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Financial Calendar 2017

| | |
|---|--------------|
| Preliminary report and dividend announcement | 25 August |
| Record date for final dividend | 15 September |
| Final dividend payable | 3 October |
| Annual Report and Notice of Annual General Meeting Mailed to Shareholders | 27 October |
| Annual General Meeting | 29 November |
| Half year end | 31 December |

The Annual General Meeting of Shareholders of Gazal Corporation Limited will be held at the offices of Ernst and Young, Level 35, Room 3517, 200 George Street, Sydney NSW 2000 on 29 November 2017 at 11:30am.

A formal notice of meeting is enclosed with this Annual Report, setting out the business of the Annual General Meeting.

Gazal Corporation Limited
& its Controlled Entities

Directors' Report

For the year ended 30 June 2017

Your Directors have pleasure in submitting their report for the year ended 30 June 2017.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Mr R. Gazal resigned as a non-executive director on 6 October 2016. All other directors were in office for this entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Michael J. Gazal B.COM.

Executive Chairman - Joined the Gazal Group in 1986 after gaining experience in merchant banking and stock broking. In November 1989 after the passing of Mr. J.S. Gazal A.M, his father and founding Chairman of the Gazal Group, he was appointed Chief Executive Officer and was responsible for the day-to-day management of the Group. Mr. Gazal was appointed Executive Chairman on 15 November 2012.

Patrick Robinson B.SCI., MBA

Executive Director - Mr. Robinson was appointed a director of the Company at the November 2012 AGM. He has had an extensive and successful career in the retail and consumer goods industry over the past 15 years including senior roles within David Jones and buying and marketing roles with Blockbuster and Myer.

Bruce Klatsky

Non-Executive Director and Lead Independent Director - Mr Klatsky was CEO of Phillips-Van Heusen (PVH) from 1993 to 2005 and Chairman from 1995 to 2007. PVH is one of the largest apparel and footwear companies in the world and listed on the New York Stock Exchange. He is currently a director of Perry Ellis International, Inc a company listed on NASDAQ stock exchange. He is a member of the Audit and Risk Committee and Chairman of the Remuneration and Nomination Committee.

David J. Gazal

Executive Director - Joined the Gazal Group in 1987, appointed Director on 24 April 1999 and has performed a number of key roles within the Group since joining including Group Divisional Manager of Surf and Casual wear and Managing Director of Mambo. He is currently the General Manager of Bisley Workwear.

Craig Kimberley

Non-Executive Director - Formerly the founder of the Just Jeans retail chain he has had 30 years experience in the retail and apparel industries. He is a member of the Remuneration and Nomination Committee and the Audit and Risk Committee.

Graham Paton AM B.Ec FCPA

Non-Executive Director - Previously a partner for twenty three years in Arthur Andersen, Chartered Accountants, retiring from that firm and public practice in July 2001. He is presently a Director of Harvey Norman Holdings Limited, a position he has held since 26 June 2005. He is the Chairman of the Audit and Risk Committee.

Company Secretary

Peter J. Wood CA FICS

Has been the Company Secretary of Gazal Corporation Limited for over 30 years. Prior to holding this position he held the role of Financial Controller of related Gazal companies for 7 years. Mr. Wood has been a Chartered Accountant for over 30 years.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Interests in the shares and options of the Company and related body corporate

At the date of this report, the interests of the Directors in the shares and other equity securities of the Company and related body corporate are:

| Director | Ordinary Shares | Relevant Interest In Ordinary Shares Held | Options | Performance Rights |
|--------------|-----------------|---|---------|-----------------------|
| M.J. Gazal | 1,202,211 | 16,216,069 ⁽¹⁾ | - | - |
| P. Robinson | 70 | 353,482 | - | 130,435 |
| B. Klatsky | 2,000,000 | - | - | - |
| D.J. Gazal | 416,665 | 13,588,141 ⁽²⁾ | - | - |
| C. Kimberley | - | 1,015,500 | - | - |
| G. Paton | - | 700,000 | - | - |

- 1 MJ Gazal is a 50% shareholder of MJ & HH Gazal P/L, which is trustee of the Michael Gazal Family Trust. The Trust is the registered holder of 15,532,736 shares in Gazal Corporation Limited. Mr MJ Gazal has a relevant interest in those shares. MJ & HH Gazal P/L is the owner of Michael and Helen Pty Limited which is the registered holder of 683,333 shares in Gazal Corporation Limited. Mr MJ Gazal also has a relevant interest in those shares.
- 2 DJ Gazal is a 50% shareholder of the David Gazal Family Company P/L, which is trustee of the David Gazal Family Trust. The Trust is the registered holder of 12,668,141 shares in Gazal Corporation Limited. Mr DJ Gazal has a relevant interest in those shares. The David Gazal Family Company P/L is the owner of Gazjac Pty Limited which is the registered holder of 920,000 shares in Gazal Corporation Limited. Mr DJ Gazal also has a relevant interest in those shares.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Directors' Meetings

The names of Directors and members of Committees of the Board are outlined below. The attendances of the Directors at meetings of the Board and of its Committees held during the financial year were:

| | Board of Directors | | Audit and Risk Committee | | Remuneration and Nomination Committee | |
|--------------|--------------------|---------------------------|--------------------------|---------------------------|---------------------------------------|---------------------------|
| | Attended | Maximum Possible Attended | Attended | Maximum Possible Attended | Attended | Maximum Possible Attended |
| M.J. Gazal | 4 | 4 | - | - | - | - |
| P. Robinson | 4 | 4 | - | - | - | - |
| B. Klatsky | 4 | 4 | 2 | 2 | 1 | 1 |
| D.J. Gazal | 4 | 4 | - | - | - | - |
| C. Kimberley | 4 | 4 | 2 | 2 | 1 | 1 |
| G. Paton | 4 | 4 | 2 | 2 | - | - |
| R.V. Gazal | 2 | 2 | - | - | - | - |

Principal Activities

The principal activities of Gazal Corporation Limited and its subsidiaries ("the economic entity", "the group" or "the Company") in the course of the financial year were the design, manufacture, importation, and wholesale of well known branded apparel and accessories and the provision of services to the joint venture PVH Brands Australia Pty Limited ("PVHBA" or "the joint venture").

Dividends

The following dividends of the economic entity have been paid, declared or recommended since the end of the preceding financial year:

| | On ordinary shares \$'000 |
|---|---------------------------|
| Final fully franked dividend for the financial year 30 June 2016, 7 cents per share (2015: 7 cents per share) paid 4 October 2016 | 4,066 |
| Special franked dividend 35 cents (2015: 35 cents) paid 4 October 2016 | 20,356 |
| Interim franked dividend 6 cents (2016: 5 cents) paid 4 April 2017 | 3,490 |
| Final fully franked dividend for 2017 8c per share as recommended and declared by the Directors, payable 3 October 2017 | 4,668 |

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Operating and Financial Review

Continuing Operations

Sales revenue in PVHBA increased by 9.7% to \$198.2 million for the year ended 30 June 2017. PVHBA after tax profit increased by 36.8% to \$13.9 million from \$10.2 million the previous year. Gazal's share of the PVHBA profit was \$6.9 million compared to \$5.1 million for the corresponding period last year.

The sales and profit growth in PVHBA was driven by the continuing development of new product categories across CALVIN KLEIN and TOMMY HILFIGER with our key trading partners Myer and David Jones, the ongoing development of the retail channel including strong like-for-like stores sales growth of +12.9%, and 17 net new stores since 30 June 2016 (including 11 concession stores in Myer). The additional stores include a world first opening of the new TOMMY HILFIGER design concept in the extension of Chadstone Shopping Centre in Melbourne.

Workwear sales improved in the second half of the financial year mainly due to increased sales of Bisley's Fire Retardant garments and a good 'in-stock' position of basic replenishment stock items. Whilst sales increased by 4.2 % to \$62.1 million, gross margins were impacted by lower Australian dollar exchange rate contracts compared to last year.

Despite this, the higher share of profit from PVHBA combined with higher fees from the joint venture, increased Gazal's net profit after tax from continuing operations by 15.3% to \$10.4 million.

Net Debt Position

During the period, a second special dividend of 35 cents per share (\$20.4 million) was paid in October 2016 following the sale of the Trade Secret business. Additionally, the capital gains tax on the profit on sale of Trade Secret of \$13.2 million was paid in December 2016.

The timing of these two non-recurring items has resulted in the Company's net debt increasing to \$22.8 million as at 30 June 2017. This compares to a net cash position of \$11.6 million as at 30 June 2016 with no debt.

At 30 June 2017, PVHBA had a cash balance of \$6.6 million net of \$2.0 million of borrowings.

Banksmeadow Property

In June 2017, CBRE were commissioned to undertake an independent valuation of the Banksmeadow warehouse and office property. The valuation of the property has increased to \$56.0 million (including \$2.2 million of plant), up from the \$47.5 million book value last year (which included \$1.8 million of plant). The directors have adopted the new valuation in the balance sheet as at 30 June 2017.

Outlook for the 31-week period to 3 February 2018

In line with the trends seen in the second half of the financial year, the sales momentum of PVHBA has continued in July and into August and, subject to no adverse conditions, is likely to continue for the period.

As we continue through this important summer trading period, the Director's will be in a better position to update shareholders on earnings guidance for the 31-week reporting period at the Annual General Meeting of Shareholders in November 2017.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Operating and Financial Review

Significant Events after the Balance Date.

Substantial shareholder in OrotonGroup Limited ("Oroton")

On 10 July 2017, Gazal lodged a substantial holder notice with Oroton and confirmed it had acquired a 7.35% shareholding at \$1.00 per share for a total investment of \$3.1 million.

Gazal notes the strategic process announced by Oroton on 20 June 2017. Gazal has no proposal to put to Oroton but may consider opportunities arising from the strategic process as well as other opportunities as they arise.

Sale of Bisley Workwear

On 25 August 2017, Gazal announced that it had entered into a conditional agreement to sell its Bisley Workwear business and related assets for \$35 million to DG Holdco Pty Ltd, a company owned by Mr. David Gazal.

Associated with the deal, it is proposed that the Company buy back 9.2 million shares owned by Mr. David Gazal at \$2.50 per share. As Mr. David Gazal is a related party, the transactions are subject to an independent expert's report and ultimately shareholder's approval.

Change in financial year-end

Gazal's financial year currently commences on 1 July and ends on 30 June. The JV partner, PVH Corp. listed on the NYSE, however, has a 52-week year financial calendar ending on or around 31 January.

To align itself closer with its JV partner and to the retail industry calendar generally, Gazal's Board of Directors has resolved to change the Company's financial year end date from 30 June to a 52-week year ending around 31 January each year.

In order to transition to a 52-week period, Gazal will initially have a 31-week transitional financial period beginning on 1 July 2017 and ending on 3 February 2018. Thereafter, the Company will revert to a 52-week financial year. The next full financial year will commence on 4 February 2018 and end on 2 February 2019.

In respect of the transitional financial period, Gazal will lodge an annual report by 31 May 2018 and hold an annual general meeting by 30 June 2018. The date of this annual general meeting will be determined and advised to shareholders in due course.

Final Dividend

On 23 August 2017 the directors resolved to pay a final dividend of 8 cents per share fully franked, compared to last year's final dividend of 7 cents per share fully franked. Taking into account the interim dividend of 6 cents per share, total ordinary dividends for the year total 14 cents per share fully franked. The record date for determining the shareholders' entitlement to the final dividend is 15 September 2017 and the final dividend is payable on 3 October 2017.

There are no other matters or circumstances that have arisen since 30 June 2017 that have significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Material Business Risks

Both the wholesale segment and the JV import the majority of their products in USD denominated purchase orders from Asia and in particular China. A decline in the USD exchange rate could place upward pressure on import prices to the extent that overseas purchases are not sufficiently hedged.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the economic entity that occurred during the financial year not otherwise disclosed in this report or the consolidated financial statements.

Environmental Regulation and Performance

The economic entity's environmental obligations are regulated under both State and Federal Law. The Audit Committee monitors environmental obligations. The economic entity has a policy of at least complying with its environment performance obligations. No environmental breaches have been notified by any Government agency during the year ended 30 June 2017.

Share Options

Details of options granted to Directors or relevant executives as part of their remuneration are set out in the section of this report headed Remuneration Report. Details of shares and interests under option, or issued during or since the end of the financial year to the date of this report due to the exercise of an option, are set out in Note 21 of the financial statements and form part of this report.

Indemnification and Insurance of Directors, Auditors and Officers

Insurance arrangements established in the previous year concerning officers of the economic entity were renewed during 2017.

Indemnity agreements have been entered into between Gazal Corporation Limited and each of the Directors of the Company named earlier in this report. Under the agreement, the Company has agreed to provide reasonable protection for the Directors against liabilities, which may arise as a result of work performed in their respective capacities.

As part of the above agreement Gazal Corporation Limited paid an insurance premium in respect of a contract insuring each of the Directors of the Company named earlier in this report and each full-time executive officer, Director and Secretary of Gazal Corporation Limited and its controlled entities, against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law. The terms of the above insurance policy prohibit disclosure of the nature of the risks insured or the premium paid.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under Corporations Instrument 2016/191. The Company is an entity to which the Corporations Instrument applies.

Gazal Corporation Limited

Directors' Report (continued)

For the year ended 30 June 2017

Remuneration Report (audited)

This report outlines the remuneration arrangements in place for directors and executives of Gazal Corporation Limited and its subsidiaries (the Company and/or the Group), in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report Key Management Personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company. This information has been audited as required by section 308 (3C) of the Corporations Act 2001.

Details of Key Management Personnel

(i) Directors

| | |
|--------------|--|
| M.J. Gazal | Executive Chairman |
| P. Robinson | Executive Director and Chief Executive Officer |
| B. Klatsky | Non- Executive Director |
| D.J. Gazal | Executive Director and General Manager - Bisley Workwear |
| C. Kimberley | Non- Executive Director |
| G. Paton | Non- Executive Director |

(ii) Executives

| | |
|--------------|-------------------------|
| G. Griffiths | Chief Financial Officer |
| P. Wood | Company Secretary |

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the chief executive officer and the senior management team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

To assist in achieving these objectives, the Remuneration and Nomination Committee links the nature and amount of executive Directors' and officers' emoluments to the Company's financial and operational performance. All Directors and executives have the opportunity to qualify for participation in the Gazal Employee Share Option Plan. In addition, all executives are entitled to annual bonuses payable upon the achievement of annual divisional and corporate profitability measures.

Remuneration report approval at FY16 AGM

The FY16 remuneration report received positive shareholder approval at the FY16 AGM with a vote of 99% in favor.

Remuneration principles and strategy

The performance of the Company depends upon the quality of its directors and executives and to grow and prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high caliber executives.
- Link variable executive remuneration to financial and operational performance.
- Link executive rewards to shareholder value.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Remuneration Report (audited) (continued)

Remuneration principles and strategy (continued)

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 21 October 2010 when shareholders approved an aggregate remuneration of \$750,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants when necessary as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. The Company did not use Remuneration consultants during the year.

Each non-executive director receives a fee for being a director of the Company. Non-executive directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on market). The non-executive directors of the Company can participate in the Gazal Employee Share Option Plan. This plan is currently under review.

Relationship of rewards to performance

The Directors consider the alignment of shareholder value and executive performance is achieved by tying optimal executive variable remuneration on Short Term Incentives ("STI") to company performance and on Long Term Incentives ("LTI") to increases in the company share price.

Company performance

In order for non-executives directors to fully benefit materially from the grant of options previously granted, there needs to be a sustained increase in the trading price of the Company's shares over a period of one to five years. There are no LTI option vesting conditions linked to company performance.

The remuneration of non-executive directors for the year ending 30 June 2017 is detailed in the Table on page 15 of this report.

Senior manager and executive director remuneration ("executives")

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward executives for Company, business unit and individual performance against financial and operating performance;
- link reward with the strategic goals and performance of the Company; and ensure total remuneration is competitive by market standards; and
- align the interests of executives with those of shareholders.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Remuneration Report (audited) continued

Senior manager and executive director remuneration ("executives") (continued)

Structure

In determining the level and make-up of executive remuneration, the Remuneration and Nomination Committee obtains independent advice when necessary on market levels of remuneration of comparable executives before the Committee makes its recommendations to the Board.

The Remuneration and Nomination Committee considers it appropriate that employment contracts are entered into with the executive directors and senior management. Details of the contracts with the executive directors Messrs M J Gazal, D J Gazal and Mr. P Robinson the CEO are provided on page 12.

Approach to setting remuneration

The executive remuneration framework in FY14 consisted of fixed remuneration and short and long-term variable remuneration incentives as outlined below. The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and aligned with market practice. Variable reward opportunities are intended to provide the opportunity to earn up to approximately 60% of total remuneration for outstanding performance against the stretch targets set.

Remuneration levels are considered annually through a remuneration review by the Remuneration Committee. The process consists of a review of Company wide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

External advice

The Committee has the resources and authority appropriate to discharge its duties and responsibilities, including the authority to engage external professionals, on terms it determines appropriate without seeking approval of the Board. External professionals are engaged from time to time when required. All information relevant to matters being considered by the Committee has been made available to its members. Members of the Committee did not separately and independently retain any advisors during the year. All advisors are independent and were engaged solely on the basis of their competency in the relevant field.

