% |
| A Haidar [4] | 237,918 | 22,673 | - | - | 8,191 | - | 268,782 | 11% | 3% |
| M Nicholls [5] | 194,725 | - | - | 9,028 | - | - | 203,753 | 0% | 0% |
| C Zhang [6] | 164,263 | 41,684 | 33,760 | - | (5,130) | - | 234,578 | 16% | (2)% |
| V Klunyk [7] | 159,836 | 12,956 | - | 15,567 | - | - | 188,359 | 7% | 0% |
| L Klebenow [8] | 46,808 | - | - | - | (13,192) | 142,658 | 176,273 | (7)% | (7)% |
| **Total** | 1,754,964 | 266,472 | 43,454 | 81,159 | 23,326 | 142,658 | 2,312,032 | | |

[1] J P Marcantonio is the General Manager - Americas, remunerated in United States dollars converted to Australian dollars in the table above.

[2] Mr Parker was the Chief Financial Officer. He is located in Australia and remunerated in Australian dollars. Mr Parker resigned 26 July 2019.

[3] Mr Marotta is Senior Manager – Global Procurement & Logistics. He is located in Australia and remunerated in Australian dollars.

[4] 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.

[5] 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.

[6] 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.

[7] 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.

[8] 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.

## DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS: FULLY PAID ORDINARY SHARES

| 2018/2019 | Balance 30 June 2018 No. | Granted as Compensation No. | Received on Exercise of Options No. | Other Movements No. | Balance 30 June 2019 No. |
|---|---|---|---|---|---|
| *Executive Directors* | | | | | |
| N Pritchard | 521,593 | 913,000 | - | - | 1,434,593 |
| *Non Executive Directors* | | | | | |
| D Allman | 2,400,000 | - | - | 600,000 | 3,000,000 |
| J Murphy * | 4,416,599 | - | - | (4,416,599) | - |
| T Stianos | 100,000 | - | - | 100,000 | 200,000 |
| *Executives* | | | | | |
| M Parker | - | 320,000 | - | (92,743) | 227,257 |
| B Marotta | 289,122 | 299,000 | - | - | 588,122 |
| A Haidar | 334,364 | 182,000 | - | - | 516,364 |
| **Total** | 8,061,678 | 1,714,000 | - | (3,809,342) | 5,966,336 |

** On the 15 August 2018, Non Executive Director John Murphy retired from the Board of Directors, Audit and Risk, Remuneration and Nomination Committees.*

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

## SHARE BASED COMPENSATION

The terms and conditions of each grant of performance rights granted but not vested as at 30 June 2019 affecting remuneration in the current or a future reporting period are as follows:

### Grant Date

| | |
|---|---|
| Value per performance rights at grant date | 35 cents |

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

The performance rights granted on 21 September 2016 are subject to a continuation of employment to 30 June 2019 and then the satisfying of relevant performance hurdles based on improvements in the Group's diluted earnings per share over the three year period from 1 July 2016 to 30 June 2019. None of these performance 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 22 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.

The performance rights granted on 13 of November 2018 are subject to the continuation of employment to 30 June 2021 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 2019 to 30 June 2021. None of these rights can vest until the company releases its FY21 annual report to the ASX (on or around 20th September 2021) and expire on 1 December 2021.

# Directors' Report continued

## DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS, COMPENSATION OPTIONS AND PERFORMANCE RIGHTS: GRANTED AND VESTED DURING THE YEAR

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Terms and Conditions for Each Grant | | | | | |
| **2018/2019** | **Vested Number** | **Granted Number** | **Grant Date** | **Value Per Option/Right** | **Exercise Price** | **Expiry Date** | **First Exercise Date** | **Last Exercise** |
| *Executive Directors (Performance Rights)* | | | | | | | | |
| N Pritchard | - | 691,000 | 13/11/18 | 0.3504 | Nil | 01/12/21 | 01/10/21 | 01/10/21 |
| *Non Executive Directors* | | | | | | | | |
| None | | | | | | | | |
| *Management Personnel (Performance Rights)* | | | | | | | | |
| Other Management | - | 1,130,000 | 13/11/18 | 0.3504 | Nil | 01/12/21 | 01/10/21 | 01/10/21 |
| **Total** | | 1,821,000 | | | | | | |

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

*Shade sails created from the patented new Commercial DualShade 350 fabric, showing their unique colour changing property*

## DIRECTORS' AND EXECUTIVES' EQUITY HOLDINGS, COMPENSATION OPTIONS AND PERFORMANCE RIGHTS: MOVEMENTS DURING THE YEAR

| 2018/2019 | Balance 1 July 2018 No. | Granted as Compensation No. | Exercised No. | Lapsed No. | Net Other Change No. | Balance 30 June 2019 No. | Balance Held Nominally No. | Value of Lapsed Options/ Rights $ |
|---|---|---|---|---|---|---|---|---|
| *Executive Directors (Performance Rights)* | | | | | | | | |
| N Pritchard | 2,097,000 | 691,000 | (913,000) | - | - | 1,875,000 | - | - |
| *Non Executive Directors* | | | | | | | | |
| None | | | | | | | | |
| *Executives (Performance Rights)* | | | | | | | | |
| M Parker | 735,000 | 244,000 | (320,000) | - | - | 659,000 | - | - |
| J P Marcantonio | 270,000 | 318,000 | - | - | - | 588,000 | - | - |
| A Haidar | 472,000 | 175,000 | (182,000) | - | - | 465,000 | - | - |
| B Marotta | 665,000 | - | (299,000) | - | - | 366,000 | - | - |
| C Zhang | 209,000 | 122,000 | - | - | - | 331,000 | - | - |
| M Nicholls | 113,000 | 119,000 | - | - | - | 232,000 | - | - |
| *Other Management Personnel (Performance Rights)* | | | | | | | | |
| Other Management | 375,000 | 152,000 | (149,000) | - | - | 378,000 | - | - |
| **Total** | 4,936,000 | 1,821,000 | (1,863,000) | - | - | 4,894,000 | - | - |

