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#### **Financial Calendar 2014**

Preliminary report and dividend announcement	21 August
Record date for final dividend	17 September
Final dividend payable	2 October
Annual Report and Notice of Annual General Meeting Mailed to Shareholders	21 October
Annual General Meeting	21 November
Half year end	31 December

The Annual General Meeting of Shareholders of Gazal Corporation Limited will be held at The J.S. Gazal Building, 3-7 McPherson Street Banksmeadow on 21 November 2014 at 11:30am. A formal notice of meeting is enclosed with this Annual Report, setting out the business of the Annual General Meeting.

## **Directors' Report**

### **For the year ended 30 June 2014**

Your Directors have pleasure in submitting their report for the year ended 30 June 2014.

#### **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. Directors were in office for this entire period unless otherwise stated.

#### **Names, Qualifications, Experience and Special Responsibilities**

*Michael J. Gazal B.COM. (Age 52)*

*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.

*Patrick Robinson B.SCI., MBA (Age 52) – Appointed 15 November 2012*

*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 (Age 66)*

*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 a member of the Audit and Risk Committee and Chairman of the Remuneration and Nomination Committee.

*David J. Gazal (Age 46)*

*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 certain group operating divisions.

*Craig Kimberley (Age 73)*

*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 (Age 69)*

*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.

*Richard V. Gazal (Age 40) – Appointed 15 November 2012*

*Executive Director* - Joined the Gazal Group in 2000 and was appointed a Director at the November 2012 AGM. He has performed a number of functions in the retail businesses and has played an integral role in the expansion of those businesses. He is currently the General Manager of Retail.

#### **Company Secretary**

*Peter J. Wood CA FICS*

Has been the Company Secretary of Gazal Corporation Limited for 27 years. Prior to holding this position he held the role of Financial Controller of related Gazal companies for 6 years. Mr. Wood has been a Chartered Accountant for over 30 years.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**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	8,996,600 <sup>(1)</sup> 1,007,554 <sup>(2)</sup> 9,546,633 <sup>(3)</sup>	-	-
P. Robinson	-	-	-	740,000
B. Klatsky	2,000,000	-	-	-
D.J. Gazal	416,665	8,996,600 <sup>(1)</sup> 1,007,554 <sup>(2)</sup> 10,253,423 <sup>(4)</sup>	-	-
C. Kimberley	166,667	848,333	-	-
G. Paton	-	700,000	-	-
R.V. Gazal	20,356	8,996,600 <sup>(1)</sup> 1,007,554 <sup>(2)</sup> 9,464,920 <sup>(5)</sup>	-	-

- 1-2 M.J. Gazal, D.J. Gazal and R.V. Gazal have a relevant interest in Gazal Corporation Limited shares held by a wholly owned subsidiary of Gazal Nominees Pty Limited (1) and directly by Gazal Nominees Pty Limited (2) as each of M.J. Gazal, D.J. Gazal and R.V. Gazal have a 25% shareholding in Gazal Nominees Pty Limited.
- 3 M.J. Gazal has a relevant interest in Gazal Corporation Limited shares held by MJ and HH Gazal Pty Limited as trustee for the Michael Gazal Family Trust as M.J. Gazal has a 50% shareholding in MJ and HH Gazal Pty Limited.
- 4 D.J. Gazal has a relevant interest in Gazal Corporation Limited shares held by The David Gazal Family Company Pty Limited as trustee for the David Gazal Family Trust as D.J. Gazal has a 50% shareholding in The David Gazal Family Company Pty Limited.
- 5 R.V. Gazal has a relevant interest in Gazal Corporation Limited shares held by Cinu Investments Pty Limited as trustee for the Unic Trust as R.V. Gazal has a 50% shareholding in Cinu Investments Pty Limited.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**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	8	8	-	-	-	-
P. Robinson	8	8	-	-	-	-
B. Klatsky	8	8	2	2	1	1
D.J. Gazal	8	8	-	-	-	-
C. Kimberley	8	8	2	2	1	1
G. Paton	8	8	2	2	-	-
R.V. Gazal	8	8	-	-	-	-

**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, wholesale and retail of well known branded apparel and accessories.

**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 2013 (11c per share) as declared in the 2013 Directors' report paid 1 October 2013	6,375
Interim fully franked dividend for 2014 (7c per share) paid 2 April 2014	4,077
Final fully franked dividend for 2014 (11c per share) as recommended and declared by the Directors, payable 2 October 2014	6,344

**Operating and Financial Review**  
**Review of Operations**

Gazal Corporation Limited is one of the largest publicly listed, for profit, branded apparel companies in Australia. The company specialises in developing and building national and international brands in the apparel and fashion accessories industry.

The Gazal Group operates a mix of business activities in the apparel industry. The Wholesale Group is a leading apparel supplier of men's business shirts and casualwear, intimate apparel, schoolwear and workwear sold under such brand names as Van Heusen, Calvin Klein, Body Nancy Ganz, Spanx, Bisley, Pierre Cardin, Midford and Bracks.

The Direct to Consumer Group sells apparel brands and related accessories which it owns or acquires from third parties to consumers through various direct to consumer channels including online and retail outlets trading under, Calvin Klein Underwear, Calvin Klein Jeans, Van Heusen and Trade Secret.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Review of Financial Performance**

Gazal posted an after-tax profit of \$12.5m for the 12 months ended 30th June 2014, an increase of 17.2% compared to the previous corresponding period.

In February, the company entered into a joint venture with Phillips Van Heusen ("PVH") to form the PVH Brands Australia Pty Limited Joint Venture ("the PVHBA JV") for the exclusive distribution of Calvin Klein underwear, Calvin Klein jeans and the rights to introduce other Calvin Klein categories and retail concepts in the Australian market. As part of the JV's creation, Gazal transferred its Calvin Klein underwear business to the JV. The after-tax profit includes \$6.5 million additional consideration arising from the transfer of the Calvin Klein Underwear business to the 50% owned PVH joint venture company which occurred on 2 February 2014.

Sales revenue decreased slightly by 1.2% on the prior period to \$276 million. Gross profit margins across the Group were slightly lower at 45% compared to 47% in the prior year due in part to the cost of sales increase of 2% driven by the deteriorating value of Australian dollar on product sourced predominantly from China and Indonesia. Gross profits in the prior period also benefitted from the one-time sale of inventory from the NSW Health contract in the Wholesale Group.

Key operating costs have been maintained in line with last year despite increased marketing and payroll costs associated with the opening of new outlets in the Direct to Consumer group.

**Review of Financial Position**

The Gazal Group maintained its net debt to equity at conservative levels finishing the year with a ratio of 33.8% compared to 28.7% last year. Cash flows from operating activities were lower than last year reducing from \$11.6 million to \$9.1 million mainly due to lower trading results and higher interest charges. Overall net debt levels, however, have been largely maintained in line with last year as a result of planned investments in new outlets during the year and the \$6.5m consideration from the transfer of the Calvin Klein Underwear business.

The Group focused on inventory levels in FY14 and these have decreased from \$61 million to \$51 million despite the increase in new outlets during the year. Key drivers of inventory reductions were better stock management in the retail outlets and the planned transfer of the Calvin Klein operations to the PVHBA JV. The seasonal and aged stock provisions were all as per expectations at year end.

**Capital Management**

During the year in review, the Company bought back 577,865 shares for a total consideration of \$1.5 million.

**Wholesale Group**

Revenue in the Wholesale Group declined by 8.1% driven by the NSW Health Uniform contract which ended in the previous reporting period, and the transfer of the Calvin Klein Underwear licensed business to the PVHBA JV in February as the results to 30th June 2014 include only 7 months of trading compared to 12 months in the prior year. It was decided not to retender for the NSW Health contract as some of the new conditions introduced by NSW Health would have rendered the contract unprofitable going forward.

Margins in the prior period were boosted by the one-time sale of remaining NSW Health inventory at healthy margins. In the current year, margins were slightly down on the prior year driven by the impact of NSW Health and by the drop in the Australian dollar in that period

Although operating costs were well controlled, the overall Group's net profit before tax declined by 36% driven by the reduction in revenue and margin noted above.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Direct to Consumer Group**

Revenue in the direct to consumer segment grew at 3.2% driven predominantly by new outlets, including 6 Trade Secret stores, 3 Midford school shop stores and 2 new Van Heusen outlets.

Like-for-like sales, however, have been slightly down across all direct to consumer divisions and below expectations particularly in the last 2 months leading into June due to the warmer-than-expected winter and following the drop in consumer sentiment as a result of the tougher federal budget.

Profit margins in the direct to consumer segment were lower than last year impacted by the lower than expected expected revenue outlined above in addition to planned marketing and payroll costs incurred in the expansion of new outlets.

The depreciation and amortisation expense for the year of \$3.7 million was down from \$4.0 million in the prior corresponding period mainly due to the transfer of assets to the newly formed PVH Joint Venture described above and in Note 29.

**PVH Brands Australia Joint Venture ("JV")**

The previously announced JV gives the Company a unique partnership with one of the world's leading apparel powerhouses in PVH Corp. and also achieves longevity on a global megabrand such as Calvin Klein through the 20 year rights the JV has secured.

The JV, which commenced operations on 3 February 2014, initially brings together the Calvin Klein Underwear and Calvin Klein Jeans businesses in Australia and New Zealand. Since commencement, the JV's management team has focussed on restructuring the current operations, building sales through opening new outlets and preparing for the launch of new categories such as the Calvin Klein Performance line of women's athletic wear.

As part of the JV set-up on 3 February, the JV acquired the Gazal operated Calvin Klein Underwear distribution and retail business for \$9.4 million made up of net tangible assets of \$2.9 million and an additional consideration of \$6.5 million. Gazal's investment in the JV as at 30th June is \$6.4 million for its 50% share.

Whilst the early integration was successful, costs associated with the integration and restructuring were greater than expected and impacted the results in the 5 months period to June. With the integration work now done, it is expected that the restructuring, the new outlets and the additional product categories are likely to bear positive results for FY2015.

**Outlook**

Operating results for the month of July were slightly ahead of plan. Trading conditions remain patchy, which is in line with current economic indicators. Given this, results of the current operations for the first half of FY2015 are likely to be broadly in line with the first half results for the prior corresponding period.

Despite further retail openings in line with our strategy, we are planning for ongoing subdued trading conditions through the remainder of 2014 and into 2015. We will continue to expand and invest in our direct to consumer segments.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Likely Developments and Expected Results**

The Gazal Corporation Group intends to continue its principal activity of designing, manufacturing, importing, wholesaling and retailing well known branded apparel and accessories.

With the changes occurring to the Australian retail landscape, the Board and Management are viewing FY2015 as an important time to focus on the Group's forward strategy. This includes leveraging global relationships, reviewing the strategic fit of existing businesses and considering other strategic opportunities to grow shareholder value for the long term.

In line with this, in May we advised shareholders that the Company is in negotiations with The Tommy Hilfiger Group, which is wholly owned by PVH, regarding the potential transition of the Tommy Hilfiger Australian business to the PVHBA JV with a targeted effective date of the beginning of February 2015. The Tommy Hilfiger Australian business comprises wholesale and retail operations, with national distribution through Myer and David Jones department stores, as well as 12 stand-alone Tommy Hilfiger retail stores. Binding agreements have not been signed and, as a consequence, the Company is not able to give guidance to the market on the outcome or terms of any transaction at this time.

As with the potential Tommy Hilfiger transaction, the Company continues to explore other opportunities to strengthen our position in the market place and will keep the ASX and shareholders apprised as required.

Any further information on the likely developments in the operations of the economic entity and the expected results of those operations in future financial years, as the Directors have reasonable grounds to believe that it would be likely to result in unreasonable prejudice to the economic entity.

**Material Business Risks**

The Gazal Group imports the majority of its products in USD from Asia 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 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.

**Significant Events after the Balance Date**

On 21 August 2014, the directors declared a full year dividend of 11 cents per share fully franked compared to the 2013 financial year of 11 cents per share fully franked. The record date for determining the shareholders' entitlement for the full year is 17 September 2014 and the full year dividend is payable on 2 October 2014.

Other than the declaration of the above final dividend there are no other matters or circumstances that have arisen since 30 June 2014 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.

**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 2014.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**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 18 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 2014.

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 ASIC CO 98/0100. The Company is an entity to which the Class Order applies.

**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.



**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Remuneration Report (audited) continued**

**Details of key management personnel**

**(a) 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 - Certain operating divisions
C. Kimberley	Non- Executive Director
G. Paton	Non- Executive Director
R.V. Gazal	Executive Director and General Manager – Retail

**(ii) Executives**

C. Barnett	Chief Operating Officer
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 FY13 AGM**

The FY13 remuneration report received positive shareholder approval at the FY13 AGM with a vote of 96% 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 2014**

**Remuneration Report (audited) 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 caliber, 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.

