VALUATION & BUSINESS MODELLING

TRANSACTION ADVISORY SERVICES

GALE PACIFIC LIMITED

INDEPENDENT EXPERT'S REPORT AND FINANCIAL SERVICES GUIDE

IN RELATION TO A PROPOSED CAPITAL RAISING AND ISSUE OF SHARES

July 2007

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PART 1 – INDEPENDENT EXPERT'S REPORT

18 July 2007

Confidential

The Independent Directors
Gale Pacific Limited
145 Woodlands Drive
BRAESIDE VIC 3195

Dear Independent Directors,

Independent Expert's Report in Relation to a Proposed Capital Raising and Issue of Shares

Introduction

On 29 June 2007, the directors of Gale Pacific Limited ("Gale" or the "Company") announced that Gale would undertake a capital raising through the issue of ordinary shares (the "Proposed Share Issue").

The independent directors of Gale have appointed Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") to prepare an independent expert's report ("Independent Expert's Report") in relation to the Proposed Share Issue.

The Proposed Share Issue will comprise the issue of 30.3 million ordinary shares in Gale for $15.15 million ("Subscription Shares") to:

- Investec Bank (Australia) Limited (6.06 million shares);
- IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of Investec Wentworth Private Equity Fund 2 (12.12 million shares);
- IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of MG Private Equity Unit Trust No 1 (7.79 million shares); and
- MGB Equity Growth Pty Limited in its capacity as trustee of the MGB Equity Growth Unit Trust No 2 (4.33 million shares).

In this report, we have referred to the above entities collectively as "Investec".

As a result of the Proposed Share Issue, Investec will have an interest of approximately 22.1 percent in the ordinary issued shares of Gale.

The explanatory statement prepared by Gale ("Explanatory Statement") states that the proceeds from the Proposed Share Issue will be applied to:

- recapitalise the Company to address the current financial requirements;
- refinance the Company's existing banking facilities;
- provide the expansion capital necessary to restructure the New Zealand ("NZ") manufacturing operations; and
- provide working capital funds for sales growth and product development.

Subsequent to the Proposed Share Issue, an additional amount of $4.85 million will be provided by the Company's largest shareholder, Thorney Holdings Pty Ltd ("Thorney") for the issue of 9.7 million ordinary shares. This transaction does not form part of the Proposed Share Issue.

Purpose of the Report

As a result of the Proposed Share Issue, Investec will hold more that 20 percent of the issued share capital of Gale. The independent directors of Gale have appointed Ernst & Young Transaction Advisory Services to provide an opinion in relation to the Proposed Share Issue.

The purpose of the report is to advise whether the Proposed Share Issue is fair and reasonable to the shareholders of Gale that are not associated with the Proposed Share Issue ("Non-Associated Shareholders"). The report is prepared in accordance with the requirements of Section 611 item 7 of the Corporations Act 2001 ("Section 611").

Non-Associated Shareholders will be asked to vote on the Proposed Share Issue at the general meeting of shareholders of Gale ("General Meeting") to be held on 24 August 2007. Our report is to be included in the Explanatory Statement to be sent to the shareholders of Gale with the notice of general meeting prepared by Gale ("Notice of Meeting"). Our report has been prepared for the exclusive purpose of assisting Non-Associated Shareholders in their assessment of the Proposed Share Issue.

Our report considers the interests of shareholders as a whole and not individually. Individual Non-Associated Shareholders may have issues that affect them in particular ways that are not general to the Non-Associated Shareholders as a whole and this report cannot, and does not, consider such issues.

Summary of Opinion

Ernst & Young Transaction Advisory Services considers the Proposed Share Issue to be fair and reasonable to the Non-Associated Shareholders. Non-Associated Shareholders are likely to be better off if the Proposed Share Issue proceeds than if it does not proceed, notwithstanding the potential disadvantages. Ernst & Young Transaction Advisory Services notes that a number of the key benefits that arise as a result of the Proposed Share Issue are not easily quantifiable and, accordingly, evaluation of the Proposed Share Issue is subjective.

Policy Statement 74 ("PS 74") of the Australian Securities & Investments Commission ("ASIC") requires the independent expert to give an opinion as to whether a vendor, the company or any person will receive any premium for control as a result of the Proposed Share Issue. We are of the opinion that an appropriate premium is implicit in the terms of the Proposed Share Issue.

This opinion should be read in conjunction with the full text of this report, which sets out our findings and scope.

Other Matters

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Non-Associated Shareholders. The decision to accept or reject the Proposed Share Issue is a matter for individual Non-Associated Shareholders. Non-Associated Shareholders should consider the advice in the context of their own circumstances and preferences. Non-Associated Shareholders who are in doubt as to the action they should take in relation to the Proposed Share Issue should consult their own professional adviser.

Non-Associated Shareholders should also consider the potential taxation implications in relation to the Proposed Share Issue.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act 2001. The Financial Services Guide is included as Part 2 to this report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

John Selak
Director and Representative

Matt Gaffney
Director and Representative

Attachment

Glossary of Abbreviations

Abbreviated Name	Name
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAGR	Compound Annual Growth Rate
COT	Continuity of Ownership Test
Donaghys	Donaghys Industries Limited
DD	Financial Due Diligence
EBITDA	Earnings before interest, tax, depreciation and amortisation
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited
ERP	Enterprise resource planning system
Explanatory Statement	Explanatory statement detailing the Proposed Share Issue
Fairness	Comparison of the value of a share in Gale before the Proposed Share Issue and the value of a share after the Proposed Share Issue on the basis that it proceeds
FSG	Financial Services Guide
Funtastic	Funtastic Limited
Gale or the Company	Gale Pacific Limited
GM	General Meeting
GUD	GUD Holdings Limited
Housewares	Housewares International Limited
Independent Expert	Ernst & Young Transaction Advisory Services Limited
Independent Expert's Report	Independent expert's report in relation to the Proposed Share Issue
IPO	Initial Public Offering
Investec	Investec Bank (Australia) Limited, IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of Investec Wentworth Private Equity Fund 2, IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of MG Private Equity Unit Trust No 1 and MGB Equity Growth Pty Limited in its capacity as trustee of the MGB Equity Growth Unit Trust No 2.
Jung	Jung Garten & Freizeit Vertriebsgesellschaft mbH
Kresta	Kresta Holdings Limited
McPherson's	McPherson's Limited
Non-Associated Shareholders	The non-associated shareholders of Gale Pacific Limited
Notice of Meeting	Notice of general meeting
NTA	Net tangible assets
NZ	New Zealand
Proposed Share Issue	The proposed equity placement of $15.15 million to Investec and its related subsidiaries

PS 74	Policy Statement 74 Acquisitions Agreed to by Shareholders
PS 75	Policy Statement 75 Independent Expert Reports to Shareholders
Reasonableness	The advantages and disadvantages of the Proposed Share Issue
SBT	Same Business Test
Section 606	Section 606 of the Corporations Act 2001
Section 611	Section 611 item 7 of the Corporations Act 2001
SIP	Strategic Investment Program
Subscription Shares	The shares to be issued to Investec and Thorney Holdings Pty Limited as part of the Proposed Share Issue
Thorney	Thorney Holdings Pty Limited
USA	United States of America
VWAP	Volume weighted average share price

Contents

Part 1 – Independent Expert's Report

1. Introduction

1.1 Summary of the Proposed Share Issue

Gale Pacific Limited (“Gale” or the “Company”) was incorporated in 1951. Gale manufactures and distributes advanced polymer fabric products used for shade and environmental protection for many different purposes. Gale listed on the Australian Securities Exchange (“ASX”) on 14 December 2000, and had a market capitalisation of approximately $54 million as at 30 April 2007.

Over recent years, Gale has experienced severe operational, industry and financial challenges, and a number of changes in its management team. The reported net loss after tax in FY06 of $11.9 million led to a weakening in Gale’s relationships with its financiers.

In July 2006, Gale raised $20 million through a capital raising, and in September 2006, Gale sold its subsidiary Jung Garten & Freizeit Vertriebsgesellschaft mbH (“Jung”) for $14 million. The Company continued discussions with financiers to access long term financing which proved difficult, as 2007 trading continued to be challenging particularly in the European region.

As such, with the assistance of financial advisors, Gale undertook a formal assessment of its long term refinancing options, which involved undertaking a financial due diligence (“DD”) and negotiations with potential third party acquirers of the business.

Gale was permitted to extend its current facilities to 29 June 2007, subject to agreed progress being made on a further capital raising. On final implementation of the capital raising, long term refinancing would be approved. The Proposed Share Issue ($15.15 million) constitutes part of the requisite capital raising of $20 million. The balance of the capital raising, $4.85 million, will be provided by Thorney Holdings Pty Ltd (“Thorney”).

On 29 June 2007, Gale announced that it had completed negotiations with Investec Bank (Australia) Limited, IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of Investec Wentworth Private Equity Fund 2, IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of MG Private Equity Unit Trust No 1 and MGB Equity Growth Pty Limited in its capacity as trustee of the MGB Equity Growth Unit Trust No 2 (collectively, “Investec”) and Thorney to raise a combined amount of $20 million through the issue of 40 million ordinary shares (“Subscription Shares”) at $0.50 per share. Investec will acquire 30.3 million Subscription Shares for $15.15 million of new equity in order to recapitalise Gale (the “Proposed Share Issue”). Thorney, which is currently the largest shareholder in Gale, will acquire the remaining 9.7 million Subscription Shares for $4.85 million.

The following table summarises the total number of shares to be issued to each Investec entity, assuming the Proposed Share Issue proceeds:

Investec Entity		Number of Shares to be Issued
1.	Investec Bank (Australia) Limited	6,060,000
2.	IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of Investec Wentworth Private Equity Fund 2	12,120,000
3.	IWPE Nominees Pty Ltd as nominee of Investec Wentworth Private Equity Limited in its capacity as trustee of MG Private Equity Unit Trust No 1	7,791,428
4.	MGB Equity Growth Pty Limited in its capacity as trustee of the MGB Equity Growth Unit Trust No 2	4,328,572
	Total	**30,300,000**

Source: Gale management

At the date of this report, neither Investec, nor any associates of any Investec entity, held any shares in Gale.

The explanatory statement prepared by Gale ("Explanatory Statement") states that the proceeds from the Proposed Share Issue will be applied to:

- recapitalise the Company to address the current financial requirements;
- refinance the Company's existing banking facilities;
- provide the expansion capital necessary to restructure the New Zealand ("NZ") manufacturing operations; and
- provide working capital funds for sales growth and product development.

Furthermore, as part of the Proposed Share Issue, Investec will nominate John Murphy, Managing Director of Investec Wentworth Private Equity Limited, for appointment as a non-executive director of Gale.

We note that the issue of shares to Thorney is not a condition to the agreement with Investec. Given that Thorney will own less than 20 percent of the issued shares in Gale, we understand that Thorney will be a non-associated shareholder and be able to vote on the Proposed Share Issue at the General Meeting ("GM").

Our opinion is made as at the date of this report and reflects circumstances and conditions as at that date.

1.2 Conditions of the Proposed Share Issue

The Proposed Share Issue is subject to the following conditions precedent:

- approval from the ASX indicating that it will grant official quotation of the Subscription Shares;
- Gale making provision in its financial accounts for the year ending 30 June 2007 for the following:
  - Restructuring of Gale’s NZ manufacturing operations; and
  - European assets.
- Gale successfully obtaining bank funding to replace its existing Australian debt facilities of at least $15 million.

Gale will incur associated transaction cash costs of approximately $1.8 million. These transaction costs include the preparation of the Explanatory Statement, DD, broker costs for the capital raising, professional fees and costs associated with preparation and dispatch of documents.

The directors of Gale unanimously recommend that Non-Associated Shareholders vote in favour of the Proposed Share Issue. The directors of Gale advise that they have spent significant time exploring alternative funding options and they believe that the placement of shares to Investec is the best and most viable option to enable Gale to address its current financial requirements and to enable Gale to move forward. If the Proposed Share Issue does not proceed, and an alternative capital raising plan cannot be developed and implemented in the near term, then there would be significant uncertainty as to whether Gale would be able to continue as a going concern. The directors are not confident that they will be able to realise the assets and extinguish the liabilities of Gale in the normal course of business at the amounts stated in the financial accounts as at 31 December 2006.

We note that the assurance opinion as at 31 December 2006 contains an emphasis of matter with reference to “Inherent uncertainty regarding continuation as a going concern”. Based on our discussions with Gale management, we understand that Gale is unlikely to continue as a going concern if it is unsuccessful in recapitalising and extending its financing facility with the Company’s bankers and if the Proposed Share Issue does not proceed.

As noted in the Explanatory Statement, all the directors of Gale voted in favour of convening a meeting of Gale’s shareholders to consider the Proposed Share Issue.

2. Purpose and Scope of the Report

2.1 Purpose of the Report

As Investec will hold more that 20 percent of the issued share capital of Gale after the Proposed Share Issue, an independent expert's report ("Independent Expert's Report") is required to be prepared in accordance with the requirements of Section 611, item 7 of the Corporations Act 2001 ("Section 611"). The purpose of the Independent Expert's Report is to advise whether the Proposed Share Issue is fair and reasonable to the shareholders of Gale that are not associated with the Proposed Share Issue ("Non-Associated Shareholders").

The independent directors of Gale have appointed Ernst & Young Transaction Advisory Services as independent expert ("Independent Expert") to provide an opinion in relation to the Proposed Share Issue.