The following summarises the CEO's and executives' target remuneration mix between fixed and variable remuneration:

| | Target Fixed remuneration | Target Variable remuneration |
|------------------|------------------------------|---------------------------------|
| CEO | 50- 60% | 40-50% |
| Other executives | 50-80% | 20-50% |

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component of executives is detailed in the Table on page 14.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Remuneration Report (audited) continued

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company and or divisional performance with the remuneration received by the executives charged with meeting the Company and or divisional performance. The total potential STI provides sufficient incentive to the executives to achieve the Company and or divisional performance such that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments usually granted in September each year to each executive depends mainly on the performance of the executive as the key driver of either the Company in the case of the CEO or other executives in relation to their division(s). Operational measures cover mainly financial and some non-financial measures of performance. The usual process for evaluating performance and KPI measures include contribution to net profit before tax, risk management, product management, inventory management and leadership/team contribution.

The financial performance measure driving STI payment outcomes is a requirement that the executive must meet a percentage of budgeted profitability as determined by the Remuneration and Nomination Committee which is set before the commencement of the financial year. In addition to this measure STI can be enhanced if certain ratios such as inventory turnover reach preset limits. The executive can exceed their base salary package as a STI bonus.

On an annual basis, after consideration of divisional performance each executive is reviewed in accordance with the above process and STI's assessed and allocated to each executive who is deemed to have met their performance target. Some executives did not receive a bonus as their performance measure was not achieved.

The aggregate of annual STI payments available for executives across the Company is subject to the approval of the Remuneration and Nomination Committee. Payments made are usually delivered as a cash bonus.

STI Bonus for 2016 and 2017 financial years

The entire STI cash bonus of \$1,016,725 for the 2016 financial year as accrued in the previous period vested to executives was paid in the 2017 financial year. The Remuneration and Nomination Committee has approved the STI payments for the 2017 financial year of \$1,023,000 which were accrued at June 2017. This amount has been accrued on the basis that it is probable that the executives have met their respective financial targets for the year. Any adjustments between the actual amounts to be paid as determined by the Remuneration and Nomination Committee and the amounts accrued will be adjusted in the 2018 financial year. The STI bonus plan was amended in 2009 to align financial targets to the Company's budget in that year.

There was no alteration to the STI bonus plan for the year.

The variable remuneration component of executives is detailed in the Table on page 14.

There were no bonuses forfeited in the year ended 30 June 2017 or 30 June 2016.

Variable Remuneration – Long Term Incentive Options (LTI-O)

Structure

LTI grants to executives are capable of being delivered either in the form of share options administered under a Share Option Plan ("SOP") or under the Long Term Incentive awards (LTI) Plan which are delivered in the form of performance rights which vest within varying periods of time as approved by the board. The SOP is currently under review. The Group initially used PAT targets as the performance measure for the LTI however, because of the changes in the business recently the directors modified the performance criteria to a range of outcomes including a service condition.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Remuneration Report (audited) continued

Variable Remuneration – Long Term Incentive Performance Rights (LTI-PR) (continued)

The Board exercised its discretion to modify the LTI plan in FY16 from the previous PAT growth targets to outcomes to be completed following the structural changes in FY16 and various other corporate plans. The LTI Plan in FY16 and FY17 included both the CEO and CFO who were integral to the successful completion of the plans. The incremental fair value granted in FY17 as a result of the modifications is \$300,000 for the CEO and \$150,000 for the CFO a total of \$450,000. The modified awards were granted in February 2017, allocated on 1 August 2017 and vest on 30 June 2018 subject to the modifications outlined.

Employment contracts

Executive Chairman

The Executive Chairman, Mr. Michael J Gazal, is employed under a contract. Mr. Gazal's current contract is on the basis of 12 months notice by the company. Under the terms of the contract, Mr. Gazal may resign from his position and thus terminate the contract by giving 3 months written notice. On resignation any options granted would be forfeited.

In the event of extended absence by Mr. M J Gazal by reason of illness or permanent incapacity to the extent that he is unable to perform his responsibilities and duties, the Company may terminate the contract by providing 3 months written notice. In these circumstances the Company may elect to provide payment in lieu of the notice period (based on the fixed component of Mr. M J Gazal's remuneration).

CEO

The CEO, Mr. Patrick Robinson, is employed under a contract. Mr. Robinson's contract is on the basis of 6 months notice by the company. Under the terms of the contract, Mr. Robinson may resign from his position and thus terminate the contract by giving 6 months written notice. After employment ends Mr. Robinson will be obliged for a further period of 6 months to provide debriefing and assistance services.

On resignation any unvested performance rights will lapse unless cessation of employment is due to death, disability or otherwise in circumstances approved by the Board.

In the event of extended absence by Mr. Robinson for a period of three consecutive months or a total of three months in any 12 month period or termination for cause, the Company may terminate the contract without notice or pay in lieu of notice. In these circumstances the Company may elect to provide payment up to the date of termination only (based on the fixed component of Mr. Robinson's remuneration).

Other Executives

Mr. David J Gazal is also employed under a contract. The current contract continues on the basis of 12 months notice by either party. The contract also contains termination provisions which are similar to those under Mr. Michael Gazal's contract described above.

All other executives have similar contracts which may be terminated by providing between 6 months and one month written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). On notice of termination by the company, any LTI options that have vested or that will vest during the notice period will be forfeited. LTI options that have not vested will also be forfeited. The Company may terminate written contracts at any time without notice if serious misconduct has occurred.

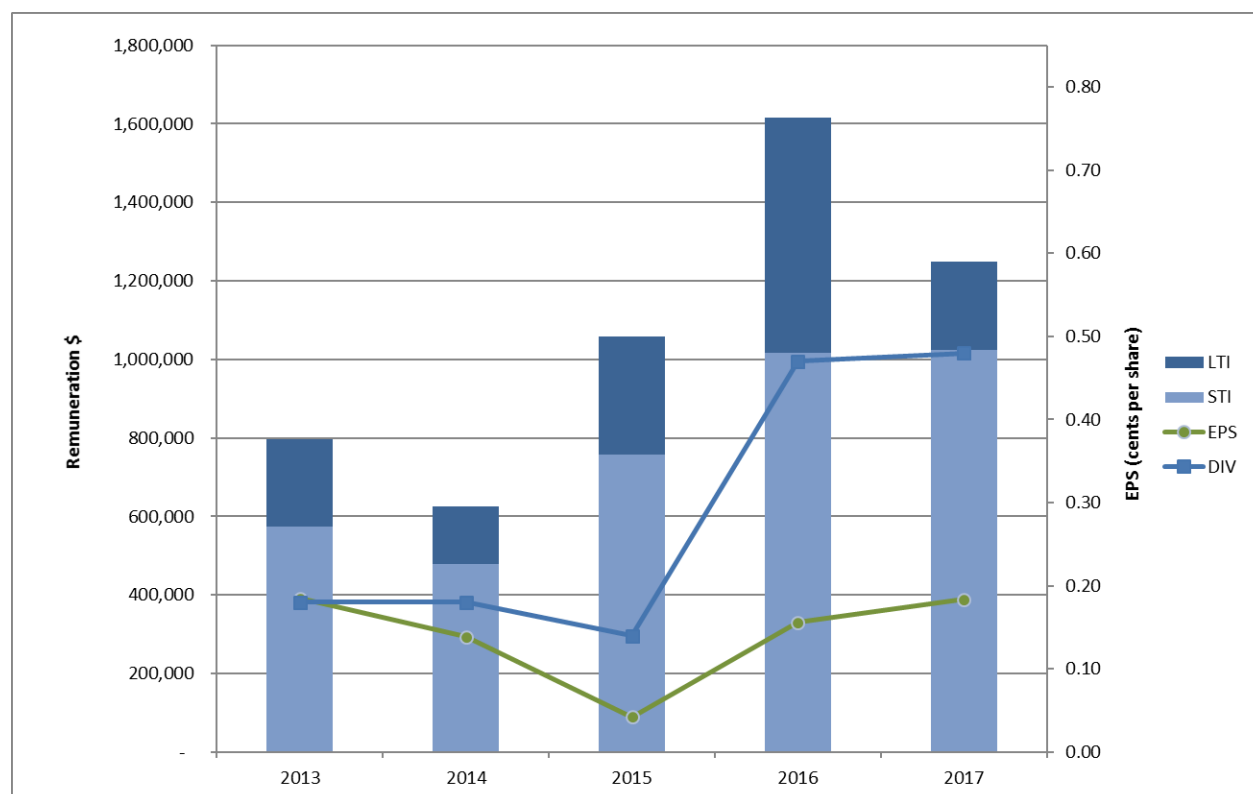
Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Remuneration Report (audited) continued

Employment contracts (continued)

Relationship between executive LTI and STI remuneration and the performance of the company and dividend returns over the last 5 financial years.

The graph below illustrates the company's performance for the past 5 financial years.



Gazal Corporation Limited

Directors' Report (continued)

For the year ended 30 June 2017

Remuneration Report (audited) continued

Directors and Executives Remuneration for the year ended 30 June 2017

Details of the nature and amount of each element of the remuneration of each Director of the Company and each key management personnel of the Company and the consolidated entity receiving remuneration during the financial year are as follows.

| Directors | Year | Short term benefits | | | | Post Employment | | Long-term benefits | Share based payment | Total | Performance related % |
|-------------------------|------|---------------------|----------------|-----------------------|--------|-----------------|---------------------|--------------------|---------------------------------|-----------|-----------------------|
| | | Salary & Fees | Cash Bonus (a) | Non Monetary benefits | Other | Superannuation | Retirement benefits | Long Service Leave | LTI Options/ Performance Rights | | |
| M.J. Gazal | 2017 | 550,727 | - | - | 31,248 | 35,000 | - | 9,775 | - | 626,750 | - |
| Executive Chairman | 2016 | 586,500 | - | - | 35,658 | 25,000 | - | 9,775 | - | 656,933 | - |
| P.Robinson (b) | 2017 | 565,000 | 500,000 | - | 9,507 | 35,000 | - | 9,583 | 150,000 | 1,269,090 | 51.22 |
| Chief Executive Officer | 2016 | 565,000 | 500,000 | - | 3,803 | 35,000 | - | 9,416 | 300,000 | 1,413,219 | 56.61 |
| B. Klatsky (c) | 2017 | 213,506 | - | - | - | - | - | - | - | 213,506 | - |
| Non- executive | 2016 | 186,006 | - | - | - | - | - | - | - | 186,006 | - |
| D.J. Gazal | 2017 | 310,634 | 316,725 | - | 29,050 | 25,000 | - | 5,279 | - | 686,688 | 46.12 |
| Executive | 2016 | 322,639 | 316,725 | - | 28,252 | 25,480 | - | 5,279 | - | 698,375 | 45.35 |
| C. Kimberley | 2017 | 75,000 | - | - | - | 7,500 | - | - | - | 82,500 | - |
| Non- executive | 2016 | 75,000 | - | - | - | 7,500 | - | - | - | 82,500 | - |
| G. Paton | 2017 | 85,000 | - | - | - | 8,500 | - | - | - | 93,500 | - |
| Non- executive | 2016 | 85,000 | - | - | - | 8,500 | - | - | - | 93,500 | - |
| R.V. Gazal (d) | 2017 | 18,750 | - | - | - | 1,781 | - | - | - | 20,531 | - |
| Non-Executive | 2016 | 171,727 | - | - | 10,417 | 14,613 | 289,427 | 432 | - | 486,616 | - |
| Total Directors | 2017 | 1,818,617 | 816,725 | - | 69,805 | 112,781 | - | 24,637 | 150,000 | 2,992,565 | |
| | 2016 | 1,991,872 | 816,725 | - | 78,130 | 116,093 | 289,427 | 24,902 | 300,000 | 3,617,149 | |

| Key Management Personnel | Year | Short term benefits | | | | Post Employment | | Long-term benefits | Share based payment | Total | Performance related % |
|----------------------------|------|---------------------|----------------|-----------------------|--------|-----------------|---------------------|--------------------|---------------------------------|-----------|-----------------------|
| | | Salary & Fees | Cash Bonus (a) | Non Monetary benefits | Other | Superannuation | Retirement benefits | Long Service Leave | LTI Options/ Performance Rights | | |
| G. Griffiths (e) | 2017 | 354,884 | 100,000 | - | 2,389 | 19,616 | - | 5,907 | 75,000 | 557,796 | 31.37 |
| Chief Financial Officer | 2016 | 355,185 | 100,000 | - | 6,335 | 19,308 | - | 5,915 | 300,000 | 786,743 | 50.84 |
| P. Wood | 2017 | 260,507 | 100,000 | 20,718 | 1,578 | 19,616 | - | 4,342 | - | 406,761 | 24.58 |
| Company Secretary | 2016 | 260,815 | 100,000 | 19,918 | 6,495 | 19,308 | - | 4,342 | - | 410,878 | 24.34 |
| Total Executive KMP | 2017 | 615,391 | 200,000 | 20,718 | 3,967 | 39,232 | - | 10,249 | 75,000 | 964,557 | |
| | 2016 | 616,000 | 200,000 | 19,918 | 12,830 | 38,616 | - | 10,257 | 300,000 | 1,197,621 | |

Notes

(a) Cash bonuses are payable subsequent to 30 June 2017

(b) At 30 June 2017 the LTI vests over two years to 30 June 2018 and therefore only 50% of the remuneration of \$300,000 has been shown in the current year.

(c) This includes expense reimbursement

(d) Mr R. Gazal resigned as a non-executive director on 23 September 2016

(e) At 30 June 2017 the LTI vests over two years to 30 June 2018 and therefore only 50% of the remuneration of \$150,000 has been shown in the current year. At 30 June 2016 the LTI represented two years remuneration.

Remuneration Options: Granted and Vested (audited)

There were no options granted to KMPs in either FY16 or FY17.

Value of Options exercised and lapsed during the year (audited)

There were no options granted to KMPs in either FY16 or FY17.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Remuneration Report (audited) continued

Remuneration Performance Rights: Granted and Vested (audited)

There were 195,652 performance rights awarded with respect to the year ended 30 June 2017 (30 June 2016: 272,728).

A total of \$300,000 shares were allocated in July 2016 on the vesting of the 136,364 performance rights awarded to Mr Robinson on 1 July 2016. A total of \$300,000 shares were allocated in July 2016 on the vesting of the 136,364 performance rights awarded to Mr Griffiths on 1 July 2016.

A total of \$300,000 shares were pre-allocated in August 2017 on the granting of the 130,435 performance rights awarded to Mr Robinson on 1 August 2017. A total of \$150,000 shares were pre-allocated in August 2017 on the granting of the 65,217 performance rights awarded to Mr Griffiths on 1 August 2017.

Key Management Personnel

(a) Remuneration by Category: Key Management Personnel

| | Consolidated | |
|----------------------|----------------------------|----------------------------|
| | Year ended 30 June 2017 | Year ended 30 June 2016 |
| Short-Term | 3,545,223 | 3,735,475 |
| Post Employment | 152,013 | 444,136 |
| Long-Term Benefits | 34,886 | 35,159 |
| Share-based Payments | 225,000 | 600,000 |
| | 3,957,122 | 4,814,770 |

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Key Management Personnel (continued)

(b) Shareholdings of Key Management Personnel and Related Parties

| 30 June 2017 | Balance 1 July 2016 | Granted as Remuneration | On Exercise of Options | Net Change Other | Balance 30 June 2017 |
|---|------------------------|----------------------------|---------------------------|---------------------|-------------------------|
| Shares held in Gazal Corporation Limited (Number) | Ordinary | Ordinary | Ordinary | Ordinary | Ordinary |
| Directors | | | | | |
| B. Klatsky | 2,000,000 | - | - | - | 2,000,000 |
| P. Robinson (2) | 100,000 | 253,552 | - | - | 353,552 |
| M.J. Gazal (1) | 11,213,463 | - | - | 6,653,280 | 17,866,743 |
| D.J. Gazal (1) | 11,920,253 | - | - | 3,318,562 | 15,238,815 |
| C. Kimberley (1) | 1,015,000 | - | - | 500,000 | 1,515,000 |
| G. Paton | 700,000 | - | - | - | 700,000 |
| R.V. Gazal (1) | 11,131,750 | - | - | (11,131,750) | - |
| Executives | | | | | |
| G Griffiths (3) | 99,659 | 136,364 | - | - | 236,023 |
| P. Wood | 324,000 | - | - | - | 324,000 |

| 30 June 2016 | Balance 1 July 2015 | Granted as Remuneration | On Exercise of Options | Net Change Other | Balance 30 June 2016 |
|---|------------------------|----------------------------|---------------------------|---------------------|-------------------------|
| Shares held in Gazal Corporation Limited (Number) | Ordinary | Ordinary | Ordinary | Ordinary | Ordinary |
| Directors | | | | | |
| B. Klatsky | 2,000,000 | - | - | - | 2,000,000 |
| P. Robinson | - | 100,000 | - | - | 100,000 |
| M.J. Gazal | 11,213,463 | - | - | - | 11,213,463 |
| D.J. Gazal | 11,920,253 | - | - | - | 11,920,253 |
| C. Kimberley | 1,015,000 | - | - | - | 1,015,000 |
| G. Paton | 700,000 | - | - | - | 700,000 |
| R.V. Gazal | 11,131,750 | - | - | - | 11,131,750 |
| Executives | | | | | |
| G Griffiths | 99,659 | - | - | - | 99,659 |
| P. Wood | 324,000 | - | - | - | 324,000 |

- (1) Mr R.V. Gazal advised the company in September 2016 that he was selling all his shares in the company and resigning as an Executive Director. The company announced this major shareholding change to the market and again on 6 October 2016 when this transaction was completed. Messrs M.J Gazal and D.J. Gazal through their respective family trusts acquired the majority of Mr R.V. Gazal's shares with a smaller parcel being acquired by Mr C. Kimberley's superannuation fund.
- (2) A total of \$300,000 shares were allocated in July 2015 on the vesting of the 117,188 performance rights awarded to Mr Robinson on 15 September 2016. A total of \$300,000 shares were allocated in July 2016 on the vesting of the 136,364 performance rights awarded on 1 July 2016. The total vested from the trust in the current year was 253,552.
- A total of \$300,000 shares were pre-allocated in August 2017 on the granting of the 130,435 performance rights awarded to Mr Robinson on 1 August 2017.
- (3) A total of \$300,000 shares were allocated in July 2016 on the vesting of the 136,364 performance rights awarded to Mr Griffiths on 1 July 2016.
- A total of \$150,000 shares were pre-allocated in August 2017 on the granting of the 65,217 performance rights awarded to Mr Griffiths on 1 August 2017.