*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 2014 is detailed in the Table on page 16 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 2014**

**Remuneration Report (audited) 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 R V Gazal and Mr. P Robinson the CEO are provided on page 13.

*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 engaged include Ernst & Young (employee share trust) and PWC (fair valuation of performance rights). 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	60%	40%
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 16.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**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 2013 and 2014 financial years*

The entire STI cash bonus of \$574,497 for the 2013 financial year as accrued in the previous period vested to executives was paid in the 2014 financial year. The Remuneration and Nomination Committee has approved the STI payments for the 2014 financial year of \$480,000 which were accrued at June 2014. 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 2015 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 16.

There were no bonuses forfeited in the year ended 30 June 2014 or 30 June 2013.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Remuneration Report (audited) continued**

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

*Structure*

LTI grants to executives are delivered in the form of share options administered under a Share Option Plan ("SOP"). This plan is currently under review.

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

The LTI-PR plan was approved by shareholders at the 2012 AGM. The plan has been initially set up to provide a long term incentive to Mr. P Robinson who was appointed CEO and Executive Director on 15 November 2012. As part of his LTI-PR plan, he has been offered a maximum of 1,280,000 performance rights.

The performance rights are divided into 4 equal tranches of 320,000 performance rights, with each tranche to be tested sequentially over a 4-year performance period commencing 13 August 2012. Each tranche is subject to a performance condition based on growth in the Group's consolidated profit after tax from continuing operations ("PAT") relative to specified PAT growth targets in each financial year during the performance period.

- In relation to FY13, 50% of the performance rights in the first tranche will vest if the Group maintains the minimum PAT target and full vesting of performance rights in the first tranche will occur if PAT growth over the previous year is at least 5% (stretch PAT target).
- The remaining three tranches will be tested in FY14, FY15 and FY16, respectively. The minimum PAT target for each of these years is an amount which is 5% higher than the minimum PAT target for the immediately preceding financial year. The stretch PAT target for each of these years is an amount which is 10% higher than the stretch PAT target for the immediately preceding financial year.
- 50% of the performance rights in a tranche will vest if PAT in relation to the relevant financial year is equal to the minimum PAT target for that year and full vesting of the performance rights in a tranche will be achieved if PAT is at least equal to the stretch PAT target for that year. Vesting will occur on a pro rata basis between threshold vesting and full vesting.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
For the year ended 30 June 2014

**Remuneration Report (audited) continued**

The table below summarises the minimum and stretch PAT targets for each year of the performance period.

Tranche	Testing Period	No. of Rights in tranche	PAT Growth Targets (showing, in relation to FY14, % increase on previous PAT from FY13 and, in relation to subsequent FYs, % increase on previous FY's corresponding growth target)		No. of Rights that may Vest	
			Target	Stretch	Target	Stretch
1	FY13	320,000	0% (PAT of \$12,413,000)	5% (PAT of \$13,034,000)	160,000	320,000
2	FY14	320,000	5% (PAT of \$13,034,000)	10% (PAT of \$14,337,000)	160,000	320,000
3	FY15	320,000	5%	10%	160,000	320,000
4	FY16	320,000	5%	10%	160,000	320,000

- If the performance condition is not satisfied in relation to a tranche of performance rights, 50% of the performance rights in that tranche will be re-tested in the next financial year and vest if the minimum PAT target for that year is achieved. Further, there is opportunity for any unvested rights to vest at the end of the 4 year performance period if the aggregate PAT of the Group over the performance period exceeds the aggregate of the stretch targets for each of the relevant financial years. All other unvested performance rights will lapse.
- For the purpose of the performance condition, the Board, acting reasonably, may adjust any PAT target or the PAT in respect of a financial year, in order to allow for any non-recurrent or one-off items or the effect of any material transaction undertaken by the Gazal Group. Further the Board may also modify the number of rights that vest in any one year at its discretion.
- In addition to the performance condition, Mr. Robinson must also be employed by the Group continuously until the date that shares are allocated on vesting of a performance right and not have given, or received, a notice of termination of employment on or before that date.
- If Mr. Robinson ceases employment in 'good leaver' circumstances, the performance condition will be tested after the end of the financial year in which his employment ceases and, if the performance condition is satisfied, a pro rata number of performance rights will vest having regard to the period Mr. Robinson was employed during that financial year.
- Shares allocated on vesting of the performance rights will be subject to a dealing restriction for one year from their date of allocation. In general, these shares will be forfeited if Mr. Robinson ceases employment during the restriction period other than in 'good leaver' circumstances.
- For the purposes of Mr. Robinson's performance rights, 'good leaver' circumstances are defined as death, disability or other circumstances approved by the Board.

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Remuneration Report (audited) continued**

**LTI-PR vesting outcomes for FY13 and FY14**

The target PAT was not achieved in FY13 and accordingly no performance rights were granted.

The target PAT was not achieved in FY14. The Board exercised its discretion to modify the number of equity instruments subject to an award to 100,000 performance rights for a PAT growth rate of 0 – 5% for FY14. The incremental fair value granted as a result of those modifications is \$252,615. The modified awards will vest in accordance with the original awards.

**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. Mr. Richard V Gazal is currently employed under verbal contract with an understanding of the notice and termination provisions being consistent with Mr. David J Gazal as 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 2014

#### Remuneration Report (audited) continued

#### Directors and Executives Remuneration for the year ended 30 June 2014

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.

Director	Year	Short term benefits				Post Employment		Long-term benefits	Share based	Total Performance related	
		Salary & Fees	Cash Bonus (a)	Non Monetary benefits	Other	Superannuation	Retirement benefits	Long Service Leave	LTI Options / Performance Rights		%
<b>M.J. Gazal</b>	<b>2014</b>	<b>586,500</b>	-	-	<b>34,079</b>	<b>25,000</b>	-	<b>9,774</b>	-	<b>655,353</b>	-
Executive Chairman	2013	586,500	-	-	32,895	25,000	-	9,774	-	654,169	-
<b>P. Robinson</b>	<b>2014</b>	<b>575,500</b>	<b>250,000</b>	-	<b>5,035</b>	<b>24,500</b>	-	<b>9,592</b>	<b>144,820</b>	<b>1,009,447</b>	<b>39.11</b>
Chief Executive Officer	2013	512,784	-	-	5,423	24,500	-	8,485	196,000	747,192	26.23
<b>B. Klatsky</b>	<b>2014</b>	<b>120,135</b>	-	-	-	-	-	-	-	<b>120,135</b>	-
Non-executive	2013	128,795	-	-	-	-	-	-	13,155	141,950	9.27
<b>D.J. Gazal</b>	<b>2014</b>	<b>307,500</b>	-	-	<b>28,932</b>	<b>25,000</b>	-	<b>5,125</b>	-	<b>366,557</b>	-
Executive	2013	307,500	149,964	-	29,760	25,000	-	5,124	-	517,348	28.99
<b>C. Kimberley</b>	<b>2014</b>	<b>75,000</b>	-	-	-	<b>7,500</b>	-	-	-	<b>82,500</b>	-
Non-executive	2013	75,000	-	-	-	7,500	-	-	6,578	89,078	7.38
<b>G. Paton</b>	<b>2014</b>	<b>85,000</b>	-	-	-	<b>8,500</b>	-	-	-	<b>93,500</b>	-
Non-executive	2013	85,000	-	-	-	8,500	-	-	6,578	100,078	6.57
<b>R.V. Gazal (b)</b>	<b>2014</b>	<b>304,250</b>	-	-	<b>29,300</b>	<b>25,000</b>	-	<b>5,071</b>	-	<b>363,621</b>	-
Executive	2013	190,156	-	-	18,492	15,625	-	3,169	-	227,442	-
<b>Total Directors</b>	<b>2014</b>	<b>2,053,885</b>	<b>250,000</b>	-	<b>97,346</b>	<b>115,500</b>	-	<b>29,562</b>	<b>144,820</b>	<b>2,691,113</b>	
	2013	1,885,735	149,964	-	86,570	106,125	-	26,552	222,311	2,477,257	

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		%
<b>C. Barnett</b>	<b>2014</b>	<b>307,500</b>	<b>100,000</b>	-	<b>30,174</b>	<b>25,000</b>	-	<b>5,125</b>	-	<b>467,799</b>	<b>21.38</b>
Chief Operating Officer	2013	307,500	275,367	-	30,174	25,000	-	5,125	-	643,166	42.81
<b>R.V. Gazal (b)</b>	<b>2014</b>	-	-	-	-	-	-	-	-	-	-
Executive	2013	114,093	-	-	11,423	9,375	-	1,902	-	136,793	-
<b>G. Griffiths</b>	<b>2014</b>	<b>332,225</b>	<b>80,000</b>	-	<b>4,808</b>	<b>17,775</b>	-	<b>5,520</b>	-	<b>440,328</b>	<b>18.17</b>
Chief Financial Officer	2013	333,530	86,593	-	3,143	16,470	-	5,558	-	445,294	19.45
<b>D. Coghlan</b>	<b>2014</b>	-	-	-	-	-	-	-	-	-	-
Chief Financial Officer	2013	45,417	-	3,015	-	4,541	54,652	-	-	107,625	-
<b>P. Wood</b>	<b>2014</b>	<b>248,000</b>	<b>50,000</b>	<b>18,935</b>	<b>1,335</b>	<b>18,848</b>	-	<b>4,133</b>	-	<b>341,251</b>	<b>14.65</b>
Company Secretary	2013	248,000	62,573	13,189	5,675	18,656	-	4,133	-	352,226	17.77
<b>Total Executive</b>	<b>2014</b>	<b>887,725</b>	<b>230,000</b>	<b>18,935</b>	<b>36,317</b>	<b>61,623</b>	-	<b>14,778</b>	-	<b>1,249,378</b>	
<b>KMP</b>	2013	1,048,540	424,533	16,204	50,415	74,042	54,652	16,718	-	1,685,104	

#### Notes

(a) Cash bonuses are payable subsequent to 30 June 2014

(b) R.V. Gazal was a key management personnel and was appointed a director during 2013 financial year.

Options granted as part of Director and executive emoluments have been valued using a Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. For further details refer to Note 18 of the financial statements.



**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Remuneration Report (audited) continued**

**Remuneration Options: Granted and Vested (audited)**

There were no options granted to KMPs in either FY13 or FY14, however, during FY10 options were granted as equity compensation benefits under the long-term incentive plan to certain non-executive directors as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price equal to the weighted average market price of the shares on the five business days preceding the date of grant. The options vest as to one third after one year from grant date, one third two years from grant date and the remaining third three years from grant date. The options have been apportioned by vesting date to accommodate different fair value valuations on each tranche. The contractual life of each option is five years. There are no cash settlement alternatives. For further details relating to the options, refer to note 18. (Key management personnel who have not been granted options during the year are excluded from the table below).

**Terms and Conditions for each Grant of Options**

30-Jun-14	Grant Date	Granted No	Fair Value per Option at Grant Date (cents)	Exercise Price (\$)	Vesting Date	No. vested during the year	No. of options lapsed during the year	No. of options vested but not exercised
<b>Directors</b>								
B. Klatsky	10/12/2009	333,333	21.7	1.33	10/12/2010	-	-	-
C. Kimberley	10/12/2009	166,667	21.7	1.33	10/12/2010	-	-	-
G. Paton	10/12/2009	166,667	21.7	1.33	10/12/2010	-	-	-
B. Klatsky	10/12/2009	333,334	24.8	1.33	10/12/2011	-	-	-
C. Kimberley	10/12/2009	166,667	24.8	1.33	10/12/2011	-	-	-
G. Paton	10/12/2009	166,667	24.8	1.33	10/12/2011	-	-	-
B. Klatsky	10/12/2009	333,334	26.7	1.33	10/12/2012	-	-	-
C. Kimberley	10/12/2009	166,667	26.7	1.33	10/12/2012	-	-	-
G. Paton	10/12/2009	166,667	26.7	1.33	8/10/2013	-	-	-

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

As indicated above there were no options granted to KMPs in either FY13 or FY14. Details of the value of options not previously exercised that were exercised and lapsed during the year are as follows:

30-Jun-14	Grant Date	Granted No	Fair value per Option at Grant Date (cents)	Value of options exercised during the year (\$)	Value of options lapsed during the year	Total Value of options granted, exercised and lapsed during the year (\$)	% of remuneration consisting of options for the year
<b>Directors</b>							
G. Paton	8/10/2013	166,667	24.8	241,667	-	241,667	-

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
For the year ended 30 June 2014

**Remuneration Report (audited) continued**

**Shares issued on exercise of remuneration options (audited)**

30-Jun-14	Shares issued Number	Paid \$ per share	Unpaid \$ per share	30-Jun-13	Shares issued Number	Paid \$ per share	Unpaid \$ per share
<b>Directors</b>				<b>Directors</b>			
B. Klatsky	-	-	-	B. Klatsky	1,000,000	1.33	-
C. Kimberley	-	-	-	C. Kimberley	166,667	1.33	-
G. Paton	166,667	1.33	-	G. Paton	166,667	1.33	-

**Remuneration Performance Rights: Granted and Vested (audited)**

There were 100,000 performance rights awarded with respect to the year ended 30 June 2014 (30 June 2013: nil). There were no performance rights vested during the year.

