



GALE PACIFIC LIMITED
(ASX: GAP)

ASX ANNOUNCEMENT
14 November 2008
Managing Director and Chief Executive Officer's
Annual General Meeting Address

From an operational standpoint there is no doubt that the 2008 financial year was another challenging one for the business but one in which a lot has been achieved. Most pleasing of course, was the return to profitability, the continuing strong cash generation and improved Balance Sheet of the business. With the refinancing completed and the restructuring work undertaken during the year, we are now in a good position to focus on future growth opportunities for the Company.

Trading highlights of the 2007 / 08 year were as follows:

- ☐ While Sales revenue from continuing activities declined by 4.8% from the previous year, most of this reduction was due to foreign exchange differences on consolidation. Sales in Australia grew by 7% highlighted by strong sales of commercial fabrics and our Middle East business, which continues to go from strength to strength, increased sales by a further 41% for the full year.
- ☐ We completed the relocation and recommissioning of our Christchurch, New Zealand manufacturing operation and relocated the majority of this production to the China factory.
- ☐ Resin prices remained high during the financial year and, where possible, price increases have been passed on to the market. Throughout the year, the strength of the Australian dollar has helped us absorb much of the resin increases but more recently, with the rapid weakening of the dollar, this has come under considerable pressure.
- ☐ The Company continued to generate strong positive cash flows from operations. We have implemented improved forecasting and production planning systems in the business which are progressively being rolled out across the regions to manage our working capital as effectively as possible.
- ☐ The Group wide global information system has been implemented in Australia, New Zealand, Europe and the Middle East. The implementation will be completed in the USA in early 2009 allowing us to generate uniform processes and information. This investment in information technology will continue to provide improvements in support for decision making, ongoing working capital management and customer service.
- ☐ The R & D group has been working on a number of shorter term product improvement and technical projects, and longer term innovation and technology step change projects. During the year a number of new product developments have been completed. A new range of window furnishing and shade sail products have been completed along with two new architectural fabric ranges which are in the process of final production and market

launch. Other longer term projects include improved fire retardant architectural fabrics and a breakthrough waterproof and breathable fabric. Important improvements to our Landmark fabric used for covering grain have assisted in winning new business for this product, replacing competitors PVC fabrics. The Company remains committed to R & D as a key factor in the Group's long term growth strategy.

Asia / Pacific revenue reduced marginally to \$71.8 million from \$72.8 million in the previous corresponding period. Operating profit after tax for the region increased to \$5.0 million from a loss of \$4.8 million in the previous corresponding period which related mainly to New Zealand restructuring costs.

Sales in Australia for the full year increased by 7% compared with the previous corresponding period. Sales to the retail market were slightly lower than the previous year which had been particularly good. This retail sales shortfall was offset by strong sales of industrial fabrics highlighted by exceptionally strong sales of our Landmark fabric used for grain storage covers replacing competitors PVC product. Whilst drought conditions continue in some parts of Australia, sales of coated fabrics increased as market conditions improved in many of our other industrial market segments.

Excluding exports, sales in New Zealand decreased by 19% in local currency in a very competitive market. This apparent decrease was exaggerated, as some sales to New Zealand export customers were transferred and reported by other Gale regions during the year. New Zealand manufacturing equipment was transferred to China during the year leaving no remaining production in New Zealand.

We have sub-let the remaining excess space in our Christchurch facility on a short term basis and are working on options to find a long term solution to exit the lease commitments on this property in New Zealand. Our structure and overheads in New Zealand have been reduced dramatically to a small, focused sales and distribution operation.

Our export business to Japan grew year on year with a number of new products being introduced and new customers added through our Japanese distributor, Takasho Co. Ltd.

With the changes to our New Zealand structure and the opportunities we see for sales growth in the broader Asia Pacific region, we have recently restructured our southern hemisphere business and are pleased to announce that Shaun McPherson will join the company on November 24th in the role of Managing Director – Asia Pacific. Under this new structure, Shaun will be responsible for our Australian and New Zealand businesses and expansion of our business into other Asia Pacific markets. Prior to joining Gale, Shaun was General Manager/Country Director for Newell Rubbermaid Australasia.

Europe / Middle East / Africa revenue increased to \$11.9 million from \$10.3 million in the previous corresponding period. The operating loss after tax for this region was improved to \$3.2 million compared with a loss of \$12.1 million for the previous corresponding period which included the loss on sale of the Jung business in Germany and larger inventory write downs. The result for this year includes a further inventory write down of \$1.6 million in Europe.