This Independent Expert's Report considers the interests of shareholders as a whole and not individually. Individual Non-Associated Shareholders may have issues that affect them in particular ways that are not general to the Non-Associated Shareholders as a whole and this report cannot, and does not, consider such issues.

Ernst & Young Transaction Advisory Services' opinion should not be construed as a recommendation as to whether or not to vote in favour of the Proposed Share Issue. Approval or rejection of the Proposed Share Issue is a matter for individual shareholders based on their own circumstances including their appetite for risk, investment objectives, investment portfolio and tax positions. Gale's shareholders should consult their own financial advisors.

2.1.1 Corporations Act 2001

Subject to certain exceptions, Section 606 of the Corporations Act ("Section 606") does not allow the acquisition by a person of voting shares in a listed company if that person's or someone else's voting power in the company increases, either from 20 percent or below to more than 20 percent, or from a starting point that is above 20 percent and below 90 percent.

Section 611 requires that, in the absence of an offer in which all shareholders can participate, any allotment of shares representing in excess of 20 percent of the issued share capital of the company must be approved by the shareholders who are not participating in the proposed allotment.

Section 611 provides an exemption to Section 606 if the Proposed Share Issue is approved by a resolution at a general meeting of Shareholders.

Since Investec may hold more than 20 percent of its issued share capital in Gale, the directors of Gale are seeking Section 611 approval by the Non-Associated Shareholders.

2.1.2 ASIC Policy Statements

Policy Statement 74 *Acquisitions Agreed to by Shareholders* ("PS 74") issued by the Australian Securities and Investments Commission ("ASIC") is applicable to the acquisition of shares agreed to by shareholders pursuant to Section 611. PS 74 sets out, inter alia, minimum information that should be provided to shareholders in order to assist them in deciding whether or not to approve transactions.

PS 74 requires that the notice of general meeting ("Notice of Meeting") include, amongst other things, an analysis of the Proposed Share Issue by the directors of Gale.

Ernst & Young Transaction Advisory Services notes that the provisions of PS 74 relate to certain principles regarding the rights of shareholders to information regarding a proposed transaction and an opinion on whether or not a proposal is "fair and reasonable" from the perspective of the Non-Associated Shareholders.

In broad terms, PS 74 requires the disclosure of all matters that are material and necessary for shareholders to make an informed decision on the proposal being put to the meeting.

PS 74 provides that the assessment of whether a transaction is fair and reasonable should involve a comparison of the likely advantages and disadvantages to the Non-Associated Shareholders if the transaction is implemented to the advantages and disadvantages to those shareholders if the transaction is not implemented. Under PS 74, fair and reasonable is a single concept to be judged in all circumstances of the transaction.

This is in contrast to Policy Statement 75 *Independent Expert Reports to Shareholders* ("PS 75") relating to the assessment of takeover offers. PS 75 makes a distinction between "fair" and "reasonable". The concept of "fairness" in this instance relates to the value of a transaction before and after the transaction, whereas "reasonableness" involves factors that shareholders might consider prior to approving a transaction. It is possible that a transaction is not "fair", but may still be "reasonable", if there are other factors that would cause the transaction to be in the best interests of the Non-Associated Shareholders.

Ernst & Young Transaction Advisory Services has adopted PS 74 as the basis for arriving at its conclusion (i.e. fair and reasonable as a single concept).

Based on the conclusion reached, in Ernst & Young Transaction Advisory Services' opinion, a transaction will be fair and reasonable to the Non-Associated Shareholders if they are more advantaged by implementing the Proposed Share Issue than if it is not implemented. The Non-Associated Shareholders will be advantaged if the consideration being received is fair and the expected benefits outweigh any disadvantages that might result. The Proposed Share Issue is also to be judged in terms of the overall effect of the entire proposal.

"Fairness" is said to involve a comparison of the value of the consideration with the value that may be attributed to the securities, which are the subject of the transaction, based on the value of the underlying business and assets.

The concept of "reasonableness" involves an analysis of factors other than fairness (value) that shareholders, whose votes are not to be disregarded, might consider prior to voting on the Proposed Share Issue.

PS 74 also requires the Independent Expert to provide an opinion as to whether there is any premium for control included in the consideration as a result of the Proposed Share Issue.

In giving an opinion as to whether any control premium is being paid, the independent expert needs to:

- consider whether the acquisition or proposed acquisition between the acquirers and the vendor are conditional upon, or are indirectly dependent on, shareholders' agreement to the acquisition;
- quantify any premium; and
- set out reasons for forming that opinion and why, under the circumstances, it is appropriate to regard the benefit as constituting a premium for control.

In order to assist the Non-Associated Shareholders in determining whether or not to approve the Proposed Share Issue, Ernst & Young Transaction Advisory Services has been commissioned to prepare an Independent Expert's Report dealing with the issue of securities pursuant to Section 611.

2.2 Basis of Evaluation

In evaluating fairness and reasonableness, we have considered the requirements of the Corporations Act, the ASX Listing Rules, ASIC Policy Statements and common market practice.

PS 74 provides guidelines for independent experts on how to evaluate whether or not the Proposed Share Issue is fair and reasonable when preparing reports for Section 611 proposals. In relation to the Proposed Share Issue, PS 74 states that the evaluation should:

- be judged in all circumstances of the proposal;
- compare the likely advantages and disadvantages to the shareholders if the proposal is agreed to, with the advantages and disadvantages to those shareholders if it is not; and
- consider the value of the shares in the company prior to the proposal and compare it to the value of the shares after the proposal on the basis that it proceeds (this should not be the sole factor in evaluating the proposal).

In forming our opinion on whether or not the Proposed Share Issue is fair and reasonable to the Non-Associated Shareholders of Gale, we have:

- estimated the market value of the shares in Gale before the Proposed Share Issue;
- considered the estimated impact of the Proposed Share Issue on the market value of the shares in Gale;
- compared the value of a share in Gale before the Proposed Share Issue and the value of a share after the Proposed Share Issue on the basis that it proceeds ("fairness"); and
- considered the likely advantages and disadvantages of the Proposed Share Issue to the Non-Associated Shareholders ("reasonableness").

In estimating the market value of Gale, we have assumed that the Proposed Share Issue will proceed and Gale will continue as a going concern. We note that where Gale is not successful in extending its financing facilities with its bankers, then the net realisable value of Gale will be more than likely less than its net tangible asset value.

In considering the reasonableness factors relating to the Proposed Share Issue, Ernst & Young Transaction Advisory Services considered factors relating to the Proposed Share Issue, recognising that the Proposed Share Issue is contingent on the approval from shareholders.

In determining whether a control premium will be received as a result of the Proposed Share Issue, we have considered the requirements of PS 74.

Ernst & Young Transaction Advisory Services has assessed that, in all cases, the advantages and disadvantages of rejecting the Proposed Share Issue are the inverse of accepting the proposal. Thus, for simplicity, Ernst & Young Transaction Advisory Services has set out the significant factors in Section 6.4 in the context of accepting the Proposed Share Issue.

2.3 Gale Shareholder Decision

This Independent Expert's Report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision to accept or reject the Proposed Share Issue and whether they exercise their rights under the Proposed Share Issue is a matter for individual Non-Associated Shareholders. The Non-Associated Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Non-Associated Shareholders should have regard to the Explanatory Statement prepared by the directors and management of Gale in relation to the Proposed Share Issue.

Non-Associated Shareholders should also consider the taxation implications in relation to the Proposed Share Issue. The directors have not provided tax advice to the Non-Associated Shareholders in the Explanatory Statement.

Non-Associated Shareholders who are in doubt as to the action they should take in relation to the Proposed Share Issue should consult their own professional adviser.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 to this report.

2.4 Limitations and Reliance on Information

During the course of the preparation of the Independent Expert's Report, Ernst & Young Transaction Advisory Services was provided with information in respect of Gale and obtained additional information from public sources as set out in Appendix 5.

We had discussions with Peter McDonald (Managing Director and Chief Executive Officer of Gale), Jeff Cox (Chief Financial Officer of Gale), and Rhys Campbell (Group Commercial Manager of Gale) in relation to the Proposed Share Issue, operations, financial position, operating results and outlook of Gale.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other external conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

This report should be read in the context of the qualifications, limitations and consents set out in Appendix 1 of this Independent Expert's Report.

3. Industry Overview

Gale operates in two industries in Australia – Made-up textile manufacturing and textile product wholesaling.

3.1 Made-Up Textile Manufacturing in Australia

3.1.1 Overview

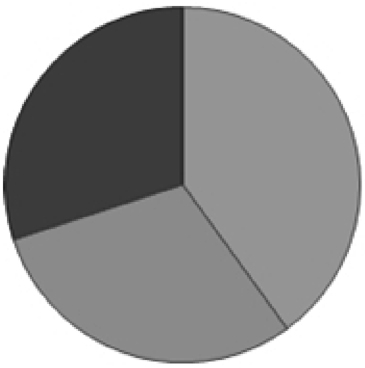
The made-up textile manufacturing industry is engaged in the manufacturing of household textile goods from fabrics. The industry provides the following major products and services:

- outdoor canvas goods – such as tents, life jackets, outdoor umbrellas;
- household textiles – awnings, blinds, etc.; and
- industrial canvas goods – widely used in manufacturing and agriculture due to their durability, and includes parachutes and sails.

This correlates with Gale's manufacturing operations which include products such as knitted outdoor fabrics, coated waterproof fabrics and PVC coated fabrics.

The industry is currently in the mature phase of its lifecycle, and the growth in industry turnover is relatively in line with the growth of the economy. As the industry is characterised by well-established and stable products, there has been growth in the level of imports in recent years. As such, domestic companies face potential threats from cheaper products imported from overseas. The introduction of innovative products are rare, notwithstanding that new products are introduced from time to time.

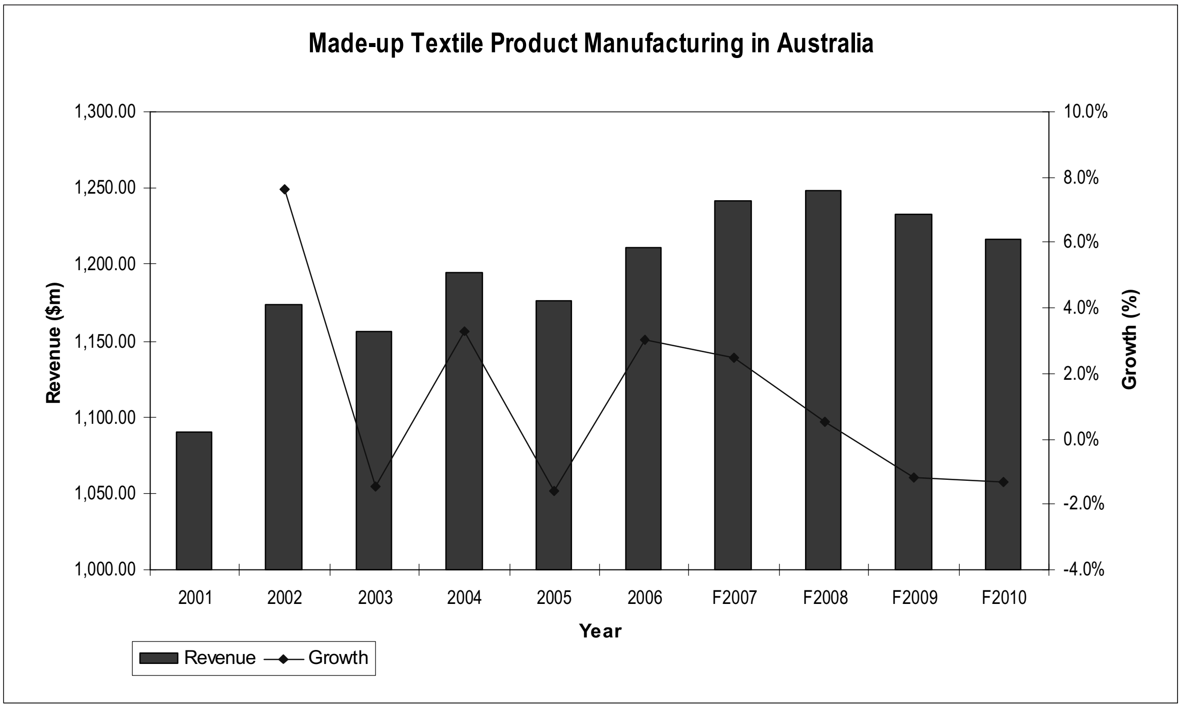
The following graph depicts the major product segments within the industry:



Product/Services	Share
Outdoor canvas goods (tents etc)	40.0%
Household textiles (awnings, blinds etc)	30.0%
Industrial canvas goods	30.0%

Source: IBISWorld

According to IBISWorld, industry revenues were estimated to be $1,176 million in 2004-05, with exports accounting for 1.8 percent of industry revenues. Revenue growth is expected to decline at an average rate of 1.3 percent until 2010, as illustrated below:



Source: IBISWorld

3.1.2 Competitive Environment

According to IBISWorld, the three largest manufacturers hold an estimated 10.5 percent market share, in total, with these players holding a significant share of the industry in Australia while other players tend to operate in specialist niches in other markets. The level of industry concentration is low, and a large proportion of the industry's revenue is generated by a small number of companies. The diverse product range offered within this industry has prevented companies from establishing any significant market share.

