GALE PACIFIC LIMITED

MAJOR STRATEGIC ACQUISITION IN NEW ZEALAND

Gale Pacific Limited (Gale) has entered into a contract to purchase selected assets, the corresponding customer base and the intellectual property of the industrial and knitted fabrics operations of Donaghys Industries Limited (Donaghys) of New Zealand for NZ$15 million (approximately A$13.65 million).

The acquisition includes all of Donaghys knitted fabrics and industrial products, an exclusive licence to all trademarks, brand names, and the use of the Donaghys name on those products for a five year period.

Gale will not assume any liabilities of the business on the completion date. Accrued employee entitlements on the completion date will be deducted from the purchase price. All Donaghys staff directly related to the knitted fabrics and industrial business will be offered employment by Gale. All trade debtors and creditors on the completion date will be retained by Donaghys. The acquisition will be completed by the recently incorporated NZ subsidiary, Gale Pacific (New Zealand) Limited. Gale will take on an assignment of the lease of Donaghys Christchurch premises and will continue to operate the business from that site.

An ongoing relationship between Gale and Donaghys has been provided for. Whilst Gale will take most of the newly acquired product range directly to market, some products will be sold to the agricultural channel through Donaghys' sales force which services this market.

There are some conditions precedent in the Donaghys transaction and the estimated completion date is mid – late December 2004.

The acquisition is anticipated to add revenues of approximately NZ$24.0 million (A$22.0 million) on a full year basis with an excellent EBIT contribution. The business is profitable, cash flow positive and will enhance Gale's earnings per share after taking into account the capital raising for the acquisition.

This acquisition will further enhance Gale's significant growth, both in terms of revenues, profits and global positioning.

Funding of the Acquisition

A$6.1 - A$6.4 million of the purchase price will be funded by a convertible note issue which the Company has arranged. The term of the convertible note is five years and the notes are convertible in to ordinary shares at A$3.25. This pricing minimises the dilution effect to existing shareholders.

NZ$2.0 million of the purchase price will be funded by the issue of ordinary shares to Donaghys. These shares are subject to a six month escrow. Gale will apply to have the shares issued to Donaghys quoted on the official list of the ASX. The shares will rank equally in all respects with all other fully paid shares in Gale as from the date of issue and will carry the same voting rights and dividend rights including the right to participate fully in any dividends with a record date after allotment.

The Board is very pleased with Donaghys' desire to have a shareholding in Gale and we welcome them to the register.

Both Donaghys and core segments of Gale's existing operations enjoy strong operating cash flow during the second half of the year following the earlier significant stock builds within the group in the first half.

The balance of the funding will be by way of Gale's existing bank facilities.

Donaghys Industries Ltd & Sarlon Pty Ltd

Donaghys was established as a small rope making plant in Dunedin in 1876. Over time its product range expanded to include an entire textiles division that produces products such as shade cloth, bird netting, windbreaks and hail protection for orchards. Donaghys has manufacturing facilities in Christchurch and Dunedin which are ISO9002 accredited. There are sales and distribution facilities in Christchurch, Auckland, Melbourne, Brisbane, and Perth.

Donaghys' existing cordage and agricultural operations including the Dunedin facility does not form part of the Gale acquisition, and Donaghys will continue to service its markets in the agricultural, horticultural and marine sectors with its extensive range of products not included in the Gale transaction. Donaghys commitment to its customers in New Zealand, Australia and other export destinations will not be affected by this transaction.

Sarlon Pty Ltd was established in Australia in 1957, producing industrial textiles from extruded plastic yarn for niche markets. Products included shade cloth, woven weed mat and a complement of extruded trellis, gutter guard, and nets. Sarlon developed skills in knitting extruded yarns and to complement its range, introduced knitted shade cloth and horticultural nets for crop protection and yield enhancement.

Donaghys and Sarlon developed to become major players in both the Australian and New Zealand agricultural markets.

In 1996/97 Donaghys Limited, a NZ publicly listed company at the time purchased the Sarlon business and the knitting and extrusion equipment were relocated to Donaghys plant in Christchurch.

Several years ago, Donaghys Limited was privatised and went through a management buy-out led by the NZ private equity manager Pencarrow Private Equity with AMP Asset Management Ltd (NZ) the major shareholder. The new team has restructured the business, rebuilding distribution channels and its Australasian market reputation.

Donaghys is now an efficient manufacturer of technical industrial and commercial fabrics going to market through specialist distributors and fabricators. In addition, Donaghys have recently negotiated a number of contract manufacturing agreements to generate further sales, margin and overhead recoveries for the Christchurch operation. These form part of the transaction with Gale.

<u>Strategic Benefits for Gale</u>

The attraction to Gale is Donaghys' major share of its New Zealand markets and its expertise in the commercial, horticultural and industrial markets both in Australia and New Zealand.

To this extent, the acquisition offers Gale a number of strategic benefits:-

- an established and profitable business in the New Zealand market with strong distribution and market relationships from which Gale can expand;
- a professional management team in NZ to manage this business and future Gale business in the NZ market;

- a leading position in the important Australian industrial and commercial fabric markets through specialist distributors and fabricators not serviced previously by Gale;
- access to a wider range of technical industrial and commercial fabrics with export potential through the already established Gale global distribution network;
- new export customers who Donaghys had established business with in the Middle East, USA and Mexico;
- a focused low cost industrial plant specializing in technical fabrics in NZ providing Gale with further manufacturing flexibility and enhanced productive capacity.

Donaghys Complementary Product Range

Donaghys have developed a range of products that service the horticultural markets in NZ and Australia providing protection against wind, sun, birds and hail. Specifically developed and manufactured for growers to exacting standards, all cloths are made strong and durable from a UV stabilised monofilament yarn and knitted construction.

Donaghys produces a range of innovative crop protection fabrics protecting against small to large hail storms and snow falls. These "crossover" fabrics utilise a unique internal cross thread across the net diamond to break up hailstones and are ideal for lower cost flat roofs where spans of cloth can reach up to 13m wide. A permanent canopy cloth which gives greater stretch is ideal for wider width spans.

In the industrial area Donaghys offers a range of meshes for a diverse range of uses. The high density polyethylene construction has non-corrosive, lightweight, durable and environmentally safe properties. UV stabilisers ensure a long life in exposed environments. Industrial meshes have virtually unlimited uses including retaining walls, safety fencing, oyster mesh, deck treads and pest roofing.

Conclusion

The Directors believe that this acquisition strengthens Gale's position in the commercial, horticultural and industrial markets in addition to its pre-eminent retail position. Further, Donaghys has been developing products for the water management sector, an area being targeted by Gale as well.

Your Directors are very pleased with the potential of this acquisition following on from the successful, integrated acquisitions of Visy Industries Pty Ltd's technical fabrics business (June 2002), the business and customer base of California Sun Shades Inc. of the US, including its interest in a Chinese joint venture now wholly owned by Gale (November 2002), the purchase of the German based private company Jung Garten & Freizeit Vertriebsgesellschaft mbH (February 2004), and the most recent expansion of the Company's Chinese manufacturing facilities.

Managing Director
15 November 2004

For further information concerning the Donaghys acquisition please contact the Managing Director, Mr Gary Gale on (03) 9518 3312 or the Chief Operating Officer, Mr Peter McDonald on (03) 9518 3311.