GAZAL CORPORATION LIMITED

CHAIRMAN'S ADDRESS
DELIVERED BY
MR M. GAZAL

AT THE THIRTIETH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT THE OFFICES OF ERNST & YOUNG, CHARTERED ACCOUNTANTS AT LEVEL 35 200 GEORGE STREET, SYDNEY ON MONDAY, NOVEMBER 14, 2016 AT 10.00AM

The Annual Report for 2016 containing the Financial Statements and Directors' and Auditors' Reports are already in the hands of shareholders and I trust gave a comprehensive review of the Company's operations for the year ended June 30, 2016.

I am pleased to report that for the financial year ended 30th June, 2016 the Group achieved an after-tax profit of $43 million, an increase of 38.4% compared to the previous year. The after-tax profit includes profit from continuing operations, as well as the profit resulting from the sale of a business during the period. Profit after tax for continuing operations has increased from $2.4 million last year to $9.0 million for the 12 months ended 30 June 2016. Profit after tax from the sale of the Trade Secret off price retail business to the TJX Companies, Inc was $34 million.

In FY16, the workwear and corporate uniforms business improved net revenue by 16.9%. This was largely as a result of the successful introduction of new products, a superior 'in-stock' position of replenishable lines compared to its competitors and winning new tenders. The higher revenue and good control of overheads led to a much improved profit position.

In FY16, the PVH joint venture completed the integration of the Heritage Brands and Tommy Hilfiger operations into both the JV operations and the overall Gazal shared services and logistics platform. With the integration completed the JV generated an increase in profit after tax from $1.8m last year to $10.2 million in FY16. The key reasons for the increase were:-

- the continued strength of the Calvin Klein underwear business
- the development of new product categories across both Calvin Klein and Tommy Hilfiger
- the ongoing development and improved trading results from our retail channel (now numbering 50 stand alone stores and 10 concessions)
- the businesses all operating for a full 12 months compared to only 5 months in the previous financial year for the Tommy Hilfiger and Heritage business divisions of the JV.

Gazal's 50% share of profits from the JV was $5.2 million in FY 16 and is brought to account using the equity method of accounting.

One of the main company owned assets is the head office and distribution centre at Banksmeadow in Sydney. In June 2016, CBRE were commissioned to undertake an independent valuation of the Banksmeadow property. The valuation increased to $45.7 million, up from $40.2 million book value last year. The directors adopted the new valuation in the balance sheet as at June 30 2016.

Following the sale of Trade Secret, the Company returned $40 million to shareholders, or 70 cents per share by way of two special dividends, being 35 cents per share fully franked paid in December 2015 and a second 35 cents per share fully franked paid dividend in October 2016. The split in timing of the payment of these special dividends was undertaken so that the second special dividend could be fully franked.

These dividends were in addition to total ordinary dividends relating to the FY16 year of $7 million or 12 cents per share fully franked.

PVH's investment

Now I would like to make mention of the market release made on 23rd September referring to PVH Corp. taking a 10% equity interest in the Company. Listed on the New York Stock Exchange, PVH is one of the largest apparel companies in the world with over $8 billion in revenues and owns the iconic *Calvin Klein*, *Tommy Hilfiger* and *Van Heusen* brands. We have a longstanding and great working relationship with PVH. We are proud to have them as our joint venture partner and now we are honoured and excited to officially have them as a 10% shareholder of the Company, which will only assist in further enhancing the alignment of our two organisations.

Outlook

Looking at the first half of the new financial year from an earnings perspective, the first four months trading conditions for the workwear segment have been challenging. However, the joint venture's trading results for the first four months have been well ahead of last year largely driven by the strength of the iconic brands Calvin Klein and Tommy Hilfiger. Therefore, at this stage, provided there is no material adverse change to trading conditions, the Group's earnings forecast for the first half of FY2017 for continuing operations are likely to be slightly ahead of last year.

From a balance sheet perspective at the half year end, the dividend commitments to shareholders as was outlined earlier, as well as an estimated $14 million tax bill due to be paid next month in December 2016, mainly consisting of the capital gains tax on the profit on sale of Trade Secret, will result in the Company's projected net debt position increasing to approximately $26 million as at 31 December 2016. This compares to a net cash position of $6 million as at 31 December 2015, a significant change to the Company's cash and debt position compared to last year.