Companies in this industry compete in a number of areas including:

- style and design – superior style and design of products allows a company to set itself apart from its competitors;
- marketing – branding and promotion play a crucial part in generating sales for manufacturers. Such branding activities can include in-store promotion, home building fairs and mass media advertising campaigns;
- price – pricing is a competitive factor for producers of low-grade made-up textile products;
- selling and distribution – companies that invest heavily in establishing strong distribution relationships with downstream wholesalers and retailers, and are able to secure coveted retail shelf space, are in a position to generate higher revenue than their competitors; and
- quality – companies that are able to produce quality products and fabrics through the use of superior textiles and production processes are able to command premium prices.

The three largest industry participants with an estimated aggregate 10.5 percent market share are:

- Hunter Douglas Holdings Limited (4.0 percent);
- Alsco Pty Ltd (3.5 percent); and
- Albany International Pty Limited (3.0 percent).

3.1.3 Barriers to Entry

According to IBISWorld, the barriers to entry into this industry are medium. One reason for this is the strong competition from existing players. Such companies already have established brand strengths and proven marketing capabilities. In addition, some larger players have ventured into yarn and woven fabrics manufacturing, which provide cost advantages that new manufacturers cannot enjoy.

Other barriers to entry include the cost and effort required to secure export sales. An oversupply of textiles on world markets and the threat of cheaper, low quality overseas imports will result in fiercer competition and fewer opportunities.

Further, having access to skilled and qualified labour can be difficult, as there is currently a shortage of qualified labour in the industry. There are shortages in pattern makers, skilled production workers, CAD-trained designers and tertiary qualified management. Consequently, this will restrict new entrants in accessing appropriate industry talent.

3.1.4 Key Success Factors for the Made-Up Textile Manufacturing Industry

According to IBISWorld, the key factors affecting the performance of the made-up textile manufacturing industry are:

- having contacts within key markets – establishing good working relationships with retailers will assist manufacturers in securing retailing shelve space in shops and supermarkets;
- having a qualified work force – having a qualified and competent workforce will drive innovation in products and processes;
- automation – companies that invest in technologically efficient equipment can reduce overheads and labour costs, and increase manufacturing efficiency and margins;
- establishment of export markets – given the maturity of the industry in Australia, establishing a share in the export market will assist in future organic growth;
- establishment of brand names – the strength of a company's brand name can be important for maintaining market share; and
- production of premium goods/services – a company's ability to produce high quality products will assist in differentiating its products from low-end cheaper imports.

3.1.5 Outlook

According to IBISWorld, industry revenue will grow by a compound annual growth rate ("CAGR") of 0.7 percent until FY2010. The expected negligible rate of growth is primarily due to slowing activity in the housing construction industry and weaker demand from retailers.

Many Australian textile product manufacturers will encounter strong price competition from low-cost Asian manufacturers, and some Australian manufacturers will relocate their textile milling and manufacturing capacity from Australia to Asia. Accordingly, participants that are able to differentiate themselves through high end quality textile products, coupled with the growth in household incomes, will be able to fend off competition from cheaper import manufacturers and retain market share in niche products, improving their ability to compete on a global basis.

Shortages in skilled labour, inadequate equipment investment and future trade policy are other issues posing threats to future industry growth.

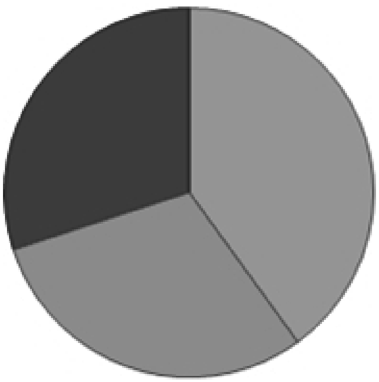
3.2 Textile Product Wholesaling in Australia

3.2.1 Overview

The textile product wholesaling industry involves the selling of textile products to department stores, fabric retailers and other retailers. Such textile products include the following:

- household textile products – comprises a wide range of products used in households and commercial buildings including awnings, blinds, soft furnishings etc.;
- textile products used in the leisure industries – comprise such items typically used in sailing, rock-climbing, camping, horse riding and other outdoor activities; and
- Other textile inputs such as fabric, felt, thread and yarn.

Wholesalers sell their products to the following major market segments:

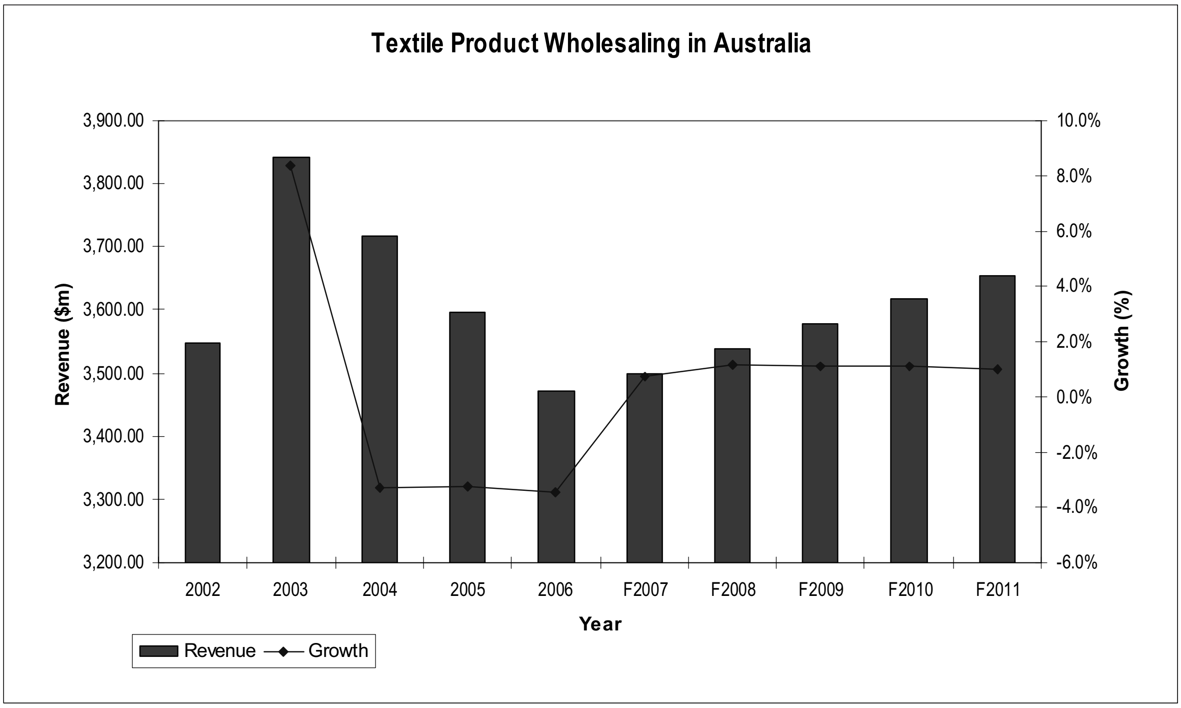


Product/Services	Share
Outdoor canvas goods (tents etc)	40.0%
Household textiles (awnings, blinds etc)	30.0%
Industrial canvas goods	30.0%

Source: IBISWorld

This industry correlates with Gale's distribution and wholesaling business that includes the wholesaling of textile products to other wholesalers and large retailers such as Bunnings and Mitre 10.

According to IBISWorld, the industry revenue in 2006-2007 was estimated to be $3,498 million, which was 0.8 percent higher than 2005-2006. Revenue growth is expected to continue at an average annual rate of 1.2 percent until 2011, as illustrated below:



Source: IBISWorld

3.2.2 Competitive Environment

According to IBISWorld, the industry has a low level of concentration with the three largest participants accounting for 6.5 percent of revenue in 2005-2006. According to the ABS Business Count Register 2001, more than 70 percent of these businesses registered turnover of less than $1 million. Furthermore, the majority of textile product wholesalers are concentrated in Victoria and New South Wales, with 78 percent of all wholesalers being located within these States.

The three major participants with an estimated aggregate 6.5 percent market share are:

- Associated Retailers Limited (2.6 percent);
- Campbell Brothers Limited (2.1 percent); and
- Austin Group Limited (1.8 percent).

3.2.3 Barriers to Entry

IBISWorld suggests that the barriers to entry in this industry are medium. The principal barrier is the high costs in setting up a warehouse and distribution centre. Costs associated with establishing a warehouse and distribution centre include leasing costs of buildings, the purchasing cost of plant and equipment, and investment in inventory control software.

In addition, new entrants face fierce competition from existing wholesalers given they have substantial buying power which allows them to purchase products for substantially lower prices, and consequently pass the cost savings onto retail groups.

Other barriers to entry are the costs and problems associated with establishing a customer base. Having regard to the maturity of the industry, some wholesalers are locked in medium to long term contracts with retailers. As such, new entrants will need to persuade retailers to switch wholesalers in order for them to build a customer base.

3.2.4 Key Success Factors

According to IBISWorld, the key factors affecting the performance of the textile product wholesaling industry are:

- having contacts within key markets – establishing good working relationships with retailers assist manufacturers in securing retailing shelve space;
- provision of appropriate facilities – having adequate warehouse space is paramount in order to have large quantities of stock on-hand;
- ability to control stock on hand – computerised warehousing and distribution systems help to reduce overheads by preventing stock build-up and increasing speed and operating efficiency and reliability of service;
- superior financial management and debt management – wholesalers require effective financial management to ensure financial commitments and obligations are satisfied;
- guaranteed supply of key inputs – supply contracts at established prices assist in minimising supply costs and production planning; and
- having a diverse range of clients – it is important to have supply relationships with a variety of retailers as oppose to relying on one or two customers.

3.2.5 Outlook

According to IBISWorld, the industry is expected to grow at an average annualised revenue growth rate of 1.1 percent between 2006-07 and 2011-12. This increase will be partially due to shifts in consumer and retailer’s preferences. The growing popularity in outdoor leisure activities such as sailing and camping will create demand in products such as tents, sail cloth and tarpaulins.

However, the recent increases in fuel prices may have some dampening effect on household spending. In the short-term, textile wholesalers that are involved in the transport and delivery of products may experience an increase in transport and freight costs, leading to reduced operating margins.

4. Overview of Gale

4.1 Overview and History

Founded in 1951, Gale is an Australian incorporated manufacturer and exporter of advanced polymer fabrics. Gale has manufacturing operations in Australia, China and NZ, and sales and distribution operations in the USA, Europe and the Middle East. In addition, Gale converts its fabrics into value-added products such as gazebos, umbrellas, window furnishings and shade sails. Through its industrial textile and extruded netting business, Gale distributes various knitted shade cloth, windbreaks, horticultural nets and other similar products to the agricultural industry. Gale listed on the ASX on 14 December 2000, and had a market capitalisation of approximately $54 million as at 30 April 2007.

4.1.1 History

The following summarises key events and developments in Gale's history:

1951	Incorporation and commencement of production of men's scarfs and ladies shawls.
1976	Expansion of operations into the manufacturing of durable knitted polymer fabrics for horticulture and agriculture use.
1981	Commencement of the manufacturing and sale of shade fabric for the do-it-yourself retail sector for outdoor use.
1987	Commencement of manufacturing value added products such as gazebos.
1989	Initial marketing of the "shadecloth" product to the USA and NZ.
1993	Establishment of USA marketing operations.
1996	Value adding activities are relocated to subcontractors in China.
1999	Establishment of its Dubai offices to service the Middle East.
2000	Listing on the ASX.
2002	Acquisition of Visy Industries' commercial and industrial coated division and California Sunshades.
2004	Acquisition of the Jung business in Germany and Donaghys Industries Limited ("Donaghys") knitted and coated fabrics division in NZ.
2005	Commencement of manufacturing of advanced polymer fabric at Gale manufacturing facilities in Beilun, China.
2006	Complete relocation of its manufacturing facilities to China, and closure of the Australian knitting operations. Disposal of the Jung business.

4.2 Business Activities

Gale's operations are categorised into two major business segments – retail products and commercial products.

4.2.1 Retail Products

Retail products comprised 57 percent of total sales in FY06, and include the following range of products:

Coolaroo

Coolaroo products consist of a suite of outdoor environment protection products that are made from unique knitted fabrics designed to block out harmful ultraviolet rays, and reduce the amount of temperature flowing through the fabric. Such products include shadecloth, gazebos, window furnishings and shade sails. Gale sells its retail products to major retailers in Australia, USA and Europe including Bunnings, Mitre 10, The Home Depo, Wal-Mart, Costco, Sam's and Lowe's.

4.2.2 Commercial Products

Commercial products accounted for the remaining 43 percent of total sales in FY06, and include the following range of products:

Synthesis

Synthesis products represent the advanced polymer fabrics for high-end commercial and industrial applications. Such products include commercial knitted fabric, coated fabric, merchandise fabric and custom coating. Each of these products are summarised as follows:

- Commercial knitted fabric – Gale's commercial knitted fabrics combine innovative knitting technologies to produce a diverse range of products for a wide range of applications. Other products within this range include the commercial shade cloth range such as shade products designed for demanding, but aesthetically pleasing, architectural buildings and designs. Gale's shadecloth is also used for horticultural and agricultural applications to protect crops and livestock from the extremes of sun and wind. Also included in this product range is safety fencing products that are lightweight and highly visible for effective control around construction sites and dangerous areas.

  Included in this product range is Gale's "Polyfabric", which consists of a comprehensive group of Polyolefin based coated fabrics that are lightweight but as strong as similar grade coated PVC fabrics.

- Coated fabric – Gale's coated fabric range includes a range of polymer coated fabrics. We have been advised by management that these products are manufactured using the best possible production methods, which results in the fabric displaying a high degree of flexibility and coating adhesion. As a result, the fabric holds stronger, lasts longer and is more resistant to cracking from repeated flexing and folding.