**Key Management Personnel**

**(a) Remuneration by Category: Key Management Personnel**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
Short-Term	3,574,208	3,661,961
Post Employment	177,123	234,819
Long-Term Benefits	44,340	43,270
Share-based Payments	144,820	222,311
	<b>3,940,491</b>	<b>4,162,361</b>

**(b) Option holdings of Key Management Personnel**

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period	Total	Vested at 30 June 2014
	1 July 2013				30 June 2014		Not Exercisable Exercisable
<b>Directors</b>							
G. Paton	166,667	-	166,667	-	-	-	-
<b>Total</b>	<b>166,667</b>	<b>-</b>	<b>166,667</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period	Total	Vested at 30 June 2013
	1 July 2012				30 June 2013		Not Exercisable Exercisable
<b>Directors</b>							
B. Klatsky	1,000,000	-	1,000,000	-	-	-	-
C. Kimberley	166,667	-	166,667	-	-	-	-
G. Paton	333,334	-	166,667	-	166,667	166,667	166,667
<b>Total</b>	<b>1,500,001</b>	<b>-</b>	<b>1,333,334</b>	<b>-</b>	<b>166,667</b>	<b>166,667</b>	<b>166,667</b>

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**Key Management Personnel (continued)**

**(c) Shareholdings of Key Management Personnel and Related Parties**

<b>30 June 2014</b>	Balance 1 July 2013	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2014
Shares held in Gazal Corporation Limited (Number)	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
<b>Directors</b>					
B. Klatsky	2,000,000	-	-	-	2,000,000
P. Robinson	-	-	-	-	-
M.J. Gazal (1)	11,940,120	-	-	(722,957)	11,217,163
D.J. Gazal (1)	11,923,953	-	-	-	11,923,953
C. Kimberley	1,015,000	-	-	-	1,015,000
G. Paton	533,333	-	166,667	-	700,000
R.V. Gazal (1)	11,858,407	-	-	(722,957)	11,135,450
<b>Executives</b>					
C. Barnett	150,000	-	-	-	150,000
G. Griffiths	-	-	-	99,659	99,659
P. Wood	324,000	-	-	-	324,000

<b>30 June 2013</b>	Balance 1 July 2012	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2013
Shares held in Gazal Corporation Limited (Number)	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
<b>Directors</b>					
B. Klatsky	1,000,000	-	1,000,000	-	2,000,000
P. Robinson	-	-	-	-	-
M.J. Gazal (1)	11,940,120	-	-	-	11,940,120
D.J. Gazal (1)	11,923,953	-	-	-	11,923,953
C. Kimberley	848,333	-	166,667	-	1,015,000
G. Paton	366,666	-	166,667	-	533,333
R.V. Gazal (1)	11,858,407	-	-	-	11,858,407
<b>Executives</b>					
C. Barnett	150,000	-	-	-	150,000
D. Coghlan	492,640	-	-	-	492,640
P. Wood	324,000	-	-	-	324,000

(1) Excludes Gazal Corporation Limited shares totalling 10,004,154 in which M.J. Gazal, D.J. Gazal and R. Gazal each have a relevant interest in the shares held by a wholly owned subsidiary of Gazal Nominees Pty Limited (8,996,600) and directly by Gazal Nominees Pty Limited (1,007,554) as each of M.J. Gazal, D.J. Gazal and R. Gazal have a 25% shareholding in Gazal Nominees Pty Limited.

**(d) Loans to Key Management Personnel**

There are no loans to Directors or executives.

**(e) Other Transactions and Balances with Key Management Personnel**

Messrs M.J. Gazal, D.J. Gazal and R.V. 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. During the year Harvey Norman Flooring Pty Limited trading as Austfloor another subsidiary of Harvey Norman Holdings Limited provided flooring on normal commercial terms amounting to \$4,965 (2013: \$314,175).

**Gazal Corporation Limited**  
**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**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 Group Pty Limited	2014	1,636	694	346	221
	2013	-	-	-	-

**Shares price**

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

30 June 2012	\$1.75
30 June 2013	\$2.85
30 June 2014	\$2.75

**AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

The directors received an independence declaration from the auditor of Gazal Corporation Limited, refer to page 21.

**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. 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:

Tax compliance services and corporate tax planning	\$53,000
Accounting and tax advice in relation to the establishment of the joint venture	\$111,255

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*



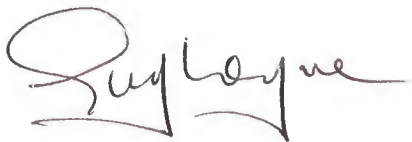
**P. Robinson**  
*Executive Director*

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

In relation to our audit of the financial report of Gazal Corporation Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Gregory J Logue  
Partner  
Sydney  
28 August 2014

## **Gazal Corporation Limited**

# **Statement of Corporate Governance Practices**

### **For the year ended 30 June 2014**

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 Council's best practice recommendations, unless indicated otherwise in this statement. The company maintains a corporate website at [www.gazal.com.au](http://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 Boards 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.

**Gazal Corporation Limited**  
**Statement of Corporate Governance Practices (continued)**  
**For the year ended 30 June 2014**

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 :

<b>Name</b>	<b>Position</b>	<b>Name</b>	<b>Position</b>
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
		R. V. Gazal	Executive Director

Messrs MJ Gazal, DJ Gazal and RV Gazal are not considered to be independent as their family interests have a majority ownership of the Gazal Corporation Limited as indicated on page 93 of the shareholder information in this financial report.

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 has agreed to become 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 Committees<sup>1</sup> 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:

<b>Name</b>	<b>Term in office</b>	<b>Name</b>	<b>Term in office</b>
B. Klatsky	5 years	M.J. Gazal	28 years
C. Kimberley	10 years	P. Robinson	2 years
G. Paton	8 years	D.J. Gazal	15 years
		R.V. Gazal	2 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.

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.

<sup>1</sup> The Audit & Risk Committee and the Remuneration & Nomination Committee.  
Gazal Corporation Limited Annual Report 2014

**Gazal Corporation Limited**  
**Statement of Corporate Governance Practices (continued)**  
**For the year ended 30 June 2014**

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 7 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.

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.



**Gazal Corporation Limited**  
**Statement of Corporate Governance Practices (continued)**  
**For the year ended 30 June 2014**

**Qualifications of Audit Committee Members (continued)**

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 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. The Board, through the committee, monitors the management of these risks.

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 25 to these accounts.

**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.

**Gazal Corporation Limited**  
**Statement of Corporate Governance Practices (continued)**  
**For the year ended 30 June 2014**

**Risk Framework (continued)**

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. 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 web site.

**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.

**Gazal Corporation Limited**  
**Statement of Corporate Governance Practices (continued)**  
**For the year ended 30 June 2014**

**Diversity at Gazal (Continued)**

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.

<b>Objectives</b>	<b>Steps taken/Outcomes</b>
To maintain the percentage of women in senior management positions.	<p>At 30 June 2014, women represented 77% of the Group's workforce (2013: 79%).</p> <p>During the year, women were appointed to 10 Manager positions (2013: 8).</p> <p>For the 2014 year, the Group's target is to again maintain overall female representation at present levels within the Group's workforce. Women presently represent 61% of manager and senior manager positions.</p>
To provide more flexibility in work arrangements.	<p>During the year, Gazal employed and or allowed an existing 9 workers to move to flexible work arrangements (2013: 8).</p> <p>These flexible work arrangements included working less hours or working more days at home.</p>
To provide study training incentives for employees completing tertiary qualifications in their chosen career.	<p>During the year, the company continued to assist 3 employees with study incentives and are discussing the program with a further employee.</p>
To promote a culture that treats the workforce with fairness and respect.	<p>Gazal continues to communicate one of our company's cornerstone core values is we respect each other and there is no tolerance for discrimination against any employees.</p>
To enhance training for existing and newly appointed management.	<p>During the year, the company continued its in-house "Management Essentials" program for middle level managers.</p>
To facilitate employment of people with disabilities.	<p>The company continued its program on employing people with a disability in Queensland and NSW.</p>

## **Independent auditor's report to the members of Gazal Corporation Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Gazal Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### ***Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### ***Independence***

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

### **Opinion**

In our opinion:

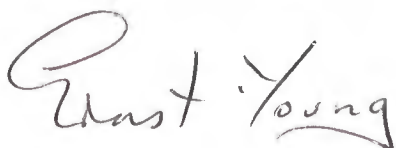
- a. the financial report of Gazal Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

### **Report on the remuneration report**

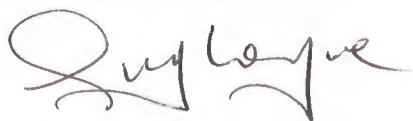
We have audited the Remuneration Report included on pages 8 to 20 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### **Opinion**

In our opinion, the Remuneration Report of Gazal Corporation Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Gregory J Logue  
Partner  
Sydney  
28 August 2014

**Gazal Corporation Limited**  
**Directors' Declaration**  
**For the year ended 30 June 2014**

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 2014 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 2014.

On behalf of the Board



**M.J. Gazal**  
*Executive Chairman*



**P. Robinson**  
*Executive Director*

*Dated at Sydney the 28<sup>th</sup> day of August 2014.*

**Gazal Corporation Limited**  
**Income Statement**  
**For the year ended 30 June 2014**

		Year ended 30 June 2014	Year ended 30 June 2013
	Notes	\$'000	\$'000
Sales revenue	3	276,031	279,247
Cost of sales		(152,668)	(148,755)
Gross profit		123,363	130,492
Other revenues	3	1,379	797
Selling and marketing expenses		(81,549)	(81,358)
Distribution expenses		(13,461)	(13,321)
Administration expenses		(19,100)	(20,095)
Finance costs		(1,942)	(1,637)
Share of loss of joint venture	5	(300)	-
Profit on sale of business		6,500	-
<b>Profit before income tax</b>		<b>14,890</b>	<b>14,878</b>
Income tax expense	4	(2,426)	(4,245)
<b>Profit after tax</b>		<b>12,464</b>	<b>10,633</b>
Profit for the period is attributable to: Owners of the parent		<b>12,464</b>	<b>10,633</b>
<b>Earnings per share (cents per share)</b>			
Basic for profit for the year	6	21.7	18.5
Basic for profit from continuing operations	6	21.7	18.5
Diluted for profit for the year	6	21.7	18.5
Diluted for profit from continuing operations	6	21.7	18.5

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

**Gazal Corporation Limited**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2014**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
Notes	\$'000	\$'000
<b>Profit after tax for the period</b>	<b>12,464</b>	<b>10,633</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss</b>		
Cash flow hedges:		
Gain/(loss) taken to equity	(1,856)	5,762
Transferred to income statement	(5,749)	(155)
Income tax on items of other comprehensive income	2,282	(1,682)
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Fair value revaluation of land and buildings	2,908	568
Income tax on items of other comprehensive income	(873)	(171)
<b>Other comprehensive income for the period, net of tax</b>	<b>(3,288)</b>	<b>4,322</b>
<b>Total comprehensive income for the period</b>	<b>9,176</b>	<b>14,955</b>

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



**Gazal Corporation Limited**  
**Statement of Financial Position**  
**As at 30 June 2014**

	Notes	Consolidated	
		As at	As at
		30 June 2014	30 June 2013
		\$'000	\$'000
<b>Current assets</b>			
Cash and cash equivalents	23(a)	6,163	8,754
Trade and other receivables	8	12,748	13,318
Inventories	9	51,152	61,069
Derivative financial instruments	26	-	5,749
Income tax receivable		661	-
Other current assets	10	7,871	3,274
<b>Total current assets</b>		<b>78,595</b>	<b>92,164</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	55,383	53,781
Intangible assets	12	14,501	15,383
Investment in joint venture	29	6,433	-
<b>Total non-current assets</b>		<b>76,317</b>	<b>69,164</b>
<b>Total assets</b>		<b>154,912</b>	<b>161,328</b>
<b>Current liabilities</b>			
Trade and other payables	13	37,835	41,891
Derivative financial instruments	26	1,898	42
Interest-bearing loans and borrowings	14	929	793
Income tax payable		-	156
Provisions	15	4,814	5,122
<b>Total current liabilities</b>		<b>45,476</b>	<b>48,004</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	16	30,000	30,000
Provisions	17	754	551
Deferred tax liabilities	5	4,367	6,093
<b>Total non-current liabilities</b>		<b>35,121</b>	<b>36,644</b>
<b>Total liabilities</b>		<b>80,597</b>	<b>84,648</b>
<b>Net assets</b>		<b>74,315</b>	<b>76,680</b>
<b>Equity</b>			
Contributed equity	18	62,183	63,310
Reserves	19	22,107	25,357
Accumulated losses	20	(9,975)	(11,987)
<b>Total Equity</b>		<b>74,315</b>	<b>76,680</b>