(c) Loans to Key Management Personnel and their Related Parties

There are no loans to Directors or executives and their related parties.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

Key Management Personnel (continued)

(d) Other Transactions and Balances with Key Management Personnel

Messrs M.J. Gazal and D.J. Gazal are Directors of Gazal Industries Pty Limited, a director related entity. During the year Gazal Corporation Limited provided for the payment of expenses on behalf of Gazal Industries Pty Limited. These expenses have been recharged in full to Gazal Industries Pty Limited.

Mr G. Paton is a Director of Harvey Norman Holdings Limited. Last year subsidiaries of Harvey Norman Holdings Limited leased two premises to Fashion Factory Outlets (Trade Secret) Pty Limited on normal commercial terms until October 2015 amounting to \$314,218. There were no transactions for the year ended 30 June 2017.

Related Party Disclosures

The following table provides the total amount of transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

| | Sales to related parties | Purchases from related parties | Amounts owed by related parties | Amounts owed to related parties |
|--|---|---|--|--|
| | \$'000 | \$'000 | \$'000 | \$'000 |

Joint venture in which the Parent is a venturer:

| | | | | | |
|----------------------------------|------|--------|-------|-------|---|
| PVH Brands Australia Pty Limited | 2017 | 17,743 | - | 1,835 | - |
| | 2016 | 18,072 | 1,258 | 1,699 | - |

Shares price

The company's share price movement on the ASX for the last three financial year ends is as follow:-

| | |
|--------------|--------|
| 30 June 2015 | \$2.35 |
| 30 June 2016 | \$2.20 |
| 30 June 2017 | \$2.24 |

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received an independence declaration from the auditor of Gazal Corporation Limited, refer to page 19.

Gazal Corporation Limited
Directors' Report (continued)
For the year ended 30 June 2017

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young Australia received or are due to receive the following amounts for the provision of non-audit services:

| | Year ended 30 June 2017 | Year ended 30 June 2016 |
|--|------------------------------------|------------------------------------|
| Tax compliance services and corporate tax planning | \$66,534 | \$77,300 |

This report has been made in accordance with a resolution of the Directors.

Signed for and on behalf of the Directors



M.J. Gazal
Executive Chairman



P. Robinson
Executive Director

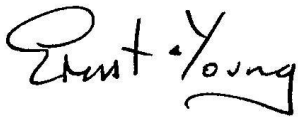
Dated at Sydney the 28th day of September 2017.

Auditor's Independence Declaration to the Directors of Gazal Corporation Limited

As lead auditor for the audit of Gazal Corporation Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Gazal Corporation Limited and the entities it controlled during the financial year.



Ernst & Young



Gregory J Logue
Partner
28 September 2017

Gazal Corporation Limited

Statement of Corporate Governance Practices

For the year ended 30 June 2017

This statement provides an outline of the main corporate governance practices that the company had in place during the past financial year.

The Board is committed to conducting the company's business ethically and in accordance with high standards of corporate governance. The Board (together with the company's management) regularly reviews the company's policies, practices and other arrangements governing and guiding the conduct of the company.

The Board believes the company's corporate governance practices are compliant with the Corporate Governance Council's principles and recommendations, unless indicated otherwise in this statement. The company maintains a corporate website at www.gazal.com.au which provides further information on corporate governance policies and practices adopted by Gazal Corporation Limited, including:

- A Board Charter;
- A Remuneration and Nomination Charter;
- A Code of Conduct;
- A Whistleblowers Policy;
- A Securities Trading Policy Summary;
- An Audit and Risk Charter;
- A Risk Management Policy;
- A Continuous Disclosure Policy;
- A Shareholder Communication Policy;
- A Diversity Policy and
- A Human Rights Policy.

The Board of Directors

The Board of Directors of Gazal Corporation Limited is responsible for the corporate governance of the consolidated entity. The Board operates in accordance with a broad statement of principles included in its Charter which mainly sets out the Board's composition and responsibilities and functions and is available from the company's web site.

The Role of the Board

The role of the Board of Directors is to protect and optimise the performance of the Group and accordingly the Board takes accountability for setting strategic direction, establishing policy, overseeing the financial position and monitoring the business and affairs of the Group on behalf of shareholders to whom they are accountable. Responsibility for the day-to-day management of the Company is delegated to the Managing Director and senior management and their relationship with the board and responsibilities are also included in the Board Charter on the company's web site.

Structure of the Board

The Board comprises Directors with a broad range of experience reflecting the character of the Group's business. The Board is structured in such a way that it has proper understanding and competency in the current and emerging issues facing the Company, and can effectively review and challenge management's decisions. Details of the Directors as at the date of this report, including their qualifications, experience, expertise, terms of office, other past and present Directorships and special responsibilities are set out on page 2 of the Directors' report.

Directors of Gazal Corporation Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment. The Board's framework for determining director independence is included in the Board Charter.

The following is a list of all directors in the company. In accordance with the definition of independence included in the Board's charter, and the materiality thresholds set, the following Directors of Gazal Corporation Limited with an asterisk below are considered to be independent :

Gazal Corporation Limited
Statement of Corporate Governance Practices (continued)
For the year ended 30 June 2017

Structure of the Board (continued)

| Name | Position | Name | Position |
|--------------|-------------------------|-------------|-------------------------|
| B. Klatsky | Non-Executive Director* | M. J. Gazal | Executive Chairman |
| G. Paton | Non-Executive Director* | P. Robinson | Chief Executive Officer |
| C. Kimberley | Non-Executive Director* | D. J. Gazal | Executive Director |

Messrs MJ Gazal, and DJ Gazal are not considered to be independent as their family interests have a majority ownership of the Gazal Corporation Limited as indicated on page 94 of the shareholder information in this financial report.

The directors appointed Michael Gazal as Executive Chairman. Mr Gazal has previously served as Managing Director for over 23 years and is considered to have the experience and skills to act as Executive Chairman despite his appointment being a departure from the Corporate Governance Council's recommendations.

Although the Board will not have a majority of independent directors, the Board considers that the composition set out above is appropriate having regard to the Company's size, the skills and experience of each of the Directors and the extent of the aggregate shareholding of Gazal family interests in the Company. In addition, it is noted that:

- Mr Bruce Klatsky is the Lead Independent Director, in which capacity he will, amongst other things, serve as a liaison between the independent directors and the Company and work with the Executive Chairman in the running of the Board.
- Each of the Company's Board Committees¹ consists exclusively of independent directors.
- Each of the Directors is legally obliged to act in the best interests of shareholders as a whole.

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the company's expense. Directors also have access to senior executives, including the Company Secretary, when required and to any further information required to make informed decisions.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a Director, employee or other person subject to ultimate responsibility of the Directors under the *Corporations Act 2001*.

The term in office held by each Director in office at the date of this report is as follows:

| Name | Term in office | Name | Term in office |
|--------------|-----------------------|-------------|-----------------------|
| B. Klatsky | 8 years | M.J. Gazal | 31 years |
| C. Kimberley | 13 years | P. Robinson | 5 years |
| G. Paton | 11 years | D.J. Gazal | 18 years |

For additional details regarding Board appointments, please refer to our website.

The Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee, which meets at least annually, to assist and advise the Board on matters relating to the appointment and remuneration of the Non-Executive Directors, Chairman and other senior executives of the company.

¹ The Audit & Risk Committee and the Remuneration & Nomination Committee.
Gazal Corporation Limited Annual Report 2017

Gazal Corporation Limited
Statement of Corporate Governance Practices (continued)
For the year ended 30 June 2017

The Remuneration and Nomination Committee (continued)

The Remuneration and Nomination Committee is responsible for monitoring the length of service of current Board members (although a strict tenure policy has not been adopted), monitoring the skills and expertise of Board members, considering succession planning issues and identifying the likely order of retirement by rotation of Non Executive Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Chief Executive Officer and the Executive team. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced personnel. Performance, duties and responsibilities, market comparison and independent advice are all considered as part of the remuneration process. The structure and details of the remuneration paid to the Directors and senior executives during the period are set out in the Remuneration Report and Key Management Personnel on pages 8 to 17 of the Directors' Report.

The Remuneration and Nomination Committee comprises two Non-Executive Directors. Members of the Remuneration Committee throughout the year were Mr B. Klatsky (Chairman) and Mr C. Kimberley.

For details of Directors' attendance at meetings of the Remuneration and Nomination Committee, refer to page 4 of the Directors' Report. For additional details regarding the Remuneration and Nomination Committee and its policies, please refer to our website.

Performance Reviews

The performance of the Board and senior Executives is reviewed regularly. The performance criteria against which Directors and senior Executives are assessed is aligned with the financial and non-financial objectives of Gazal Corporation Limited. Directors and executives whose performance is consistently unsatisfactory may be asked to leave.

The Chairman carried out a review in the current year of the directors and the committees they were members of. The process of evaluation consists of assessing the relative strengths and weaknesses of the directors and the committees they are members of and identifying areas that can be improved. The process for evaluating the performance of senior executives during the year is included in the Remuneration Report.

Audit and Risk Committee

The Board has established an Audit and Risk Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit and Risk Committee.

The committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the company operates. The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are Non-Executive Directors and are independent. Members of the Audit Committee during the year were Mr G. Paton (Chairman) and Messrs B. Klatsky and C. Kimberley.

A copy of the Audit and Risk Charter is available on the company's web site which includes details of the procedures for selection, appointment and rotation of the external auditors and its engagement partners.

Qualifications of Audit and Risk Committee Members

Mr G. Paton has had extensive experience in the accounting industry and was previously a partner of twenty three years in Arthur Andersen, Chartered Accountants, retiring from that firm and public practice in July 2001. He is the Chairman of the Audit and Risk Committee.

Gazal Corporation Limited
Statement of Corporate Governance Practices (continued)
For the year ended 30 June 2017

Qualifications of Audit Committee Members (continued)

Mr B. Klatsky has significant experience in the management of clothing companies, having served as a CEO and Chairman of Phillips-Van Heusen (PVH) one of the largest apparel and footwear companies in the world and listed on the New York Stock Exchange.

Mr C. Kimberley founded the Just Jeans retail chain and has had 30 years experience in the retail and apparel industries.

Members of management may attend meetings of the committee at the invitation of the Committee Chairman. It is the practice of the Committee that the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary attend all Audit Committee meetings. Further, in fulfilling its responsibilities, the Committee has rights of access to management and to auditors without management present and may seek explanations and additional information. The Committee may, with the approval of the Board, engage any independent advisers in relation to any matter pertaining to the powers, duties and responsibilities of the Committee.

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 4 of the Directors' Report.

Risk Reporting

The Chief Executive Officer and Chief Financial Officer have made the following certifications to the Board:

- That the company's financial reports present a true and fair view, in all material respects, of the financial condition and operational results of the company and are in accordance with relevant accounting standards;
- That the company has adopted an appropriate system of risk management and internal compliance and control which implements the policies adopted by the Board and forms the basis for the statement given above; and
- That the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Risk Management and Internal Controls

The Board, through the Audit and Risk Committee, is responsible for ensuring there are adequate policies in relation to the management and oversight of material risks and internal compliance and control systems. It is part of the Board's oversight role to regularly review the effectiveness of the company's implementation of that system. Management is responsible for identifying and managing both financial and non-financial risks to the company's businesses and reports any material exposures. The Board, through the committee, monitors the management of these risks. Any material risks are disclosed in the financial statements and notes to the accounts.

The company has an internal audit function which reports directly to the Audit and Risk committee chair and it reports on various matters including financial, operational, personnel and WHS matters.

The company has further developed its risk management policy into a Gazal Corporation Risk Management Framework which encompasses policies on code of conduct, whistle blowing, fraud control, risk reviews and securities trading.

This framework which was reviewed in accordance with changes in the Australian Securities Exchange Corporate Governance Council's recommendations is designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the company's business objectives. The annual report specifically considers a number of categories of risk including interest rate, credit and foreign currency risks which are disclosed in note 28 to these accounts.

Gazal Corporation Limited
Statement of Corporate Governance Practices (continued)
For the year ended 30 June 2017

Risk Framework

A vigorous control environment is fundamental to the effectiveness of the company's risk management framework. The company has a clear organisational structure with clearly drawn lines of accountability and delegation of authority. Matters reserved for the Board are set out in the Board Charter which is available on the company's web site.

All Directors, executives and employees are required to adhere to the Code of Conduct (mentioned below) and the Board actively promotes a culture of quality and integrity. Procedures have been established at the Board and executive management level to evaluate risk and the associated internal controls necessary to safeguard the assets and interests of Gazal Corporation Limited and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. For more details on the company's risk assessment and management policy refer to the company's website.

Code of Conduct

A Code of Conduct has been adopted which requires that all Directors, senior management and employees act with the utmost integrity and honesty. It aims to further strengthen the company's ethical climate by promoting practices that promote the company's key values. The Code of Conduct is publicly available on the company's website.

The company has also adopted various other policies covering a number of matters such as occupational health and safety, environment, community support and human rights which are encompassed in corporate social responsibility.

In conjunction with the Code of Conduct the company has a Whistleblowers' policy which encourages all officers, employees, contractors, agents or people associated with the company to report any potential breaches to the Company Secretary. This may be done anonymously.

The company has a formal policy governing the trading of the company's securities by Directors, officers and employees which is set out below.

Securities Trading Policy

The Board has a policy that Directors and employees may not buy or sell Gazal Corporation Ltd shares except within specified trading windows which are:

- The next business day after the day on which the half-year results are released until 30 June; and
- The next business day after the day on which the full-year results are released until 31 December.

The policy supplements the *Corporations Act 2001* provisions that preclude Directors and employees from trading in securities when they are in possession of "insider information". A summary of the Share Trading Policy including prohibitions on equity-based incentives is available on the company's website. As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

Continuous Disclosure and Shareholder Communication

The company is committed to providing relevant and timely information to its shareholders and the market, in accordance with its obligations under the ASX continuous disclosure regime. All shareholders are encouraged to participate at meetings of security holders. Security holders are able to send communications to the company or the company registry listed in the company directory. Details of the company policy on continuous disclosure together with its established procedures for compliance and other investor related information together with a separate policy on shareholders' communications is publicly available on the company's website.

Gazal Corporation Limited
Statement of Corporate Governance Practices (continued)
For the year ended 30 June 2017

Diversity at Gazal

The Group supports and complies with the recommendations contained in the ASX Corporate Governance Principles and Recommendations to promote ethical and responsible decision-making.

The Group's policy on diversity is to recognise the important contribution to the organisation by employing people with varying experience, skills, ethnicity and cultural background. The Group believes its diverse workforce is the key to its continued growth, performance and improved productivity.

The Group greatly values and embraces the diversity of our employees and are committed to creating an inclusive workplace where everyone is treated equally and fairly, where discrimination, harassment and inequity are not tolerated. While the Group is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group. The diversity policy is available in the corporate governance section on the Group's website.

The table below provides a summary of the diversity objectives established by the board, the steps taken during the year to achieve these objectives, and the outcomes. The sale of the Trade Secret and Midford businesses removed a considerable portion of the women represented at all levels from the Gazal workforce.

Objectives

To maintain the percentage of women in senior management positions.

Steps taken/Outcomes

At 30 June 2017, women represented 51.7% of the Group's workforce (2016: 55%).

During the year, women were appointed to two Manager positions and to 9 Non-Manager positions (2016: 13).

For the 2017 year, the Group's target is to again maintain overall female representation at present levels within the Group's workforce. Women presently represent 28% of manager and senior manager positions (2016: 32%).

To provide more flexibility in work arrangements.

During the year, Gazal employed and or allowed an existing worker to move to flexible work arrangements (2016: 2). These flexible work arrangements included working less hours or working more days at home.

To provide study training incentives for employees completing tertiary qualifications in their chosen career.

During the year, the company continued to assist one employee with study incentives.

To promote a culture that treats the workforce with fairness and respect.

Gazal continues to communicate its cornerstone core values of respect whilst maintaining a zero tolerance for negative behaviour, through the utilisation of policies including the Code of Conduct, Anti-Discrimination and Equal Employment Opportunity Policy and Workplace Bullying Policies.