| 2017/2018 | Balance 1 July 2017 No. | Granted as Compensation No. | Exercised No. | Lapsed No. | Net Other Change No. | Balance 30 June 2018 No. | Balance Held Nominally No. | Value of Lapsed Options/ Rights $ |
|---|---|---|---|---|---|---|---|---|
| *Executive Directors (Performance Rights)* | | | | | | | | |
| N Pritchard | 2,356,385 | 606,000 | (865,385) | - | - | 2,097,000 | - | - |
| *Non Executive Directors* | | | | | | | | |
| None | | | | | | | | |
| *Executives (Performance Rights)* | | | | | | | | |
| 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) | - | - | - | - |
| M Nicholls | - | 113,000 | - | - | - | 113,000 | - | - |
| *Other Management Personnel (Performance Rights)* | | | | | | | | |
| Other Management | 308,931 | 138,000 | (71,931) | - | - | 375,000 | - | - |
| **Total** | 4,757,802 | 1,918,000 | (1,325,802) | (414,000) | - | 4,936,000 | - | - |

# 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 Tohmastsu

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

## 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 Tohmastsu 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 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

19 August 2019

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 2019, 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

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants

# Independent Auditors Report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

### Report on the Financial Report

*Opinion*

We have audited the financial report of Gale Pacific Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other 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 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

*Basis for Opinion*

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

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

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

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*Key Audit Matters*

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

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>Recoverability of trade receivables in Middle East and North Africa<br><br>As at 30 June 2019, the carrying amounts of Middle East and North Africa (“MENA”) trade receivable totalled AU$10.26 million with AU$0.92 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 39% of trade receivables greater than 365 days.<br><br>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.</td><td>Our procedures included, but were not limited to:<br><br>• 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;<br>• Engaging Deloitte Dubai to assist with assessment procedures in the context of their knowledge of the local market conditions;<br>• Evaluating the aging analysis and subsequent settlement of the accounts receivable, on a sample basis, to the source documents including invoices and bank statements;<br>• 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<br>• Evaluating the historical accuracy of the management’s assessment of impairment for receivables on a sample basis, by assessing 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.<br><br>We also assessed the appropriateness of the disclosures included in Note 10 to the financial statements.</td></tr>
</table>

*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 2019, 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.

# Independent Auditors Report -continued

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

*Responsibilities of the Directors for the Financial Report*

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

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

*Auditor's Responsibilities for the Audit of the Financial Report*

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- 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.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 22 to 29 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Gale Pacific Limited, for the year ended 30 June 2019, 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

DELOITTE TOUCHE TOHMATSU

Genevra Cavallo

Genevra Cavallo
Partner
Chartered Accountants
Melbourne, 19 August 2019

# Directors’ Declaration

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 2019 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
19 August 2019

## Gale Pacific Limited
## Statement of profit or loss and other comprehensive income
## For the year ended 30 June 2019

| | Note | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods | | 149,217 | 148,811 |
| Other income | 5 | 1,353 | 1,240 |
| **Expenses** | | | |
| Raw materials and consumables used | | (69,604) | (69,140) |
| Employee benefits expense | 6 | (33,668) | (32,304) |
| Depreciation and amortisation expense | 6 | (6,218) | (5,934) |
| Marketing and advertising | | (2,251) | (1,601) |
| Occupancy costs | | (6,498) | (5,450) |
| Warehouse and related costs | | (9,628) | (10,598) |
| Other expenses | | (9,653) | (11,068) |
| Finance costs | 6 | (1,842) | (1,472) |
| **Profit before income tax expense** | | 11,208 | 12,484 |
| Income tax expense | 7 | (2,010) | (2,677) |
| **Profit after income tax expense for the year attributable to the owners of Gale Pacific Limited** | | 9,198 | 9,807 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Net change in the fair value of cash flow hedges taken to equity, net of tax | 19 | (106) | 503 |
| Foreign currency translation | 19 | 1,887 | 3,655 |
| Other comprehensive income for the year, net of tax | | 1,781 | 4,158 |
| **Total comprehensive income for the year attributable to the owners of Gale Pacific Limited** | | 10,979 | 13,965 |
| | | Cents | Cents |
| Basic earnings per share | 8 | 3.21 | 3.35 |
| Diluted earnings per share | 8 | 3.16 | 3.29 |

*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 2019

| | Note | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 29,846 | 22,991 |
| Trade and other receivables | 10 | 28,152 | 33,862 |
| Inventories | 11 | 46,196 | 46,736 |
| Prepayments | | 2,124 | 1,493 |
| Total current assets | | 106,318 | 105,082 |
| **Non-current assets** | | | |
| Prepayments | | - | 58 |
| Property, plant and equipment | 12 | 35,492 | 30,123 |
| Intangibles | 13 | 8,392 | 7,364 |
| Deferred tax | 7 | 4,345 | 2,468 |
| Total non-current assets | | 48,229 | 40,013 |
| **Total assets** | | 154,547 | 145,095 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 15,958 | 21,794 |
| Borrowings | 15 | 25,793 | 16,195 |
| Derivative financial instrument - cash flow hedges | | 127 | 480 |
| Current tax liabilities | 7 | 2,169 | 171 |
| Employee benefits | | 3,230 | 3,184 |
| Provisions | 16 | 457 | 475 |
| Total current liabilities | | 47,734 | 42,299 |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 14,956 | 13,520 |
| Deferred tax | 7 | 1,473 | 1,679 |
| Employee benefits | | 187 | 117 |
| Total non-current liabilities | | 16,616 | 15,316 |
| **Total liabilities** | | 64,350 | 57,615 |
| **Net assets** | | 90,197 | 87,480 |
| **Equity** | | | |
| Issued capital | 18 | 65,097 | 67,641 |
| Reserves | 19 | 4,070 | 1,752 |
| Retained profits | | 21,030 | 18,087 |
| **Total equity** | | 90,197 | 87,480 |