*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 2014**

		Consolidated	
		Year ended 30 June 2014	Year ended 30 June 2013
	Notes	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		300,583	309,471
Payments to suppliers and employees (inclusive of GST)		(284,862)	(290,155)
Interest and bill discounts received		98	81
Interest and other costs of finance paid		(1,942)	(1,636)
Income taxes paid		(4,742)	(6,159)
<b>Net cash flows from operating activities</b>	<b>23(b)</b>	<b>9,135</b>	<b>11,602</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(5,783)	(3,160)
Proceeds from sale of buildings, plant and equipment		1,833	203
Purchase of intangibles		(1,007)	(2,390)
Proceeds from sale of investment		9,391	-
Acquisition of joint venture		(4,577)	-
<b>Net cash flows from/(used) in investing activities</b>		<b>(143)</b>	<b>(5,347)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue		376	1,774
Payment for share buy back		(1,503)	-
Proceeds from borrowings		22,000	15,000
Repayment of borrowings		(22,000)	(15,000)
Dividends paid		(10,452)	(10,291)
<b>Net cash flows used in financing activities</b>		<b>(11,579)</b>	<b>(8,517)</b>
Net decrease in cash and cash equivalents		(2,587)	(2,262)
Cash and cash equivalents at the beginning of the period		8,754	11,006
Net foreign exchange differences		(4)	10
<b>Cash and cash equivalents at the end of the year</b>	<b>23(a)</b>	<b>6,163</b>	<b>8,754</b>

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

**Gazal Corporation Limited**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2014**

	Consolidated						
	Attributable to shareholders of Gazal Corp Ltd						
	Issued	Asset	Asset	Employee	Cash Flow		Total
	Capital	Revaluation	Realisation	Equity	Hedge	Accumulated	Equity
	\$'000	Reserve	Reserve	Benefit	Reserve	Losses	\$'000
		\$'000	\$'000	Reserve	\$'000	\$'000	
<b>At 1 July 2013</b>	63,310	19,626	562	1,174	3,995	(11,987)	76,680
Profit for the period	-	-	-	-	-	12,464	12,464
Other comprehensive income	-	2,035	-	-	(5,324)	-	(3,289)
<b>Total comprehensive income for the period</b>	-	2,035	-	-	(5,324)	12,464	9,175
<b>Transactions with owners in their capacity as owners:</b>							
Cost of share-based payments	-	-	-	39	-	-	39
Share buy back	(1,503)	-	-	-	-	-	(1,503)
Exercise of options	376	-	-	-	-	-	376
Dividends paid	-	-	-	-	-	(10,452)	(10,452)
<b>At 30 June 2014</b>	<b>62,183</b>	<b>21,661</b>	<b>562</b>	<b>1,213</b>	<b>(1,329)</b>	<b>(9,975)</b>	<b>74,315</b>
<b>At 1 July 2012</b>	61,536	19,229	562	487	70	(12,329)	69,555
Profit for the period	-	-	-	-	-	10,633	10,633
Other comprehensive income	-	397	-	-	3,925	-	4,322
<b>Total comprehensive income for the period</b>	-	397	-	-	3,925	10,633	14,955
<b>Transactions with owners in their capacity as owners:</b>							
Cost of share-based payments	-	-	-	687	-	-	687
Exercise of options	1,774	-	-	-	-	-	1,774
Dividends paid	-	-	-	-	-	(10,291)	(10,291)
<b>At 30 June 2013</b>	<b>63,310</b>	<b>19,626</b>	<b>562</b>	<b>1,174</b>	<b>3,995</b>	<b>(11,987)</b>	<b>76,680</b>

*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 2014**

**1 CORPORATE INFORMATION**

The annual financial report of Gazal Corporation Limited for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 28 August 2014.

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 mandatory professional reporting requirements.

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 ASIC Class Order 98/0100. The Company is an entity to which the class order 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 2014**

**Statement of compliance (continued)**

**New Accounting Standards and Interpretations**

- (i) New and amended standards and interpretations.

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2013:

<b>Reference</b>	<b>Title</b>
AASB 10	Consolidated Financial Statements
AASB 11	Joint Arrangements
AASB 12	Disclosure of Interests in Other Entities
AASB 13	Fair Value Measurement
AASB 119	Employee Benefits
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]
AASB 2012-2	Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]
AASB 2013-3 (early adopted)	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Statement of compliance (continued)**

(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:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <ul style="list-style-type: none"> <li>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</li> <li>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</li> <li>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</li> <li>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> <li>► The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>► The remaining change is presented in profit or loss</li> </ul> </li> </ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11</p> <p>The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes:</p> <ol style="list-style-type: none"> <li>1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures</li> <li>2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time</li> </ol> <p>In February 2014, the IASB tentatively decided that the mandatory effective date for AASB 9 will be 1 January 2018</p>	1 January 2018	The Group has not yet determined 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 2014**

**Statement of compliance (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	An assessment has been performed and the impact is not expected to be material.	1 July 2014
AASB 2013-4	Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	An assessment has been performed and the impact is not expected to be material.	1 July 2014
Annual Improvements 2010-2012 Cycle	Annual Improvements to IFRSs 2010-2012 Cycle	<p>This standard sets out amendments to International Financial Reporting Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed by this standard:</p> <ul style="list-style-type: none"> <li>▶ IFRS 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.</li> <li>▶ IFRS 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37.</li> <li>▶ IFRS 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.</li> <li>▶ IAS 16 &amp; IAS 38 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.</li> </ul> <p>IAS 24 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.</p>	1 July 2014	An assessment has been performed and the impact is not expected to be material	1 July 2014

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Statement of compliance (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
Annual Improvements 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle	<p>This standard sets out amendments to International Financial Reporting.</p> <p>Standards (IFRS) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed by this standard:</p> <ul style="list-style-type: none"> <li>► IFRS 13 - Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32.</li> </ul> <p>IAS 40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgment is based on guidance in IFRS 3.</p>	1 July 2014	An assessment has been performed and the impact is not expected to be material	1 July 2014
AASB 1031	Materiality	<p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality.</p> <p>AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.</p>	1 January 2014	An assessment has been performed and the impact is not expected to be material	1 July 2014
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	<p>The Standard contains three main parts and makes amendments to a number Standards and Interpretations.</p> <p>Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.</p> <p>Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.</p> <p>Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 <i>Hedge Accounting</i> into AASB 9 <i>Financial Instruments</i>.</p>	1 January 2014	An assessment has been performed and the impact is not expected to be material	1 July 2014
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	<p>IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	An assessment has been performed and the impact is not expected to be material	1 July 2016



**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Statement of compliance (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
IFRS 15	Revenue from Contracts with Customers	<p>IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.</p> <p>IFRS 15 supersedes:</p> <ul style="list-style-type: none"> <li>(a) IAS 11 Construction Contracts</li> <li>(b) IAS 18 Revenue</li> <li>(c) IFRIC 13 Customer Loyalty Programmes</li> <li>(d) IFRIC 15 Agreements for the Construction of Real Estate</li> <li>(e) IFRIC 18 Transfers of Assets from Customers</li> <li>(f) SIC-31 Revenue – Barter Transactions Involving Advertising Services</li> </ul> <p>The core principle of IFRS 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 the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ul> <p>Early application of this standard is permitted.</p>	1 January 2017	An assessment has been performed and the impact is not expected to be material	1 July 2017

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**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.

**Business combinations**

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Directly attributable costs are expensed as incurred. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs net of tax arising from equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Investment in joint venture (continued)**

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.

**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. This includes start up operations which are yet to earn revenues. 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 two 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.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**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.

**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 Cash Flow Statement, 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 5(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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Income tax (continued)**

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.

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 Cash Flow Statement 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 raw materials, work in progress and finished goods.

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

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Inventories (continued)**

*Raw Materials* – purchase cost on moving average cost basis. The cost of purchase comprises the purchase price including the transfer from equity of gains and losses on qualifying cash flow hedges of purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from

the taxing authorities) transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

*Finished goods and work-in-progress* – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. 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 and any impairment in value. Revaluations are made in accordance with a regular policy whereby independent valuations are obtained and carrying amounts adjusted accordingly.

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

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 machinery 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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Property, plant and equipment (continued)**

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 with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value 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.

**Procurement Fee**

This represents amounts prepaid in respect to procurement of future services and goods. This will be expensed over the term of the agreement.

**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 reviewed 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. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Goodwill (continued)**

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.

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.

The useful lives of intangible assets are assessed to be either finite in the case of industrial designs and other finite intangible licenses and distribution agreements or infinite in the case of trademarks. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the "depreciation and amortisation" line item.

Intangible assets created within the business, excluding capitalised developmental costs, 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.

*Research and development costs*

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

**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.



**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Provisions (continued)**

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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 national government 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.

**Recoverable amount of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Recoverable amount of assets (continued)**

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.

**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.

**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.

**Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and 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. The fair values of interest rate swap contracts are determined by reference to market values for similar instruments.

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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Derivative financial instruments and hedging (continued)**

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.

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.

*ii) Interest rate hedges*

Interest rate hedges are hedges of the Group's exposure to variability in interest rate movements that is attributable to a particular risk associated with a recognised 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.

**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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Share-based payment transactions**

The Group provides benefits to certain employees (including directors) of the Group in the form of share options and performance rights, whereby employees render services in exchange for future options or 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.

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.

**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) Royalty revenue*

Royalty income from licensees and sub-licensees is recognised based on the percentage of sales as stipulated in the relevant contract.

*(iv) Dividends*

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

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**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. 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. Lease incentives are recognised in the income statement as an integral part of the total lease expense and are amortised over the lease term on a straight line basis.

**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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Investments and other financial assets (continued)**

*(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, at fair value at each balance sheet date.

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.

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

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Fair value measurement (continued)**

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. The Group, in conjunction with the external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the valuation results are presented to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations. 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 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:

***Recovery of deferred tax assets***

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

***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 12.

***Long service leave provision***

As discussed in note 2, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

***Estimation of useful lives of assets***

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 11.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES & ASSUMPTIONS (continued)**

***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 18.

***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 40% 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.



**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
For the year ended 30 June 2014

**4 REVENUES AND EXPENSES**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
<i>Revenue and Expense</i>		
<b>(i) Revenue</b>		
<b>Sales revenue</b>	276,031	279,247
<b>Other revenue</b>		
Interest revenue	98	81
Royalty revenue	74	67
Other	1,207	649
Total other revenue	1,379	797
<b>Total revenue</b>	<b>277,410</b>	<b>280,044</b>
<b>(ii) Expenses and losses</b>		
<b>Depreciation, amortisation and impairment</b>		
Depreciation of buildings	430	388
Depreciation of plant and equipment	3,464	3,723
Depreciation of leasehold improvements	1,345	1,424
Amortisation of intangible	162	389
Amortisation of software	1,602	1,681
	7,003	7,605
<b>Employee benefit expense</b>		
Wages and salaries	42,783	40,717
Defined contribution superannuation expense	3,688	3,521
Employee entitlements	3,500	3,307
Share-based payments	147	228
	50,118	47,773
Borrowing costs - Interest expenses	1,942	1,637
Bad & doubtful debts	58	22
Operating lease rentals	16,897	15,135
Provision for inventories obsolescence	752	(996)
Foreign exchange loss/ (gain)	(382)	94
Net loss on disposal of non-current assets	3	32

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**5 INCOME TAX**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
Note	\$'000	\$'000
<b>Income Statement</b>		
<i>Current income tax</i>		
Current income tax charge	4,634	4,627
Adjustments in respect of current income tax of previous years	(213)	(225)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(1,995)	(157)
<b>Income tax expense reported in the income statement</b>	<b>2,426</b>	<b>4,245</b>
<b>(b) Amounts charged or credited directly to equity</b>		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Net (loss)/gain on cash flow hedges	(2,281)	1,683
Net gain on revaluation of buildings	873	171
Net loss on share based payments	-	(459)
<b>Income tax expense/(benefit) reported in equity</b>	<b>(1,408)</b>	<b>1,395</b>
<b>(c) Numerical reconciliation between aggregate Tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate</b>		
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	14,890	14,878
<b>Accounting profit before income tax</b>	<b>14,890</b>	<b>14,878</b>
At statutory income tax rate of 30% (2013: 30%)	4,467	4,463
Amortisation of intangibles	49	117
Entertainment expenses	36	45
Effect of higher rates of tax on overseas income	(23)	-
Share of loss of joint venture	90	-
Utilisation of previously unrecognised capital losses	(1,950)	-
Unrecovered tax losses	-	-
Other items	(30)	(155)
Amounts over provided in prior years	(213)	(225)
<b>Total income tax attributable to operating profit</b>	<b>2,426</b>	<b>4,245</b>
Income tax reported in the consolidated income statement	2,426	4,245
	<b>2,426</b>	<b>4,245</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**5 INCOME TAX (continued)**