- Merchandise fabric – Merchandise fabric includes PVC coated fabrics and mesh products which are imported into Australia only to augment the Polyfabric range.

- Custom coating – Upon request, Gale develops and manufactures a range of fabrics that are specialised, or of a non-standard colour or feature, using its advanced coating and knitting manufacturing plants.

Donaghys

In 2004, Gale 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 in NZ. The assets acquired included all of Donaghys' customer lists, 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.

4.3 Board and Executives

Gale's board comprises a non-executive chairman, chief executive officer, and a non-executive director. A summary of the board members and key management is listed below:

Director / Executive	Resume
Harry Boon Chairman and Non-Executive Director	Mr Boon retired in 2004 as Chief Executive Director and Managing Director of the ASX listed company Ansell Limited, after a career spanning some 28 years with Ansell. Harry has lived and worked in senior positions in Australia, Europe, USA and Canada, and has broad-based experience in global marketing and sales, manufacturing and product development. He is multi-lingual, and has strong track record of achieving business results through setting ambitious goals, building the appropriate organisation relationships, and relentlessly pursuing delivery of commitments. During the last three years, Mr Boon has also served as a director of the following other listed companies: ▪ Tattersall's Limited; ▪ Funtastic Limited; ▪ Hastie Group Limited; and ▪ Toll Holdings Limited.
Peter McDonald Chief Executive Officer	Mr McDonald is the Company's Chief Executive Officer. Mr McDonald joined the Gale Group in 1988 and was appointed as an Executive Director of the Company in 1998. Prior to being appointed to his current position, Mr McDonald held the position of Chief Operating Officer and Managing Director of Gale Pacific USA Inc.
George Richards Non-Executive Director	Mr Richards joined the Board in 2004. He was the Chief Executive Officer of Mitre 10 South West Ltd from 1990 to 2000 and was previously the Managing Director of Cooper Tools, a market leader in hand tools manufacture and distribution. Mr Richards has had over 40 years experience in retail, marketing, manufacturing and distribution. He was also formerly president of the Hardware Federation of Australia and is a board member of The Alfred Foundation, a Director of Magnet Mart Pty Ltd, Associate Member of the Australian Institute of Company Directors and an Associate of the Certified Practising Accountants of Australia.

Source: Gale management

4.4 Capital Structure and Shareholders

The following table below summarises the top ten shareholders of Gale as at 1 June 2007:

Shareholder		Number of Shares	Percentage of Shares
1.	Thorney Holdings Pty Ltd[1]	16,567,324	17.1%
2.	Gale Australia Pty Ltd	13,927,844	14.4%
3.	ANZ Nominees Limited (Income Reinvestment Plan Account)	8,928,912	9.2%
4.	Citicorp Nominees Pty Limited	8,666,263	8.9%
5.	UBS Nominees Pty Ltd	7,563,617	7.8%
6.	National Nominees Limited (Equipsuper Account)	5,572,797	5.8%
7.	ANZ Nominees Limited (Cash Income Account)	4,081,029	4.2%
8.	Equity Trustees Limited (Smaller Companies Fund)	3,978,058	4.1%
9.	HSBC Custody Nominees (Australia) Limited - Gsco Eca	2,532,027	2.6%
10.	National Nominees Limited	2,025,382	2.1%
	Sub total	**73,843,253**	**76.3%**
	Other Shareholders	22,991,263	23.7%
	Total	**96,834,516**	**100.0%**

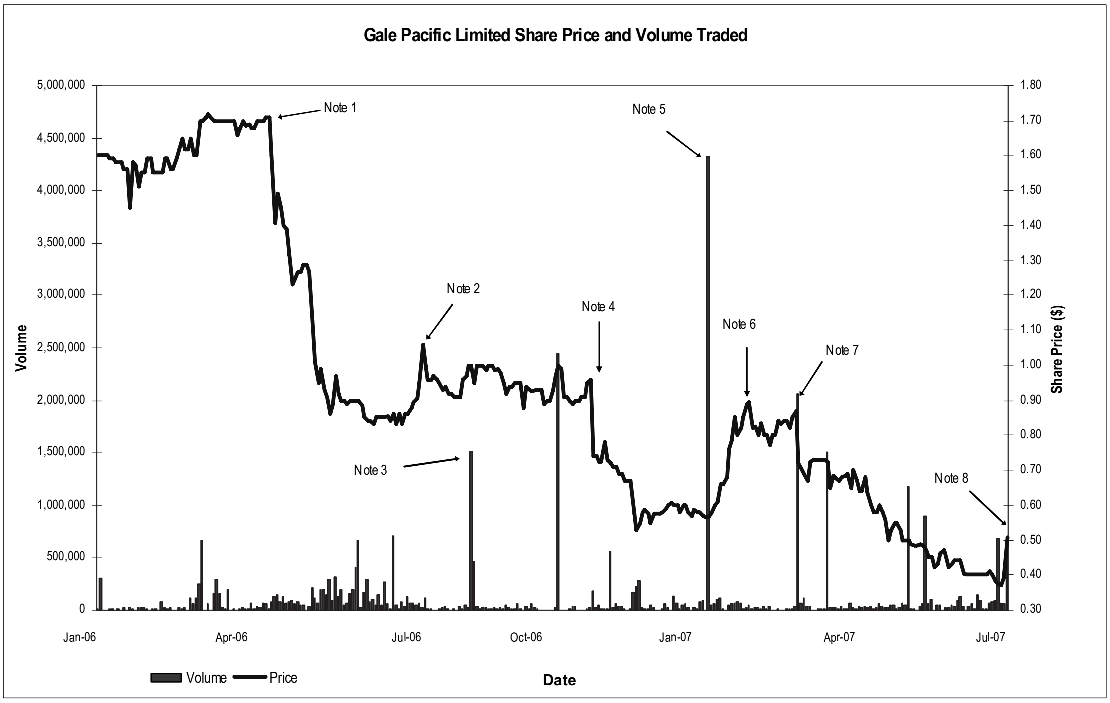
Source: Gale management

Notes:

1. Thorney currently holds 18.21% in the issued shares of Gale through Thorney Holdings Pty Ltd (17.11%), Invia Custodian Pty Ltd - white a/c (0.82%) and Invia Custodian Pty Ltd - black a/c (0.28%)

4.5 Share Price Performance

The graph below shows the Gale daily share price and trading volumes between 1 January 2006 and 3 July 2007:



Source: Bloomberg and ASX company announcements

Notable events since 1 January 2006 as disclosed in Company announcements are as follows:

Note	Date	Comment
1	21-Apr-06	Earnings downgrade for FY06 due to operating inefficiencies in its new Chinese manufacturing plant
2	3-Jul-06	Presentation and results from general meeting
3	1-Aug-06	Issue of 7,294,112 shares following a conversion of 2,594,593 convertible notes into fully paid ordinary shares
4	6-Nov-07	Update of trading performance and Gale's refinancing plan
5	11-Jan-07	Change in a substantial shareholder
6	1-Feb-07	Update on Gale's refinancing plan
7	2-Mar-07	Reinstatement to official quotation following a trading halt and release of 31 December 06 half yearly report
8	29-Jun-07	Announcement of the Proposed Share Issue

Source: ASX company announcements

4.6 Financial Performance

The financial performance of Gale for FY06 and forecast financial performance for FY07 and FY08 are summarised in the table below:

Gale Pacific Limited Financial Performance	30 June 2006 $000 Audited	30 June 2007 $000 Forecast	30 June 2008 $000 Forecast
Revenue			
Continuing business	112,190	110,338	127,853
Discontinuing business	54,865	8,072	-
Total revenue	**167,055**	**118,410**	**127,853**
EBITDA	**(466)**	**(920)**	**19,275**
EBITDA %	(0.3%)	(0.8%)	15.1%
Net profit after tax	**(11,944)**	**(12,600)**	**7,031**
Net profit after tax %	(7.1%)	(10.6%)	5.5%

Source: 30 June 2006 audited statutory accounts and management forecasts

We note the following in relation to the financial performance and forecasts of Gale:

- The relocation of the manufacturing operations to China resulted in manufacturing inefficiencies in FY06, which consequently adversely impacted profitability.
- The operating loss in FY06 was also due to the "one-off" expenses incurred in the sale of the Jung business.
- Net interest expense in FY06 of approximately $6 million primarily relates to the short and long term borrowings.
- FY07 sales are forecast to decrease from FY06, due to:
  - the sale of the Jung business; and
  - Europe – excessive return of products from previous selling season.
- The expected net loss in FY07 will be largely due to the "one-off" restructuring costs associated with the NZ manufacturing operations and the write-down of European assets.
- Forecast FY08 revenue growth will be dependent on sales to large key customers in the Northern Hemisphere such as Lowe's Companies Inc. and The Home Depot Inc. and on Gale's ability to deliver product volumes to support the expected demand.
- EBITDA margins are expected to increase in FY08 as a result of achieved production efficiencies in China and stronger margin sales.
- Net profit after tax is expected to increase in FY08 as a result of improved EBITDA margins and a decline in interest costs due to a reduction in short and long term borrowings.

We note that Gale incurred and expects to incur a number of "one-off" expenses in FY06 and FY07 of approximately $13.5 million and $12.5 million, respectively. Such expenses for FY06 include the loss on sale of Jung and manufacturing inefficiencies in China and for FY07, the restructuring of the Company's NZ manufacturing operations of $5 million and write down of European assets of $4.9 million.

4.7 Financial Position

The financial position of Gale as at 30 June 2006 and 31 December 2006 is summarised in the table below:

Gale Pacific Limited Financial Position	30 June 2006 $000 Audited	31 December 2006 $000 Reviewed
Cash and cash equivalents	10,552	7,991
Trade and other receivables	36,702	21,113
Inventories	47,599	40,422
Current tax assets	1,047	1,092
Other current assets	1,497	793
Current Assets	**97,397**	**71,411**
Plant & equipment	70,220	64,722
Intangible assets	12,486	13,770
Deferred tax assets	2,054	3,815
Non-current Assets	**84,760**	**82,307**
Total Assets	**182,157**	**153,718**
Payables	22,654	16,099
Short term borrowings	97,672	52,306
Other provisions and payables	1,216	1,134
Current Liabilities	**121,542**	**69,539**
Long term borrowings	12,070	5,230
Deferred tax liabilities	1,185	998
Provisions	427	982
Non-current Liabilities	**13,682**	**7,210**
Total Liabilities	**135,224**	**76,749**
Net Assets	**46,933**	**76,969**
Net Tangible Assets	**34,447**	**63,199**

Source: 30 June 2006 audited statutory accounts and 31 December 2006 reviewed half-year accounts

We note the following in relation to the financial position of Gale:

- The assurance opinion as at 31 December 2006 contains an emphasis of matter with reference to "Inherent uncertainty regarding continuation as a going concern".
- Short and long term borrowings decreased by $52.2 million between 30 June 2006 and 31 December 2006 as a result of a combination of receipts from a capital raising in July 2006, conversion of unsecured notes to equity, receipt of cash on the sale of the Jung business and positive cash flows generated by operations.
- Management is of the view that expansion capital expenditure is not required to meet forecast sales volumes.
- Inventories decreased by approximately $7.2 million between 30 June 2006 and 31 December 2006, predominately due to the sale of Jung.

4.8 Business Outlook

Gale incurred a number of “one-off” and “clean out” costs in FY06 and FY07. Management expects an improvement in earnings in FY08, mainly through margin improvement, manufacturing efficiencies and reductions in operating expenses.

The significant changes that management expect to take place during FY07 and FY08 include:

- Australian sales – management have identified that the key growth drivers will be the following:
  - discontinuation of a negative margin coated product;
  - increase in sales to retail customers; and
  - increase in new product sales.
- European sales – Gale experienced a higher than forecast product return rate in FY06. In order to improve its sell through rate, management plans to clear excessive and obsolete stock and rationalise the range of products sold. In addition, the Company plans to launch a new range of products better suited to the European market and expand its distribution channels in Southern Europe.
- NZ – the restructuring of the NZ manufacturing operations and the proposed movement of these facilities to China.
- USA – new product development and innovation will facilitate the increase in forecast sales in FY08, along with continued range and distribution expansion with its major retail customers.
- As management has improved the production efficiencies in the China manufacturing plant, margin improvements are expected in FY08.
- Improvements in inventory forecasting and planning processes will flow from the successful integration and implementation of their new Microsoft Dynamics AX Enterprise Resource Planning (“ERP”) system.

We note that during FY07, Gale experienced cash flow and financial difficulties. As mentioned previously, the assurance opinion as at 31 December 2006 contains an emphasis of matter with reference to “Inherent uncertainty regarding continuation as a going concern”. Gale is unlikely to continue as a going concern if it is unsuccessful in extending its financing facilities with its lenders and if the Proposed Share Issue does not proceed.

5. Valuation Methodology and Approach

As a part of assessing whether or not the Proposed Share Issue is fair and reasonable to the Non-Associated Shareholders, Ernst & Young Transaction Advisory Services has assessed the value of the issued shares in Gale before the Proposed Share Issue and compared the value of the issued shares to the value of the issued shares after the Proposed Share Issue, assuming that it proceeds.

5.1 Definition of Market Value

Ernst & Young Transaction Advisory Services has assessed the underlying value of the issued shares in Gale on a market value basis. Business valuers typically define market value as:

"The price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

5.2 Valuation Methodology and Approach

Ernst & Young Transaction Advisory Services has selected the capitalisation of earnings methodology to assess the underlying value of the issued shares in Gale. We have outlined a number of commonly used valuation methodologies in Appendix 2.