*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 2019**

| Consolidated | Issued Capital $'000 | Reserves (Note 19) $'000 | Retained Profits $'000 | Total equity $'000 |
|---|---|---|---|---|
| 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 |
| | | | | |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments (note 29) | - | 80 | - | 80 |
| Transfer to Enterprise Reserve Fund | - | 105 | (105) | - |
| Share Buy Back (note 18) | (3,724) | - | - | (3,724) |
| Other | - | - | (382) | (382) |
| Dividends paid (note 20) | - | - | (5,856) | (5,856) |
| | | | | |
| Balance at 30 June 2018 | 67,641 | 1,752 | 18,087 | 87,480 |

| Consolidated | Issued Capital $'000 | Reserves (Note 19) $'000 | Retained Profits $'000 | Total equity $'000 |
|---|---|---|---|---|
| Balance at 1 July 2018 | 67,641 | 1,752 | 18,087 | 87,480 |
| | | | | |
| Profit after income tax expense for the year | - | - | 9,198 | 9,198 |
| Other comprehensive income for the year, net of tax | - | 1,781 | - | 1,781 |
| | | | | |
| Total comprehensive income for the year | - | 1,781 | 9,198 | 10,979 |
| | | | | |
| *Transactions with owners in their capacity as owners:* | | | | |
| Share-based payments (note 29) | - | 11 | - | 11 |
| Transfer to Enterprise Reserve Fund | - | 526 | (526) | - |
| Share Buy Back (note 18) | (2,544) | - | - | (2,544) |
| Other | - | - | (7) | (7) |
| Dividends paid (note 20) | - | - | (5,722) | (5,722) |
| | | | | |
| Balance at 30 June 2019 | 65,097 | 4,070 | 21,030 | 90,197 |

*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 2019**

| | Note | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax expense for the year | | 11,208 | 12,484 |
| | | | |
| Adjustments for: | | | |
| Depreciation and amortisation | | 6,218 | 5,934 |
| Share-based payments | | 11 | 80 |
| Foreign currency gain | | 518 | 1,464 |
| Interest and other finance costs | | 1,842 | 1,472 |
| | | 19,797 | 21,434 |
| | | | |
| Change in operating assets and liabilities: | | | |
| Decrease/(increase) in trade and other receivables | | 5,710 | (4,365) |
| Decrease/(increase) in inventories | | 540 | (9,287) |
| Increase in prepayments | | (573) | (74) |
| Increase/(decrease) in trade and other payables | | (5,836) | 3,702 |
| Increase/(decrease) in derivative liabilities | | (459) | 512 |
| Increase in employee benefits | | 116 | 115 |
| Increase/(decrease) in other provisions | | (18) | 189 |
| | | 19,277 | 12,226 |
| Interest and other finance costs paid | | (1,842) | (1,472) |
| Income taxes paid | | (2,095) | (1,830) |
| Net cash from operating activities | | 15,340 | 8,924 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 12 | (11,454) | (7,137) |
| Payments for intangibles | 13 | (763) | (655) |
| Proceeds from disposal of property, plant and equipment | | 244 | 246 |
| Net cash used in investing activities | | (11,973) | (7,546) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 17 | 13,946 | 9,326 |
| Payments for share buy-backs | 18 | (2,544) | (3,724) |
| Other | | (7) | (382) |
| Dividends paid | 20 | (5,722) | (5,856) |
| Repayment of borrowings | 17 | (2,912) | (3,279) |
| Net cash from/(used in) financing activities | | 2,761 | (3,915) |
| Net increase/(decrease) in cash and cash equivalents | | 6,128 | (2,537) |
| Cash and cash equivalents at the beginning of the financial year | | 22,991 | 24,974 |
| Effects of exchange rate changes on cash and cash equivalents | | 727 | 554 |
| Cash and cash equivalents at the end of the financial year | 9 | 29,846 | 22,991 |

*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 2019**

## 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 19 August 2019. 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.

**Gale Pacific Limited**
**Notes to the financial statements**
**30 June 2019**

## Note 2. Significant accounting policies (continued)

### 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.

The Group has adopted AASB 15 Revenue from Contract with Customers.

AASB 15 Revenue from Contracts with Customers

AASB 15 established a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 superseded prior revenue recognition guidance including AASB 118 Revenue, AASB 111 Construction Contracts.

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 assessed the impact of adopting AASB 15 on its key revenue streams and notes the following impacts:

Sale of goods: Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. The Group's existing treatment of sale of goods was not impacted as a result of the new standard.

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 resulted in some rebates requiring reclassification from cost of goods sold to revenue. AASB 15 did impact the measurement of the Group’s rebates and discounts. The comparative year was restated consistent with current period disclosure.

Other revenue: Revenue from other revenue is recognised when it is received or when the right to receive payment is established. The Group's existing treatment of other revenue was not impacted as a result of the new standard.

Return of goods: AASB 15 required 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 was not be impacted as a result of the new standard.

Other than the disclosure impacts above, there has been no change to the revenue accounting policy.

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 assessed the new standard and based on its financial assets and liabilities, the key impact of the standard on the Group was 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 did not materially change based upon the adoption of AASB 9 on 1 July 2018.

Comparatives
Where necessary, the comparative statement of profit or loss and other comprehensive income has been reclassified and repositioned for consistency with the current period disclosures.

## Note 2. Significant accounting policies (continued)

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 2019 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.

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.

## Note 2. Significant accounting policies (continued)

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
The Group recognises revenue as follows:

*Revenue from contracts with customers*
Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

*Sale of goods*
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

*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.

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.

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## Note 2. Significant accounting policies (continued)

*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.

### 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.

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## Note 2. Significant accounting policies (continued)

### 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.

*Allowance for expected credit losses*
The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

*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.

*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.

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

*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 market 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.

To continuously improve the transparency of GALE Pacific's management reporting, in FY 2019 GALE Pacific Limited initiated an activity-based allocation method of reporting. Intersegment sales/margin and central costs have allocated to external revenue generating segments where the final economic benefit is derived. This enhanced method of reporting is being 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 was 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.