To enhance training for existing and newly appointed management.

During the year, the company continued its in-house "Management Essentials" program for middle level managers across both Retail and Wholesale environments. There was a total of 38 participants with the program available in Sydney, Melbourne and the Gold Coast.

Independent Auditor's Report to the Members of Gazal Corporation Limited and its controlled entities

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Gazal Corporation Limited (the Company) and its controlled entities (collectively the Group) which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Investment in joint venture

| Why significant | How our audit addressed the Key Audit Matter |
|---|---|
| <p>The Group jointly controls PVH Brands Australia Pty Limited (PVHBA). The investment is accounted for using the equity method of accounting as disclosed in note 4 in the financial report.</p> <p>The value of the investment at 30 June 2017 is \$60.4 million and represented 38% of total assets of the Group. The Group's share of the profit of the joint venture for the year ended 30 June 2017 was \$7.0 million.</p> <p>Given the significance of the joint venture to the financial position and results of the Group we considered this to be a Key Audit Matter.</p> | <p>In performing our audit procedures we:</p> <ul style="list-style-type: none"> - Considered whether the use of the equity method of accounting was appropriate; - Recalculated the Group's share of the results of PVHBA using the equity method of accounting; - Agreed the equity accounted results of PVHBA to the audited financial report of the entity; - Considered the Group's assessment of the accounting policies used by PVHBA to ensure they are consistent with those of the Group; - Considered whether any indicators of impairment were present that may have suggested that the carrying value of the investment was not recoverable; and - Assessed the disclosures in the financial report disclosures related to the investment. |

2. Valuation of land and buildings

| Why significant | How our audit addressed the Key Audit Matter |
|--|---|
| <p>Land and buildings represent 34% of total assets of the Group as at 30 June 2017. The land and buildings are measured at fair value as disclosed in note 13 in the financial report.</p> <p>These valuations are based on, among other things, assumptions such as future rents, occupation, rent-free periods and yields. Given the significance of land and buildings to the financial position of the Group and the judgements involved in determining fair value, this was considered to be a Key Audit Matter.</p> | <p>In performing our audit procedures we:</p> <ul style="list-style-type: none"> - Evaluated the objectivity and expertise of the external valuation specialist engaged by the Group to determine the fair value of land and buildings; and - Involved our real estate valuation specialists to evaluate the report of the external valuation specialist, including the underlying assumptions and the applied methodology. |

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Audit of the Remuneration Report

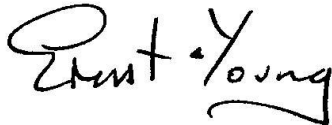
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 16 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Gazal Corporation Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Gregory J Logue
Partner
Sydney
28 September 2017

Gazal Corporation Limited
Directors' Declaration
For the year ended 30 June 2017

In accordance with a resolution of the directors of Gazal Corporation Limited, we state that:

1. In the opinion of the directors:
 - a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
 - b) the financial statement and notes also comply with International Financial Reporting Standards as disclosed in note 2; and
 - c) there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable; and
 - d) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.
2. This declaration has been made after receiving the declarations required to be made to the directors from the chief executive officer and chief financial officer in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2017.

On behalf of the Board



M.J. Gazal
Executive Chairman



P. Robinson
Executive Director

Dated at Sydney the 28th day of September 2017.

Gazal Corporation Limited
Income Statement
For the year ended 30 June 2017

| | Notes | Consolidated | |
|--|-------|--------------------------------------|--------------------------------------|
| | | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 |
| Sales revenue | 5 | 62,112 | 59,608 |
| Cost of sales | | (39,350) | (36,619) |
| Gross profit | | 22,762 | 22,989 |
| Other revenues | 5 | 8,793 | 7,557 |
| Selling and marketing expenses | | (7,674) | (6,874) |
| Distribution expenses | | (10,362) | (9,600) |
| Administration expenses | | (7,914) | (8,019) |
| Finance costs | | (635) | (697) |
| Share of profit of joint venture | 4 | 6,949 | 5,231 |
| Profit before income tax from continuing operations | | 11,919 | 10,587 |
| Income tax expense | 6 | (1,501) | (1,550) |
| Profit after tax from continuing operations | | 10,418 | 9,037 |
| Discontinued operations | | | |
| Profit after tax from discontinuing operations | 7 | 112 | 34,074 |
| Net profit for the period | | 10,530 | 43,111 |
| Profit for the period is attributable to: Owners of the parent | | 10,530 | 43,111 |
| Earnings per share (cents per share) | | | |
| Basic for profit for the year | 8 | 18.1 | 74.6 |
| Basic for profit from continuing operations | 8 | 17.9 | 15.6 |
| Diluted for profit for the period | 8 | 18.0 | 74.2 |
| Diluted for profit from continuing operations | 8 | 17.9 | 15.6 |

The accompanying notes form an integral part of the income statement.

Gazal Corporation Limited
Statement of Comprehensive Income
For the year ended 30 June 2017

| | Notes | Consolidated | |
|--|-------|--------------------------------------|--------------------------------------|
| | | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 |
| Profit after tax for the period | | 10,530 | 43,111 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Cash flow hedges: | | | |
| (Loss) / gain taken to equity | | (1,575) | (1,332) |
| Transferred to income statement | | 1,332 | (1,762) |
| Income tax on items of other comprehensive income | | 74 | 928 |
| Other comprehensive income from joint venture | 4 | 63 | (655) |
| Exchange differences on translation of foreign operations | | (9) | 177 |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Fair value revaluation of land and buildings | | 8,333 | 6,017 |
| Income tax on items of other comprehensive income | | (2,500) | (1,805) |
| Other comprehensive income for the period, net of tax | | 5,718 | 1,568 |
| Total comprehensive income for the period | | 16,248 | 44,679 |
| Total comprehensive income for the period is attributable to: Owners of the parent | | 16,248 | 44,679 |

The accompanying notes form an integral part of the statement of comprehensive income.

Gazal Corporation Limited
Statement of Financial Position
As at 30 June 2017

| | Notes | Consolidated | |
|---------------------------------------|-------|---------------------------------|---------------------------------|
| | | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Current assets | | | |
| Cash and cash equivalents | 26(a) | 2,610 | 12,540 |
| Trade and other receivables | 10 | 12,168 | 8,957 |
| Inventories | 11 | 18,558 | 15,228 |
| Other current assets | 12 | 1,974 | 8,665 |
| Total current assets | | 35,310 | 45,390 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 58,286 | 49,654 |
| Intangible assets | 14 | 5,430 | 4,719 |
| Investment in joint venture | 4 | 60,365 | 57,353 |
| Total non-current assets | | 124,081 | 111,726 |
| Total assets | | 159,391 | 157,116 |
| Current liabilities | | | |
| Trade and other payables | 15 | 10,290 | 10,890 |
| Derivative financial instruments | 28 | 1,575 | 1,326 |
| Interest-bearing loans and borrowings | 16 | 5,453 | 950 |
| Income tax payable | | 835 | 13,880 |
| Provisions | 17 | 2,700 | 2,790 |
| Total current liabilities | | 20,853 | 29,836 |
| Non-current liabilities | | | |
| Other Payables | 18 | 270 | - |
| Interest-bearing loans and borrowings | 19 | 20,000 | - |
| Provisions | 20 | 249 | 229 |
| Deferred tax liabilities | 6 | 10,932 | 8,525 |
| Total non-current liabilities | | 31,451 | 8,754 |
| Total liabilities | | 52,304 | 38,590 |
| Net assets | | 107,087 | 118,526 |
| Equity | | | |
| Contributed equity | 21 | 63,373 | 62,773 |
| Reserves | 22 | 32,806 | 27,463 |
| Retained earnings | 23 | 10,908 | 28,290 |
| Total Equity | | 107,087 | 118,526 |

The accompanying notes form an integral part of the statement of financial position.

Gazal Corporation Limited
Statement of Cash Flows
For the year ended 30 June 2017

| | | Consolidated | |
|--|--------------|----------------------------|----------------------------|
| | | Year ended 30 June 2017 | Year ended 30 June 2016 |
| | Notes | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 75,656 | 126,998 |
| Payments to suppliers and employees (inclusive of GST) | | (73,282) | (119,494) |
| Interest received | | 50 | 224 |
| Interest and other costs of finance paid | | (635) | (697) |
| Income taxes paid on operating activities | | (1,775) | (1,500) |
| Net cash flows from operating activities | 26(b) | 14 | 5,531 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | | (2,335) | (2,836) |
| Proceeds from sale of buildings, plant and equipment | | 249 | 138 |
| Purchase of intangibles | | (1,624) | (271) |
| Proceeds from sale of discontinued operations | 7 | 5,765 | 74,000 |
| Income taxes paid on disposal of discontinued operations | | (13,190) | (941) |
| Dividends from joint venture | | 4,000 | - |
| Net cash flows (used in) /from investing activities | | (7,135) | 70,090 |
| Cash flows from financing activities | | | |
| Proceeds from share issue | | 600 | 300 |
| Proceeds from borrowings | | 27,000 | - |
| Repayment of borrowings | | (2,500) | (55,000) |
| Dividends paid | | (27,912) | (27,785) |
| Net cash flows (used in)/ from financing activities | | (2,812) | (82,485) |
| Net (decrease)/ increase in cash and cash equivalents | | (9,933) | (6,864) |
| Cash and cash equivalents at the beginning of the period | | 12,540 | 19,348 |
| Net foreign exchange differences | | 3 | 56 |
| Cash and cash equivalents at the end of the period | 26(a) | 2,610 | 12,540 |

The accompanying notes form an integral part of the statement of cash flows.

During the period, a second special dividend of 35 cents per share (\$20.4 million) was paid in October 2016 following the sale of the Trade Secret business. Additionally, the capital gains tax on the profit on sale of Trade Secret of \$13.2 million was paid in December 2016.

The timing of these two non-recurring items has resulted in the Company's net debt increasing to \$22.8 million as at 30 June 2017. This compares to a net cash position of \$11.6 million as at 30 June 2016.

Gazal Corporation Limited
Statement of Changes in Equity
For the year ended 30 June 2017

| | Consolidated | | | | | | | |
|--|--|---------------------------|----------------|---------------------------------|-------------------------|-----------------------------|-------------------|----------------|
| | Attributable to shareholders of Gazal Corp Ltd | | | | | | | |
| | Issued Capital | Asset Revaluation Reserve | Other Reserves | Employee Equity Benefit Reserve | Cash Flow Hedge Reserve | Reserves from joint venture | Retained Earnings | Total Equity |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 1 July 2016 | 62,773 | 27,611 | 739 | 600 | (933) | (554) | 28,290 | 118,526 |
| Profit for the period | - | - | - | - | - | - | 10,530 | 10,530 |
| Other comprehensive income | - | 5,833 | (9) | - | (169) | 63 | - | 5,718 |
| Total comprehensive income for the period | - | 5,833 | (9) | - | (169) | 63 | 10,530 | 16,248 |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Cost of share-based payments | - | - | - | 225 | - | - | - | 225 |
| Share issue | 600 | - | - | (600) | - | - | - | - |
| Transfer | - | 562 | (562) | - | - | - | - | - |
| Dividends paid | - | - | - | - | - | - | (27,912) | (27,912) |
| At 30 June 2017 | 63,373 | 34,006 | 168 | 225 | (1,102) | (491) | 10,908 | 107,087 |
| At 1 July 2015 | 62,473 | 23,742 | 562 | 1,337 | 1,233 | 101 | 11,348 | 100,796 |
| Profit for the period | - | - | - | - | - | - | 43,111 | 43,111 |
| Other comprehensive income | - | 4,212 | 177 | - | (2,166) | (655) | - | 1,568 |
| Total comprehensive income for the period | - | 4,212 | 177 | - | (2,166) | (655) | 43,111 | 44,679 |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Cost of share-based payments | - | - | - | 836 | - | - | - | 836 |
| Share issue | 300 | - | - | (300) | - | - | - | - |
| Transfer | - | (343) | - | (1,273) | - | - | 1,616 | - |
| Dividends paid | - | - | - | - | - | - | (27,785) | (27,785) |
| At 30 June 2016 | 62,773 | 27,611 | 739 | 600 | (933) | (554) | 28,290 | 118,526 |

The accompanying notes form an integral part of the statement of changes in equity.

Gazal Corporation Limited
Notes to the Annual Financial Report
For the year ended 30 June 2017

1 CORPORATE INFORMATION

The annual financial report of Gazal Corporation Limited for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 28 September 2017. The Company has the power to amend and reissue this financial report.

Gazal Corporation Limited is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in the Director's Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has also been prepared on a historical cost basis, except for land & buildings, derivative financial instruments and share-based payments, which have been measured at fair value.

The financial report is presented in Australian dollars, the functional currency of the principal operating subsidiaries of the Company.

All values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under Corporations Instrument 2016/191. The Company is an entity to which the Corporations Instrument applies.

Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board. The financial report also complies with International Financial Reporting Standards (IFRS) as issued by International Accounting Standard Board.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Statement of compliance (continued)

New Accounting Standards and Interpretations

- (i) The accounting policies adopted are consistent with those of the previous financial reporting.
The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2016:

| Reference | Title |
|------------------|--|
| AASB 2014-3 | Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11] |

The adoption of these new and amended standards and interpretations had no material impact on the financial position or performance of the Group.

- (ii) Accounting standards issued but not yet effective:

The directors have not early adopted any of these new or amended standards and interpretations. These are outlined in the table below:

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Statement of compliance (continued)

New Accounting Standards and Interpretations (continued)

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|-----------|---------------------------------------|---|------------------------------|---|----------------------------|
| AASB 9 | Financial Instruments | <p>AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.</p> <p>Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.</p> <p>There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.</p> <p>Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.</p> <p>For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.</p> <p>All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO. The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.</p> <p>The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.</p> | 1 January 2018 | The Group has assessed that the new accounting standard is not material. | 1 July 2018 |
| AASB 15 | Revenue from Contracts with Customers | <p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i>, AASB Interpretation 13 <i>Customer Loyalty Programmes</i>, AASB Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, AASB Interpretation 18 <i>Transfers of Assets from Customers</i> and AASB Interpretation 131 <i>Revenue – Barter Transactions Involving Advertising Services</i>) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 <i>Leases</i>, once applied).</p> | 1 January 2018 | The Group is in the process of determining the extent of the impact of the amendments, if any | 1 July 2018 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Statement of compliance (continued)

New Accounting Standards and Interpretations (continued)

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|-----------|--------|---|---|--|----------------------------|
| | | <p>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"> ► Step 1: Identify the contract(s) with a customer ► Step 2: Identify the performance obligations in the contract ► Step 3: Determine the transaction price ► Step 4: Allocate the transaction price to the performance obligations in the contract ► Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. | | | |
| AASB 16 | Leases | <p>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 <i>Leases</i>. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).</p> <p>Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.</p> <p>Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.</p> <p>Lessor accounting is substantially unchanged from today’s accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.</p> | <p>1 January 2019</p> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p> | <p>The Group is in the process of determining the extent of the impact of the amendments, if any</p> | 1 July 2019 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Statement of compliance (continued)

New Accounting Standards and Interpretations (continued)

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|-------------|---|---|------------------------------|--|----------------------------|
| 2016-1 | Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] | This Standard amends AASB 112 <i>Income Taxes</i> (July 2004) and AASB 112 <i>Income Taxes</i> (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. | 1 January 2017 | The Group has assessed that the amendment is not applicable. | 1 July 2017 |
| 2016-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 | The amendments to AASB 107 <i>Statement of Cash Flows</i> are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). | 1 January 2017 | The Group has assessed that the amendment is not material. | 1 July 2017 |
| AASB 2016-5 | Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions | This standard amends to IFRS 2 <i>Share-based Payment</i> , clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: <ul style="list-style-type: none"> ▶ The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ▶ Share-based payment transactions with a net settlement feature for withholding tax obligations ▶ A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled | 1 January 2018 | The Group is in the process of determining the extent of the impact of the amendments, if any. | 1 July 2018 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Basis of consolidation

The consolidated financial statements comprise the financial statements of Gazal Corporation Limited and its subsidiaries ("the Group"). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investment in joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of loss of a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Operating segments

An operating segment is a component of an entity that engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board of Directors.

The group aggregates operating segments when they have similar economic characteristics and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services, and
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

Foreign currency translation

i) Functional and Presentation Currency

Both the functional and presentation currency of Gazal Corporation Limited and its Australian subsidiaries is Australian dollars (A\$).

ii) Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to the income statement. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

iii) Transactions of overseas subsidiaries

The functional currency of the various overseas subsidiaries includes New Zealand dollars, Hong Kong dollars, and Chinese yuan.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within current interest-bearing loans and borrowings on the statement of financial position.

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

The policy relating to tax consolidation is in Note 6(f).

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences are associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences are associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Income tax (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Other taxes

The net amount of Goods & Services Tax ("GST") or other value added taxes ("VAT") recoverable from, or payable to, the taxation authority or the relevant revenue authority is included as part of trade receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flow on a gross basis and the GST or VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority or the relevant revenue authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST or VAT recoverable from, or payable to, the taxation authority or the relevant revenue authority.

Inventories

Inventories include stock in transit and finished goods.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Finished goods– cost of direct materials and labour. Costs of imported goods are assigned on moving average cost basis and includes freight, duty and other inward charges.