When applying the capitalisation of earnings methodology, we have derived the market value for 100 percent of the issued shares of Gale based on the following procedures:

- assessing future maintainable earnings, adopting earnings before interest, tax, depreciation and amortisation ("EBITDA") as the basis of earnings for our analysis;
- assessing an appropriate range of earnings multiples, having regard to potentially comparable companies, potentially relevant transactions and other factors specific to Gale;
- consideration of any other assets, liabilities and contingent liabilities of Gale; and
- consideration of any expenses associated with the Proposed Share Issue.

Our valuation of the issued shares in Gale before the Proposed Share Issue assumes that Gale has sufficient funding to continue as a going concern. It does not take into account any additional initiatives of management of Gale to expand or enhance the business in any way, as this would require the drawing down of additional finance to support such initiatives.

Prior to reaching our valuation conclusion, we have cross-checked our valuation by comparing the valuation range to the recent share price history of Gale and the net tangible asset value of Gale.

6. Assessment of Fairness and Reasonableness

6.1 Assessment Approach

In order to form an opinion on whether or not the Proposed Share Issue is fair and reasonable for the Non-Associated Shareholders, we have:

- determined the market value of the issued shares in Gale before the Proposed Share Issue;
- considered the impact of the Proposed Share Issue on the market value of the issued shares in Gale;
- compared the value of an issued share in Gale before the Proposed Share Issue to the value of an issued share after the Proposed Share Issue on the basis that it proceeds; and
- assessed the likely reasonableness factors of the Proposed Share Issue to the Non-Associated Shareholders.

6.2 Assessment of Fairness

6.2.1 Valuation of Issued shares in Gale before the Proposed Share Issue

In this section we have estimated Gale's market value before the Proposed Share Issue using the capitalisation of future maintainable earnings method.

As a cross check, we have considered recent trades in the Company's share price and the net tangible asset value of Gale.

These are discussed in the following sections.

6.2.2 Capitalisation of Future Maintainable Earnings

The capitalisation of future maintainable earnings method (where EBITDA is the basis of earnings) estimates market value by capitalising future earnings using an appropriate range of earnings multiples and adding any surplus or non-operating assets and deducting net debt. To value the issued shares in Gale using the capitalisation of future maintainable earnings requires the determination of the following:

- an estimate of future maintainable earnings;
- an appropriate range of earnings multiples;
- the value of net debt; and
- the value of any surplus assets.

Our considerations on each of these are discussed separately below.

6.2.3 Future Maintainable Earnings

Future maintainable earnings represent the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBITDA as the appropriate measure of earnings. Earnings multiples observed in share trading and transactions that are based on EBITDA are less sensitive to different financing structures, accounting policies for depreciation and amortisation and effective tax rates. This allows for a better comparison between the company being considered in the valuation and earnings multiples observed for share trading in potentially comparable listed companies and potentially relevant transactions.

In determining an appropriate level of future maintainable earnings for Gale, we have had regard to the forecasts for FY07. In determining normalised EBITDA of Gale, we had regard to discussions with management, year to date results, financial results for FY06 and the "one-off" expenses discussed in Section 4.6. The table below summarises the EBITDA normalisation adjustments and estimated future maintainable EBITDA:

Gale Pacific Limited Normalised EBITDA	Forecast FY07 ($000)
Forecast EBITDA	**(920)**
Add: Normalisation Adjustments	11,916
Normalised EBITDA	**10,996**
Future Maintainable Earnings (rounded)	**11,000**

Source: Forecast EBITDA as per management forecasts

Normalisation adjustments made in relation to the forecast EBITDA for FY07 amount to approximately $11.9 million and include the following:

- Provision for NZ restructuring – $5.0 million
- Provision for European assets – $4.9 million
- Write-down of damaged European inventory and merchandising stands – $1.7 million
- Other items – $316k

Management have advised that they expect the Company to continue to be eligible for the Strategic Investment Program ("SIP") government grant in FY07 and FY08 of approximately $145k and $200k respectively. On this basis, we have included the SIP revenue in EBITDA for FY07 and FY08.

In assessing an appropriate estimate of future maintainable earnings we have had particular regard to management expectations for FY07 EBITDA on the basis that forecast FY07 EBITDA is the most likely quantum of earnings that Gale is able to sustain in the foreseeable future in the absence of the Proposed Share Issue and any plans for expansion or diversification of operations. We note that Gale has disclosed the forecast normalised EBITDA for FY07 of approximately $11 million to the market in the announcement of the Proposed Share Issue.

In considering the forecast result for FY07, we had regard to the following:

- the recent historical financial performance for the ten months ended 30 April 2007 and management's expectations for FY07; and

- the changes to the Company, that management planned to undertake in FY07 as discussed in Section 4.8.

For the purpose of this Independent Expert's Report, we have estimated future maintainable EBITDA of $11 million for Gale before the Proposed Share Issue.

6.2.4 Range of Earning Multiples

In forming our assessment of an appropriate range of earnings multiples to apply in our valuation, we have had regard to the trading multiples of potentially comparable listed companies to Gale in Australia and overseas. As there are no dedicated advanced polymer manufacturing and wholesaling companies listed on the ASX, we have selected listed companies with significant operations in the consumer durables and apparel industry group and other similar listed companies with manufacturing and distribution operations. While none of these are directly comparable to Gale, we have had regard to differences in terms of operations, size and risk profile in our assessment of multiples used in this report. An analysis of each of the comparable companies is set out in Appendix 3. In addition, we had regard to the multiples reflected in transactions of companies within the consumer, durables and apparel industry.

Trading Multiples

The following tables summarise the trading multiples of comparable companies as at 30 April 2007:

Earnings Multiples As at 30 April 2007	Enterprise Value ($AUD)	Historical FY06 EBITDA Multiple	Forecast FY07 EBITDA Multiple	Forecast FY08 EBITDA Multiple
AUSTRALIAN & NZ COMPANIES				
Alesco Corporation Limited	1,155,470	13.1	11.3	9.3
Funtastic Limited	365,170	11.5	8.1	7.3
GUD Holdings Limited	599,087	8.4	8.5	8.0
GWA International Limited	1,474,507	10.0	12.2	10.9
Homeleisure Limited	40,030	-	n/a	n/a
Housewares International Limited	483,412	15.3	14.3	11.4
Kresta Holdings Limited	44,445	7.5	4.6	5.6
McPherson's Limited	292,095	7.2	7.0	6.5
Nylex Limited	91,258	12.6	4.8	n/a
PGG Wrightson Ltd*	693,802	n/m	10.3	9.7
Low	40,030	7.2	4.6	5.6
Average	523,928	10.7	9.0	8.6
Median	424,291	10.7	8.5	8.7
High	1,474,507	15.3	14.3	11.4

Earnings Multiples As at 30 April 2007	Enterprise Value ($USD)	Historical FY06 EBITDA Multiple	Forecast FY07 EBITDA Multiple	Forecast FY08 EBITDA Multiple
US COMPANIES				
Intertape Polymer Group	518,964	5.6	6.5	n/a
Polyone Corporation	906,747	3.8	4.5	4.4
Landec Corporation	271,599	22.2	25.6	12.4
OMNOVA Solutions Inc	329,838	7.1	5.9	5.6
Georgia Gulf Corporation	2,061,743	8.5	5.6	6.9
Spartech Corporation	1,223,301	9.0	8.4	7.8
Low	271,599	3.8	4.5	4.4
Average	885,365	9.4	9.4	7.4
Median	712,856	7.8	6.2	6.9
High	2,061,743	22.2	25.6	12.4
AVERAGE ALL COMPANIES		**10.1**	**9.2**	**8.1**

Notes:
* - converted at an NZD:AUD exchange rate ratio of 1.0:0.89493

Transaction Multiples

A summary of the EBITDA multiples reflected in M&A transactions of companies within the consumer durables and apparel industry in recent years is set out below:

Date	Target	Acquiror	Country	EBITDA Multiple (Historical)	EBITDA Multiple (Forecast)
INTERNATIONAL TRANSACTIONS					
May-02	Gerber Childrenswear Inc	Kellwood Co	US	5.2	n/a
Oct-02	William Baird Plc	Jacques Vert Plc	UK	5.5	9.7
Feb-04	Maxwell Shoe Company Inc	Jones Apparel Group Inc	US	10.8	n/a
May-05	Oshkosh B'Gosh Inc	Carter's Inc	US	30.9	n/a
Jun-05	Saucony Inc	Stride Rite Corp	US	7.3	n/a
Aug-05	Reebok International Ltd	Adidas AG	US	12.0	10.0
Sep-05	Haggar Corp	Multiple Acquirers	US	15.0	n/a
Apr-06	Russell Corp	Berkshire Hathaway Inc	US	13.9	10.0
Apr-07	Cutter & Buck Inc	New Wave Group AB	US	13.1	7.3
May-07	Stride Rite Corp	Payless Shoesource Inc	US	14.8	n/a
AUSTRALIAN TRANSACTIONS					
Nov-05	Millers Retail Limited	CHAMP Private Equity / Catalyst Investment Managers	AUS	6.1	n/a
Apr-06	Kathmandu Pty Limited[1]	Quadrant Capital and Goldman Sachs JBWere	AUS	8.8	n/a
Jun-06	Colorado Group Limited	Affinity Equity Partners	AUS	7.3	7.2
Jul-06	Witchery Fashions Pty Ltd[1]	Gresham Private Equity	AUS	9.0	n/a
Nov-06	Rebel Sport Limited	Archer Capital	AUS	9.2	7.7
International multiples average (times)				**12.9 x**	**9.2 x**
Australian multiples average (times)				**8.1 x**	**7.4 x**
ALL MULTIPLES AVERAGE (times)				**11.3 x**	**8.6 x**

Source: Bloomberg and Reuters

Notes:
n/a - not available
1 - Witchery Fashions Pty Ltd and Kathmandu Pty Limited are privately owned companies

Assessment of Earnings Multiples

In considering an appropriate range of earnings multiples to apply to future maintainable earnings, we have considered the following factors:

- In terms of operations, the Australian listed companies that are potentially comparable to Gale are Funtastic Limited ("Funtastic"), Housewares International Limited ("Housewares"), Kresta Holdings Limited ("Kresta") and McPherson's Limited ("McPherson's"). Housewares' earnings have come under pressure in recent times, particularly in its electrical products division, due to higher costs of materials, plastics and fuel and rising interest rates which has caused a slump in consumer demand for retail products. This has contributed to an earnings downgrade for their FY07 forecasts in recent times. Kresta has also experienced tough trading conditions for the same reasons mentioned above, but was still able to achieve its FY06 earnings forecast despite a slump in its total sales. As such, the directors of Kresta have asserted their dissatisfaction regarding Kresta's current trading price, and would like to see a re-rating in the near future. McPherson's has also consistently performed well during the last few years, and is expected to deliver higher earnings for FY07, following its recent EPS-accretive acquisition of book printing company, PMP Limited.

- GUD Holdings Limited ("GUD") has been selected as a potentially comparable company, as it is subject to similar risks as Gale. GUD has experienced a reduction in sales and profitability due to rising oil prices which has affected both input costs of their plastic products, resulting in dampened demand for automotive products. Furthermore, the recent Australian drought has caused a decrease in demand for their water products (i.e. spa pool and swimming equipment) and consumer products (i.e. lawn mowers).
- Average historic EBITDA multiples are 11.5, 15.3, 7.5 and 7.2 times for Funtastic, Housewares, Kresta and McPherson's respectively. The average historic EBITDA multiple for all the Australian and NZ comparable companies listed above is 10.7 times, based on share prices for minority parcels of shares. Refer to Appendix 3 for a detailed summary of the EBITDA multiples of the comparable companies.
- Average forecast EBITDA multiples are 8.1, 14.3, 4.6 and 7.0 times for Funtastic, Housewares, Kresta and McPherson's respectively. The average forecast EBITDA multiple for all the Australian and NZ comparable companies listed above is 9.0 times, based on share prices for minority parcels of shares. Refer to Appendix 3 for a detailed summary of the EBITDA multiples of the comparable companies.
- The implied historic EBITDA multiple for Gale, based on the historic adjusted FY06 EBITDA of approximately $13 million (which has been adjusted for "one-off" expenses of approximately $13.5 million) is 8.1 times and the share price of $0.56 as at 30 April 2007. This multiple is based on share prices for minority parcels of shares.
- Based on share prices for minority parcels of shares, the average forecast FY07 and FY08 EBITDA multiples for all Australian, NZ and USA comparable companies are 9.2 and 8.1 times, respectively.
- Gale management expect the results for FY08 to reflect significantly improved profitability and margins following the restructuring of its manufacturing operations. In order to improve margins, Gale will need to increase sales volume and successfully retain their current market share by defending competition from Asian exporters. Management also expects margins to increase through the continuance of higher value added product sales in USA, Australia and Europe.
- Gale expects the growth in sales to be derived from customers in the Northern Hemisphere (more particularly the USA) and through the release of new products in FY08.
- The impact of price variations in the key raw materials used in the business (High Density Polyethylene), and the fuel prices and other raw materials will need to be managed by Gale.
- According to IBISWorld, revenue growth in the made-up textile product manufacturing industry is expected to decline by an average rate of 1.3 percent per annum to 2010. This industry is currently in its mature stage of its lifecycle.
- The EBITDA multiples of the comparable listed companies are based on share prices for minority parcels of shares and do not include a control premium. Our experience shows that control premiums in Australia range between 20 and 30 percent.
- Prospective multiples are generally lower than historic multiples.