As a result the comparative disclosure has been restated

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. |
| EurAsia | Sales distribution based in China and Australasia, servicing European and Asian countries. |
| 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 2019 approximately 38% (2018: 29%) of the Group's external revenue was derived from sales to two customers (2018: One), one customer located in the Australasian region and one customer located in the Americas region.

## Note 4. Operating segments (continued)

*Operating segment information*

| Consolidated - 2019 | Australasia $'000 | Americas $'000 | MENA $'000 | EurAsia $'000 | Other Segments $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | 57,988 | 70,954 | 12,922 | 7,353 | - | 149,217 |
| **Total revenue** | 57,988 | 70,954 | 12,922 | 7,353 | - | 149,217 |
| | | | | | | |
| Segment EBITDA | 2,792 | 13,849 | 3,975 | 2,310 | (3,658) | 19,268 |
| Depreciation and amortisation | (1,227) | (4,184) | (343) | (433) | (31) | (6,218) |
| Finance costs | (458) | (1,146) | (140) | (98) | - | (1,842) |
| **Profit/(loss) before income tax expense** | 1,107 | 8,519 | 3,492 | 1,779 | (3,689) | 11,208 |
| Income tax expense | | | | | | (2,010) |
| **Profit after income tax expense** | | | | | | 9,198 |
| | | | | | | |
| **Assets** | | | | | | |
| Segment assets | 36,095 | 45,937 | 16,994 | 35,601 | 19,920 | 154,547 |
| **Total assets** | | | | | | 154,547 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Segment liabilities | 6,806 | 19,507 | 617 | 12,712 | 24,708 | 64,350 |
| **Total liabilities** | | | | | | 64,350 |

| Consolidated - 2018 | Australasia $'000 | Americas $'000 | MENA $'000 | EurAsia $'000 | Other Segments $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Sales to external customers | 68,789 | 60,494 | 12,956 | 6,572 | - | 148,811 |
| **Total revenue** | 68,789 | 60,494 | 12,956 | 6,572 | - | 148,811 |
| | | | | | | |
| Segment EBITDA | 5,448 | 12,525 | 4,438 | 1,589 | (4,110) | 19,890 |
| Depreciation and amortisation | (1,789) | (3,467) | (617) | (27) | (34) | (5,934) |
| Finance costs | (539) | (744) | (138) | (51) | - | (1,472) |
| **Profit/(loss) before income tax expense** | 3,120 | 8,314 | 3,683 | 1,511 | (4,144) | 12,484 |
| Income tax expense | | | | | | (2,677) |
| **Profit after income tax expense** | | | | | | 9,807 |
| | | | | | | |
| **Assets** | | | | | | |
| Segment assets | 29,107 | 50,043 | 13,961 | 33,341 | 18,643 | 145,095 |
| **Total assets** | | | | | | 145,095 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Segment liabilities | 9,944 | 12,891 | 531 | 13,968 | 20,281 | 57,615 |
| **Total liabilities** | | | | | | 57,615 |

*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.

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## Note 5. Other income

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Other income (including sales of scrap material from manufacturing) | 1,353 | 1,240 |

## Note 6. Expenses

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Profit before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Property, plant and equipment (note 12) | 4,869 | 4,805 |
| *Amortisation* | | |
| Intangible assets (note 13) | 1,349 | 1,129 |
| Total depreciation and amortisation | 6,218 | 5,934 |
| *Employee benefit expense* | | |
| Employment costs and benefits | 33,668 | 32,304 |
| Share-based payment expense | 11 | 80 |
| Total employee benefit expense | 33,679 | 32,384 |
| *Finance costs* | | |
| Interest and finance charges paid/payable | 1,842 | 1,472 |
| *Rental expense relating to operating leases* | | |
| Minimum lease payments | 5,890 | 4,886 |

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## Note 7. Income tax

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 2,414 | 2,929 |
| Deferred tax - origination and reversal of temporary differences | (933) | 281 |
| Adjustment recognised for prior periods | 529 | (533) |
| Aggregate income tax expense | 2,010 | 2,677 |
| Deferred tax included in income tax expense comprises: | | |
| Decrease/(increase) in deferred tax assets | (933) | 281 |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 11,208 | 12,484 |
| Tax at the statutory tax rate of 30% | 3,362 | 3,745 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non allowable/(non assessable) items | (741) | 153 |
| | 2,621 | 3,898 |
| Adjustment recognised for prior periods | 529 | (533) |
| Difference in overseas tax rates | (1,140) | (688) |
| Income tax expense | 2,010 | 2,677 |

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Amounts charged/(credited) directly to equity* | | |
| Deferred tax assets | (574) | 216 |

## Note 7. Income tax (continued)

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Deferred tax asset* | | |
| Deferred taxes comprises temporary differences attributable to: | | |
| Amounts recognised in P&L: | | |
| Tax losses | 1,718 | 830 |
| Property, plant and equipment | (1,218) | (635) |
| Foreign exchange | (669) | (735) |
| Capitalised costs | (733) | (895) |
| Provisions | (174) | (224) |
| Impairment of receivables | 6 | 15 |
| Other financial liabilities | 1,581 | 227 |
| Employee benefits | 469 | 469 |
| Franking Deficit Credit | 1,590 | 1,590 |
| Other | 302 | 147 |
| Deferred tax asset | 2,872 | 789 |
| Movements: | | |
| Opening balance | 789 | 2,328 |
| Credited/(charged) to profit or loss | 933 | (281) |
| Credited/(charged) to equity | 574 | (216) |
| Transfer from current tax liability | 576 | (1,042) |
| Closing balance | 2,872 | 789 |

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| *Provision for income tax* | | |
| Provision for income tax | 2,169 | 171 |

The 2019 deferred tax asset of $2,872,000 (2018: $789,000) is comprised of $4,345,000 in deferred tax assets (2018: $2,468,000) and $1,473,000 (2018: $1,679,000) 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 | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Profit after income tax attributable to the owners of Gale Pacific Limited | 9,198 | 9,807 |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 286,763,316 | 293,054,259 |
| Adjustments for calculation of diluted earnings per share: | | |
| Performance rights | 4,765,008 | 4,716,521 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 291,528,324 | 297,770,780 |
| | **Cents** | **Cents** |
| Basic earnings per share | 3.21 | 3.35 |
| Diluted earnings per share | 3.16 | 3.29 |

*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 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Cash on hand | 2 | 2 |
| Cash at bank | 29,844 | 22,851 |
| Cash on deposit | - | 138 |
| | 29,846 | 22,991 |

*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 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Trade receivables | 28,431 | 33,954 |
| Less: Allowance for expected credit losses | (406) | (277) |
| | 28,025 | 33,677 |
| Other receivables | 127 | 185 |
| | 28,152 | 33,862 |

The Group has recognised a loss of $178,000 (2018: $172,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2019.