The basis of valuation of inventories is the lower of cost and net realisable value. Net realisable value is the estimated selling prices in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses.

Plant and equipment are valued at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided on a straight-line basis, their economic lives as follows:

| | Life |
|------------------------|----------------|
| Buildings | 40 years |
| Leasehold improvements | Term of lease |
| Plant and machinery | 2.5 - 17 years |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Property, plant and equipment (continued)

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of the fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Revaluations of Land and Buildings

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section (net of tax) of the statement of financial position unless it reverses a revaluation decrement of the same asset previously recognised in the income statement, in which case the increment is recognised in the income statement.

Any revaluation decrement is recognised in the statement of comprehensive income unless it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed annually to ensure that the asset's fair value is recognised at the balance sheet date.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or its disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognised.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets other than goodwill that suffer an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangible assets

Intangible assets acquired separately are capitalised at cost. Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

Internally generated intangible assets are not capitalised. Such expenditure is charged against profits in the period in which the expenditure is incurred. Intangible assets are tested for impairment where an indicator of impairment exists or, in the case of indefinite life intangibles, annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when asset derecognised.

All software is capitalised and written off over the estimated useful life which presently ranges from 2.5 to 7 years.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Post-employment benefits

In respect of the Group's accumulated contribution superannuation funds, any contributions made to the superannuation funds by entities within the group consolidated entity are recognised against profits when due.

Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Trade and other payables

Trade creditors and other payables are carried at amortised cost and due to their short term nature they are not discounted. They present liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

The fair value of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged items' fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

i) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Derivative financial instruments and hedging (continued)

i) Cash flow hedges(continued)

Amounts taken to equity are transferred to the statement of comprehensive income when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Discontinued operations

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale or distribution, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

Or

- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in Note 7. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Share-based payment transactions

The Group provides benefits to certain employees (including directors) of the Group in the form of performance rights, whereby employees render services in exchange for future rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using a binomial pricing model.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Share-based payment transactions (continued)

The Gazal Group Employee Share Option Plan was established in 2005 to provide benefits to eligible participants as determined by the Board. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The Group's policy is to transfer the vested or lapsed shares from Share Based Payments Reserve to Retained Earnings.

Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue from sale of goods is recognised after deducting returns, settlement and trade discounts and rebates and is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed.

(ii) Interest revenue

Interest income is recognised as it accrues using the effective interest method.

(iii) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(iv) Fees from joint venture

Revenue for services performed on behalf of the joint venture is recognised by reference to the completion of the services.

(iv) Rental Revenue

Rental revenue arising from operating leases is recognised on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature.

Contributed equity

Issued and paid up capital is recognised at the fair value of consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity (net of tax) as a reduction of the share proceeds received. The fair value of equity instruments granted and other estimates of other expected share issues are recognised as a separate component of equity.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration if reissued is recognised in share capital.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Treasury shares (continued)

Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them. Share options exercised during the reporting period are satisfied with treasury shares.

Earnings per share

Basic earnings per share is calculated as profit after tax attributable to members of the parent entity, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members, adjusted for:

(i) costs of servicing equity (other than dividends);

(ii) the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

(iii) other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Operating leases

The Group has entered into operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Investments and other financial assets

The parent Company carries investments in subsidiary companies initially at cost. The carrying value of subsidiaries is assessed at regular intervals having regard to net assets and future cash flows of these entities. A provision for diminution is established should the carrying value of a subsidiary be considered impaired.

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available -for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

(i) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process

Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as land and buildings and share based payments, at fair value at each balance sheet date.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

Investments and other financial assets (continued)

Fair value measurement (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Independent external valuers are involved for valuation of significant assets, such as land and buildings. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES & ASSUMPTIONS

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES & ASSUMPTIONS (continued)

impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. There were no impairment adjustments in the year. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 14.

Bonus provision

Bonus payments granted to each executive depends mainly on the performance of the Company and or their division. Operational measures cover mainly financial and some non-financial measures of performance. The usual measures include contribution to net profit before tax, stock turnover ratios, risk management, product and inventory management, and leadership/team contribution.

On an annual basis, after consideration of divisional performance each executive is reviewed in accordance with the above process and STIs assessed and allocated to each executive who is deemed to have met their performance target.

Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant.

This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 21.

Stock obsolescence provision

At each balance date, inventories are assessed on receipt date/selling season and any inventory holdings that were received into the warehouse greater than one year prior to balance date are subject to a write-down ranging from 20% to 100%.

This charge against profit will take the form of a provision which is returned to profit when the inventory to which the provisions apply are sold or otherwise disposed of.

Property valuations

At each balance date the property is valued by an independent valuer to determine the fair value of its land and buildings.

Fair value is determined directly by reference to market-based evidence, which are the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The effective date of the revaluation was 30 June 2017.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

4 INVESTMENT IN JOINT VENTURE

The Group has a 50% interest in PVH Brands Australia Pty Ltd ('PVHBA'), a jointly controlled entity, which commenced operations on 3 February 2014.

Summarised financial information of the joint venture and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

The Group's interest has been accounted for using the equity method in the consolidated financial statements.

| | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 |
|---|---|---|
| Sales revenue | 198,221 | 180,657 |
| Cost of sales | (74,575) | (75,401) |
| Gross profit | 123,646 | 105,256 |
| Other revenues | 141 | 282 |
| Selling and marketing expenses | (79,721) | (69,504) |
| Distribution expenses | (9,871) | (9,300) |
| Administration expenses | (8,384) | (8,253) |
| Depreciation and amortisation expenses | (5,683) | (4,170) |
| Finance costs | (44) | (276) |
| Profit before income tax | 20,084 | 14,035 |
| Income tax expense | (6,187) | (3,873) |
| Profit for the year | 13,897 | 10,162 |
| Group's share of profit for the year | 6,949 | 5,081 |
| Release of unrealised profit | - | 150 |
| Share of profit from joint venture in the income statement | 6,949 | 5,231 |
| Group's share of other comprehensive income (3) | 63 | (655) |
| Group's share of total comprehensive income | 7,012 | 4,576 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

4 INVESTMENT IN JOINT VENTURE (continued)

| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
|---------------------------------------|---------------------------------|---------------------------------|
| Current assets (1) | 68,629 | 63,399 |
| Non-current assets | 93,347 | 84,529 |
| Current liabilities (2) | 34,045 | 26,307 |
| Non-current liabilities | 3,521 | 3,231 |
| Equity | 124,410 | 118,390 |
| Portion of Group's ownership 50% | 62,205 | 59,195 |
| Carrying amount of investment: | | |
| Opening | 57,353 | 52,777 |
| Share of profit | 6,949 | 5,081 |
| Dividends received | (4,000) | - |
| Release of unrealised profit | - | 150 |
| Other comprehensive income (3) | 63 | (655) |
| Closing | 60,365 | 57,353 |

- (1) Includes \$8,583,000 of cash and cash equivalents (30 June 2016: \$14,600,000).
(2) Includes \$2,000,000 of interest-bearing loans and borrowings (30 June 2016: nil).
(3) Relates to the movement in forward currency contract cash flow hedge reserve.

The board of PVH Brands Australia Pty Limited resolved by circular resolution to pay fully franked dividends to the ordinary shareholders in the capital of the company totalling \$8,000,000, out of the retained profits of the joint venture. \$4,000,000 was paid on 12 December 2016 and a further \$4,000,000 was paid on 3 April 2017 to the ordinary shareholders. The Group's share of the fully franked dividend was \$4,000,000.

The joint venture had no contingent liabilities or capital commitments as at 30 June 2017 or 30 June 2016.

Gazal's successful relationship with PVH Inc. ('PVH') has spanned over 30 years and will continue through the ongoing operations of the PVH Brands Australia joint venture ("JV"). The JV commenced in February 2014 with Calvin Klein underwear and Calvin Klein Jeans operations and later expanded through the acquisition of the Tommy Hilfiger Australian operations and the Van Heusen, Nancy Ganz and other shirting, tailored and shapewear businesses (collectively "Heritage Brands").

The JV has entered into licence and distribution agreements covering Calvin Klein (20 years), Van Heusen (20 years) and Tommy Hilfiger (12 years). These licences will continue to support the long-term operations of the JV.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

4 INVESTMENT IN JOINT VENTURE (continued)

To protect both parties, however, specific buy-out arrangements have been put in place in the Shareholders Deed of the JV. These arrangements cover the following:

- **Board Deadlock** - The JV Board of Directors has 4 directors (2 from Gazal and 2 from PVH). In the unlikely event of a deadlock at the JV Board level, there are agreed dispute resolution procedures in place. If these procedures are exhausted and the deadlock remains unresolved, then:
 - Gazal has the right to require PVH to acquire its Shares at 7 x the preceding 12 months EBITDA (less any debt), and,
 - PVH has the right to require Gazal to sell its Shares to PVH at 7 x the preceding 12 months EBITDA (less any debt).
- **Change of Control in relation to Gazal** - If a Change of Control of Gazal occurs, then PVH may require Gazal to sell its Shares to PVH at 7 x the preceding 12 months EBITDA (less any debt).
- **Expiry or termination of licences** - If any of the licences noted above are terminated or expire Gazal has the right to require PVH to acquire its Shares at 7 x the preceding 12 months EBITDA (less any debt). If a licence is terminated due to a Culpable Termination Event, PVH has the right to require Gazal to sell its Shares to PVH at a value to be determined by an independent valuer.

Gazal believes that the likelihood of the need to utilise such buy-out arrangements to be remote and as such, neither a financial asset or liability has been recognised.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

5 REVENUES AND EXPENSES

| | Consolidated | |
|--|----------------------------|----------------------------|
| | Year ended 30 June 2017 | Year ended 30 June 2016 |
| | \$'000 | \$'000 |
| Revenue and Expense | | |
| (i) Revenue | | |
| Sales revenue | 62,112 | 59,608 |
| Other revenue | | |
| Interest revenue | 50 | 224 |
| Fees from joint venture (1) | 6,620 | 5,963 |
| Rental revenue | 1,824 | 1,185 |
| Other | 299 | 185 |
| Total other revenue | 8,793 | 7,557 |
| Total revenue | 70,905 | 67,165 |
| (ii) Expenses and losses | | |
| Depreciation, amortisation and impairment | | |
| Depreciation of buildings | 621 | 516 |
| Depreciation of plant and equipment | 1,162 | 1,023 |
| Depreciation of leasehold improvements | 4 | 7 |
| Amortisation of software | 929 | 1,102 |
| | 2,716 | 2,648 |
| Employee benefit expense | | |
| Wages and salaries | 13,041 | 11,744 |
| Defined contribution superannuation expense | 1,151 | 1,157 |
| Employee entitlements | 1,229 | 1,278 |
| Share-based payments | 225 | 600 |
| | 15,646 | 14,779 |
| Borrowing costs - Interest expenses | 635 | 697 |
| Bad & doubtful debts (recovery)/expense | (2) | 72 |
| Operating lease rentals | 237 | 314 |
| (Release)/provision of inventories obsolescence | (312) | 587 |
| Foreign exchange loss/(gain) | 71 | (176) |

(1) Fees from joint venture represent partnership fees and rent charges.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

6 INCOME TAX

| | Consolidated | |
|---|--------------------------------------|--------------------------------------|
| | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 |
| Income Statement | | |
| <i>Current income tax</i> | | |
| Current income tax charge attributable to continuing operations | 1,545 | 2,322 |
| Adjustments in respect of current income tax of previous years | (192) | (143) |
| <i>Deferred income tax</i> | | |
| Relating to origination and reversal of temporary differences | 148 | (629) |
| Income tax expense/(benefit) reported in the income statement | 1,501 | 1,550 |
| (b) Amounts charged or credited directly to equity | | |
| <i>Deferred income tax related to items charged or credited directly to equity</i> | | |
| Net gain/(loss) on cash flow hedges | (74) | (928) |
| Net gain on revaluation of buildings | 2,500 | 1,805 |
| Net loss on share based payments | - | (236) |
| Income tax expense/(benefit) reported in equity | 2,426 | 641 |
| (c) Numerical reconciliation between aggregate Tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate | | |
| A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: | | |
| Accounting profit before income tax | 11,919 | 10,587 |
| Profit before tax from discontinued operations and net gain on sale of discontinued operations | 7 311 | 48,202 |
| Accounting profit before income tax | 12,230 | 58,789 |
| At statutory income tax rate of 30% (2016: 30%) | 3,669 | 17,637 |
| Entertainment expenses | 30 | 23 |
| Effect of higher rates of tax on overseas income | (3) | 14 |
| Share of profit of joint venture | (2,085) | (1,569) |
| Other items | 281 | (284) |
| Amounts under/(over) provided in prior years | (192) | (143) |
| Total income tax attributable to operating profit | 1,700 | 15,678 |
| Income tax reported in the consolidated income statement | 1,501 | 1,550 |
| Income tax attributable to discontinued operations and gain on sale of discontinued operations | 7 199 | 14,128 |
| | 1,700 | 15,678 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

6 INCOME TAX (continued)

(d) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June relates to the following:

| | Statement of Financial Position | | Income Statement | |
|--|------------------------------------|------------------------------|-----------------------------------|-----------------------------------|
| | As at 30-Jun-17 \$'000 | As at 30-Jun-16 \$'000 | Year ended 30-Jun-17 \$'000 | Year ended 30-Jun-16 \$'000 |
| CONSOLIDATED | | | | |
| <i>Deferred tax liabilities</i> | | | | |
| Revaluation of land and buildings to fair value | (13,641) | (11,260) | 67 | 66 |
| Accelerated amortisation/depreciation for tax purposes | 54 | (4) | (58) | (480) |
| Accelerated depreciation for book purposes | - | 33 | - | - |
| Software development expenses for book purposes | - | - | - | 240 |
| Provisions for employee benefits | 1,401 | 1,472 | 71 | 393 |
| Other provisions not deductible | 178 | 229 | 51 | (561) |
| Provisions relating to inventory | 276 | 370 | 94 | 173 |
| Doubtful debts | 11 | 32 | 21 | 3 |
| Accrual for rent free period | - | - | - | 1,433 |
| Prepayments/other payables | 242 | 27 | (215) | (84) |
| Uplift to retail stock value | - | - | - | 36 |
| Share based payments | 75 | 179 | 98 | 98 |
| Derivative liability/(asset) | 472 | 397 | - | - |
| <i>Net deferred tax liabilities</i> | (10,932) | (8,525) | 129 | 1,317 |
| CONSOLIDATED | | | | |
| <i>Net deferred tax liabilities</i> | (10,932) | (8,525) | 129 | 1,317 |

(e) Tax losses

The Group has utilised all its Australian capital gains tax losses during the financial period.

(f) Tax consolidation

(i) Members of the tax consolidated group and the Tax Sharing Agreement

Gazal Corporation Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2003. Gazal Corporation Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax liabilities to the wholly owned subsidiaries, based on the formula as set out in the agreement. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

(ii) Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 *Income Taxes*. Allocations under the tax funding agreement are made annually.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated parent company, Gazal Corporation Limited.

(g) Taxation of financial arrangements (TOFA)

Legislation is in place which changes the tax treatment of financial arrangements including the tax treatment of hedging transactions. The Group has assessed the impact of these changes on the Group's tax position. No impact has been recognised in the accounts at this point of time.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

7 DISCONTINUED OPERATIONS

Discontinued operations for the year ended 30 June 2017 represent the finalisation benefit from contracts subsequent to the disposal of the Trade Secret business in October 2015.

Discontinued operations for the year ended 30 June 2016 relates to the trading operations of Trade Secret until the sale to the TJX Companies, Inc. in October 2015, the recognition of profit on the sale of Trade Secret and residual transaction costs in relation to the sale of Midford School-wear operations.

The results of the discontinued operations are presented below:

| | Year ended 30 June 2017 | | Year ended 30 June 2016 | | |
|---|--------------------------------|-------------------------|--------------------------------|------------------------|-------------------------|
| | Trade Secret \$'000 | Total \$'000 | Midford \$'000 | Trade Secret \$'000 | Total \$'000 |
| Trading | | | | | |
| Sales revenue | - | - | - | 51,853 | 51,853 |
| Other benefit | 597 | 597 | - | 157 | 157 |
| Cost of sales | - | - | - | (31,393) | (31,393) |
| Depreciation and amortisation | - | - | - | (953) | (953) |
| Employees benefit expenses | - | - | - | (8,191) | (8,191) |
| Other expenses | (286) | (286) | (219) | (12,082) | (12,301) |
| Profit/(loss) before tax from discontinued operations | 311 | 311 | (219) | (609) | (828) |
| Tax (expense)/benefit | (199) | (199) | 69 | 121 | 190 |
| Profit/(loss) for the period from discontinued operations | 112 | 112 | (150) | (488) | (638) |
| Gain on sale of discontinued operations after tax | - | - | - | 34,712 | 34,712 |
| Total profit from discontinued operations | 112 | 112 | (150) | 34,224 | 34,074 |

*Note: Trade Secret in the year ended 30 June 2017 represents finalisation benefit from contracts subsequent to the disposal of the business in October 2015.