**(d) Recognised deferred tax assets and liabilities**

Deferred income tax at 30 June relates to the following:

	Statement of Financial		Income Statement	
	Position			
	As at 30-Jun-14	As at 30-Jun-13	Year ended 30-Jun-14	Year ended 30-Jun-13
Note	\$'000	\$'000	\$'000	\$'000
<b>CONSOLIDATED</b>				
<i>Deferred tax liabilities</i>				
Revaluation of land and buildings to fair value	(8,727)	(7,917)	-	-
Accelerated amortisation/depreciation for tax purposes	(648)	(694)	46	155
Derivative asset/other	-	(340)	-	-
Accelerated depreciation for book purposes	33	34	-	-
Software development expenses for book purposes	295	311	(16)	-
Unrealised foreign exchange gains	-	-	-	(1)
Provisions for employee benefits	2,018	2,164	(146)	361
Other provisions not deductible	-	-	-	(304)
Provisions relating to inventory	761	632	129	(298)
Doubtful debts	35	40	(5)	(40)
Accrual for rent free period	1,069	690	306	7
Prepayments/other	-	-	-	(10)
Uplift to retail stock value	115	301	(114)	137
Share based payments	121	232	(111)	(164)
Derivative liability/(asset)	561	(1,546)	-	-
<i>Net deferred tax liabilities</i>	<b>(4,367)</b>	<b>(6,093)</b>	<b>89</b>	<b>(157)</b>
<b>CONSOLIDATED</b>				
<i>Net deferred tax liabilities</i>	<b>(4,367)</b>	<b>(6,093)</b>	<b>89</b>	<b>(157)</b>

**(e) Tax losses**

The Group has Australian capital gains tax losses for which no deferred tax asset is recognised. The deferred tax asset, if recognised, would be \$6,645,555. There is uncertainty regarding the company's ability to generate future taxable capital gains to take advantage of the capital gains tax losses and the company has therefore not raised a deferred tax asset for this amount. These Australian capital gains tax losses are available indefinitely for offset against future capital gains under current taxation laws subject to continuing to meet relevant statutory tests.

**(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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**5 INCOME TAX (continued)**

**(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 group head 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.

**6 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 2014	Year ended 30 June 2013
	\$'000	\$'000
Net Profit attributable to ordinary equity holders of the parent	12,464	10,633
<b>Earnings used in calculating basic and diluted earnings per share</b>	<b>12,464</b>	<b>10,633</b>
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	57,497,229	57,436,853
<b>Effect of dilutive securities</b>		
Share options	-	164,888
<b>Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share</b>	<b>57,497,229</b>	<b>57,601,741</b>

Options granted to employees (including KMP) are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**7 SEGMENT INFORMATION - OPERATING SEGMENTS**

**Identification of reportable segments**

The group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold. Discrete financial information about each of these operating businesses is reported to the Board of Directors on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the market and customer base, as these are the sources of the Group's major risks and have the most effect on the rates of return.

**Types of markets and customer groups**

*Wholesale*

The wholesale business services our traditional retail customers. The products sold are primarily mens' and ladies' underwear, workwear, school uniforms, mens business suits and shirts.

*Direct to consumer*

This segment includes the contract uniform business, our on-campus school uniform shops, our on-line segment and our other retail stores sales.

**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.

*Inter-entity sales*

Inter-entity sales are recognised based on the internally set transfer price. The price is set to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

*Corporate charges*

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each business segment on a proportionate basis linked to segment revenue and capital employed so as to determine a segment result.

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.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Fair value gains/losses on derivatives
- Net gains on disposal of available-for-sale investments
- Finance costs – including adjustments on provisions due to discounting
- Impairment charges
- Depreciation and amortisation on corporate property, plant and equipment
- Income tax balances

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**7 SEGMENT INFORMATION - OPERATING SEGMENTS (continued)**

	Wholesale	Direct to Consumer	Unallocated Items	Total
	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2014</b>				
<b>Revenue</b>				
Sales to external customers	104,444	171,587	-	276,031
Other revenues from external customers	867	2,343	-	3,210
Inter-segment sales	11,000	-	-	11,000
<b>Segment Revenue</b>	<b>116,311</b>	<b>173,930</b>	<b>-</b>	<b>290,241</b>
<b>Segment net operating profit before tax</b>	<b>10,428</b>	<b>(1)</b>	<b>-</b>	<b>10,427</b>
<b>includes the following:</b>				
- Interest revenue	4	-	94	98
- Interest expense	-	-	(1,942)	(1,942)
- Depreciation and amortisation	(776)	(3,705)	(2,522)	(7,003)
- Other non-cash expenses	15,444	(15,490)	(83)	(129)
<b>Segment assets</b>	<b>46,773</b>	<b>49,090</b>	<b>-</b>	<b>95,863</b>
Capital expenditure	703	2,806	(3,366)	143
<b>Segment liabilities</b>	<b>15,216</b>	<b>26,177</b>	<b>-</b>	<b>41,393</b>

	Wholesale	Direct to Consumer	Unallocated Items	Total
	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2013</b>				
<b>Revenue</b>				
Sales to external customers	112,944	166,303	-	279,247
Other revenue	333	161	-	494
Inter-segment sales	11,861	-	-	11,861
<b>Segment revenue</b>	<b>125,138</b>	<b>166,464</b>	<b>-</b>	<b>291,602</b>
<b>Segment net profit before tax</b>	<b>16,306</b>	<b>1,615</b>	<b>-</b>	<b>17,921</b>
<b>includes the following:</b>				
- Interest revenue	7	-	74	81
- Interest expense	-	-	(1,637)	(1,637)
- Depreciation and amortisation	(1,076)	(3,952)	(2,577)	(7,605)
- Other non-cash expenses	(19)	(5)	(121)	(145)
<b>Segment assets</b>	<b>50,818</b>	<b>52,079</b>	<b>-</b>	<b>102,897</b>
Capital expenditure	703	2,806	1,838	5,347
<b>Segment liabilities</b>	<b>18,618</b>	<b>26,838</b>	<b>-</b>	<b>45,456</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**7 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 8.5% of external revenue (2013: 9.6%). The next most significant customer accounted for 3.5% (2013: 4.8%) of external revenue.

**i) Segment revenue reconciliation to the income statement**

	<b>Consolidated</b>	
	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of segment revenue to the income statement		
Total segment revenue	290,241	291,602
Inter-segment sales elimination	(11,000)	(11,861)
Other revenues	(1,831)	303
<b>Total revenue and other revenues per the income statement</b>	<b>277,410</b>	<b>280,044</b>

**ii) Segment net operating profit before tax reconciliation to the income statement**

The Board of Directors meet on a periodical basis to assess the performance of each segment by analysing the segment's net operating profit before tax. A segment's net operating profit before tax excludes non operating income and expense such as fair value gains and losses, gains and losses on disposal of assets, finance cost and impairment charges.

	<b>Consolidated</b>	
	<b>Year ended 30 June 2014</b>	<b>Year ended 30 June 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of segment net operating profit before tax to net profit before tax		
Segment net operating profit before tax	10,427	17,921
Interest revenue	94	74
Interest expense	(1,942)	(1,637)
Depreciation and amortisation	(2,522)	(2,577)
Other non-cash expenses	(83)	(121)
Share of loss of joint venture	(300)	-
Profit on sale of business	6,500	-
Over-allocation of corporate overhead to segments	2,716	1,218
<b>Total net profit before tax per the income statement</b>	<b>14,890</b>	<b>14,878</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**7 SEGMENT INFORMATION - OPERATING SEGMENTS (continued)**

**iii) 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. These assets include plant and equipment, receivables, inventory and intangibles and exclude available-for-sale assets, cash at bank, derivative assets, deferred tax assets.

**iii) Segment assets reconciliation to the statement of financial position**

	<b>Consolidated</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June 2014</b>	<b>30 June 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of segment operating assets to total assets		
Segment operating assets	95,863	102,897
Cash at bank	6,163	8,754
Corporate property, plant and equipment	40,529	38,051
Corporate IT software	5,263	5,877
Derivative assets	-	5,749
Investment in joint venture	6,433	-
Income tax receivable	661	-
<b>Total assets per statement of financial position</b>	<b>154,912</b>	<b>161,328</b>

**iv) Segment liabilities reconciliation to the statement of financial position**

Segment liabilities include trade and other payables. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations.

**iv) Segment liabilities reconciliation to the statement of financial position**

	<b>Consolidated</b>	
	<b>As at</b>	<b>As at</b>
	<b>30 June 2014</b>	<b>30 June 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of segment operating liabilities to total liabilities		
Segment operating liabilities	41,393	45,456
Borrowings	30,929	30,793
Income tax payable	-	156
Provisions	2,010	2,108
Derivative financial instruments	1,898	42
Deferred tax liabilities	4,367	6,093
<b>Total liabilities per statement of financial position</b>	<b>80,597</b>	<b>84,648</b>



**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**8 TRADE AND OTHER RECEIVABLES (CURRENT)**

	Consolidated	
	As at	As at
	30 June 2014	30 June 2013
	\$'000	\$'000
Trade receivables	12,798	13,451
Allowance for impairment loss (a)	(50)	(133)
<b>Carrying amount</b>	<b>12,748</b>	<b>13,318</b>

**(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 \$83,000 (2013: \$132,000 gain) has been recognised by the Group in the current year. These amounts have been included in the selling and administrative expense items.

Movements in the provision for impairment loss were as follows

At 1 July	133	265
(Reversal)/ Charge for the year	(141)	(105)
Written off	58	(27)
<b>At 30 June</b>	<b>50</b>	<b>133</b>

At 30 June, the ageing analysis of trade receivable is as follows;

	Total	0-30 Days	31-60 Days	61-90 Days	61-90 Days	+91 Days	+91 Days
				PDNI*		PDNI*	CI*
2014 Consolidated	12,798	12,411	141	59	3	134	50
2013 Consolidated	13,451	12,869	282	167	0	0	133

\* Past due not impaired ('PDNI')  
 Considered Impaired ('CI')

Receivables past due but not considered impaired are: Consolidated \$193,000 (2013: \$167,000). 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. Loans to wholly owned group entities are repayable on demand.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**8 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 25 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 25.

**9 INVENTORIES (CURRENT)**

	Consolidated	
	As at 30 June 2014	As at 30 June 2013
	\$'000	\$'000
Raw materials and stores, at cost	30	145
Provision for inventory obsolescence	(30)	(37)
Raw materials and stores, net	-	108
Finished goods, at cost	46,617	52,877
Provision for inventory obsolescence	(3,440)	(2,621)
	43,177	50,256
Stock in transit	7,975	10,705
<b>Total inventories</b>	<b>51,152</b>	<b>61,069</b>

**(a) Inventory expenses**

Inventories recognised as an expense for the year ended 30 June 2014 totalled \$151,916,000 (2013: \$148,755,000) for the Group. This expense has been included in cost of sales. The obsolescence expense/net realisable value loss of \$752,375 (2013: \$996,428 gain) has been included as an expense in the cost of sales.

**10 OTHER ASSETS (CURRENT)**

	Consolidated	
	As at 30 June 2014	As at 30 June 2013
	\$'000	\$'000
Prepayments	5,838	2,190
Other	2,033	1,084
<b>Total other current assets</b>	<b>7,871</b>	<b>3,274</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**11 PROPERTY, PLANT AND EQUIPMENT**

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

	Consolidated			
	Land & Building \$'000	Leasehold Improvement \$'000	Plant & Machinery \$'000	Total \$'000
<b>Year ended 30 June 2014</b>				
At 1 July 2013 net of accumulated depreciation	35,270	6,652	11,859	53,781
Additions	-	1,080	4,703	5,783
Disposals	-	(802)	(1,034)	(1,836)
Revaluation	2,908	-	-	2,908
Depreciation charge for the year	(430)	(1,345)	(3,464)	(5,239)
Others - Currency translation difference	-	2	(16)	(14)
<b>At 30 June 2014 net of accumulated depreciation</b>	<b>37,748</b>	<b>5,587</b>	<b>12,048</b>	<b>55,383</b>
<b>At 30 June 2014</b>				
Cost or fair value	37,748	14,986	40,154	92,888
Accumulated depreciation	-	(9,399)	(28,106)	(37,505)
<b>Net carrying amount</b>	<b>37,748</b>	<b>5,587</b>	<b>12,048</b>	<b>55,383</b>
	Consolidated			
	Land & Building \$'000	Leasehold Improvement \$'000	Plant & Machinery \$'000	Total \$'000
<b>Year ended 30 June 2013</b>				
At 1 July 2012 net of accumulated depreciation	35,090	7,397	13,320	55,807
Additions	-	674	2,486	3,160
Disposals	-	-	(235)	(235)
Revaluation	568	-	-	568
Depreciation charge for the year	(388)	(1,424)	(3,723)	(5,535)
Others - Currency translation difference	-	5	11	16
<b>At 30 June 2013 net of accumulated depreciation</b>	<b>35,270</b>	<b>6,652</b>	<b>11,859</b>	<b>53,781</b>
<b>At 30 June 2012</b>				
Cost or fair value	35,090	14,902	37,934	87,926
Accumulated depreciation	-	(7,505)	(24,614)	(32,119)
<b>Net carrying amount</b>	<b>35,090</b>	<b>7,397</b>	<b>13,320</b>	<b>55,807</b>
<b>At 30 June 2013</b>				
Cost or fair value	35,270	15,581	40,196	91,047
Accumulated depreciation	-	(8,929)	(28,337)	(37,266)
<b>Net carrying amount</b>	<b>35,270</b>	<b>6,652</b>	<b>11,859</b>	<b>53,781</b>

All assets are secured by first mortgages, deeds of charge and mortgage debentures.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**11 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 is 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 2014.