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Over 6 months overdue | 406 | 277 |

Movements in the allowance for expected credit losses are as follows:

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Opening balance | 277 | 111 |
| Additional provisions recognised | 178 | 172 |
| Receivables written off during the year as uncollectable | (49) | (6) |
| Closing balance | 406 | 277 |

Past due but not impaired
Customers with balances past due but without provision for impairment of the receivables amount to $8,933,000 as at 30 June 2019 ($7,898,000 as at 30 June 2018)

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

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

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

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| **Consolidated** | | |
| Outside Credit Terms 0-30 Days | 1,721 | 3,562 |
| Outside Credit Terms 31-120 Days | 3,392 | 2,189 |
| Outside Credit Terms 121 Days to one year | 3,260 | 1,903 |
| More than One Year | 560 | 244 |
| | 8,933 | 7,898 |

*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.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

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.

## Note 11. Current assets - inventories

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Raw materials - at cost | 6,967 | 6,084 |
| Work in progress - at cost | 2,151 | 5,487 |
| Finished goods - at cost | 39,062 | 37,046 |
| Less: Provision for impairment | (1,984) | (1,881) |
| | 37,078 | 35,165 |
| | 46,196 | 46,736 |

*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.

## Note 11. Current assets - inventories (continued)

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

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

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Buildings and leasehold improvements - at cost | 17,663 | 16,197 |
| Less: Accumulated depreciation | (6,735) | (6,119) |
| | 10,928 | 10,078 |
| Plant and equipment - at cost | 107,979 | 104,516 |
| Less: Accumulated depreciation | (92,074) | (88,251) |
| | 15,905 | 16,265 |
| Motor vehicles - at cost | 312 | 311 |
| Less: Accumulated depreciation | (218) | (214) |
| | 94 | 97 |
| Capital work-in-progress - at cost | 8,565 | 3,683 |
| | 35,492 | 30,123 |

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

| Consolidated | Buildings and leasehold improvements $'000 | Plant and equipment $'000 | Motor vehicles $'000 | Capital work-in-progress $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 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 | 10,078 | 16,265 | 97 | 3,683 | 30,123 |
| Additions | 201 | 2,044 | - | 9,209 | 11,454 |
| Disposals | - | (244) | - | - | (244) |
| Exchange differences | 136 | 297 | - | 13 | 446 |
| Transfers in/(out) | 1,212 | 1,710 | - | (4,340) | (1,418) |
| Depreciation expense | (699) | (4,167) | (3) | - | (4,869) |
| Balance at 30 June 2019 | 10,928 | 15,905 | 94 | 8,565 | 35,492 |

*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.

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

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

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

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

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

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

## Note 13. Non-current assets - intangibles

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Goodwill - at cost | 11,222 | 21,620 |
| Less: Impairment | (7,961) | (18,508) |
| | 3,261 | 3,112 |
| Development - at cost | 2,452 | 1,713 |
| Less: Accumulated amortisation | (95) | (47) |
| | 2,357 | 1,666 |
| Patents, trademarks and licenses - at cost | 1,629 | 1,648 |
| Less: Accumulated amortisation | (1,324) | (1,321) |
| | 305 | 327 |
| Application software - at cost | 9,143 | 7,490 |
| Less: Accumulated amortisation | (6,674) | (5,231) |
| | 2,469 | 2,259 |
| | 8,392 | 7,364 |

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

*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 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 | 3,112 | 1,666 | 327 | 2,259 | 7,364 |
| Additions | - | 739 | 1 | 23 | 763 |
| Exchange differences | 149 | - | 1 | 46 | 196 |
| Transfers in/(out) | - | - | 9 | 1,409 | 1,418 |
| Amortisation expense | - | (48) | (33) | (1,268) | (1,349) |
| Balance at 30 June 2019 | 3,261 | 2,357 | 305 | 2,469 | 8,392 |

*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 2019.

*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):

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| **Goodwill** | | |
| USA (2018/2019: US$2,077,000; 2017/2018: US$ 2,077,000) | 2,914 | 2,765 |
| China | 347 | 347 |
| | 3,261 | 3,112 |

USA / China
In assessing the recoverable amount of the USA/China CGUs, management made a number of 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 or China CGU's carrying amount to exceed its recoverable amount.

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

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

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

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

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

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

## Note 14. Current liabilities - trade and other payables

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Trade payables | 10,762 | 15,859 |
| Sundry payables and accruals | 5,196 | 5,935 |
| | 15,958 | 21,794 |

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 | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| Bank loans | 25,793 | 16,195 |

Refer to note 22 for further information on financial instruments.