*Note: Midford in the year ended 30 June 2016 represents expenses subsequent to the disposal of the business in June 2015.

| | 30 June 2017 cents | 30 June 2016 cents |
|--|-------------------------------|-------------------------------|
| Earnings per share - cents per share: | | |
| - Basic from discontinuing operations | 0.19 | 59.0 |
| - Diluted from discontinued operations | 0.19 | 58.7 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

7 DISCONTINUED OPERATIONS (continued)

Details of the net gain on sale of the discontinued operations are presented below:

Details of the sale of discontinued operations

| | Year ended 30 June 2016 |
|--|-------------------------|
| | Trade Secret |
| | \$'000 |
| Gross sale proceeds | 80,000 |
| Working capital adjustment | 3,077 |
| Total gross sale proceeds | 83,077 |
| Proceeds recognised in cash flow statement | 74,000 |
| Amount held in escrow | 5,847 |
| Carrying amount of net assets sold | (30,340) |
| Gain on sale before transaction costs | 52,737 |
| Transaction costs | (3,707) |
| Net gain on sale of discontinued operations before income tax | 49,030 |
| Tax expense | (14,318) |
| Net gain on sale of discontinued operations after income tax | 34,712 |

Net cash flows of the discontinued operations are as follows:

| | Year ended 30 June 2017 | | Year ended 30 June 2016 |
|----------------------------------|----------------------------|---------------|----------------------------|
| | Total | Trade Secret | Total |
| | \$'000 | \$'000 | \$'000 |
| Operating activities | (157) | 344 | 344 |
| Investing activities | 5,765 | (1,143) | (1,143) |
| Net cash inflow/(outflow) | 5,608 | (799) | (799) |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

8 EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

| | Consolidated | |
|--|--------------------------------------|--------------------------------------|
| | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 |
| Net Profit attributable to ordinary equity holders of the parent from continuing operations | 10,418 | 9,037 |
| Profit attributable to ordinary equity holders of the parent from discontinued operations | 112 | 34,074 |
| Earnings used in calculating basic and diluted earnings per share | 10,530 | 43,111 |
| | Number of Shares | |
| | Number of Shares | Number of Shares |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 58,159,205 | 57,793,690 |
| Effects of dilution from performance rights | 195,652 | 272,727 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 58,354,857 | 58,066,417 |

There are no share options outstanding at 30 June 2017 or 30 June 2016. The Group did not buy back shares during the reporting period (2016: nil).

9 SEGMENT INFORMATION - OPERATING SEGMENTS

Identification of reportable segments

The operating segments are identified by management based on differences in product and services provided. Discrete financial information about each of these operating segments is reported to the management team at least every month and the Board of Directors at least every two months. The operating segments reported during the period have been revised and the new operating segments are as follows:

- Wholesale
- Corporate
- Joint Venture

The comparatives have been restated for comparability.

Types of markets and customer groups

Wholesale

The wholesale business services our traditional retail customers. The products sold are workwear and corporate uniforms.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

9 SEGMENT INFORMATION - OPERATING SEGMENTS (continued)

Corporate

The corporate segment represents the services supplied for the wholesale business and the joint venture and third party transitional arrangements.

Joint Venture

The joint venture income represents the Group's profit share from the joint venture.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2. The key elements of the policy are described below.

Unallocated charges

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

Income tax balances and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

9 SEGMENT INFORMATION - OPERATING SEGMENTS (continued)

| | Wholesale | Corporate | Joint Venture | Total |
|--|---------------|----------------|---------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2017 | | | | |
| Revenue | | | | |
| Sales to external customers | 62,112 | - | - | 62,112 |
| Revenue from joint venture | - | 6,620 | - | 6,620 |
| Other revenue | 35 | 2,138 | - | 2,173 |
| Segment Revenue | 62,147 | 8,758 | - | 70,905 |
| Share of income from joint venture | - | - | 6,949 | 6,949 |
| Segment net operating profit before tax | 5,716 | (746) | 6,949 | 11,919 |
| includes the following: | | | | |
| - Interest revenue | - | 50 | - | 50 |
| - Interest expense | - | (635) | - | (635) |
| - Depreciation and amortisation | (61) | (2,653) | - | (2,714) |
| - Other non-cash expenses | 1 | 1 | - | 2 |
| Segment assets | 33,625 | 65,401 | 60,365 | 159,391 |
| Capital expenditure | 130 | 2,205 | - | 2,335 |
| Segment liabilities | 6,843 | 33,149 | - | 39,992 |
| | Wholesale | Corporate | Joint Venture | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2016 | | | | |
| Revenue | | | | |
| Sales to external customers | 59,608 | - | - | 59,608 |
| Revenue from joint venture | - | 5,963 | - | 5,963 |
| Other revenue | 47 | 1,547 | - | 1,594 |
| Segment revenue | 59,655 | 7,510 | - | 67,165 |
| Share of income from joint venture | - | - | 5,231 | 5,231 |
| Segment net profit before tax | 7,014 | (1,658) | 5,231 | 10,587 |
| includes the following: | | | | |
| - Interest revenue | - | 224 | - | 224 |
| - Interest expense | - | (697) | - | (697) |
| - Depreciation and amortisation | (80) | (2,568) | - | (2,648) |
| - Other non-cash expenses | - | 12 | - | 12 |
| - Discontinued operations before income tax | (219) | (609) | - | (1,437) |
| Segment assets | 28,766 | 64,997 | 57,353 | 151,116 |
| Capital expenditure | 21 | 2,815 | - | 2,836 |
| Segment liabilities | 7,426 | 8,321 | - | 15,747 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

9 SEGMENT INFORMATION - OPERATING SEGMENTS (continued)

Major customers

The Group has a number of customers to which it provides products. The Group's major customer which is included in the Wholesale segment accounted for 7.17% of external revenue (2016: 8.85%). The next most significant customer accounted for 5.90% (2016: 6.13%) of external revenue.

i) Segment assets reconciliation to the statement of financial position

In assessing the segment performance, the Board of Directors analyse the segment result as described above and its relation to segment assets. Segment assets are those operating assets of the entity that the management committee views as directly attributing to the performance of the segment.

| | Consolidated | |
|---|----------------|----------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Segment operating assets | 159,391 | 151,116 |
| Other receivable | - | 6,000 |
| Total assets per statement of financial position | 159,391 | 157,116 |

ii) Segment liabilities reconciliation to the statement of financial position

Segment liabilities include trade and other payables, borrowings, provisions and derivative liabilities. The Group has a centralised function that is responsible for managing tax for the segments.

| | Consolidated | |
|--|---------------|---------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Segment operating liabilities | 39,992 | 15,747 |
| Income tax payable | 835 | 13,880 |
| GST payable | 545 | 438 |
| Deferred tax liabilities | 10,932 | 8,525 |
| Total liabilities per statement of financial position | 52,304 | 38,590 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

10 TRADE AND OTHER RECEIVABLES (CURRENT)

| | Consolidated | |
|-----------------------------------|---------------|--------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Trade receivables | 10,403 | 7,363 |
| Related party receivables | 1,835 | 1,699 |
| Allowance for impairment loss (a) | (70) | (105) |
| Carrying amount | 12,168 | 8,957 |

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment gain of \$35,000 (2016: \$13,000 gain) has been recognised by the Group in the current year. These amounts have been included in the selling and administrative expense items.

| | Consolidated | |
|--|--------------|--------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Movements in the provision for impairment loss were as follows | | |
| At 1 July | 105 | 118 |
| (Reversal)/Charge for the year | (33) | (85) |
| Written off | (2) | 72 |
| At 30 June | 70 | 105 |

| | Total | 0-30 Days | 31-60 Days | 61-90 Days PDNI* | 61-90 Days CI** | +91 Days PDNI* | +91 Days CI** |
|-------------------|--------|--------------|---------------|------------------------|-----------------------|----------------------|---------------------|
| 2017 Consolidated | 10,403 | 10,248 | 15 | 70 | 55 | - | 15 |
| 2016 Consolidated | 7,363 | 7,048 | 158 | 52 | 19 | - | 86 |

* Past due not impaired ('PDNI')

** Considered Impaired ('CI')

Receivables past due but not considered impaired are: \$70,000 (2016: \$52,000). Payment terms on these amounts have not been re-negotiated however credit has been stopped until full payment is made. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(b) Related party receivables

For the terms and conditions of related party receivables refer to Note 31. Related party receivables relate to receivables from the joint venture for partnership fees.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

10 TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

(c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. Refer to note 28 for more information on the financial risk management policy of the Group.

(d) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 28.

11 INVENTORIES (CURRENT)

| | Consolidated | |
|--------------------------------------|---------------|---------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Finished goods, at cost | 17,851 | 15,219 |
| Provision for inventory obsolescence | (922) | (1,234) |
| | 16,929 | 13,985 |
| Stock in transit | 1,629 | 1,243 |
| Total inventories | 18,558 | 15,228 |

(a) Inventory expenses

Inventories recognised as an expense for the year ended 30 June 2017 totalled \$39,349,658 (2016: \$67,993,000) for the Group. This expense has been included in cost of sales. The obsolescence net realisable value gain of \$312,299 (2016: \$58,691 gain) has been included as a gain in the cost of sales.

12 OTHER ASSETS (CURRENT)

| | Consolidated | |
|---|--------------|--------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Prepayments | 1,725 | 1,351 |
| Receivable relating to the sale of Trade Secret | - | 5,847 |
| Other | 249 | 1,467 |
| Total other current assets | 1,974 | 8,665 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

13 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

| | Consolidated | | | |
|--|--------------------|--------------------------|----------------------|---------------|
| | Land & Building | Leasehold Improvement | Plant & Machinery | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2017 | | | | |
| At 1 July 2016 net of accumulated depreciation | 45,749 | 32 | 3,873 | 49,654 |
| Additions | 354 | - | 1,981 | 2,335 |
| Disposals | - | (15) | (234) | (249) |
| Revaluation | 8,333 | - | - | 8,333 |
| Depreciation charge for the year | (621) | (4) | (1,162) | (1,787) |
| At 30 June 2017 net of accumulated depreciation | 53,815 | 13 | 4,458 | 58,286 |
| At 30 June 2017 | | | | |
| Cost or fair value | 53,815 | 303 | 22,892 | 77,010 |
| Accumulated depreciation | - | (290) | (18,434) | (18,724) |
| Net carrying amount | 53,815 | 13 | 4,458 | 58,286 |
| | | | | |
| | Consolidated | | | |
| | Land & Building | Leasehold Improvement | Plant & Machinery | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2016 | | | | |
| At 1 July 2015 net of accumulated depreciation | 40,248 | 22 | 3,160 | 43,430 |
| Additions | - | 346 | 2,490 | 2,836 |
| Disposals | - | (8) | (130) | (138) |
| Revaluation | 6,017 | - | - | 6,017 |
| Depreciation charge for the year | (516) | (328) | (1,647) | (2,491) |
| At 30 June 2016 net of accumulated depreciation | 45,749 | 32 | 3,873 | 49,654 |
| At 30 June 2016 | | | | |
| Cost or fair value | 45,749 | 6,064 | 28,584 | 80,397 |
| Accumulated depreciation | - | (6,032) | (24,711) | (30,743) |
| Net carrying amount | 45,749 | 32 | 3,873 | 49,654 |

The above assets are pledged as security for current and non-current interest bearing liabilities.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Revaluation of land and buildings

The Group engaged CB Richard Ellis, an accredited independent valuer, to determine the fair value of its land and buildings. Fair value is determined directly by reference to market-based evidence, which are the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The effective date of the revaluation was 30 June 2017. The revaluation is performed annually.

The fair value is measured using Level 3 inputs.

| Significant unobservable valuation input | 2017 | 2016 |
|--|---------|---------|
| Price per square metre | \$2,357 | \$1,999 |

Significant increases/(decreases) is estimated price per square metre in isolation would result in a significantly higher/ (lower) fair value.

If land and buildings were measured using the cost model the carrying amounts would be as follows:

| | Consolidated | |
|----------------------------|---------------------|--------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Cost | 13,953 | 13,599 |
| Accumulated depreciation | (6,140) | (5,791) |
| Net carrying amount | 7,813 | 7,808 |

(c) Property, plant and equipment pledged as security for liabilities

The carrying amounts of property, plant and equipment are pledged as securities for current and non-current interest bearing liabilities as disclosed in note 27(c).

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

14 INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at the beginning and end of the period

| | Goodwill | Software | Total |
|--|--------------|--------------|--------------|
| | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2017 | | | |
| At 1 July 2016 net of accumulated amortisation | 3,307 | 1,412 | 4,719 |
| Additions | - | 1,729 | 1,729 |
| Disposal | - | (105) | (105) |
| Amortisation | - | (913) | (913) |
| At 30 June 2017 net of accumulated amortisation | 3,307 | 2,123 | 5,430 |
| At 30 June 2017 | | | |
| Cost | 3,323 | 11,734 | 15,057 |
| Accumulated amortisation | - | (9,627) | (9,627) |
| Net carrying amount | 3,323 | 2,107 | 5,430 |

| | Goodwill | Software | Total |
|--|--------------|--------------|--------------|
| | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2016 | | | |
| At 1 July 2015 net of accumulated amortisation | 3,307 | 2,252 | 5,559 |
| Additions | - | 398 | 398 |
| Disposal | - | (127) | (127) |
| Amortisation | - | (1,111) | (1,111) |
| At 30 June 2016 net of accumulated amortisation | 3,307 | 1,412 | 4,719 |
| At 30 June 2016 | | | |
| Cost | 3,307 | 10,484 | 13,791 |
| Accumulated amortisation | - | (9,072) | (9,072) |
| Net carrying amount | 3,307 | 1,412 | 4,719 |

(b) Description of the Group's intangible assets

(i) Goodwill

The Group's impairment test for goodwill is based on value in use calculations. The Group determined the recoverable amount of the workwear and corporate uniforms cash generating units ("CGU") is \$34,976,000 which exceeded the carrying amount at 30 June 2017. The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. A discount rate of 10.5% (2016: 10.5%) used in the impairment test takes into account the Company's actual pre tax weighted average cost of capital for the year in review. Budget sales growth in the ensuing year and growth for the subsequent three years plus terminal value is based on a range of 2.0% to 4.2% (2016: 2.2% to 2.5%). A reasonably possible change in growth rates and discount rates would not result in impairment.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

15 TRADE AND OTHER PAYABLES (CURRENT)

| | Consolidated | |
|---------------------------------------|---------------|---------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Trade payables (a) | 5,653 | 2,077 |
| Other payables | 4,096 | 8,377 |
| Goods and services tax | 541 | 436 |
| Total trade and other payables | 10,290 | 10,890 |

(a) Foreign exchange risk

The carrying amounts of the Group's trade and other payables denominated in foreign currencies are:

| | | |
|---|------------|-----------|
| US Dollar | 340 | 36 |
| Carrying amount of foreign currency trade and other payables | 340 | 36 |

(i) Trade payables are non-interest bearing and are normally settled between 30-60 days terms.

(ii) Other payables are non-interest bearing and are normally settled between 0-90 days terms.

(b) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(c) Foreign exchange, interest rate and liquidity risk

Detail regarding foreign exchange, interest rate, liquidity risk exposure and associated sensitivity analysis is disclosed in note 28.

(d) Financial guarantees

The Group has provided the financial guarantees to its associates which commits the Group to make payments on behalf of these entities upon their failure to perform under the terms of the relevant contract. Refer to note 25 and note 32 for further information relating to the Parent's financial guarantee.

16 INTEREST-BEARING LOANS AND BORROWING (CURRENT)

| | Consolidated | |
|---|--------------|--------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Bank loans - secured (Refer Note 19(a)) | 5,453 | 950 |
| Total current borrowings | 5,453 | 950 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

17 PROVISIONS (CURRENT)

| | Consolidated | | Total \$'000 |
|-------------------------|--|--|-----------------|
| | Provision for annual leave \$'000 | Provision for long service leave \$'000 | |
| At 30 June 2016 | 1,272 | 1,518 | 2,790 |
| Arising during the year | 1,051 | 171 | 1,222 |
| Utilised | (1,075) | (237) | (1,312) |
| At 30 June 2017 | 1,248 | 1,452 | 2,700 |

18 OTHER PAYABLES (NON-CURRENT)

| | Consolidated | |
|---------------------------------------|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Other payables | 270 | - |
| Total trade and other payables | 270 | - |

19 INTEREST-BEARING LOANS AND BORROWING (NON-CURRENT)

| | Consolidated | |
|-------------------------------------|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Bank loans - secured (a) | 20,000 | - |
| Total non-current borrowings | 20,000 | - |

- (a) The Bank loans are \$25,453,000 at 30 June 2017 (2016: \$950,000). They are secured by a first mortgage over freehold land and buildings and by deeds of charge, and mortgage debentures over all tangible assets of the economic entity with total assets pledged as security totaling \$91,623,000 (2016: \$86,379,000), refer to Note 27(c). Bank loans have been classified as non-current and current liabilities. The loan facilities with our bank were renegotiated in 2017 and do not expire until 31 October 2018. The available facilities are listed in note 27. The bank reserves the right to withdraw the facilities if in the opinion of the bank there has been a breach or event of default and certain financial ratios are not maintained to the satisfaction of the bank.

The interest rates on floating rate borrowings at year-end were 3.16% to 3.30% (2016: 2.68% to 2.73%). Borrowings at 30 June 2017 were in Australian dollars and New Zealand dollars.