The fair value is measured using Level 3 inputs.

Significant unobservable valuation input	Range
Price per square metre	\$1,300 - \$1,600

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 30 June 2014 \$'000	As at 30 June 2013 \$'000
Cost	13,599	13,599
Accumulated depreciation	(5,111)	(4,771)
<b>Net carrying amount</b>	<b>8,488</b>	<b>8,828</b>

(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 24(c).

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**12 INTANGIBLE ASSETS**

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

	Consolidated				
	Trademarks	Goodwill	Finite life Intangible	Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2014</b>					
At 1 July 2013 net of accumulated amortisation	2,015	6,920	161	6,287	15,383
Additions	-	-	-	1,007	1,007
Disposal	-	-	-	(126)	(126)
Amortisation	-	-	(161)	(1,602)	(1,763)
<b>At 30 June 2014 net of accumulated amortisation</b>	<b>2,015</b>	<b>6,920</b>	<b>-</b>	<b>5,566</b>	<b>14,501</b>
At 30 June 2014					
Cost (gross carrying amount)	2,015	6,920	3,996	14,378	27,309
Accumulated amortisation	-	-	(3,996)	(8,812)	(12,808)
<b>Net carrying amount</b>	<b>2,015</b>	<b>6,920</b>	<b>-</b>	<b>5,566</b>	<b>14,501</b>
<b>Year ended 30 June 2013</b>					
At 1 July 2012 net of accumulated amortisation	2,015	6,907	550	5,578	15,050
Additions	-	-	-	2,390	2,390
Amortisation	-	-	(389)	(1,681)	(2,070)
Others - Currency translation difference	-	13	-	-	13
<b>At 30 June 2013 net of accumulated amortisation</b>	<b>2,015</b>	<b>6,920</b>	<b>161</b>	<b>6,287</b>	<b>15,383</b>
At 30 June 2012					
Cost (gross carrying amount)	2,015	6,907	3,996	11,107	24,025
Accumulated amortisation	-	-	(3,446)	(5,529)	(8,975)
<b>Net carrying amount</b>	<b>2,015</b>	<b>6,907</b>	<b>550</b>	<b>5,578</b>	<b>15,050</b>
At 30 June 2013					
Cost (gross carrying amount)	2,015	6,920	3,996	13,497	26,428
Accumulated amortisation	-	-	(3,835)	(7,210)	(11,045)
<b>Net carrying amount</b>	<b>2,015</b>	<b>6,920</b>	<b>161</b>	<b>6,287</b>	<b>15,383</b>

Carrying amounts attributed to trademarks and goodwill are as follows:

	As at 30 June 2014		As at 30 June 2013	
	Trademarks	Goodwill	Trademarks	Goodwill
	\$'000	\$'000	\$'000	\$'000
Wholesale	2,015	3,628	2,015	3,628
Direct to consumer	-	3,292	-	3,292
<b>Total trademarks &amp; goodwill</b>	<b>2,015</b>	<b>6,920</b>	<b>2,015</b>	<b>6,920</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**12 INTANGIBLE ASSETS (continued)**

(b) Description of the Group's intangible assets

**(i) Trademarks**

Trademark values are assessed at brand level within each cash generating unit (CGU). The useful lives of trademarks are estimated as indefinite and the relief from royalty method is utilised for the measurement of fair value when recognised on acquisition. The trademarks are determined to have indefinite life when it is the Company's intention to support, maintain and enhance the market perception of the trademarks. The methodology is based on an estimate of arms' length royalty of 7% (2013: 7%) which would be payable to a third party licensor on sales of trademark branded product. Estimated royalty values (less brand maintenance expenses) are discounted to arrive at a Net Present Value ('NPV') of the royalty income attributable to the trademark. The trademark is deemed not to be impaired if the resulting fair value calculation described above is greater than the carrying value of the trademark. Sales projections reflect budget for the ensuing year and further growth of 2% p.a. (2013: 2%) for the subsequent three years plus terminal value. Terminal value represents the discounted value of all subsequent cashflow for the following years after which a forecast has been included. A pre-tax discount rate range of 14.7% to 17.4% (2013: 14.4% to 17.1%) was used in the NPV calculations. A reasonably possible change in growth rates and discount rates would not result in impairment.

**(ii) Goodwill**

Goodwill is measured for each CGU by calculating its enterprise value being the NPV of future free cash flows and deducting from this value the net tangible assets and identifiable intangible assets such as trademarks and industrial designs used by the CGU. A CGU for Gazal consists of like style product groupings and risk is deemed to be constant across all groupings. Goodwill which has been purchased as a part of a business combination is regarded as having an indefinite life. Value in use of goodwill is tested at least annually for impairment, and always at the end of financial year to ensure that assets are carried at a recoverable value. A discount rate range of 10.1% to 12.0% (2013: 10.1% to 12.0%) used in goodwill calculations approximates the Company's actual pre tax weighted average cost of capital for the year in review. Valuations have assumed budget sales growth in the ensuing year and further growth of 2% (2013: 2%) for the subsequent three years plus terminal value. A reasonably possible change in growth rates and discount rates would not result in impairment.

**(iii) Finite life intangible**

A distribution agreement which was acquired as part of a business combination has been classified as an intangible asset with a finite life amortised and assessed for impairment on an annual basis. The distribution agreement expired on 31 December 2013. No impairment loss was charged for the 2014 financial year (2013: nil).

**(iv) Software**

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 2014**

**13 TRADE AND OTHER PAYABLES (CURRENT)**

	Consolidated	
	As at	As at
	30 June 2014	30 June 2013
	\$'000	\$'000
Trade payables (a)	27,551	29,544
Other payables	9,593	11,361
Goods and services tax	691	986
<b>Total trade and other payables</b>	<b>37,835</b>	<b>41,891</b>

**(a) Foreign exchange risk**

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

Great British Pound	31	17
Hong Kong Dollar	9	6
Euro	435	18
New Zealand Dollar	1	207
US Dollar	1,664	1,450
<b>Carrying amount of foreign currency trade and other payables</b>	<b>2,140</b>	<b>1,698</b>

(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 and liquidity risk exposure is disclosed in note 25. Refer to note 25 for further information relating to the sensitivity of trade and other payables to foreign currency risk.

**(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 22 and note 31 for further information relating to the Parent's financial guarantee.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**14 INTEREST-BEARING LOANS AND BORROWING (CURRENT)**

	Consolidated	
	As at	As at
	30 June 2014	30 June 2013
	\$'000	\$'000
Bank loans - secured (Refer Note 16(a))	929	793
<b>Total current borrowings</b>	<b>929</b>	<b>793</b>

**15 PROVISIONS (CURRENT)**

	Consolidated		
	Provision for annual leave	Provision for long service leave	Total
	\$'000	\$'000	\$'000
At 30 June 2013	3,364	1,758	5,122
Arising during the year	3,098	394	3,492
Utilised	(3,177)	(623)	(3,800)
<b>At 30 June 2014</b>	<b>3,285</b>	<b>1,529</b>	<b>4,814</b>

(a) *Long service leave*

Refer to note 2 and note 3, respectively for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

**16 INTEREST-BEARING LOANS AND BORROWING (NON-CURRENT)**

	Consolidated	
	As at	As at
	30 June 2014	30 June 2013
	\$'000	\$'000
Bank loans - secured (a)	30,000	30,000
<b>Total non-current borrowings</b>	<b>30,000</b>	<b>30,000</b>

- (a) The Bank loans of \$30,929,000 (2013: \$30,793,000) 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 \$122,789,000 (2013: \$136,922,000), refer to 24(c). Bank loans have been classified as non-current and current liabilities. The loan facilities with our bankers do not expire until 30 September, 2015. The current portion is the portion which will be repaid over the next 12 months as indicated in Note 14. The non-current portion (\$30million) of the bank facility may be extended for a further two years from the date of each annual review. 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.



**Gazal Corporation Limited**  
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**For the year ended 30 June 2014**

**16 INTEREST-BEARING LOANS AND BORROWING (NON-CURRENT) (continued)**

- (a) (continued) As part of the March 2014 quarterly covenant reporting there was a breach in the fixed charge cover covenant for that quarter. The fixed charge cover ratio was 1.96x whilst the covenant requires the ratio to not be less than 2.0x. Westpac agreed to waive the quarterly breach before year end and amend the fixed charge cover ratio to not be less than 1.75x for the June 2014 quarter. The fixed cover charge covenant was 1.8x for June 2014. The Company's bank covenants were compliant at 30 June 2014.

The interest rates on floating rate borrowings at year-end ranged from 2.61% to 2.86% (2013: 2.82% to 3.33%). Borrowings at 30 June 2014 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.

The fair value is measured using Level 2 observable inputs.

Fair values of the Groups interest bearing borrowings are determined using the DCF method using discount rates that reflect the issuers borrowing rates at the end of the reporting period.

**17 PROVISIONS (NON-CURRENT)**

	<u>Consolidated</u>
	Provision for long service leave \$'000
At 1 July 2013	551
Arising during the year	203
<b>At 30 June 2014</b>	<b>754</b>

(a) *Long service leave*

Refer to note 2 and note 3 respectively for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**18 CONTRIBUTED EQUITY**

	Consolidated	
	As at 30 June 2014 \$'000	As at 30 June 2013 \$'000
Ordinary shares Issued and fully paid	62,183	63,310

**Movements in contributed equity for the year**

	Consolidated	
	Number '000	Value \$'000
Opening balance 1 July 2012	56,617	61,536
Exercise of options	1,333	1,774
<b>Closing balance at 30 June 2013</b>	<b>57,950</b>	<b>63,310</b>
Opening balance 1 July 2013	57,950	63,310
Share buy-back	(578)	(1,503)
Exercise of options	297	376
<b>Closing balance at 30 June 2014</b>	<b>57,669</b>	<b>62,183</b>

**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. The exercise price of options under this option plan is equal to a formula based on the market price of the shares sold on the ASX on the five preceding days to the grant date.

The following table illustrates the number and exercise prices of and movements in share options during the year:

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**18 CONTRIBUTED EQUITY (continued)**

Date Granted	Exercise Price (f)	On issue 30 June 2013	Granted during the year (c)(d)	Converted to fully paid shares (e)	Lapsed/ cancelled	On issue 30 June 2014 (b)	Exercise period
1 July 2009 (a)	0.93	80,000	-	80,000	-	-	1 July 2012 to 30 June 2014*
10 December 2009	1.33	166,667	-	166,667	-	-	10 December 2010 to 9 December 2014*
1 July 2010	1.59	50,000	-	50,000	-	-	1 July 2013 to 30 June 2015*
<b>TOTAL</b>		<b>296,667</b>	<b>-</b>	<b>296,667</b>	<b>-</b>	<b>-</b>	

\* Expiry date

- (a) These options were granted to brand ambassadors on similar terms as the Employee Options.
- (b) There are no share options outstanding at 30 June 2014.
- (c) The weighted average fair value of options granted during the year was nil (2013: Nil).
- (d) The fair value of the equity-settled share options granted under the option plans is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.
- (e) This relates to the exercise of options by KMPs. The market share price on date of issue was in the range of \$2.78 to \$3.05.
- (f) The weighted average exercise price of options on issue at 30 June 2014 is \$nil (2013: \$1.27)

The following table lists the inputs to the model used for the years ended 30 June 2014 and 30 June 2013:

	<u>1 July 2009</u>	<u>10 Dec 2009(1)</u>	<u>10 Dec 2009(2)</u>	<u>10 Dec 2009(3)</u>	<u>1 July 2010</u>
Dividend yield(%)	7.00	7.00	7.00	7.00	6.5
Expected volatility (%)	30-40	30-40	30-40	30-40	30-40
Risk-free interest rate (%)	4.9	4.5	4.8	5.0	4.67
Expected life of options after vesting(years)	1	1	1	1	1
Option exercise price (\$)	0.93	1.33	1.33	1.33	1.59
Weighted average share price at grant date (\$)	0.93	1.33	1.33	1.33	1.59

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may also not necessarily be the actual outcome.