## Note 16. Current liabilities - provisions

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Warranties | 457 | 475 |

*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 - 2019 | Warranties $'000 |
|---|---|
| Carrying amount at the start of the year | 475 |
| Additional provisions recognised | 664 |
| Claims | (682) |
| Carrying amount at the end of the year | 457 |

*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 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Total Bank loans | 14,956 | 13,520 |

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 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Total Bank loans | 40,749 | 29,715 |

*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

| | Consolidated 2019 Shares | Consolidated 2018 Shares | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|---|---|
| Ordinary shares - fully paid | 282,217,475 | 288,181,757 | 65,097 | 67,641 |

Movements in ordinary share capital

| | Consolidated 2019 Shares | Consolidated 2018 Shares | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|---|---|
| Opening Balance | 288,181,757 | 297,162,696 | 67,641 | 71,365 |
| Shares Issued | 1,863,000 | 1,325,802 | - | - |
| Shares Buy Back | (7,827,282) | (10,306,741) | (2,544) | (3,724) |
| Closing Balance | 282,217,475 | 288,181,757 | 65,097 | 67,641 |

*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 March 6th 2018 an on-market share buy-back was announced. It ran from 19th March 2018 to 18th March 2019. At the end of this program, a total of 5,720,089 shares were bought by the company. On March 28th 2019 an on-market buy-back was announced. It will run from 15th April 2019 to 14th April 2020. Up until 30th June 2019 a total of 2,815,195 shares were bought back by the company.

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

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

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

*Accounting policy for issued capital*
Ordinary shares are classified as equity.

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

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## Note 19. Equity - reserves

| | Consolidated 2019 $'000 | Consolidated 2018 $'000 |
|---|---|---|
| Foreign currency reserve | (486) | (2,374) |
| Hedging reserve - cash flow hedges | 67 | 173 |
| Share-based payments reserve | 1,156 | 1,145 |
| Enterprise reserve fund | 3,333 | 2,808 |
| | 4,070 | 1,752 |

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

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

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

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

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

| Consolidated | Foreign currency $'000 | Hedging $'000 | Share-based payments $'000 | Enterprise reserve fund $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 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 | (2,374) | 173 | 1,145 | 2,808 | 1,752 |
| Foreign currency translation * | 1,887 | - | - | - | 1,887 |
| Movement in hedge | - | (152) | - | - | (152) |
| Income tax | - | 46 | - | - | 46 |
| Share-based payment | - | - | 11 | - | 11 |
| Statutory transfers from retained earnings | - | - | - | 526 | 526 |
| Balance at 30 June 2019 | (487) | 67 | 1,156 | 3,334 | 4,070 |

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

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## Note 20. Equity - dividends

Dividends paid during the financial year were as follows:

| | Consolidated | |
|---|---|---|
| | 2019<br>$'000 | 2018<br>$'000 |
| 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) | - | 2,888 |
| Final Dividend for the year ended 30 June 2018 of 1.00 cents per ordinary share (unfranked) | 2,872 | - |
| Interim Dividend for the year ended 30 June 2019 of 1.00 cents per ordinary share (unfranked) | 2,850 | - |
| | 5,722 | 5,856 |

On 19 August 2019 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 2019. This dividend has not been included as a liability in these financial statements. Including the final dividend with respect to 30 June 2019, for the full year, the dividends of 2.00 cents per ordinary share have been declared on earnings of 3.21 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 | |
|---|---|---|
| | 2019<br>$'000 | 2018<br>$'000 |
| Related party receivable to the Company from Gale Pacific Special Textiles (Ningbo) Limited | 10,124 | 9,474 |
| Related party receivable to the Company from Gale Pacific (New Zealand) Limited | 4,038 | 4,593 |
| Monetary items identified as a net investment in a foreign operation | 14,162 | 14,067 |

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.

## Note 22. Financial instruments (continued)

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.

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 | |
|---|---|---|---|---|
| | 2019<br>$'000 | 2018<br>$'000 | 2019 | 2018 |
| **Buy US dollars/sell Australian dollars** | | | | |
| Maturity: | | | | |
| Less than 6 months | 12,063 | 7,805 | 0.7129 | 0.7687 |
| 6 - 12 months | 719 | 655 | 0.6950 | 0.7631 |
| **Buy Euros/sell Australian Dollars** | | | | |
| Maturity: | | | | |
| Less than 6 months | - | 4,127 | - | 0.6234 |
| 6 - 12 months | - | 325 | - | 0.6063 |

| | Sell US dollars | | Average exchange rates | |
|---|---|---|---|---|
| | 2019<br>$'000 | 2018<br>$'000 | 2019 | 2018 |
| **Buy Chinese Yuan/sell US Dollars** | | | | |
| Maturity: | | | | |
| Less than 6 months | 17,000 | 16,000 | 6.7838 | 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 | |
|---|---|---|---|---|
| Consolidated | 2019<br>$'000 | 2018<br>$'000 | 2019<br>$'000 | 2018<br>$'000 |
| US dollars | 34,683 | 32,250 | 20,042 | 18,072 |
| New Zealand dollars | 303 | 411 | 191 | 318 |
| Chinese renminbi | 5,457 | 5,564 | - | - |
| UAE dirham | 2,825 | 2,195 | - | - |
| | 43,268 | 40,420 | 20,233 | 18,390 |

## Note 22. Financial instruments (continued)

The Group had net assets denominated in foreign currencies of $23,035,000 (assets of $43,268,000 less liabilities of $20,233,000 as at 30 June 2019 (2018: $22,030,000 (assets of $40,420,000 less liabilities of $18,390,000)). Based on this exposure, had the Australian dollar strengthened by 10% / weakened by 10% (2018: 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 $492,000 higher/lower (2018: $184,000 lower/ higher) and equity would have been $1,782,000 higher/lower (2018: $1,786,000 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.