- We note that there is significant growth in the level of the future maintainable earnings based on FY07 adopted for Gale when compared with actual unadjusted EBITDA for FY06, which includes “one-off” expenses of approximately $13.5 million.
- PS 74 requires the independent expert to value 100 percent of a company and therefore incorporate a premium for control. The trading multiples listed above are based on the market price for minority or portfolio share holdings and do not include a premium for control. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:
  - the ability to realise synergistic benefits, for example by merging the target company’s operations with those of the acquiring entity;
  - access to cash flows;
  - access to tax benefits; and
  - control of the board of directors and the direction of the company.
- The specific significant risks facing Gale and the potential growth prospects of Gale compared to the comparable companies. Gale is facing significant financial and cash flow difficulties and the approval of the Proposed Share Issue is imperative if Gale is to continue as a going concern.
- The financial structure of Gale and its gearing level compared to other comparable companies in the industry.
- The historic and forecast EBITDA margins of Gale compared to other comparable companies in the industry.
- The risks inherent in significantly improving the financial results of the Company from FY06 actual EBITDA to the $11 million estimated future maintainable earnings. However, we note that a significant amount of “one-off” expenses were incurred in FY06, predominately relating to the sale of the Jung business at a loss.
- We sought to identify Initial Public Offerings (“IPOs”) involving businesses with comparable activities to Gale to provide evidence to assist in arriving at an appropriate range of EBITDA multiples. However, we were not able to identify any IPOs in Australia within the last 12 months.
- The simple average historical and forecast EBITDA multiple for Australian and international transactions observed in the consumer durables and apparel industry are 11.3 and 8.6 times, respectively. These implied multiples would also incorporate a premium for control;
- The successful turnaround of the Company is speculative and is highly reliant on the ability and skill of management and its ability to generate funds in order to support working capital requirements, future capital expenditure investment and improve operating efficiencies.
- We note that Gale has undergone a number of changes over recent years as referred to in Section 4.6. Gale faces significant risks as it focuses on turning its operations around to achieve profitability. New management has been put in place and the business is focussing on improving margins.

Based on our understanding of the outlook for Gale, its specific risks and consideration of the factors summarised above, we have selected a range of EBITDA multiples of 7.0 to 8.0 times to apply to the future maintainable EBITDA of Gale before the Proposed Share Issue.

6.2.5 Net Debt

We have considered the level of net debt of Gale for valuation purposes. Gale's debt levels in the past have varied significantly due to factors including but not limited to:

- the issuance of convertible notes in FY06;
- the conversion of convertible notes to equity in FY07;
- the repayment of a portion of the long term debt;
- cash generated from the sale of the Jung businesses; and
- capital expenditure.

At 30 April 2007, Gale had net debt of $46.8 million, comprising interest bearing debt of $58.2 million less cash of $11.4 million, as shown in the table below:

Gale Pacific Limited Net Debt	30 April 2007 ($000)
Cash and cash equivalents	(11,395)
Short term borrowings	53,309
Long term borrowings	4,927
Net Debt	**46,841**

Source: 30 April 2007 management accounts

6.2.6 Surplus Assets and Liabilities

For the purpose of the valuation, surplus assets/liabilities are defined as assets/liabilities that are either not required by a business to generate the earnings, or assets that are owned by a particular entity but the economic benefits associated with owning those assets are being enjoyed by other entities. To qualify as a surplus asset/liability, the asset/liability must represent an operating asset/liability in excess of the current and prospective operating requirements of a business.

The value of Gale's surplus assets and liabilities are summarised below:

Gale Pacific Limited Surplus Assets and Liabilities	30 April 2007 ($000)
H-awning line machinery	233
Hexnet knitting machinery	514
Receivable from sale of Jung	776
Provision for warranty claims relating to Jung	(452)
Net Surplus Assets	**1,071**

Source: 30 April 2007 management accounts

We make the following comments in relation to the surplus assets and liabilities of Gale:

- Gale management have identified the "H-awning line" and Hexnit knitting machinery as being idle equipment;
- The receivable from the sale of Jung relates to the purchase price withheld as 'security' to cover potential claims;
- Gale has recorded a provision for warranty claims in relation to prior sales made out of the legacy Jung business; and
- At 31 December 2006, Gale had carried forward income tax losses of approximately $4.2 million. In order to utilise carry forward tax losses, a company is required to meet either the continuity of ownership ("COT") test or the same business test ("SBT"). No value has been attributed to any of the carried forward income tax losses.

6.2.7 Minority Interest

Gale's FY06 statement of financial position discloses a minority interest of $11k which represents the portion of the net assets of Aquaspan Pty Ltd (i.e. a subsidiary within the Gale Group) that is attributable to investors outside the group. Management has advised us that minority interest at 30 April 2007 is the same as that at FY06.

6.2.8 Valuation Calculation

The calculations of the value of the issued shares in Gale before the Proposed Share Issue are summarised below:

Gale Pacific Limited Valuation Calculations		Low	High
Before Proposed Share Issue			
Future Maintainable Earnings (FY07)	$ million	11.0	11.0
Range of EBITDA Multiples	times	7.0 x	8.0 x
		77.00	**88.00**
Less: Net Debt	$ million	(46.84)	(46.84)
Add: Net Surplus Assets	$ million	1.07	1.07
Less: Minority Interest	$ million	(0.01)	(0.01)
Equity Value	$ million	**31.22**	**42.22**
Number of ordinary shares before Proposed Share Issue		96,834,516	96,834,516
Value per share before Proposed Share Issue	$ per share	**0.32**	**0.44**

As noted in Section 6.2.4, the above valuation reflects the value of 100 percent of the issued shares of Gale, inclusive of a premium for control.

6.2.9 Valuation Cross-Checks

Net Tangible Assets ("NTA") Approach

Set out below is our estimate of the NTA value per share of Gale on a going concern basis, based on the statement of financial position of Gale as at 30 April 2007:

Equity Value NTA Cross Check		Low $ million	High $ million
Before Proposed Share Issue			
Net Assets		**77.32**	**77.32**
Intangible Assets		13.11	13.11
Net Tangible Assets		**64.22**	**64.22**
Less: write down of NZ manufacturing operations		(5.00)	(5.00)
Less: write down of European assets		(4.90)	(4.90)
Less: Transaction Costs		(1.80)	(1.80)
Adjusted Net Tangible Assets		**52.52**	**52.52**
Net Tangible Asset Value	$ per share	**0.54**	**0.54**
Equity Value	$ per share	**0.32**	**0.44**

Intangible assets represent purchased goodwill arising on acquisition of the companies acquired by Gale.

In addition, we note that the Company announced that there would be restructuring costs relating to its NZ operations of $5 million and a write down of European assets of $4.9 million. Costs of $1.8 million relating to the capital raising and refinancing process would be incurred by the Company whether the Proposed Share Issue is approved by shareholders or not.

We expect the value derived using the capitalisation of future maintainable earnings method to include a premium above the value derived using a NTA methodology. A limitation of using a NTA methodology is that the book values of tangible assets and liabilities disclosed in the balance sheet reflects the depreciated historical cost and do not necessarily reflect the market value of the underlying assets and liabilities. The market value of tangible assets and liabilities can be higher or lower than their book values. We note that in the event the Company is unsuccessful in extending its financing facilities with its bankers, the net realisable value of the assets of Gale will probably be significantly less than their book values used to calculate the NTA value as reflected above.

The Company would incur significant redundancy and staff related costs as well as accept significantly less than the stated net book value for its plant and equipment under an auction scenario.

Recent Share Trades

Based on the recent share trades over 90, 60 and 30 days, the volume weighted average share price ("VWAP") is shown in the table below:

Period to 30 June 2007	Volume Weighted Average Share Price ($)	Average Daily Volume
Last 90 days	0.59	101,694
Last 60 days	0.47	82,857
Last 30 days	0.43	100,971

Source: Bloomberg

Refer to Section 4.5 above for a detailed discussion on the recent share price history of Gale. We note the following regarding the recent share trading price of Gale:

- The market capitalisation of Gale is low, in the region of $38 million as at 30 June 2007 compared to its adjusted NTA value of $52.5 million. The market capitalisation was $54 million at 30 April 2007. This is an approximate 30 percent decrease in two months.
- Sporadic volumes of shares being traded.
- Approximately 76 percent of the issued shares of Gale are held by the top 10 shareholders, which indicates that the size of the 'free float' of the shares is small. This may suggest that the trading price of the shares is not a reasonable reflection of their market value.
- Share price volatility is high.
- Gale has a limited following of equities analysts.
- Share prices are for minority parcels of shares and do not include a control premium.

Based on the above factors, the shares of Gale are thinly traded and we do not expect the share trading price to be a reasonable reflection of the underlying market value of the Company. It is, therefore, not unexpected that the market value derived using the capitalisation of future maintainable earnings method is not supportable by the recent share trading price of Gale.

We, therefore, do not consider the recent share trading price to be a reasonable basis as a cross check to our valuation range derived using the capitalisation of future maintainable earnings method.

6.2.10 Valuation Conclusion

Based on the above analysis, we consider the market value of the shares in Gale before the Proposed Share Issue to be between $31.22 million and $42.22 million and between $0.32 and $0.44 per share.

As noted in Section 6.2.4, the above valuation reflects the value of 100 percent of the issued shares of Gale, inclusive of a premium for control.

6.3 Impact of Proposed Share Issue on the Valuation of Gale

The impact of the Proposed Share Issue on the market value of Gale is summarised as follows:

6.3.1 Proceeds from Proposed Share Issue

As discussed in Section 1.1 the amount raised from the Proposed Share Issue will be $15.15 million cash. As the proceeds will be provided within five business days of Gale providing written notice that the conditions in the subscription agreement have been met, Ernst & Young Transaction Advisory Services has assessed the fair market value of the proceeds from the Proposed Share Issue to be $15.15 million.

6.3.2 Impact on Market Value of Gale

In determining the impact on the market value of Gale of the Proposed Share Issue, we considered:

- the assumptions underpinning the FY08 forecasts;
- the FY08 forecasts prepared by Gale management;
- the proposed use of the funds received from the Proposed Share Issue; and
- the long term financing facilities.

In the event that the Proposed Share Issue is unsuccessful, we note that it is highly likely that the Company will not achieve its FY08 forecasts.

We have been advised that Gale will use the $15.15 million raised as follows:

- pay down long term borrowings of $7 million;
- fund the restructuring of the NZ manufacturing operations of $5 million;
- pay the balance of transaction costs of approximately $0.7 million which relate to the Proposed Share Issue. We note that $1.1 million of the $1.8 million of transaction costs has been paid from Gale's own cash resources; and
- use the remainder to provide working capital for the Company.

6.3.3 Future Maintainable Earnings

We have been advised by the management of Gale that the FY08 forecasts have been prepared on the basis that the Proposed Share Issue will proceed and the Company will have sufficient funding to pursue growth programmes and manufacture volumes at levels sufficient to meet expected sales demands.

The FY08 forecasts also incorporate:

- expenditure on product development;
- expenditure in relation to the restructuring of NZ operations;
- the implementation of the new Microsoft Dynamics AX ERP system which will improve supply chain systems and performance to assist with the reduction of inventory levels and improve working capital management;
- the improved efficiencies from the China manufacturing plant; and
- the expected growth in demand for Gale products.

In determining the market value of Gale after the Proposed Share Issue, Ernst & Young Transaction Advisory Services considers it appropriate to use the FY08 forecasts as a basis for estimating future maintainable earnings. The table below summarises the normalisation adjustments and estimated future maintainable EBITDA:

Gale Pacific Limited Normalised EBITDA	Forecast FY08 ($000)
Forecast EBITDA	19,275
Normalised EBITDA	**19,275**
Future Maintainable Earnings (rounded)	**19,000**

Source: Forecast EBITDA as per management forecasts

We have been advised by the management of Gale that the FY08 forecasts have been prepared on the basis that the Proposed Share Issue will proceed and the Company will have sufficient funding to pursue growth programmes and manufacture volumes at levels sufficient to meet expected sales demands. The FY08 forecasts assume that management will be able to adequately develop the USA and European markets to achieve the forecast sales levels. The FY08 forecasts assume a full year's efficiencies from the manufacturing operations in China.

For the purpose of this Independent Expert's Report, we have estimated future maintainable EBITDA to be $19 million for Gale, assuming the Proposed Share Issue proceeds. Should the Proposed Share Issue not proceed, then our assessment of future maintainable EBITDA would be materially lower.

6.3.4 Range of Earning Multiples

In forming our assessment of an appropriate range of earnings multiples to apply in our valuation, we have had regard to the FY08 forecast trading multiples of potentially comparable listed companies and the factors discussed in Section 6.2.4. An analysis of the potentially comparable listed companies is set out in Appendix 3.

Based on our understanding of the outlook for Gale assuming the Proposed Share Issue proceeds and its specific risks and consideration of the factors outlined in Section 6.2.4, we have selected a range of forecast EBITDA multiples of 5.0 to 6.0 times to apply to the future maintainable EBITDA of Gale, assuming the Proposed Share Issue proceeds.

6.3.5 Net Debt

Gale had net debt of $46.8 million as at 30 April 2007. Refer to Section 6.2.5 for a detailed discussion.