The fair value of the equity-settled options is measured at the grant date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted.

Options granted on 10 December 2009, vest in 3 tranches, one third after one year (1), one third after two years (2), and one third after three years (3).

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**18 CONTRIBUTED EQUITY (continued)**

**Share Based Payment Plans (continued)**

In October 2012, the Company established a new Long Term Incentive Performance Rights Plan which was subsequently ratified by the shareholders at the November 2012 AGM. The plan has been initially set up to provide long term incentives to Mr. P Robinson who was appointed CEO and Executive Director in 2012.

The Long Term Incentive awards (LTI) are delivered in the form of performance rights which vest over a period of four years subject to meeting performance measures. The Group uses PAT targets as the performance measure for the LTI.

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. The contractual term of the performance rights is four years and there are no cash settlement alternatives for the employees. The Group does not have a past practice of cash settlement for these awards.

**Modifications**

The Board exercised its discretion under the agreement to award Mr. Robinson 100,000 performance rights under the LTI plan in FY14. The incremental fair value granted as a result of those modifications is \$252,615. These awards will vest in accordance with the original awards and are subject to meeting the relevant performance hurdles set for the award granted. The fair value of performance rights granted under the modification 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 2014, management paid dividends of \$10,452,000 (2013: \$10,291,000).

Management monitors capital through the gearing ratio (net debt/total capital). The gearing ratios based on continuing operations at 30 June 2014 and 2013 were as follows:

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**18 CONTRIBUTED EQUITY (continued)**

**Capital Management (continued)**

GEARING RATIO

	Consolidated	
	As at 30 June 2014 \$'000	As at 30 June 2013 \$'000
Total borrowings *	68,764	72,684
Less cash and cash equivalents	(6,163)	(8,754)
Net debt	62,601	63,930
Total equity	74,315	76,680
Total Capital	136,916	140,610
Gearing ratio	46 %	45 %

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

The Group considers a gearing ratio of 40% 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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**19 RESERVES**

	Consolidated	
	As at	As at
	30 June 2014	30 June 2013
	\$'000	\$'000
Asset revaluation	21,661	19,626
Asset realisation	562	562
Employee equity benefit	1,213	1,174
Cash flow hedge	(1,329)	3,995
<b>Total reserves</b>	<b>22,107</b>	<b>25,357</b>

Transfer to/ (from) reserves:

**(a) Asset revaluation reserve**

Opening balance	19,626	19,229
Revaluation of land and building	2,908	568
Income tax related to movement in Asset revaluation reserve	(873)	(171)
Closing balance	<b>21,661</b>	<b>19,626</b>

**(b) Employee equity benefits reserve**

Opening balance	1,174	487
Recognition of share-based payment cost	39	228
Income tax related to movement in Employee equity benefits reserve	-	459
Closing balance	<b>1,213</b>	<b>1,174</b>

**(c) Cash flow hedge reserve**

Opening balance	3,995	70
Gain/(loss) taken to equity	-	-
Transferred to statement of financial position	(7,605)	5,608
Income tax related to movement in cash flow hedge reserve	2,281	(1,683)
Closing balance	<b>(1,329)</b>	<b>3,995</b>

**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.

*Asset realisation reserve*

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

*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 Note 18 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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**20 RETAINED PROFITS AND DIVIDENDS**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
<b>Accumulated losses</b>		
(a) Movement in accumulated losses		
Balance at the beginning of the financial year	(11,987)	(12,329)
Net profit attributable to members	12,464	10,633
Dividends provided for or paid	(10,452)	(10,291)
<b>Balance at the end of the financial year</b>	<b>(9,975)</b>	<b>(11,987)</b>
(b) Dividends paid during the financial year		
Interim franked dividend 7 cents (2013: 7 cents) paid 2 April 2014	4,077	4,075
Final fully franked dividend for the financial year 30 June 2013, 11 cents per share (2013: 11 cents per share)	6,375	6,246
(c) Dividends declared but not recognised as a liability		
Final fully franked dividend 11 cents (2013: 11 cents) payable 2 October 2014	6,344	6,228
<b>Franking credit balance</b>		
Franking credits available for the subsequent financial year are:		
Balance at the end of the financial year at 30% (2013: 30%)	14,773	15,952
Franking credits that will arise from the payment/(receipt) of income tax payable/(receivable) as at the end of the financial year	-	(133)
	<b>14,773</b>	<b>15,819</b>
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	(2,719)	(2,669)
	<b>12,054</b>	<b>13,150</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**21 COMMITMENTS**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
<b>(a) Commitments</b>		
Capital expenditure contracted for is payable as follows:		
Not later than one year	1,188	2,493
Operating lease expenditure contracted for is payable as follows:		
Not later than one year	18,271	16,254
Later than one year but not later than five years	58,549	47,392
Later than five years	20,823	26,749
	<b>97,643</b>	<b>90,395</b>

Operating leases have remaining terms between 1 and 10 years with an average lease term of 5 years (2013: 5 years) and an average implicit interest rate of 6.4% (2013: 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.

**22 CONTINGENT LIABILITIES**

The parent entity has given guarantees in relation to a number of controlled entities' retail shops.

The parent entity has entered into a Deed of Cross Guarantee in accordance with a class order 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 2014 (30 June 2013: nil).

**23 CASH AND CASH EQUIVALENTS (CURRENT)**

**(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 2014	As at 30 June 2013
	\$'000	\$'000
Cash at bank and on hand	6,163	8,754
	<b>6,163</b>	<b>8,754</b>



**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**23 CASH AND CASH EQUIVALENTS (CURRENT) (continued)**

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

	Consolidated	
	As at	As at
	30 June 2014	30 June 2013
	\$'000	\$'000
Operating profit after income tax	12,464	10,633
<b>Adjustments for non-cash income &amp; expenses items:</b>		
Depreciation and amortisation expense	7,003	7,605
Loss on sale of property, plant and equipment	3	32
Share options expensed	39	228
Profit on sale of business	(6,500)	-
<b>Changes in assets and liabilities</b>		
(Increase)/ decrease in trade debtors	570	1,621
(Increase)/ decrease in inventory	9,917	(17,735)
(Increase)/ decrease in prepaid expenses	(4,597)	(537)
(Increase)/ decrease in investment costs	(2,989)	-
Increase/ (decrease) in trade creditors	(2,288)	8,338
Increase/ (decrease) in other creditors	(1,768)	1,984
Increase/ (decrease) in income tax payable	(887)	(1,834)
Increase/ (decrease) in deferred income tax	(1,726)	1,604
Increase/ (decrease) in employee entitlements provisions	(105)	(337)
	<b>9,135</b>	<b>11,602</b>

**24 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 2014**

**24 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
<b>At 30 June 2014</b>	\$'000	\$'000	\$'000
Bank overdraft facility	3,078	-	3,078
Bank loan facilities	55,783	(30,929)	24,854
<b>Total financing facilities</b>	<b>58,861</b>	<b>(30,929)</b>	<b>27,932</b>
<hr/>			
<b>At 30 June 2013</b>	\$'000	\$'000	
Bank overdraft facility	3,078	-	3,078
Bank loan facilities	55,783	(30,793)	24,990
<b>Total financing facilities</b>	<b>58,861</b>	<b>(30,793)</b>	<b>28,068</b>

Expiry date: 30 September 2015 (2013: 30 September 2015)

All of the economic entity's facilities are subject to annual review and subject to the conditions referred to Note 16(a).

At reporting date, the Group has approximately \$27.9million 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
		<b>30 June 2014</b>	30 June 2013
		\$'000	\$'000
<b>Current</b>			
<i>Floating charge</i>			
Cash at bank	23(a)	6,163	8,754
Receivables	8	12,748	13,318
Inventory	9	51,152	61,069
<b>Total current assets pledged as security</b>		<b>70,063</b>	<b>83,141</b>
<b>Non-current</b>			
<i>First mortgage</i>			
Freehold land and buildings	11	37,748	35,270
<i>Floating charge</i>			
Leasehold improvement	5,11	5,587	6,652
Plant and machinery	5,11	12,048	11,859
<b>Total non-current assets pledged as security</b>		<b>55,383</b>	<b>53,781</b>
<b>Total assets pledged as security</b>		<b>125,446</b>	<b>136,922</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group operates in 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. In order to minimise risk, interest rate swaps are used to convert floating rate debt to fixed rates. Under the swaps, the economic entity agrees with other parties to exchange, at specified intervals, the difference between the fixed-rate and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

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 2014 \$'000	As at 30 June 2013 \$'000
<b><i>Financial assets</i></b>		
Cash and cash equivalents	6,163	8,754
	<b>6,163</b>	<b>8,754</b>
<b><i>Financial liabilities</i></b>		
Bank loans at floating rate	-	25,793
	-	25,793
Net exposure	<b>6,163</b>	<b>(17,039)</b>

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 2014**

**25 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, modified by interest rate swaps. Net fair value of the interest swap agreement at reporting date being nil (2013: \$42,000). The table included in note 26 summarises interest rate risk for the economic entity, together with effective interest rates at reporting date.

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	Year ended	Year ended	Year ended
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
+1% (100 basis points)	43	(119)	-	17
-0.5% (50 basis points)	(22)	60	-	(9)

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The movement in equity is due to an increase/decrease in the fair value of derivative instruments designated as cash flow hedges.

Significant assumptions used in the interest rate sensitivity analysis include:

- 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.
- 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.
- The effect on other comprehensive income is the effect on the cash flow hedge reserve.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**b) Credit Risk**

The economic entity's exposures to credit risk at reporting date are as indicated by the carrying amounts of its financial assets. Concentration of credit risk (whether on or off balance sheet) that arise from derivative instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There is a 15% (2013: 15%) concentration of credit risk with major customer groups.

**c) 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.

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

	Consolidated	
	As at	As at
	30 June 2014	30 June 2013
	\$'000	\$'000
<b><i>Financial assets</i></b>		
Cash and cash equivalents	45	57
Trade and other receivables	23	768
	<u>68</u>	<u>825</u>
<b><i>Financial liabilities</i></b>		
Trade and other payables	-	-
	<u>-</u>	<u>-</u>
Net exposure	<u>68</u>	<u>825</u>

The Group has, as outlined in note 26, 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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**c) Foreign Currency Risk (continued)**

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

At 30 June, 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	Year ended	Year ended	Year ended
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
AUD/USD +10%	5	53	(5,405)	(4,016)
AUD/USD -5%	(2)	(26)	2,316	(2,325)

The movements in profit in 2014 are lower than in 2013 due to the lower level of US Dollar receivables not designated as cash flow hedges at balance date. The movements in equity are higher in 2014 than in 2013 owing to the higher level of USD hedging of inventory purchases as at 30 June 2014.

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 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 2014**

**25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**d) 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 2014. 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 2014.

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

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
<i>Financial liabilities</i>		
0-12 months	40,662	42,726
1-5 years	31,581	31,621
Over 5 years	-	-
	<b>72,243</b>	<b>74,347</b>

**e) 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.

**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.

**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.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**26 DERIVATIVE FINANCIAL INSTRUMENTS**

**Hedging activities**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
<b><i>Current assets</i></b>		
Interest rate swaps - cash flow hedges	-	-
Forward currency contracts - cash flow hedges	-	5,749
	<b>-</b>	<b>5,749</b>
<b><i>Current liabilities</i></b>		
Interest rate swaps - cash flow hedges	-	42
Forward currency contracts - cash flow hedges	1,898	-
	<b>1,898</b>	<b>42</b>

**a) 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.

As these are designated effective hedges, an adjustment of \$7,647,000 (2013: \$5,595,000) has been made to the hedge reserve while no adjustment has been included in the net profit for the year relating to the forward exchange contracts. There is a derivative asset of nil (2013: \$5,749,000) and a liability of \$1,898,000 (2013: \$nil) at 30 June 2014.

The cash flows are expected to occur between 0-12 months from 1 July 2014 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:

<b>Year ended 30 June 2014</b>	<b>Amount</b>	<b>Expiry Date</b>	<b>Rate</b>
<b><i>Consolidated</i></b>			
Forward Exchange Contracts - Buy (US\$'000)	USD 65,492	07.07.14 - 15.06.15	0.8791 - 1.0078
<b>Year ended 30 June 2013</b>	<b>Amount</b>	<b>Expiry Date</b>	<b>Rate</b>
<b><i>Consolidated</i></b>			
Forward Exchange Contracts - Buy (US\$'000)	USD 57,745	05.07.12 - 14.03.14	0.9322 - 1.0474



**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**26 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**a) 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.

Movement in forward currency contract cash flow hedge reserve

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Opening balance	5,749	155
Transferred to inventory	(5,749)	(155)
Charge to equity	(1,898)	5,749
Closing balance	(1,898)	5,749

*(ii) Interest rate swaps – cash flow hedges*

From 30 June 2009, the Group had an interest rate swap agreement in place with a notional amount of \$5,000,000 whereby Gazal paid a fixed rate of interest of 4% and received a variable rate equal to the BBSY on the notional amount. The interest rate swap agreement ceased on 3 February 2014. A new agreement was not established.