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Consolidated** | **Weighted average interest rate %** | **Balance $'000** | **Weighted average interest rate %** | **Balance $'000** |
| Cash and cash equivalents | - | 29,846 | - | 22,991 |
| Bank loans | 3.47% | (40,749) | 3.74% | (29,715) |
| Net exposure to cash flow interest rate risk | | (10,903) | | (6,724) |

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

An official increase/decrease in interest rates of 100 (2018: 100) basis points would have an adverse/favourable effect on profit before tax of $407,500 (2018: $297,000) 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.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

### *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.

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## Note 22. Financial instruments (continued)

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 - 2019 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 10,762 | - | - | - | 10,762 |
| Sundry payables and accruals | - | 5,196 | - | - | - | 5,196 |
| *Interest-bearing - fixed rate* | | | | | | |
| Bank loans | 3.47% | 25,793 | 14,956 | - | - | 40,749 |
| Total non-derivatives | | 41,751 | 14,956 | - | - | 56,707 |

| 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 |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade payables | - | 17,066 | - | - | - | 17,066 |
| Sundry payables and accruals | - | 6,087 | - | - | - | 6,087 |
| *Interest-bearing - fixed rate* | | | | | | |
| Bank loans | 3.74% | 16,799 | 14,652 | - | - | 31,451 |
| Total non-derivatives | | 39,952 | 14,652 | - | - | 54,604 |

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

| Consolidated - 2019 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Liabilities* | | | | |
| Forward foreign exchange contracts | - | 127 | - | 127 |
| Total liabilities | - | 127 | - | 127 |

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## Note 23. Fair value measurement (continued)

| Consolidated - 2018 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| *Liabilities* | | | | |
| Forward foreign exchange contracts | - | 480 | - | 480 |
| Total liabilities | - | 480 | - | 480 |

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.

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

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

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

## Note 24. Commitments

| | Consolidated | |
|---|---|---|
| | 2019 $'000 | 2018 $'000 |
| *Capital commitments* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Property, plant and equipment | - | 4,451 |
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 4,901 | 4,682 |
| One to five years | 8,396 | 10,633 |
| | 13,297 | 15,315 |

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.

## Note 26. Key management personnel disclosures

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

| | Consolidated | |
|---|---|---|
| | 2019 | 2018 |
| | $ | $ |
| Short-term employee benefits | 2,542,623 | 3,060,818 |
| Post-employment benefits | 145,790 | 150,607 |
| Termination benefits | - | 142,658 |
| Share-based payments | 9,906 | 71,961 |
| | 2,698,319 | 3,426,044 |

## Note 27. Parent entity information

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

*Statement of profit or loss and other comprehensive income*

| | Parent | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Profit after income tax | 5,201 | 7,401 |
| Total comprehensive income | 5,095 | 7,904 |

## Note 27. Parent entity information (continued)

*Statement of financial position*

| | Parent 2019 $'000 | Parent 2018 $'000 |
|---|---|---|
| Total current assets | 19,507 | 28,301 |
| Total assets | 101,978 | 103,940 |
| Total current liabilities | 16,104 | 16,189 |
| Total liabilities | 31,247 | 29,826 |
| Equity | | |
| Issued capital | 65,097 | 67,641 |
| Hedging reserve - cash flow hedges | 67 | 173 |
| Share-based payments reserve | 1,156 | 1,145 |
| Retained profits | 4,411 | 5,155 |
| Total equity | 70,731 | 74,114 |

*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 2019 and 30 June 2018.

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 2019 and 30 June 2018.

*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 2019 % | Ownership interest 2018 % |
|---|---|---|---|
| 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% |

**Gale Pacific Limited**
**Notes to the financial statements**
**30 June 2019**

## Note 29. Share-based payments

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

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

Performance rights issued to executives during the financial year were issued in accordance with the Group's remuneration policy which:
- Reward executives for Group and individual performance;
- Align the interests of the executives with those of the shareholders; and
- Ensure that total remuneration is competitive by market standards.

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

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

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

2019

| 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 |
|---|---|---|---|---|---|---|---|
| 09/10/2015 | 01/12/2018 | $0.23 | 1,863,000 | - | (1,863,000) | - | - |
| 21/09/2016 | 01/12/2019 | $0.35 | 1,299,000 | - | - | - | 1,299,000 |
| 22/11/2017 | 01/12/2020 | $0.31 | 1,774,000 | - | - | - | 1,774,000 |
| 13/11/2018 | 30/06/2021 | $0.35 | 1,821,000 | - | - | - | 1,821,000 |
| | | | 6,757,000 | - | (1,863,000) | - | 4,894,000 |

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 |
| | | | 4,757,802 | 1,918,000 | (1,325,802) | (414,000) | 4,936,000 |

*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.

**Gale Pacific Limited**
**Notes to the financial statements**
**30 June 2019**

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

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

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

The weighted average fair value of the share options granted during the financial year is $0.35 (2018: $0.31).

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

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

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

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 Tohmastsu, the auditor of the Company:

| | Consolidated | |
|---|---|---|
| | 2019<br>$ | 2018<br>$ |
| *Audit services - Deloitte Touche Tohmastsu* | | |
| Audit or review of the financial statements | 259,953 | 267,532 |
| *Other services - Deloitte Touche Tohmastsu* | | |
| Other services (including tax services) | 155,452 | 113,138 |
| | 415,405 | 380,670 |

## 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 2019. 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.

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

*AASB 16 Leases*

General impact of application of AASB 16 Leases AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of AASB 16 for the Group will be 1 July 2019[AB1].

The Group has chosen the modified retrospective application of AASB 16 in accordance with IFRS 16:C5(a). Consequently, the Group will restate the comparative information.

In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 July 2019

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

– The right to obtain substantially all of the economic benefits from the use of an identified asset; and
– The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the Group has carried out an implementation project. The project has shown that the new definition in AASB 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

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

Impact on Lessee Accounting

Operating leases

AASB 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.
On initial application of AASB 16, for all leases (except as noted below), the Group will:
a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of $4,901,000.

A preliminary assessment indicates that 22 of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset of $23,905,000 and a corresponding lease liability of $23,602,000 in respect of all these leases. The impact on profit or loss is to decrease Other expenses by $4,653,000 to increase depreciation by $4,476,000 and to increase interest expense by $833,000.

The preliminary assessment indicates that 1 of these arrangements relate to short-term leases and leases of low-value assets.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under AASB 16 would be to increase the cash generated by operating activities by $4,653,000 and to increase net cash used in financing activities by the same amount.