We note that $7.0 million of the proceeds from the Proposed Share Issue are to be used to pay down some of the interest bearing debt. For the purposes of our valuation calculations in Section 6.3.9, we have considered the full amount of the proceeds of $15.15 million and the net debt of $46.8 million, before allocation of the proceeds, as summarised in Section 6.3.2, above.

6.3.6 Surplus Assets and Liabilities

Further to the surplus assets and liabilities identified in Section 6.2.6, we have identified the NZ restructuring costs of $5 million to be a cost that would be incurred if the Proposed Share Issue proceeds. The restructuring of the NZ operations is a condition of the Proposed Share Issue.

The value of Gale's surplus assets and liabilities are summarised below:

Gale Pacific Limited Surplus Assets and Liabilities	30 April 2007 ($000)
H-awning line machinery	233
Hexnet knitting machinery	514
Receivable from sale of Jung	776
Provision for warranty claims relating to Jung	(452)
Surplus Assets	**1,071**
NZ restructuring costs	(5,000)
Surplus Liability	**(5,000)**

Source: 30 April 2007 management accounts and Investec subscription agreement

6.3.7 Minority Interest

As discussed in Section 6.2.7, Gale's FY06 statement of financial position discloses a minority interest of $11k.

6.3.8 Costs of the Proposed Share Issue

The directors of Gale have estimated that transaction costs associated with the Proposed Share Issue will be $1.8 million. These transaction costs include the preparation of the Explanatory Statement, DD, broker costs for the capital raising, professional fees and costs associated with preparation and dispatch of documents. The transaction costs will be paid from Gale's cash resources ($1.1 million) and proceeds of the Proposed Share Issue ($0.7 million).

6.3.9 Valuation Calculation

The calculation of the value of the issued shares of Gale after the Proposed Share Issue are summarised below:

Gale Pacific Limited Valuation Calculations		Low	High
After Proposed Share Issue			
Future Maintainable Earnings (FY08)	$ million	19.0	19.0
Range of EBITDA Multiples	times	5.0 x	6.0 x
		95.00	**114.00**
Less: Net Debt	$ million	(46.84)	(46.84)
Add: Surplus Assets	$ million	1.07	1.07
Less: Surplus Liability	$ million	(5.00)	(5.00)
Less: Minority Interest	$ million	(0.01)	(0.01)
Add: Cash from Investec	$ million	15.15	15.15
Less: Cash used for Working Capital	$ million	(1.35)	(1.35)
Less: Costs of Proposed Share Issue	$ million	(1.80)	(1.80)
Equity Value	$ million	**56.22**	**75.22**
Number of ordinary shares before the Proposed Share Issue		96,834,516	96,834,516
Additional shares issued to Investec Wentworth Private Equity		30,300,000	30,300,000
Total shares on issue after Proposed Share Issue		127,134,516	127,134,516
Value per share after Proposed Share Issue	$ per share	**0.44**	**0.59**

6.3.10 Valuation Conclusion

Based on the above analysis, we consider the market value of the shares in Gale after the Proposed Share Issue to be between $56.22 million and $75.22 million and between $0.44 and $0.59 per share. As noted in Section 6.2.4, the above valuation reflects the value of 100 percent of the issued shares of Gale, inclusive of a premium for control.

6.3.11 Comparison of Values Before and After Proposed Share Issue

With reference to Sections 6.2.8 to 6.3.9, we note that the value of a share of Gale after the Proposed Share Issue is higher than our assessed value of a share in Gale before the Proposed Share Issue.

Gale Pacific Limited Comparison of Values Before and After the Proposed Share Issue	Low Per Share ($)	High Per Share ($)
Value per share before Proposed Share Issue	0.32	0.44
Value per share after Proposed Share Issue	0.44	0.59

6.4 Assessment of Reasonableness Factors

6.4.1 Assessment of Reasonableness

Ernst & Young Transaction Advisory Services has assessed that the advantages and disadvantages of rejecting the Proposed Share Issue are in the inverse of accepting the proposal.

Thus for simplicity, in assessing whether the Proposed Share Issue is reasonable, Ernst & Young Transaction Advisory Services has considered the potential advantages and disadvantages to the Non-Associated Shareholders and considered whether the advantages outweigh the disadvantages only in the context of the Proposed Share Issue.

In considering the reasonableness factors relating to the Proposed Share Issue, Ernst & Young Transaction Advisory Services considered factors relating to the Proposed Share Issue. These factors are summarised as follows:

- *Continued Operations of Gale and Continued Support of the Lenders*

The Company’s financiers extended their current banking facilities to 29 June 2007 on the proviso that progress was made to ensure that long term refinance would be in place by that date.

If this requirement is not met, the Company’s financiers may move to sell the secured assets of Gale, terminate Gale’s banking facilities and require Gale to repay all the associated bank debt. As a result, Gale may be placed in receivership.

The assurance opinion as at 31 December 2006 contains an emphasis of matter with reference to “Inherent uncertainty regarding continuation as a going concern”.

Management advises that Gale’s financiers will continue to support Gale if the Proposed Share Issue proceeds and there is evidence of final committed offers from Investec and Thorney subscribing to new share capital totalling $20 million. Gale has received commitments from Investec for $15.15 million and Thorney for $4.85 million. Consequently, the Proposed Share Issue will allow Gale to continue operating its current businesses. The Proposed Share Issue is contingent upon the approval from the Non-Associated Shareholders.

- *Alternative Capital Raising Options*

The directors and management have investigated and evaluated a number of alternative capital raising options to the Proposed Share Issue. This included the appointment of a financial advisor to assist in identifying and assessing alternative sources of finance and alternative potential buyers for the business. However, no proposals were received which provided sufficient value for the Board to recommend to shareholders.

We are not aware of any other capital raising options available to Gale as at the date of this report.

- *Orderly Realisation of Gale*

An orderly realisation is considered unlikely to realise the best financial outcome for Gale's shareholders for a number of reasons, including the potential loss of key customer contracts, the challenges of maximising sale price in a wind up environment, the ability to retain key personnel during such a process, the immediate cash requirements of the Company and the pending expiry of existing bank facilities if the Proposed Share Issue does not proceed.

- *Increase Value to Non-Associated Shareholders in the Medium to Longer Term*

Management are forecasting significant growth in earnings, conditional upon the Proposed Share Issue proceeding. The funds generated from the Proposed Share Issue and renewed financing facilities will be used to repay debt and provide working capital which will support the future growth of the Company. The admittance of a director from Investec onto the board of Gale will enhance the experience and expertise of the board and will assist the Company in achieving its plans for growth.

For the purpose of this Independent Expert's Report, we have estimated future maintainable EBITDA to be $19 million for Gale, assuming the Proposed Share Issue proceeds. Should the Proposed Share Issue not proceed, then our assessment of future maintainable EBITDA would be materially lower.

- *Providing Support to Gale's Board of Directors and Management*

Investec has indicated to the Company its intentions to become a stable, long-term, cornerstone shareholder to support the board of directors and management team of Gale. We understand that Investec will, as part of its investment in Gale, provide financial advice, management skills, entrepreneurial and strategic input where necessary in order to steer the Company through the "turn-around" phase.

Furthermore, where attractive targets can be identified, we understand that Investec will provide assistance and funding options for future mergers and acquisitions. This will assist the board of directors and management of Gale to grow the Company through acquisition.

- *Share Price if the Proposed Share Issue does not proceed*

As set out in Section 4.5, Gale's share price has increased by $0.12 per share or 30 percent on 29 June 2007 to $0.51 per share on 2 July 2007, the historical trading day following the announcement of the Proposed Share Issue.

The increase in the share price is likely to have been due to the ASX announcement in relation to the Proposed Share Issue and the release of FY07 and FY08 forecast EBITDA in the announcement.

In the event that the Proposed Share Issue does not proceed, it is likely that Gale's share price will fall in the short term. The extent to which it may fall is uncertain and will be dependent upon a number of factors including:

- the view of the market as to the future prospects for Gale given the disclosures made;
- the extent to which the market anticipates that alternative capital raising options are available; and
- the performance of the share market generally.

While it is likely that Gale's share price will fall in the short term if the Proposed Share Issue does not proceed, any fall in the share price may be as low as the prices prevailing prior to the announcement of the Proposed Share Issue. In the longer term, in the absence of some form of alternative capital raising options, Gale's share price performance will be substantially dependent upon Gale's future financial performance, including the ability of the Company to achieve its forecasts and remain a going concern, which is highly unlikely.

- *One-off Transaction Costs*

The directors of Gale have estimated that transaction costs will be approximately $1.8 million. These transaction costs include the preparation of the Explanatory Statement, DD, broker costs for the capital raising, professional fees and costs associated with preparation and dispatch of documents. These costs will be incurred by Gale regardless of whether the Proposed Share Issue proceeds or not.

In the event that the Proposed Share Issue does not proceed, a significant portion of the transaction costs of $1.8 million will have either been paid or will be payable.

6.5 Premium for Control

ASIC Policy Statement 74 requires the independent expert to give an opinion as to whether a vendor, the company or any person will receive any premium for control as a result of the transaction the subject of the expert's report.

In assessing the implications of the Proposed Share Issue for the Non-Associated Shareholders, we have incorporated a premium for control in our valuation of the shares in Gale. This premium is reflected in the multiple we have adopted in applying the capitalisation of future maintainable earnings methodology.

Recognising that the value of the consideration payable (i.e. $0.50 per share) by Investec for the ordinary shares in Gale is well above the valuation range we have placed on Gale before the Proposed Share Issue, we are of the opinion that an appropriate premium is implicit in the terms of the Proposed Share Issue. Assuming Investec will acquire 30.3 million shares at $0.50 per share, we note that this represents a premium of approximately 32 percent[1] above the valuation range before the Proposed Share Issue.

We note that although Investec's 22.1 percent shareholding is not a controlling interest in Gale, it is nevertheless a "strategic interest", where Investec may have a significant influence over the financial and operating policy decisions of Gale.

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[1] Based on mid-point of the valuation range

6.6 Other Considerations

This Independent Expert's Report only provides general information. It does not take into account a Non-Associated Shareholder's individual situation, objectives and needs. It is not intended to replace professional advice obtained by Non-Associated Shareholders. Non-Associated Shareholders should consider whether this Independent Expert's Report is appropriate for the Non-Associated Shareholder's circumstances, having regard to the Non-Associated Shareholder's situation, objectives and needs before relying on or taking action based on this report. Non-Associated Shareholders should seek their own professional advice.

Whether or not individual Non-Associated Shareholders should vote to implement or not implement the Proposed Share Issue depends upon an investor's situation, objectives and needs, as well as each investor's views as to the reasonableness factors associated with either implementing or not implementing the Proposed Share Issue.

6.7 Conclusion on the Proposed Share Issue

In our view, having regard to the comparison of values of a Gale share before and after the Proposed Share Issue set out in Section 6.2.8 and 6.3.9, the reasonableness considerations set out in Section 6.4 and the premium for control considerations set out in Section 6.5, on balance, the Non-Associated Shareholders of Gale are better off, or at least no worse off, if the Proposed Share Issue proceeds, taking into account all the circumstances which have been considered above.

Accordingly, it is our opinion that the Proposed Share Issue is both fair and reasonable to the Non-Associated Shareholders of Gale as a whole.

Appendix 1 – Statement of Qualifications and Declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this independent expert's report. The directors of Ernst & Young Transaction Advisory Services responsible for this independent expert's report have not provided financial advice to Gale in relation to the Proposed Share Issue.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to Gale with reference to the ASIC Practice Note 42 entitled "Independence of Expert's Reports". Ernst & Young Transaction Advisory Services and Ernst & Young have the following existing and historical relationships with Gale:

- Ernst & Young has provided tax transfer pricing services to Gale; and
- Ernst & Young Transaction Advisory Services has undertaken option valuations in respect to employee share schemes.

In addition, Ernst & Young Transaction Advisory Services and Ernst & Young has the following relationships with Investec:

- The statutory audit of Investec Bank (Australia) Limited;
- The statutory audit of Investec Wentworth Private Equity Fund 2; and
- The statutory audit of MG Private Equity Unit Trust No. 1.

It is in our opinion that the abovementioned existing and historical relationships do not impact on our ability to provide an independent and unbiased opinion in the context of the Proposed Share Issue.

This independent expert's report has been prepared specifically for the Non-Associated shareholders. None of Ernst & Young Transaction Advisory Services, Ernst & Young, nor any member or employee thereof undertakes responsibility to any person, other than the Non-Associated Shareholders, in respect of this independent expert's report, including any errors or omissions howsoever caused.

The statements and opinions given in this independent expert's report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this independent expert's report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Gale, their advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its independent expert's report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information we have had regard to in the preparation of this independent expert's report is set out in Appendix 5.

Gale has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this independent expert's report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of Gale for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this independent expert's report as a result of this review by the directors and management of Gale have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this independent expert's report, estimated at approximately $95,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

John Selak, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young, has assumed overall responsibility for this independent expert's report. He has 16 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

Matt Gaffney, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young, has also been involved in the preparation of this independent expert's report. He has 13 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

Fiona Hansen, an executive director of Ernst & Young Transaction Advisory Services, has also been involved in the preparation of this independent expert's report. She has 12 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

In the preparation of this independent expert's report Ernst & Young Transaction Advisory Services has had regard to relevant Policy Statements and Practice Notes issued by ASIC. It is not intended that the independent expert's report should be used for any other purpose other than to be sent to Gale's shareholders. In particular, it is not intended that this independent expert's report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposed Share Issue are fair and reasonable to the Non-Associated Shareholders.