The fair value of the interest-bearing loans is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Interest-bearing loans and borrowings are classified as level 2 financial instruments. The carrying value represents the approximate fair value at reporting date.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

20 PROVISIONS (NON-CURRENT)

| | Consolidated |
|--------------------------|--|
| | Provision for long service leave \$'000 |
| At 1 July 2016 | 229 |
| Utilised during the year | 20 |
| At 30 June 2017 | 249 |

21 CONTRIBUTED EQUITY

| | Consolidated | |
|-----------------------|--|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Ordinary shares | | |
| Issued and fully paid | 63,373 | 62,773 |

Movements in contributed equity for the year

| | Consolidated | |
|--|----------------|-----------------|
| | Number '000 | Value \$'000 |
| Opening balance 1 July 2015 | 57,769 | 62,473 |
| Shares issued | 117 | 300 |
| Closing balance at 30 June 2016 | 57,886 | 62,773 |
| Opening balance 1 July 2016 | 57,886 | 62,773 |
| Shares issued | 273 | 600 |
| Closing balance at 30 June 2017 | 58,159 | 63,373 |

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Share Based Payment Plans

In November 2005 the Company established the Gazal Group Employee Share Option Plan which is currently inactive. There are no share options outstanding at 30 June 2017 or 30 June 2016.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

21 CONTRIBUTED EQUITY (continued)

Share Based Payment Plans (continued)

In October 2012, the Company established a new Long Term Incentive Performance Rights Plan. The plan was initially set up to provide long term incentives to Mr. P Robinson who was appointed CEO and Executive Director in 2012.

The Board exercised its discretion to modify the LTI plan in FY16 from the previous PAT growth targets to a range of outcomes including a service condition, to be completed following the structural changes in FY16 and various other corporate plans. The LTI Plan in FY16 and FY17 included both the CEO and CFO who were integral to the successful completion of the of plans including a service condition.

The Long Term Incentive awards (LTI) are delivered in the form of performance rights which vest within varying periods of time as approved by the board.

The fair value of performance rights granted is estimated at the date of grant using a Black-Scholes simulation model, taking into account the terms and conditions upon which the performance rights were granted. The exercise price of the performance rights is equal to the market price of the underlying shares on the date of grant.

Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management is constantly adjusting the capital structure to take advantage of favourable costs of capital or higher returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2017, management paid dividends of \$27,912,000 (2016: \$27,785,000).

Management monitors capital through the gearing ratio (net debt/total capital). The gearing ratios based on continuing operations at 30 June 2017 and 2016 were as follows:

| | Consolidated | |
|--------------------------------|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Total borrowings * | 36,013 | 11,840 |
| Less cash and cash equivalents | (2,610) | (12,540) |
| Net debt | 33,403 | (700) |
| Total equity | 107,087 | 118,526 |
| Total Capital | 140,490 | 117,826 |
| Gearing ratio | 24% | -1% |

* Includes interest bearing loans and borrowings and trade and other payables

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

21 CONTRIBUTED EQUITY (continued)

Capital Management (continued)

The Group considers a gearing ratio of 30% to 60% to be the optimal level. The Group is required under its bank covenants to maintain shareholder funds at no less than \$60million or 85% of the prior year level.

22 RESERVES

| | Consolidated | |
|--|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Asset revaluation | 34,006 | 27,611 |
| Other reserves | 168 | 739 |
| Employee equity benefit | 225 | 600 |
| Cash flow hedge | (1,102) | (933) |
| Reserves from joint venture | (491) | (554) |
| Total reserves | 32,806 | 27,463 |
| Transfer to/(from) reserves: | | |
| (a) Asset revaluation reserve | | |
| Opening balance | 27,611 | 23,742 |
| Revaluation of land and building | 8,333 | 6,017 |
| Income tax related to movement in Asset revaluation reserve | (2,500) | (1,805) |
| Transfer | 562 | (343) |
| Closing balance | 34,006 | 27,611 |
| (b) Other reserves | | |
| Opening balance | 739 | 562 |
| Transfer | (562) | - |
| Foreign currency translation | (9) | 177 |
| Closing balance | 168 | 739 |
| (c) Employee equity benefits reserve | | |
| Opening balance | 600 | 1,337 |
| Recognition of share-based payment cost | 225 | 600 |
| Payment for shares | (600) | (300) |
| Transfer of share options reserve | - | (1,273) |
| Income tax related to movement in Employee equity benefits reserve | - | 236 |
| Closing balance | 225 | 600 |
| (d) Cash flow hedge reserve | | |
| Opening balance | (933) | 1,233 |
| Transferred to statement of financial position | (243) | (3,094) |
| Income tax related to movement in cash flow hedge reserve | 74 | 928 |
| Closing balance | (1,102) | (933) |
| (e) Reserves from joint venture | | |
| Opening balance | (554) | 101 |
| Gain/(loss) taken to equity | 63 | (655) |
| Closing balance | (491) | (554) |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

22 RESERVES (continued)

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances.

Other reserves

This reserve is used to record realised increases in the fair value of non-current assets which have been sold and foreign currency translation reserve.

Employee equity benefits reserve

This reserve is used to record the value of share based payments provided to directors and employees, including key management personnel, as part of their remuneration. Refer to the Directors Report for further details of these plans.

Cash flow hedge reserve

This reserve records the portion of the gain or loss on hedging instruments in a cash flow hedge that are determined to be effective hedges.

Reserves from joint venture

This reserve records the 50% of the portion of the gain or loss on hedging instruments in a cash flow hedge that are determined to be effective hedges in the joint venture.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

23 RETAINED PROFITS AND DIVIDENDS

| | Consolidated | |
|--|----------------------------|----------------------------|
| | Year ended 30 June 2017 | Year ended 30 June 2016 |
| | \$'000 | \$'000 |
| Retained Earnings/ (Accumulated losses) | | |
| (a) Movement in retained earnings/(accumulated losses) | | |
| Balance at the beginning of the financial year | 28,290 | 11,348 |
| Net profit attributable to members | 10,530 | 43,111 |
| Transfers | - | 1,616 |
| Dividends provided for or paid | (27,912) | (27,785) |
| Balance at the end of the financial year | 10,908 | 28,290 |
| (b) Dividends paid during the financial year | | |
| Interim franked dividend 6 cents (2016: 5 cents) paid 4 April 2017 | 3,490 | 2,894 |
| Special franked dividend 35 cents (2015: 35 cents) paid 4 October 2016 | 20,356 | 20,260 |
| Final fully franked dividend for the financial year 30 June 2016, 7 cents per share (2015: 7 cents per share) paid 4 October 2016 | 4,066 | 4,631 |
| (c) Dividends declared but not recognised as a liability | | |
| Final fully franked dividend 8 cents (2016: 7 cents) payable 3 October 2017 | 4,668 | 4,071 |
| Franking credit balance | | |
| Franking credits available for the subsequent financial year are: | | |
| Balance at the end of the financial year at 30% (2016: 30%) | 6,322 | 1,880 |
| Franking credits that will arise from the payment/(receipt) of income tax payable/(receivable) as at the end of the financial year | - | - |
| | 6,322 | 1,880 |
| The amount of franking credits available for future reporting periods: | | |
| Impact on the franking account of dividends proposed or declared before the financial report was authorised for issued but not recognised as a distribution to equity holders during the periods | (2,001) | (10,469) |
| | 4,321 | (8,589) |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

24 COMMITMENTS

| | Consolidated | |
|---|--------------------------------------|--------------------------------------|
| | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 |
| (a) Commitments | | |
| Capital expenditure contracted for is nil (30 June 2016: nil) | | |
| Continuing operating lease expenditure contracted for is payable as follows: | | |
| Not later than one year | 412 | 561 |
| Later than one year but not later than five years | 272 | 657 |
| Later than five years | - | - |
| | 684 | 1,218 |
| Continuing operating lease revenue contracted for is receivable as follows: | | |
| Not later than one year | 2,031 | 1,776 |
| Later than one year but not later than five years | 213 | 174 |
| Later than five years | - | - |
| | 2,244 | 1,950 |

Operating leases have remaining terms between 1 and 4 years with an average lease term of 3 years (2016: 5 years) and an average implicit interest rate of 6.4% (2016: 6.4%). Leases include a clause to enable upward revision of the rental charge on an annual basis. Assets that are the subject of operating leases are rental properties and office machines.

25 CONTINGENT LIABILITIES

The parent entity has entered into a Deed of Cross Guarantee in accordance with a Corporations Instrument issued by the Australian Securities and Investments Commission. The parent entity, and all the controlled entities which are a party to the Deed, have guaranteed the payment of all current and future creditors in the event any of these companies are wound up.

There are no other contingent liabilities at 30 June 2017 (30 June 2016: nil).

26 CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash

For the purpose of the Cash Flow Statement, cash includes cash on hand and in banks and short-term deposits at call, net of outstanding bank overdrafts. Cash at the end of financial year as shown in the Statement of Financial Position is as follows:

| | Consolidated | |
|--------------------------|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Cash at bank and on hand | 2,610 | 12,540 |
| | 2,610 | 12,540 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

26 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of net cash provided by operating activities to operating profit after income tax

| | Consolidated | |
|--|--------------|--------------|
| | As at | As at |
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Operating profit after income tax | 10,530 | 43,111 |
| Adjustments for non-cash income & expenses items: | | |
| Depreciation and amortisation expense | 2,715 | 3,602 |
| Foreign exchange gains | 71 | 192 |
| Share based payment expense | 225 | 600 |
| Profit on sale of business | - | (34,712) |
| Share of profit of joint venture | (6,949) | (5,231) |
| Changes in assets and liabilities | | |
| (Increase)/decrease in trade debtors | (3,193) | (5,485) |
| (Increase)/decrease in inventory | (3,330) | (32,544) |
| Decrease/(increase) in prepaid expenses | 926 | (6,157) |
| (Decrease)/increase in trade creditors | (1,268) | 22,170 |
| Increase/(decrease) in other creditors | 270 | 5,423 |
| Increase/(decrease) in income tax payable | 142 | 12,009 |
| (Decrease)/increase in deferred income tax | (55) | 1,185 |
| (Decrease)/increase in employee entitlements provisions | (70) | 1,368 |
| Net cash flows from operating activities | 14 | 5,531 |

27 FINANCING FACILITIES AVAILABLE

(a) Terms and conditions

Bank overdrafts

The bank overdrafts are secured by a fixed and floating charge over all of the Group's assets. The bank overdraft facilities may be withdrawn at any time and may be terminated by the bank if in the opinion of the bank there has been a breach or event of default and certain financial ratios are not maintained to the satisfaction of the bank.

Secured bank loan

The facility is secured by a first charge over certain of the Group's land and buildings and a fixed and floating charge over the Group's plant and machinery.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

27 FINANCING FACILITIES AVAILABLE (continued)

(b) Financing facilities available

At reporting date, the following financing facilities have been negotiated and were available:

| | Consolidated | | |
|-----------------------------------|---------------|-----------------|---------------|
| | Accessible | Drawndown | Unused |
| At 30 June 2017 | \$'000 | \$'000 | \$'000 |
| Bank overdraft facility | 3,078 | - | 3,078 |
| Bank loan facilities | 26,950 | (25,453) | 1,497 |
| Total financing facilities | 30,028 | (25,453) | 4,575 |
| At 30 June 2016 | \$'000 | \$'000 | |
| Bank overdraft facility | 3,000 | - | 3,000 |
| Bank loan facilities | 20,950 | (950) | 20,000 |
| Total financing facilities | 23,950 | (950) | 23,000 |

Expiry date: 31 October 2018 (2016: 30 September 2016)

In addition to the facilities noted above, a temporary increase of \$6,000,000 was approved for the period 15 May 2016 to 15 November 2017.

All of the economic entity's facilities are subject to annual review and subject to the conditions referred to Note 19(a).

At reporting date, the Group has approximately \$4.6 million of unused credit facilities available for its immediate use.

(c) Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

| | Note | Consolidated | |
|---|-------|---------------------|---------------|
| | | As at | As at |
| | | 30 June 2017 | 30 June 2016 |
| | | \$'000 | \$'000 |
| Current | | | |
| <i>Floating charge</i> | | | |
| Cash at bank | 26(a) | 2,610 | 12,540 |
| Receivables | 10 | 12,168 | 8,957 |
| Inventory | 11 | 18,558 | 15,228 |
| Total current assets pledged as security | | 33,336 | 36,725 |
| Non-current | | | |
| <i>First mortgage</i> | | | |
| Freehold land and buildings | 13 | 53,815 | 45,749 |
| <i>Floating charge</i> | | | |
| Leasehold improvement | 13 | 13 | 32 |
| Plant and machinery | 13 | 4,458 | 3,873 |
| Total non-current assets pledged as security | | 58,286 | 49,654 |
| Total assets pledged as security | | 91,622 | 86,379 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group purchases from several countries and is reliant on external debt finance. These operations give rise to significant exposure to market risks due to changes in interest rates and foreign exchange rates. Derivative financial instruments are used by the economic entity to reduce these risks, as explained in this note. The Group does not hold or issue financial instruments for speculative or trading purposes.

Primary responsibility for identification and control of financial risks rests with management and the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, cash and short-term deposits and derivatives. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Notional Amounts and Credit Exposures of Derivatives

The notional amounts of derivatives, as summarised below, represent the contract or face values of these derivatives and do not represent amounts exchanged by the parties. The amounts to be exchanged are calculated on the basis of the notional amounts and other terms of the derivatives, which relate to interest rates or exchange rates.

a) Interest Rate Risk Management

The economic entity has short and long term debt at both fixed and floating rates.

At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

| | Consolidated | |
|-------------------------------------|------------------------|-----------------------|
| | As at 30 June 2017 | As at 30 June 2016 |
| | \$'000 | \$'000 |
| <i>Financial assets</i> | | |
| Cash and cash equivalents | 2,610 | 12,540 |
| | <u>2,610</u> | <u>12,540</u> |
| <i>Financial liabilities</i> | | |
| Bank loans at floating rate | 25,453 | 950 |
| | <u>25,453</u> | <u>950</u> |
| Net exposure | <u>(22,843)</u> | <u>11,590</u> |

Interest bearing assets and liabilities are denominated in Australian dollars and New Zealand dollars.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

a) Interest Rate Risk Management (continued)

The economic entity is exposed to interest rate risk through primary financial assets and liabilities.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date:

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Judgements of reasonable possible movements: | Post Tax Profit Higher/(Lower) | | Equity Higher/(Lower) | |
|--|-----------------------------------|----------------------------|--------------------------|-----------------------|
| | Year ended 30 June 2017 | Year ended 30 June 2016 | As at 30 June 2017 | As at 30 June 2016 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Consolidated | | | | |
| +1% (100 basis points) | (160) | 80 | - | - |
| -0.5% (50 basis points) | 80 | (41) | - | - |

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- i) Reasonably possible movements in interest rates were determined based on the Australian interest rates, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.
- ii) The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from the reporting date.

b) Foreign Currency Risk

As a result of large purchases of inventory denominated in United States Dollars, the Group's statement of financial position can be affected significantly by movements in the AUD/USD exchange rates. The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

The Group uses forward currency contracts to eliminate the currency exposures on individual transactions.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Foreign Currency Risk (continued)

At 30 June 2017, the Group had the following exposure to USD foreign currency that is not designated in cash flow hedges:

| | Consolidated | |
|-----------------------------|-----------------------|-----------------------|
| | As at 30 June 2017 | As at 30 June 2016 |
| | \$'000 | \$'000 |
| <i>Financial assets</i> | | |
| Cash and cash equivalents | 255 | 370 |
| Trade and other receivables | - | 3 |
| Net exposure | 255 | 373 |

The Group has forward currency contracts designated as cash flow hedges that are subject to fair value movements through equity for the effective portion and the income statement for the ineffective portion as foreign exchange rates move.

Valuation techniques

The foreign currency forward contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. All contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own credit risk. The valuation of these foreign currency forward contracts are conducted by an external professional services firm.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Foreign Currency Risk (continued)

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date:

At 30 June 2017, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| Judgements of reasonable possible movements: | Post Tax Profit Higher/(Lower) | | Equity Higher/(Lower) | |
|--|-----------------------------------|----------------------------|--------------------------|-----------------------|
| | Year ended 30 June 2017 | Year ended 30 June 2016 | As at 30 June 2017 | As at 30 June 2016 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Consolidated | | | | |
| AUD/USD +10% | 14 | 19 | (2,442) | (4,252) |
| AUD/USD - 5% | (7) | (10) | 1,047 | 1,822 |

The movements in profit in 2017 are lower than the previous year due to the lower level of US Dollar receivables not designated as cash flow hedges at balance date. The movements in equity are lower at 30 June 2017 than at 30 June 2016 owing to the lower level of USD hedging of inventory purchases as at 30 June 2017.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- i) Reasonably possible movements in foreign currency were determined based on a review of the last two year's historical movements and economic forecaster's expectations.
- ii) The reasonably possible movement was calculated by taking the USD spot rate as at reporting date, moving this spot rate by the reasonably possible movements and then re-converting the USD into AUD with the "new spot rate". This methodology reflects the translation methodology undertaken by the Group.
- iii) The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next twelve months from reporting date.
- iv) The effect on other comprehensive income is the effect on the cash flow hedge reserve.

Management believes that the reporting date risk exposures are representative of the risk exposure inherent in the financial instruments.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

c) Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and committed available credit lines.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities, including derivative financial instruments as of 30 June 2017. For derivative financial instruments the market value is presented, whereas for the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017.