*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 2019 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 15 July 2019 (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 | 1,809 |
| Performance rights expiring 1 December 2019 | 6 |
| Performance rights expiring 1 December 2020 | 8 |
| Performance rights expiring 1 December 2021 | 7 |

## 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 1,809 holders of a total of 282,217,475 ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 54 of the Company's Articles of Association are:

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

# Additional Securities Exchange Information continued

## DISTRIBUTION OF HOLDERS OF 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 | 115 | 25,019 | 0.01% |
| 1,001 - 5,000 | 365 | 1,106,131 | 0.39% |
| 5,001 - 10,000 | 301 | 2,442,598 | 0.86% |
| 10,001 - 100,000 | 812 | 30,241,753 | 10.72% |
| 100,001 and over | 216 | 248,401,974 | 88.02% |
| Total | 1,809 | 282,217,475 | 100.00% |

| | Performance Rights | | |
|---|---|---|---|
| **Range** | **Holders Expiring 1 December 2019** | **Holders Expiring 1 December 2020** | **Holders Expiring 1 December 2021** |
| 1 - 1,000 | 0 | 0 | 0 |
| 1,001 - 5,000 | 0 | 0 | 0 |
| 5,001 - 10,000 | 0 | 0 | 0 |
| 10,001 - 100,000 | 1 | 0 | 0 |
| 100,001 and over | 5 | 8 | 7 |
| Total | 6 | 8 | 7 |

## 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 15 July 2019 | Minimum Parcel Size | Holders | Units |
|---|---|---|---|
| Minimum $500 parcel at $0.3200 per unit | 1,563 | 158 | 84,067 |

## 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 | 78,800,399 | 27.92% |
| Windhager Holding AG | 43,225,781 | 15.32% |

## 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 | 73,141,838 | 25.92 |
| Windhager Holding AG | 43,225,781 | 15.32 |
| Gale Australia Pty Ltd | 13,997,844 | 4.96 |
| BNP Paribas Noms (NZ) Ltd <DRP> | 13,829,969 | 4.90 |
| J P Morgan Nominees Australia Pty Limited | 9,015,427 | 3.19 |
| UBS Nominees Pty Ltd | 6,816,137 | 2.42 |
| BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 5,174,779 | 1.83 |
| Contemplator Pty Ltd <ARG Pension Fund A/C> | 4,691,433 | 1.66 |
| BFA Super Pty Ltd <GDN Super Fund A/C> | 3,327,428 | 1.18 |
| BNP Paribas Noms Pty Ltd <DRP> | 3,109,564 | 1.10 |
| Stitching Pty Ltd <SSG Superannuation Fund A/C> | 3,050,000 | 1.08 |
| Bond Street Custodians Limited <ZCERNA - D02137 A/C> | 3,000,000 | 1.06 |
| National Nominees Limited | 2,667,183 | 0.95 |
| Chillen Pty Limited (Tallen) | 2,431,317 | 0.86 |
| Venn Milner Superannuation Pty Ltd | 2,000,000 | 0.71 |
| Haroldswick Corporation Pty Ltd <Robertson Family A/C> | 1,492,537 | 0.53 |
| Mr Nicholas Pritchard | 1,221,789 | 0.43 |
| GFS Securities Pty Ltd <Glenfare Super Fund A/C> | 1,154,853 | 0.41 |
| Dalesam Pty Ltd <Jon Brett Super Fund A/C> | 1,150,000 | 0.41 |
| Alsumary Pty Ltd <Alsumary S/F A/C> | 1,000,000 | 0.35 |
| Mr David Corley | 1,000,000 | 0.35 |
| TOTAL: TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 15 JULY 2019 | 196,497,879 | 69.63% |
| TOTAL: REMAINING HOLDERS BALANCE | 85,719,596 | 30.37% |

## 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 | 4,894,000 | 8 |

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

# Additional Securities Exchange Information continued

## ON MARKET BUYBACK

The Company is currently conducting an on-market buy-back. It was announced to the market on 28 March 2019 and covers the period 15 April 2019 to 14 April 2020. The maximum number of shares the Company proposes to acquire under the on-market buy-back is approximately up to 28,503,267, 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, 2,815,195 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)

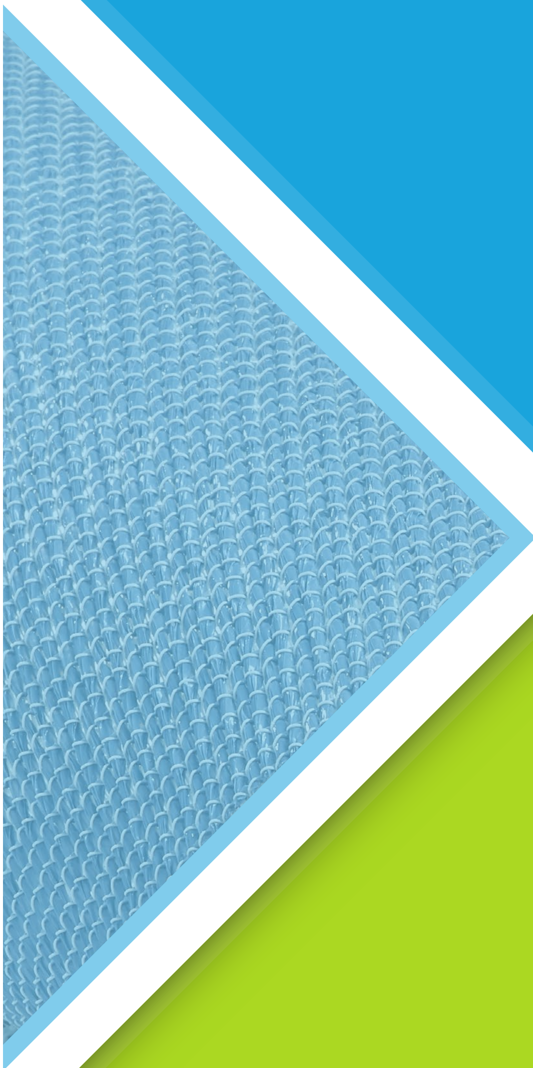
## OTHER INFORMATION

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

Coolaroo

ZONE INTERIORS

GALE PACIFIC
COMMERCIAL FABRICS



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