The financial forecasts used in the preparation of this independent expert's report reflect the judgement of directors and management of Gale based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

Ernst & Young Transaction Advisory Services consents to the inclusion of this report in the Explanatory Statement to be sent to the Non-Associated Shareholders.

Appendix 2 – Valuation Methodologies

There are a number of methodologies available with which to value a project, a business or the shares in a company. The principal methodologies used are:

- capitalisation of earnings;
- discounted cash flow;
- net realisable value of assets; and
- market based assessments.

Each of these methodologies is appropriate in certain circumstances. The decision as to which methodology to utilise generally depends on the methodology most commonly adopted in valuing the asset in question and the availability of appropriate information.

Capitalisation of earnings

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology requires consideration of the following factors:

- estimation of future maintainable earnings having regard to historical and forecast operating results, abnormal or non-recurring items of income and expenditure and other factors. Future maintainable earnings is generally based on net profit after tax, EBIT, EBITA or EBITDA;
- determination of an appropriate earnings multiple reflecting the risks inherent in the business, growth prospects and other factors;
- earnings multiples applied to net profit after tax are known as price earnings multiples and are commonly used in relation to listed public companies. Earnings multiples applied to EBIT, EBITA or EBITDA are known, respectively, as EBIT , EBITA or EBITDA multiples, and are commonly used in respect of companies comprising a number of businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to control gearing;
- an adjustment for financial debt, in the event maintainable earnings are based on EBIT, EBITA or EBITDA; and
- an assessment of any surplus assets and liabilities, being those which are not essential to the generation of the future maintainable earnings.

This methodology is appropriate where a company or business is expected to generate a relatively stable record of earnings.

Discounted cash flow

The discounted cash flow methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows.

This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas fields). The utilisation of this methodology generally requires management to be able to provide long term cash flows for the subject company, asset or business.

Net realisable value of assets

The net realisable value of assets methodology involves the determination of the net realisable value of the assets of a business or company, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair market value.

This methodology is appropriate where a project, a business or company is not making an adequate return on its assets or where there are surplus non-operational assets.

Market based assessments

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

Appendix 3 – Potentially Comparable Earnings Multiples

Comparable Companies	Market Capitalisation ($AUD)	Enterprise Value ($AUD)	FY06 EBITDA Margin	FY07 EBITDA Margin	Debt / EV Ratio	Historical FY06 EBIT Multiple	Forecast FY07 EBIT Multiple	Forecast FY08 EBIT Multiple	Historical FY06 EBITDA Multiple	Forecast FY07 EBITDA Multiple	Forecast FY08 EBITDA Multiple
AUSTRALIAN & NZ COMPANIES											
Alesco Corporation Limited	960,606	1,155,470	15.4%	13.9%	16.9%	16.2	13.4	11.0	13.1	11.3	9.3
Funtastic Limited	276,969	365,170	8.8%	10.8%	24.2%	14.8	9.3	8.1	11.5	8.1	7.3
GUD Holdings Limited	485,320	599,087	15.5%	13.9%	19.0%	10.1	10.3	9.6	8.4	8.5	8.0
GWA International Limited	1,304,441	1,474,507	22.6%	18.9%	11.5%	11.7	15.1	13.4	10.0	12.2	10.9
Homeleisure Limited	26,259	40,030	-1.2%	n/a	34.4%	-	n/a	n/a	-	n/a	n/a
Housewares International Limited	405,048	483,412	7.4%	7.6%	16.2%	17.1	16.1	12.5	15.3	14.3	11.4
Kresta Holdings Limited	39,947	44,445	7.5%	7.9%	10.1%	10.1	4.3	5.1	7.5	4.6	5.6
McPherson's Limited	174,845	292,095	12.7%	12.9%	40.1%	8.7	8.3	7.7	7.2	7.0	6.5
Nylex Limited	52,659	91,258	2.3%	n/a	42.3%	-	n/a	n/a	12.6	4.8	n/a
PGG Wrightson Ltd*	470,768	693,802	4.9%	7.3%	32.1%	n/m	14.4	12.9	n/m	10.3	9.7
Low	26,259	40,030	-1.2%	7.3%	10.1%	8.7	4.3	5.1	7.2	4.6	5.6
Average	419,686	523,928	9.6%	11.6%	24.7%	12.7	11.4	10.0	10.7	9.0	8.6
Median	341,008	424,291	8.2%	11.8%	21.6%	11.7	11.8	10.3	10.7	8.5	8.7
High	1,304,441	1,474,507	22.6%	18.9%	42.3%	17.1	16.1	13.4	15.3	14.3	11.4

Comparable Companies	Market Capitalisation ($USD)	Enterprise Value ($USD)	FY06 EBITDA Margin	FY07 EBITDA Margin	Debt / EV Ratio	Historical FY06 EBIT Multiple	Forecast FY07 EBIT Multiple	Forecast FY08 EBIT Multiple	Historical FY06 EBITDA Multiple	Forecast FY07 EBITDA Multiple	Forecast FY08 EBITDA Multiple
US COMPANIES											
Intertape Polymer Group	217,231	518,964	7.3%	9.6%	58.1%	9.11	11.56	n/a	5.65	6.51	n/a
Polyone Corporation	603,447	906,747	7.6%	7.4%	33.4%	4.95	6.46	6.28	3.78	4.55	4.38
Landec Corporation	329,863	271,599	4.4%	5.1%	-21.5%	30.10	38.09	15.27	22.21	25.55	12.38
OMNOVA Solutions Inc	262,738	329,838	5.5%	7.7%	20.3%	12.69	10.98	9.40	7.14	5.89	5.64
Georgia Gulf Corporation	606,036	2,061,743	8.2%	9.5%	70.6%	13.21	8.83	9.90	8.55	5.59	6.86
Spartech Corporation	930,996	1,223,301	7.6%	9.4%	23.9%	12.79	12.07	11.14	8.97	8.44	7.84
Low	217,231	271,599	4.4%	5.1%	-21.5%	4.95	6.5	6.3	3.8	4.5	4.4
Average	491,718	885,365	6.7%	8.1%	30.8%	13.81	14.7	10.4	9.4	9.4	7.4
Median	466,655	712,856	7.4%	8.6%	28.7%	12.74	11.3	9.9	7.8	6.2	6.9
High	930,996	2,061,743	8.2%	9.6%	70.6%	30.10	38.1	15.3	22.2	25.6	12.4
AVERAGE ALL COMPANIES	**446,698**	**659,467**	**8.5%**	**10.1%**	**27.0%**	**13.19**	**12.8**	**10.2**	**10.1**	**9.2**	**8.1**

Notes:
n/m - Not meaningful
n/a - Not Available
* - converted at an NZD:AUD exchange rate ratio of 1.0:0.89493

Appendix 4 – Description of Comparable Companies

Comparable Entities	Country	Description
Australian & NZ Companies		
Alesco Corporation Limited	Australia	Alesco Corporation Limited is involved in the marketing and distribution of industrial products to the building and renovations, construction and mining, scientific and testing and automotive industries. The Company distributes products such as cabinets and paneling, earthmoving and truck tires, garage door openers and laboratory testing equipment.
Funtastic Limited	Australia	Funtastic Limited distributes and markets apparel, toys, and lifestyle products for children of all ages in Australia. The Company also manufactures, designs, and distributes its own licensed character merchandise such as food, bags, apparel, and stationery products to Australian retailers.
G.U.D. Holdings Limited	Australia	G.U.D. Holdings Limited manufactures and markets consumer and industrial products. The Company's products includes small electrical appliances, lawnmowers, cleaning products, automotive parts, water transfer pumps and water pressure systems, security products, swimming pool pumps, and spa bath controllers.
GWA International Limited	Australia	GWA International Limited manufactures household and consumer products including furniture, bathroom fittings and sanitary ware, lawn mowers, garden chip products, door locks and door furniture, hot water storage units and stadium seats. The Company manufactures commercial products including urinals, shower trays and plumbing fittings. The Company operates throughout the world.
Homeleisure Limited	Australia	Homeleisure Limited manufactures, distributes and imports giftware, music compact discs and DVDs, and houseware and consumer products such as plastic kitchenware, bake ware and cleaning products.
Housewares International Limited	Australia	Housewares International Limited is a wholesaler of houseware products in Australia, United States, Canada, New Zealand and Hong Kong. The Company's products encompass owned brand products and products sold through distribution arrangements such as kitchenware, silverware, dinnerware, crystal, appliances and nursery products.
Kresta Holdings Limited	Australia	Kresta Holdings Limited operates retail outlets throughout Australia and New Zealand which distribute blinds, curtains, furniture upholstery and window treatments. The Company also operates manufacturing plants involving textile weaving and coating, plastic components and the fabrication of timber Venetians, curtains and vertical blinds.
McPherson's Limited	Australia	McPherson's Limited manufactures, imports and markets kitchen knives, scissors, flatware, glassware, kitchen utensils and other houseware products. The Company also prints and publishes a range of books, paperbacks, catalogues, magazines, greeting cards, postage stamps, wrapping paper and telephone directories. The Company also manufactures and distributes beauty care and hair care products.
Nylex Limited	Australia	Nylex Limited is a manufacturer of consumer and industrial products. Nylex's consumer products include garden products, vinyl films and fabrics, garbage bins and tanks. Nylex also supplies rental equipment to the construction industry.
PGG Wrightson Limited	New Zealand	PGG Wrightson Limited is a farm service organization on the South Island, operating in Otago and parts of Southland. The Company's operations include wool scouring and dumping, wool and livestock trading, farming financial services, residential real estate and retail farming merchandising, which includes animal health and nutrition and pasture improvements.

Source: Bloomberg, Thomson Research, Financial Statements and Reuters Estimates

Comparable Entities	Country	Description
US Companies		
Intertape Polymer Group Inc.	US	Intertape Polymer Group Inc. develops, manufactures, and sells a variety of specialized polyolefin plastic packaging products for industrial use around the world. The Company's products include pressure sensitive and water-activated gummed carton sealing tapes, masking and filament tapes, packaging equipment, shrink and stretch wrap films, and woven products.
PolyOne Corporation	US	PolyOne Corporation is an international polymer services company with operations in North America, Europe, Asia, Australia, and South America. The Company provides thermoplastic compounds, specialty resins, specialty polymer formulations, engineered films, and color and additive systems. PolyOne also conducts operations in rubber compounding and thermoplastic resin distribution.
Landec Corporation	US	Landec Corporation designs, develops, manufactures, and sells temperature activated and other specialty polymer products for a variety of food packaging, industrial, agricultural, and medical applications. The Company's products are based on its Intelimer polymers, which differ from other polymers in that they can be customized to abruptly change their physical characteristics.
Omnova Solutions Inc.	US	Omnova Solutions Inc. develops, manufactures, and markets emulsion polymers, specialty chemicals, and decorative and building products for industrial, commercial, and consumer markets. The Performance Chemicals unit serves the paper, carpet, and textile industries. The Decorative & Building Products unit manufactures products such as wall covering, coated fabrics, and vinyl wood grain.
Georgia Gulf Corporation	US	Georgia Gulf Corporation manufactures and markets chemical and plastic products. The Company's products include electrochemicals, methanol, and aromatic chemicals. Georgia Gulf's products are sold for further processing into a variety of end-use applications, such as plastic piping, window frames made from PVC resins, and bonding agents for wood products.
Spartech Corporation	US	Spartech Corporation produces engineered thermoplastic materials, polymer compounds, and molded and profile products for a variety of manufacturing customers. The Company's facilities process extruded sheet and rollstock, specialty plastic alloys, compounds and color concentrates, and molded and profile products.

Source: Bloomberg, Thomson Research, Financial Statements and Reuters Estimates

Appendix 5 –Sources of Information

In preparing this report, Ernst & Young Transaction Advisory Services has had regard to the following sources of information:

- Annual reports of the selected comparable companies;
- Audited financial accounts for Gale and its subsidiaries for the three years ended 30 June 2006;
- Bloomberg;
- Factiva;
- Final draft financial due diligence report;
- Gale ASX company announcements;
- Gale website: www.galepacific.com.au;
- Gale's recapitalisation board presentation;
- IBISWorld Industry reports, IBISWorld Pty Limited;
- Investec and Thorney subscription agreements dated 29 June 2007;
- Investec indicative proposal to the Proposed Share Issue;
- Management accounts for Gale and its subsidiaries for the year to date 30 April 2007;
- MergerMarkets;
- Notice of General Meeting and Explanatory Statement;
- Refinancing of long term financing facilities from Commonwealth Bank of Australia and HSBC dated 29 June 2007;
- Reuters Estimates;
- Reviewed financial accounts for Gale and its subsidiaries for the half year ended 31 December 2006;
- FY2007 and FY2008 management forecasts; and
- Thompson Research.

In addition we held discussions with the following:

- Peter McDonald – Managing Director and Chief Executive Officer
- Jeff Cox – Chief Financial Officer
- Rhys Campbell – Group Commercial Manager

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THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

PART 2 – FINANCIAL SERVICES GUIDE

Issue date: 15 February 2005 (version 1)

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we Proposed Scheme, our dispute resolution process and how we are remunerated.

3. Financial services we Proposed Scheme

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a Proposed Scheme document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receives any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

Contacting Ernst & Young Transaction Advisory Services	**Contacting the Independent Dispute Resolution Schemes:**
Compliance and Legal Manager Ernst & Young 8 Exhibition Street Melbourne VIC 3000 Telephone: (02) 9288 8000	Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405 Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572