<b>Year ended 30 June 2014</b>	<b>Amount</b>	<b>Maturity</b>	<b>Interest Rate</b>
<i>Consolidated</i>			
Interest Rate Swaps	\$0	-	0.00%
<b>Year ended 30 June 2013</b>	<b>Amount</b>	<b>Maturity</b>	<b>Interest Rate</b>
<i>Consolidated</i>			
Interest Rate Swaps	A\$5,000,000	03.02.2014	4.00%

The swap was being used to hedge the exposure to changes in interest payable on working capital requirements.

Movement in interest rate swaps cash flow hedge reserve

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Opening balance	(42)	(55)
Transferred to interest expense	42	-
Charge to equity	-	13
Closing balance	-	(42)

*(iii) Hedge of net investments in foreign operations*

No hedge of this type existed at 30 June 2014 (2013: nil).

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**26 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**b) Interest rate risk**

Information regarding interest rate risk exposure is set out in note 25.

**c) Credit risk**

Information regarding credit risk exposure is set out in note 25.

**27 SIGNIFICANT EVENTS AFTER BALANCE DATE**

On 21 August 2014, the directors declared a full year dividend of 11 cents per share fully franked compared to the 2013 financial year of 11 cents per share fully franked. The record date for determining the shareholders' entitlement for the full year is 17 September 2014 and the full year dividend is payable on 2 October 2014. There are no other matters or circumstances that have arisen since 30 June 2014 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.

**28 REMUNERATION OF AUDITOR**

	Year ended 30 June 2014	Year ended 30 June 2013
	\$	\$
<b>Audit and review services</b>		
Ernst & Young		
- Audit	187,880	174,300
- Royalty and turnover audits	18,750	18,200
- Taxation	53,000	100,244
- Human capital	-	75,375
- Other non-audit services	111,255	29,313
	<b>370,885</b>	<b>397,432</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**29 INVESTMENT IN JOINT VENTURE**

The Group has a 50% interest in PVH Brands Australia Pty Ltd, a jointly controlled entity. The Group's interest is accounted for using the equity method in the consolidated financial statements.

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

	As at <b>30 June 2014</b>	As at 30 June 2013
	\$'000	\$'000
Current assets	12,661	-
Non-current assets	9,921	-
Current liabilities	5,980	-
Non-current liabilities	48	-
Equity	16,554	-
Portion of Group's ownership 50%	<b>8,277</b>	-
Carrying amount of investment	<b>6,433</b>	-

Summarised statement of profit or loss of PVH Brands Australia Pty Limited:

	Year ended <b>30 June 2014</b>	Year ended 30 June 2013
	\$'000	\$'000
Sales revenue	14,281	-
Cost of sales	(5,594)	-
Gross profit	8,687	-
Other revenues	188	-
Selling and marketing expenses	(6,562)	-
Distribution expenses	(708)	-
Administration expenses	(2,354)	-
<b>Loss before income tax</b>	<b>(749)</b>	-
Income tax expense	150	-
<b>Loss for the year</b>	<b>(599)</b>	-
<b>Group's share of loss for the year</b>	<b>(300)</b>	

The Group has an agreement with PVH Brands Australia Pty Limited that the profits of the joint venture will not be distributed until it obtains the consent from the two venture partners. The joint venture had no contingent liabilities or capital commitments as at 30 June 2014 or 30 June 2013.

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**30 Related Party Disclosures**

The consolidated financial statements as at 30 June 2014 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	2014	2013
Gazal Corporation Limited		Australia	-	-
Gazal Apparel Pty Limited	(a)	Australia	100	100
Fashion Factory Outlets (Trade Secret) 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
M. Street Pty Limited (formerly Mambo Street Pty Limited)	(a)	Australia	100	100
(CK Underwear Australia Pty Limited (formerly Body Art Australia Pty Limited)	(a)	Australia	-	100
064 814 240 Pty Limited (formerly Brands United Pty Limited)	(a)	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	-
PVH Heritage Brands Australia Pty Limited	(b)	Australia	100	-
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 Class Order 98/1418 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 2014**

**Related Party Disclosures (continued)**

(c) Financial information for class order “closed group”

**Gazal Corporation Limited Closed Group**  
**Income Statement for the year ended 30 June 2014**

	Consolidated	
	Year ended 30 June 2014	Year ended 30 June 2013
	\$'000	\$'000
Sales revenue	264,730	267,710
Cost of sales	(146,309)	(142,297)
Gross profit	118,421	125,413
Other revenues	1,353	1,594
Selling and marketing expenses	(79,602)	(78,229)
Distribution expenses	(12,542)	(12,359)
Administration expenses	(20,653)	(19,466)
Finance costs	(1,864)	(1,573)
Share of loss of joint venture	(300)	-
Profit on sale of business	6,500	-
<b>Profit before income tax expense</b>	<b>11,313</b>	<b>15,380</b>
Income tax expense	(2,197)	(4,173)
<b>Net profit after tax from continuing operations</b>	<b>9,116</b>	<b>11,207</b>
<b>Net profit for the year</b>	<b>9,116</b>	<b>11,207</b>
Retained profits at the beginning	12,687	(13,734)
Dividends paid	(10,452)	(10,160)
<b>Retained profits at the ending</b>	<b>11,351</b>	<b>12,687</b>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**Related Party Disclosures (continued)**

(c) Financial information for class order “closed group” (continued)

**Gazal Corporation Limited Closed Group**  
**Statement of Financial Position at 30 June 2014**

	Consolidated	
	As at 30 June 2014 \$'000	As at 30 June 2013 \$'000
<b>Current assets</b>		
Cash and cash equivalents	4,338	7,799
Trade and other receivables	15,382	17,087
Inventories	49,723	59,687
Derivative financial instruments	-	5,749
Income tax receivable	330	-
Other current assets	7,806	3,230
	<u>77,579</u>	<u>93,552</u>
<b>Total current assets</b>	<u>77,579</u>	<u>93,552</u>
<b>Non-current assets</b>		
Investment	11,127	4,695
Property, plant and equipment	55,307	53,651
Intangibles	8,363	8,993
Deferred tax assets	-	2,599
	<u>74,797</u>	<u>69,938</u>
<b>Total non-current assets</b>	<u>74,797</u>	<u>69,938</u>
<b>Total assets</b>	<u>152,376</u>	<u>163,490</u>
<b>Current liabilities</b>		
Trade and other payables	37,951	43,014
Derivative financial instruments	1,898	42
Income tax payable	-	159
Provisions	4,790	5,114
	<u>44,639</u>	<u>48,329</u>
<b>Total current liabilities</b>	<u>44,639</u>	<u>48,329</u>
<b>Non-current liabilities</b>		
Interest bearing liabilities	30,000	30,000
Provisions	754	551
Deferred tax liabilities	4,387	8,786
	<u>35,141</u>	<u>39,337</u>
<b>Total non-current liabilities</b>	<u>35,141</u>	<u>39,337</u>
<b>Total liabilities</b>	<u>79,780</u>	<u>87,666</u>
<b>Net assets</b>	<u>72,596</u>	<u>75,824</u>
<b>Equity</b>		
Contributed equity	61,839	63,154
Reserves	22,108	25,357
Retained earnings	(11,351)	(12,687)
	<u>72,596</u>	<u>75,824</u>
<b>Total Equity</b>	<u>72,596</u>	<u>75,824</u>

**Gazal Corporation Limited**  
**Notes to the Annual Financial Report (continued)**  
**For the year ended 30 June 2014**

**31 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 2014 \$'000	As at 30 June 2013 \$'000
<b>Current assets</b>		
Trade and other receivables	29,253	28,026
Tax assets	11,742	9,634
<b>Total current assets</b>	<b>40,995</b>	<b>37,660</b>
<b>Non-current assets</b>		
Investment	37,722	37,722
Deferred tax assets	466	164
<b>Total non-current assets</b>	<b>38,188</b>	<b>37,886</b>
<b>Total assets</b>	<b>79,183</b>	<b>75,546</b>
<b>Current liabilities</b>		
<b>Total liabilities</b>	<b>13</b>	<b>-</b>
<b>Net assets</b>	<b>79,170</b>	<b>75,546</b>
<b>Equity</b>		
Contributed equity	62,183	63,310
Employee equity benefit reserve	997	977
Retained earnings	15,990	11,259
<b>Total Equity</b>	<b>79,170</b>	<b>75,546</b>

**Income Statement for the year ended 30 June**

	Year ended 30 June 2014 \$'000	Year ended 30 June 2013 \$'000
Other revenues	15,438	15,000
Administration expenses	(703)	(854)
<b>Profit before income tax benefit</b>	<b>14,735</b>	<b>14,146</b>
Income tax benefit	448	159
<b>Net profit and total comprehensive income after related income tax expense</b>	<b>15,183</b>	<b>14,305</b>
Retained profits at the beginning	11,259	7,245
Dividends paid	(10,452)	(10,291)
<b>Retained profits at the ending</b>	<b>15,990</b>	<b>11,259</b>

## Gazal Corporation Limited Shareholder Information

### Supplementary Information as Required by Australian Stock Exchange Listing Requirements.

#### Ordinary Shareholders as at 28 August, 2014

These statistics relate to 755 shareholders of 57,669,289 Ordinary Shares. The proportion of shares held by the twenty largest shareholders is 89.5%. There are 57 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 28 August, 2014.

Size of Holding	Number of Shareholders	Number of Ordinary Shares	% of Total
1 - 1,000	262	115,951	0.20
1,001 - 5,000	269	756,912	1.31
5,001 - 10,000	93	724,519	1.26
10,001 - 100,000	99	2,874,951	4.99
100,001 and over	32	53,196,956	92.25
Total	755	57,669,289	100.00

#### Substantial Shareholders

The following information is extracted from the Company's Register of substantial shareholders as at 28 August 2014.

Name	Relevant Interest in fully paid shares	Percentage
Michael Joseph Gazal	20,752,998	35.8
David Joseph Gazal	20,674,242	35.7
Richard Victor Gazal	19,489,430	33.6
Judith Ann Gazal	10,025,452	17.7
Gazal Nominees Pty Limited as trustees of the Mathilda Malouf Settlement Trust, a trust established for the benefit of the family of the late J.S. Gazal	10,004,154	17.7
RBC Global Services Australia Nominees Pty Limited	3,703,813	6.1



## Gazal Corporation Limited

### Top 20 Shareholders

Top 20 Shareholders as at 28 August 2014

	Registered Holder.	Number of Ordinary Shares	% of Total Shares
1	DAVID GAZAL FAMILY COMPANY PTY LIMITED	10,253,423	17.78
2	M J & H H GAZAL PTY LIMITED	9,546,633	16.55
3	CINU INVESTMENTS PTY LIMITED	9,464,920	16.41
4	WOODCRAY PTY LIMITED	8,996,600	15.60
5	RBC INVESTOR SERVICES AUSTRALIA NOMINEES	3,611,024	6.26
6	MR BRUCE KLATSKY	2,000,000	3.47
7	MR MICHAEL JOSEPH GAZAL	1,202,211	2.08
8	GAZAL NOMINEES PTY LIMITED	1,007,554	1.75
9	YOOGALU PTY LIMITED	1,000,000	1.73
10	DOUBLE JAY GROUP HOLDINGS PTY LTD	848,333	1.47
11	ANDREW RICH ENTERPRISES PTY LIMITED	738,480	1.28
12	MR G & MRS V PATON (ANCHORAGE SUPER FUND)	525,666	0.91
13	UBS WEALTH MANAGEMENT AUSTRALIA	507,445	0.88
14	MR DAVID JOHN COGHLAN	482,085	0.84
15	MR DAVID JOSEPH GAZAL	416,665	0.72
16	LIPPO SECURITIES NOMINEES (BVI) LTD	250,000	0.43
17	P & M WOOD NOMINEES PTY LIMITED	235,500	0.41
18	DE BRUIN NOMINEES PTY LTD	220,000	0.38
19	MR G & MRS V PATON (ST GEORGES SUPER FUND)	174,334	0.30
20	MR ALBERT EDWARD HARRIS	169,580	0.29
		<b>51,650,453</b>	<b>89.54</b>

**Corporate Information**

**Auditors**

Ernst & Young  
680 George Street, Sydney NSW 2000

**Bankers**

Westpac Banking Corporation  
60 Martin Place, Sydney NSW 2000

**Company Secretary**

Peter James Wood CA, FICS

**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](http://www.gazal.com.au)

**Share Registry**

Boardroom Limited  
207 Kent Street, Sydney NSW 2000  
Telephone: (02) 9290 9600

**Solicitor**

Johnston Winter Slattery  
20 Bond Street, Sydney NSW 2000

Blake Dawson Waldron  
225 George Street, 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