The remaining contractual maturities of the Group's financial liabilities are:

| | Consolidated | |
|------------------------------|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| <i>Financial liabilities</i> | | |
| 0-12 months | 17,318 | 13,166 |
| 1-5 years | 21,116 | - |
| Over 5 years | - | - |
| | 38,434 | 13,166 |

d) Hedging Instruments

With respect to the use of derivative financial instruments, it is Company policy that financial derivatives are only used as a defensive mechanism to cover real financial and trading risks associated with the Company's business. Key procedures to provide effective control for financial derivatives include separation of duties between deal making/accounting functions, and setting authority limits and approving confirmation of dealings.

Hedging activities

| | Consolidated | |
|---|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| <i>Current liabilities</i> | | |
| Forward currency contracts - cash flow hedges | 1,575 | 1,326 |
| | 1,575 | 1,326 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

e) Instruments used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest rate and foreign exchange rates.

(i) Forward currency contracts

Gazal has entered into foreign exchange contracts to buy foreign currency to offset inventory purchase obligations and to protect against exchange rate movements. These contracts are hedging highly probable forecasted purchases which are timed to mature when payments are scheduled to be made and are therefore considered 100% effective.

The cash flow in respect of the forward exchange contracts are expected to occur between 0-12 months from 1 July 2017 and the profit and loss within cost of sales will be affected over the next few years as the inventory is either used in production or sold. At reporting date, the details of outstanding contracts are:

| Year ended 30 June 2017 | Amount | Expiry Date | Rate |
|---|---------------|---------------------|-----------------|
| <i>Consolidated</i> | | | |
| Forward Exchange Contracts - Buy (US\$'000) | USD 24,197 | 03.07.17 - 29.03.18 | 0.7048- 0.7516 |
| Year ended 30 June 2016 | Amount | Expiry Date | Rate |
| <i>Consolidated</i> | | | |
| Forward Exchange Contracts - Buy (US\$'000) | USD 40,761 | 29.07.16 - 31.10.17 | 0.6973 - 0.7620 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

28 DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

e) Instruments used by the Group (continued)

The forward exchange contracts are considered to be highly effective hedges as they are matched against forecast inventory purchases and any gain or loss on the contracts attributable to the hedged risk is taken directly to equity. When the inventory is delivered the amount recognised in equity is adjusted to the inventory account in the statement of financial position.

| | Consolidated | |
|--------------------------|---------------------------------|---------------------------------|
| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
| Opening balance | (1,326) | 2,422 |
| Transferred to inventory | 1,326 | (2,422) |
| Charge to equity | (1,575) | (1,326) |
| Closing balance | (1,575) | (1,326) |

f) Fair Value

All derivative financial instruments have been categorised as level 2 in the fair value hierarchy at all times during the year.

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

29 EVENTS AFTER BALANCE DATE

Substantial shareholder in Oroton Group Limited ("Oroton")

On 10 July 2017, Gazal lodged a substantial holder notice with Oroton and confirmed it had acquired a 7.35% shareholding at \$1.00 per share for a total investment of \$3.1 million.

On 20 June 2017, Oroton previously announced they were currently undertaking a strategic process. At this stage, Gazal has no proposal to put to Oroton but may consider opportunities arising from the strategic process as well as other opportunities as they arise.

Sale of Bisley Workwear

On 23 August 2017, Gazal announced that it had entered into a conditional agreement to sell its Bisley Workwear business and related assets for \$35 million to Newco Pty Limited, a company owned by David Gazal.

Associated with the deal, it is proposed that the Company buy back 9.2 million Gazal shares owned by David Gazal at \$2.50 per share. As David Gazal is a related party, the transactions are subject to an independent expert's report and ultimately shareholder's approval.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

29 EVENTS AFTER BALANCE DATE (continued)

Change in financial year-end

Gazal's financial year currently commences on 1 July and ends on 30 June. The JV partner (PVH Corp. listed on the NYSE), however, has a 52-week year financial calendar ending around 31 January each year.

To align itself closer with its JV partner and to the retail industry calendar generally, today Gazal's Board of Directors has resolved to change the Company's financial year end date from 30 June to a 52-week year ending around 31 January each year.

In the transition to a 52-week period, Gazal will initially have a 31-week transitional financial period beginning on 1 July 2017 and ending on 3 February 2018. Thereafter, the Company will revert to a fifty-two-week financial year with the next full financial year commencing on 4 February 2018 and ending on 2 February 2019.

In respect of the transitional financial period, Gazal will lodge an annual report by 31 May 2018 and hold an annual general meeting by 30 June 2018. The date of this annual general meeting will be determined and advised to shareholders in due course.

On 23 August 2017, the directors resolved to pay a final dividend of 8 cents per share fully franked based on the FY17 trading results. The record date for determining the shareholders' entitlement to the final dividend is 15 September 2017 and the final dividend is payable on 3 October 2017.

There are no other matters or circumstances that have arisen since 30 June 2017 that have significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

30 REMUNERATION OF AUDITOR

| | Year ended 30 June 2017 \$ | Year ended 30 June 2016 \$ |
|----------------------------------|----------------------------------|----------------------------------|
| Audit and review services | | |
| Ernst & Young | | |
| - Audit | 201,000 | 189,126 |
| - Taxation | 66,534 | 77,300 |
| | 267,534 | 266,426 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

31 RELATED PARTY DISCLOSURES

The consolidated financial statements as at 30 June 2017 include the financial statements of Gazal Corporation Limited and the controlled entities listed in the table below.

| Name of controlled entity | Equity interest | | | |
|---|-----------------|-----------------------------|------|------|
| | Notes | Country of incorporation | 2017 | 2016 |
| Gazal Apparel Pty Limited | (a) | Australia | 100 | 100 |
| Gazal Clothing Company Pty Limited | (a) | Australia | 100 | 100 |
| Manline Clothing Company Pty Limited | (a) | Australia | 100 | 100 |
| M. Graphics Pty Limited | (a) | Australia | 100 | 100 |
| 064 814 240 Pty Limited | (a) | Australia | 100 | 100 |
| M. Street Pty Limited | (b) | Australia | 100 | 100 |
| Bracks Apparel Pty Limited | (b) | Australia | 100 | 100 |
| Coronet Corporate Pty Limited | (b) | Australia | 100 | 100 |
| Gazal Employee Share Plan Pty Ltd | (b) | Australia | 100 | 100 |
| E-Commerce Apparel Pty Limited | (b) | Australia | 100 | 100 |
| PVH Brands Australia Pty Limited | | Australia | 50 | 50 |
| Gazal (NZ) Limited | | New Zealand | 100 | 100 |
| Gazal Apparel Trading Company Limited (Shanghai) | | China | 100 | 100 |
| Gazal Hong Kong Limited | | Hong Kong | 100 | 100 |

(a) These companies have entered into a deed of cross guarantee dated 26 March 1993 with Gazal Corporation Limited which provides that all parties to the deed will guarantee to each creditor payment of any debt of each Company participating in the deed on winding-up of that Company. In addition, as a result of the Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission these companies are relieved from the requirement to prepare financial statements.

The consolidated statement of comprehensive income and statement of financial position of all entities included in the class order "closed group" are set out at footnote (c).

(b) These companies meet the definition of small proprietary companies. As a result these companies are relieved from the requirement to prepare financial statements.

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

31 RELATED PARTY DISCLOSURES (continued)

(c) Financial information for Corporations Instrument “closed group”

Gazal Corporation Limited Closed Group

Income Statement for the year ended 30 June 2017

| | Consolidated | |
|---|----------------------------|----------------------------|
| | Year ended 30 June 2017 | Year ended 30 June 2016 |
| | \$'000 | \$'000 |
| Sales revenue | 57,395 | 56,067 |
| Cost of sales | (36,113) | (34,178) |
| Gross profit | 21,282 | 21,889 |
| Other revenues | 8,681 | 7,403 |
| Selling and marketing expenses | (7,120) | (8,073) |
| Distribution expenses | (9,796) | (10,308) |
| Administration expenses | (7,412) | (7,688) |
| Finance costs | (598) | (656) |
| Share of (loss)/profit of joint venture | 6,949 | 5,231 |
| Profit/(loss) before income tax expense | 11,986 | 7,798 |
| Income tax expense | (1,537) | (1,577) |
| Net profit/(loss) after tax from continuing operations | 10,449 | 6,221 |
| Profit after tax from discontinuing operations | 112 | 34,074 |
| Net profit for the year | 10,561 | 40,295 |
| Retained profits/ (accumulated losses) at the beginning | 26,346 | 12,563 |
| Dividends paid | (27,912) | (27,785) |
| Transfers | - | 1,273 |
| Retained profits/ (accumulated losses) at the ending | 8,995 | 26,346 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

31 RELATED PARTY DISCLOSURES (continued)

(c) Financial information for Corporations Instrument “closed group” (continued)

Gazal Corporation Limited Closed Group

Statement of Financial Position at 30 June 2017

| | Consolidated | |
|---------------------------------------|-----------------------|-----------------------|
| | As at 30 June 2017 | As at 30 June 2016 |
| | \$'000 | \$'000 |
| Current assets | | |
| Cash and cash equivalents | 1,965 | 9,758 |
| Trade and other receivables | 15,813 | 7,142 |
| Inventories | 17,651 | 14,565 |
| Other current assets | 1,741 | 8,424 |
| Total current assets | 37,170 | 39,889 |
| Non-current assets | | |
| Property, plant and equipment | 58,266 | 49,642 |
| Investment | 60,553 | 61,859 |
| Intangibles | 5,430 | 2,125 |
| Other | 18 | - |
| Total non-current assets | 124,267 | 113,626 |
| Total assets | 161,437 | 153,515 |
| Current liabilities | | |
| Trade and other payables | 15,226 | 10,644 |
| Derivative financial instruments | 1,575 | 1,326 |
| Interest-bearing loans and borrowings | 24,500 | - |
| Income tax payable | 980 | 13,916 |
| Provisions | 2,697 | 2,786 |
| Total current liabilities | 44,978 | 28,672 |
| Non-current liabilities | | |
| Other payables | 270 | - |
| Provisions | 249 | 225 |
| Deferred tax liabilities | 10,934 | 8,557 |
| Total non-current liabilities | 11,453 | 8,782 |
| Total liabilities | 56,431 | 37,454 |
| Net assets | 105,006 | 116,061 |
| Equity | | |
| Contributed equity | 63,373 | 62,429 |
| Reserves | 32,638 | 27,286 |
| Retained earnings | 8,995 | 26,346 |
| Total Equity | 105,006 | 116,061 |

Gazal Corporation Limited
Notes to the Annual Financial Report (continued)
For the year ended 30 June 2017

32 PARENT ENTITY

Gazal Corporation Limited is the ultimate parent. The parent entity in conjunction with other related corporations has given intercompany guarantees in respect of certain bank facilities of related corporations. The parent has given guarantees in relation to a number of controlled entities' retail shops.

Financial information relating to Gazal Corporation Limited below:

Statement of Financial Position at 30 June

| | As at 30 June 2017 \$'000 | As at 30 June 2016 \$'000 |
|---------------------------------|---------------------------------|---------------------------------|
| Current assets | | |
| Trade and other receivables | 31,921 | 59,372 |
| Tax receivable | - | 976 |
| Total current assets | 31,921 | 60,348 |
| Non-current assets | | |
| Investment | 37,722 | 37,722 |
| Deferred tax assets | 746 | 466 |
| Total non-current assets | 38,468 | 38,188 |
| Total assets | 70,389 | 98,536 |
| Current liabilities | | |
| Tax Payable | 68 | - |
| Other Liabilities | 97 | 2 |
| Total liabilities | 165 | 2 |
| Net assets | 70,224 | 98,534 |
| Equity | | |
| Contributed equity | 63,373 | 62,773 |
| Reserves | (227) | 147 |
| Retained earnings | 7,078 | 35,614 |
| Total Equity | 70,224 | 98,534 |

Income Statement for the year ended 30 June

| | Year ended 30 June 2017 \$'000 | Year ended 30 June 2016 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Other revenues | - | 6,992 |
| Administration expenses | (800) | (1,456) |
| Profit before income tax benefit | (800) | 5,536 |
| Income tax benefit | (68) | 148 |
| Net profit and total comprehensive income after related income tax expense | (868) | 5,684 |
| Profit after tax from discontinuing operations | - | 31,010 |
| Retained profits at the beginning | 35,614 | 25,475 |
| Dividends paid | (27,912) | (27,785) |
| Transfers | 244 | 1,230 |
| Retained profits at the ending | 7,078 | 35,614 |

Gazal Corporation Limited Shareholder Information

Supplementary Information as Required by Australian Stock Exchange Listing Requirements.

Ordinary Shareholders as at 19 September 2017

These statistics relate to 780 shareholders of 58,354,857 Ordinary Shares. The proportion of shares held by the twenty largest shareholders is 89.23%. There are 85 shareholders who hold less than a marketable parcel.

Voting Rights

On a show of hands or on a poll, every member present in person or by proxy shall have one vote for every ordinary share held.

Distribution of Shareholders and Shareholdings as at 19 September 2017.

| Size of Holding | Number of Shareholders | Number of Ordinary Shares | % of Total |
|------------------|------------------------|---------------------------|------------|
| 1 - 1,000 | 268 | 116,588 | 0.20 |
| 1,001 - 5,000 | 271 | 769,850 | 1.32 |
| 5,001 - 10,000 | 98 | 805,950 | 1.38 |
| 10,001 - 100,000 | 110 | 2,842,013 | 4.87 |
| 100,001 and over | 33 | 53,820,456 | 92.23 |
| Total | 780 | 58,354,857 | 100.00 |

Substantial Shareholders

The following information is extracted from the Company's Register of substantial shareholders as at 19 September 2017.

| Name | Relevant Interest in fully paid shares | Percentage |
|--------------------------------------|--|------------|
| Michael Joseph Gazal | 17,418,280 | 29.9 |
| David Joseph Gazal | 14,004,806 | 24.1 |
| PVH Services (UK) Limited | 9,667,362 | 16.6 |
| Harvey Norman Holdings Limited Group | 4,165,656 | 7.2 |
| Investors Mutual Limited | 3,703,813 | 6.1 |

Gazal Corporation Limited

Top 20 Shareholders

Top 20 Shareholders as at 19 September 2017

| | Registered Holder. | Number of Ordinary Shares | % of Total Shares |
|----|--|---------------------------------|-------------------------|
| 1 | M J & H H GAZAL PTY LIMITED | 15,532,736 | 26.62 |
| 2 | DAVID GAZAL FAMILY COMPANY PTY LIMITED | 12,668,141 | 21.71 |
| 3 | PVH SERVICES (UK) LIMITED | 5,815,920 | 9.97 |
| 4 | YOOGALU PTY LIMITED | 4,165,656 | 7.14 |
| 5 | INVESTORS MUTUAL LIMITED | 3,570,698 | 6.12 |
| 6 | MR BRUCE KLATSKY | 2,000,000 | 3.43 |
| 7 | DOUBLE JAY GROUP HOLDINGS PTY LTD <KIMBERLEY | 1,515,000 | 2.60 |
| 8 | MR MICHAEL JOSEPH GAZAL | 1,202,211 | 2.06 |
| 9 | GAZJAC PTY LIMITED | 920,000 | 1.58 |
| 10 | ANDREW RICH ENTERPRISES PTY LIMITED | 738,480 | 1.27 |
| 11 | MICHAEL AND HELEN PTY LIMITED | 683,333 | 1.17 |
| 12 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 657,323 | 1.13 |
| 13 | MR G & MRS V PATON (ANCHORAGE SUPER FUND) | 525,666 | 0.90 |
| 14 | MR DAVID JOSEPH GAZAL | 416,665 | 0.71 |
| 15 | TITAN SYDNEY PTY LTD (ROBINSON SUPER FUND) | 353,482 | 0.61 |
| 16 | BUDUVA PTY LTD | 337,460 | 0.58 |
| 17 | RALPH LAUREN 57 PTY LTD | 250,000 | 0.43 |
| 18 | MR DAVID JOHN COGHLAN | 249,027 | 0.43 |
| 19 | P & M WOOD NOMINEES PTY LIMITED | 235,500 | 0.40 |
| 20 | KONDA SUPERANNUATION PTY LTD <KONDA SUPER F | 233,058 | 0.40 |
| | | 52,070,356 | 89.23 |

Corporate Information

Auditors

Ernst & Young
200 George Street, Sydney NSW 2000

Bankers

Westpac Banking Corporation
60 Martin Place, Sydney NSW 2000

Company Secretary

Peter James Wood CA, FCIS, FGIA

Registered Office & Principal Place of Business

3-7 McPherson Street,
Banksmeadow NSW 2019
Telephone: (02) 9316 2800
Fax (02) 9316 7207
Web: www.gazal.com.au

Share Registry

Boardroom Limited
Level 12, 225 George Street, Sydney, NSW 2000
Telephone: Within Australia 1300 737 760, Outside Australia +61 2 9290 9600

Solicitor

Johnston Winter Slattery
20 Bond Street, Sydney NSW 2000

Ashurst Australia
5 Martin Place, Sydney NSW 2000

State of Incorporation

Victoria, Australia

Stock Exchange Listings

Gazal Corporation Limited shares are quoted on the Australian Securities Exchange

ASX Code

GZL