Sales in Europe increased by 21% in local currency over the previous corresponding period but were from a low base. The sales increase was substantially lower than planned as the traction from increased store listings has not yet fully converted to increased sales levels. This was compounded by a poor selling season in Europe due to weather. Obsolete

inventory that the business has been burdened with since the 2005 and 2006 season has been liquidated.

As mentioned by the Chairman, we are currently reviewing the structure of our operations in the European market where we have a full service business operating in a highly seasonal market which has underperformed to date. Whilst we still believe opportunities exist for the business in Europe, there may be more cost effective ways for us to service this market which we are currently exploring.

Revenue in the Middle East increased 41% in local currency driven by the continued strong level of construction and development in this region. Increased specifier activity and an expanded customer base have driven this sales growth.

Sales in the USA declined 13% in local currency terms in a tough market and following the loss of a product listing with a retail customer. Despite this, the USA grew its retail store presence with the two major retail customers, Lowe's and The Home Depot, and added new products with both of these accounts over the year. The sell through rates with these customers were encouraging, considering the downturn in US retail spending, particularly in the home improvement and DIY market.

Market conditions in the USA have continued to deteriorate and with rising unemployment in the USA, and very tight credit and recessionary conditions looming, it is difficult to predict how strong consumer activity will be for the coming season.

We continue to work hard with our retail and commercial customers to generate sales and promotional opportunities whilst managing our inventory commitments and expenditure extremely tightly.

China operations continued to improve during the year, although we are still experiencing below budget plant utilisation, some technical processing issues and master batch quality problems. Progress is being made and further improvements are planned throughout the year. We have a planned upgrade to a key piece of equipment scheduled to take place in December and are progressing well with improving master batch quality and validating secondary suppliers.

Recent restructuring of China management is designed to improve our technical capabilities and manufacturing performance. Emma Xu, our Managing Director in China for the past 6 years will complete her employment contract with the business in December of this year. An extensive search has been underway for the past three months to find a new Managing Director for the China operation with a strong background in manufacturing to manage the business in China through its next stage of development and operational improvement. We have an excellent short list and hope to make an announcement shortly.

Our focus in the China plant is to improve our overall manufacturing performance by increasing efficiencies, reducing scrap rates and operating costs. We are also working with our key equipment providers to develop improved operator training programs and increase the knowledge and competence of our workforce in China.

Polymer costs have continued to rise to record high levels and peaked in the first quarter of FY09 to price levels we would never have predicted. Where possible, these cost increases have been, and will continue to be passed on in our selling prices, but this has been difficult to achieve during the first quarter following a sharp spike in the price of this key raw material.

In the last month, we have seen some price relief, but this has been more than offset by the sharp drop in the Australian dollar. This level of volatility has put pressure on margins and has made pricing decisions extremely difficult. We will continue to monitor and manage this closely.

The recent volatility in foreign currencies has given us a number of challenges. Not just on the impact on the cost of goods imported into Australia and New Zealand, but also on our overall debt position. Our hedging strategy, which we have had in place now for a number of years, is to match our assets and liabilities held in foreign currencies using foreign currency loans to minimize the impact of exchange movement on our Profit & Loss Statement. At June 30 2008, Gale held foreign currency loans in both U.S. Dollars and Euro as part of this hedging strategy. The recent sudden weakening of the Australian dollar has increased these borrowings when measured in Australian dollars by approximately \$10 million.

The company's loan facilities in Australia and China are due for renewal in the coming months, and, whilst the renewal of these loans comes at a time where there has been a general tightening in the availability of credit, we are continuing discussions with our bankers to renew these loans as they fall due. We will keep the market informed if there is any material change.

08/09 Trading Update

As you would expect, we have been actively managing the business very tightly in light of the very tough market conditions that we now face. Operationally, we remain focused on sales and product development, active demand forecasting and supply chain management, tight cost control and working capital management to deliver the best possible result in this unprecedented economic environment.

With the volatility and uncertainty of the external environment, as the chairman has said previously, it is extremely difficult to predict performance for the year and we cannot give any specific guidance. In spite of this uncertainty, it is pleasing to report that our first quarter profit is ahead of last year but I again stress that both the southern and northern hemisphere summer seasons are still ahead of us.

In closing, I would also like to acknowledge the outstanding contributions of the entire management team and all employees of Gale throughout the year. Their contribution to improving the business has made us all proud of the return to profitability of the business. Thank you also to the directors for their valuable guidance and contribution throughout the year, and of course, to our shareholders, thank you for your patience and support whilst we have been restructuring operations and charting our way through the current turbulent waters.

Thank you.

About Gale Pacific Limited

Gale Pacific is a leading manufacturer and marketer of advanced polymer fabrics and related products with subsidiaries in the USA, Europe, UAE, New Zealand and China.

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