GAZAL

ASX and Media Release – Wednesday 25th February, 2015

Gazal 1H15 Earnings Announcement
Joint venture with PVH significantly expands

- **Sales for continuing operations are up 9.2% to $114.1m**
- **PAT for continuing operations up 78.9% to $2.6m**
- **PAT including discontinued operations declined 19.7% to $3.9m**
- **Interim dividend declared at 6c per share fully franked.**
- **PVH Brands Australia joint venture expanded its scope significantly on 3 February 2015 with the acquisition of the Tommy Hilfiger, Van Heusen, Nancy Ganz and other shirting, tailored and shapewear businesses.**

Commentary on Results

Continuing Operations

Despite ongoing economic uncertainties and the impact on the Australian market, Gazal announced sales revenue for continuing operations of $114.1 million for the six months to 31 December 2014, an increase of 9.2% on the prior period. After-tax profit for continuing operations was up 78.9% to $2.6 million which was ahead of guidelines provided to Shareholders in August last year.

Revenue in the direct-to-consumer segment increased by 11.7% to $94.3 million primarily due to new outlets which grew by 4 to 34. Like-for-like sales growth in the direct-to-consumer segment for the 6 months was flat. The higher sales, improved margins and strict cost control drove higher earnings in this segment which increased by 128%.

The wholesale segment recorded slightly improved sales in the first six months driven by the successful development of new product ranges in the workwear and uniform business. The investments in new product development and testing have impacted profitability in the first six months. However, it is expected that as a result, sales will increase in the second half of the year and this will offset the majority of these costs.

On 3 February 2015, the joint venture ("JV") with PVH Corp ("PVH") was significantly expanded through the acquisition of the existing Tommy Hilfiger business in Australia from PVH and the sale by Gazal to the JV of Van Heusen, Nancy Ganz and other shirting, tailored and shapewear brands. As a consequence of the JV's expansion, the financial results for Gazal to 31 December are disclosed for continuing operations only.

Events Occurring After Balance Date

1. - Expansion of PVH Brands Australia Joint Venture

The PVH Brands Australia joint venture ("JV") initially brought together the Calvin Klein Underwear and Calvin Klein Jeans businesses in Australia and New Zealand. On 3 February 2015, the JV with PVH Corp ("PVH") was significantly expanded through the acquisition of the existing Tommy Hilfiger business in Australia from PVH and the sale by Gazal to the JV of Van Heusen, Nancy Ganz and other shirting, tailored and shapewear brands.

The JV not only gives the Company a unique partnership with one of the world's leading apparel powerhouses in PVH, but it also achieves longevity on global megabrands such as Calvin Klein, Tommy Hilfiger and Van Heusen.

As part of the sale of existing businesses to the JV, Gazal will recognise proceeds of $33.6m which it will re-invest into the JV in addition to contributing a further $11.9m of working capital. In return, Gazal will subscribe for shares totalling $45.5m which will match the contribution and valuation of the Tommy Hilfiger business made by PVH. As a result, Gazal will increase its investment in the JV to a total of $51.9m for its 50% share before transaction costs.

In the six months to 31 December 2014, the Van Heusen, Nancy Ganz and other shirting, tailored and shapewear brands being sold to the JV generated a net profit after tax of $1.7 million. Going forward, Gazal will share 50% of the profits of the JV in addition to generating further revenue from the provision of corporate services and logistics support.

2. – Sale of Midford Schoolwear division

In line with recent statements to focus on the Group's forward strategy and consider strategic opportunities to grow shareholder value, Gazal recently announced that it had entered into an agreement to sell its Midford Schoolwear business to schoolwear specialist Georges Apparel and associated entities. Although the business will not formally transfer to Georges Apparel until 30 June 2015, the extended period from exchange of contracts to the eventual handover in June was agreed between the parties in order to facilitate as smooth a changeover as possible.

Subject to final adjustments, Gazal expects to receive sale proceeds for the business of approximately $10.1 million to $11.1million and consideration expected to be received of approximately $5.1 million.

Dividend declaration

Given the first half's earnings including discontinued operations declined by 19.7% and EPS declined to 6.8c per share, the Directors believe it is prudent to reduce the interim dividend payment in the first half to 6.0c per share fully franked. The record date for determining shareholders' entitlement for the interim dividend is 13th March, 2015 and the interim dividend is payable on 2nd April, 2015. The Dividend Reinvestment Plan will not apply to the interim dividend.

Outlook

In the second six months of FY15, Gazal will recognise profits on the continuing operations, the profits on sale of the discontinued operations in addition to the share of profits and other services revenue from the JV.

<u>1. - Operating results of continuing operations</u>

We expect the challenging market conditions in the Australian retail and work-wear sectors to continue. However, second half to date sales performance has been stronger in the direct-to-consumer segment and together with the profit improvement seen in the first half, should this continue, underlying earnings for continuing operations will be improved compared to last year.

<u>2. – Consideration expected to be received on sale of discontinued businesses</u>

In line with guidance provided to shareholders in December 2014, the impact of the expansion of the PVH Brands Australia JV from the sale of Van Heusen, Nancy Ganz and other shirting, tailored and shapewear brands will contribute an additional consideration of between $20.8 million and $21.8 million, in the second half of FY15. In addition, the sale of the Midford operations will generate additional consideration expected to be received of $5.1 million on the sale of this discontinued operation.

It is expected that previously unrecognised tax losses will be available to offset against the capital gains from these two divestments. It is estimated that in total, the consideration expected to be received after tax of between $23.5 - $24.5 million will be generated in the second half of FY15 depending on final transaction costs.

<u>3. – Share of profits from JV and other services revenue</u>

In addition to the existing Calvin Klein businesses, the share of JV profits and other services revenue in the second half of FY15 will include the Van Heusen, Shapewear and Tommy Hilfiger (“TH”) operations as well as other shirting, tailored and shapewear brands. In the first five months of operations, the JV will focus on the consolidation of the TH operations into the overall Gazal shared services platform and progress the development of new product categories including the Tommy Hilfiger Tailored Category and Calvin Klein Women’s accessories.

We expect that the combined share of profits and other services revenue of the Van Heusen, Shapewear and other brands to be in line with the contribution in the first 6 months of FY15. Despite the expected transition and integration costs for TH, we also expect the TH business will contribute positively in the second half of FY15.

For further information please contact the Company Secretary, Peter Wood on +61 2 9316 2801.
Based in Sydney and listed on the Australian Securities Exchange, Gazal is a leading apparel supplier and retailer in Australasia, marketing both company owned and licensed brand names such as Calvin Klein, Van Heusen, Bisley, Nancy Ganz, HoldmeTight, Bracks, Midford and Trade Secret.