

GAZAL CORPORATION LIMITED

**CHAIRMAN'S ADDRESS
DELIVERED BY
MR M. GAZAL**

**AT THE TWENTY NINTH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT
3-7 McPHERSON STREET, BANKSMEDOW ON THURSDAY, NOVEMBER 19, 2015 AT 11:30 AM**

The Annual Report for 2015 containing the Financial Statements and Directors' and Auditors' Reports are already in the hands of shareholders and I trust gave a comprehensive review of the Company's operations for the year ended June 30, 2015.

I am pleased to report that for the financial year ended 30th June, 2015 the Group achieved an after-tax profit of \$31.1 million, an increase of 149.9% compared to the previous year. The after-tax profit included profit from ongoing continuing operations, as well as the profit resulting from the sale of businesses during the period or contracted to be sold before the directors signed off on the accounts and these are disclosed as discontinuing operations.

Continuing Operations

The continuing operations during FY2015 consisted of the wholesale group; the 50% share of the Joint Venture established with the US based PVH Group and corporate services income from the PVH JV.

The wholesale division which is made up primarily of the workwear and corporate uniforms business generated revenue of \$50.9m an increase of 11.6% over the previous year mainly as a result of the introduction of new products during the year. Although the wholesale business incurred increased costs as a result of new innovative product development, these costs were largely offset by the higher sales in the second half. The wholesale groups' predominantly imported products were also slightly impacted by the drop in the Australian dollar which while continuing into the 2016 financial year has been offset to a large degree by a significant increase in sales in the first 4 and a half months of the new financial year.

As previously announced, the JV gives the Company a unique partnership with one of the world's leading apparel powerhouses in PVH Corp. As a JV partner, Gazal recognises a 50% share of the JV's profits, as well as revenue from the provision of corporate services and logistics support.

The JV, which commenced operations on 3 February 2014, initially brought together the Calvin Klein Underwear and Calvin Klein Jeans businesses in Australia and New Zealand. Following the most recent acquisition of Gazal's Shirting, Tailored and Shapewear businesses (collectively renamed as Heritage Brands) and the Tommy Hilfiger Australian business, the JV now has a robust stable of key brands which are poised to grow further in the Australian market.

In FY2015, the JV focussed on the integration of the Heritage Brands and Tommy Hilfiger operations into the overall Gazal shared services and logistics platform. A key focus was also the development of new product categories, including Calvin Klein White Label Handbags, Casual Sportswear, Activewear and Women's and Men's Accessories.

Revenue in the JV increased by 486% due to a full 12 months of operations for Calvin Klein Underwear and Calvin Klein Jeans (5 months in 2014) as well as the introduction of Heritage Brands and Tommy Hilfiger in February 2015. In addition, the JV acquired and/or opened 21 stores whilst closing 8 stores during the year. Since year end a further store was opened and another 5 existing stores were either relocated or redeveloped with increased retail space.

Operating margins have been maintained despite the impact of the deteriorating Australian dollar due to higher underlying margins in the new businesses and the mix of overall sales. As a result, of the higher sales and good cost control, the JV's operating profit after tax improved to \$1.8 million (compared to a loss of \$0.6m for FY2014).

Discontinuing Operations

In February 2015, Gazal announced it had entered into an agreement to sell its Midford Schoolwear business to schoolwear specialist Georges Apparel and associated entities. The business was formally transferred to Georges Apparel on 30 June 2015 and Gazal received sale proceeds of \$10.5 million.

Prior to this reporting year, the Direct to Consumer segment was mainly represented by the off-price retail channel Trade Secret. In July 2015, Gazal announced that it had signed an agreement to sell its

Trade Secret 35 stores off-price retail business to The TJX Companies, Inc. and its results are therefore no longer disclosed as "Continuing Operations".

Based in Framingham, Massachusetts, USA, TJX is the leading off-price retailer of apparel and home fashions in the U.S. and worldwide.

On 24 October 2015 the company advised the market that the sale had been completed and gross proceeds from the sale of shares of the Trade Secret entity were \$80 million on a cash and debt free basis. As part of the transaction the company has agreed to provide transitional services to TJX for up to two years which will include financial, administrative and IT management as well as providing office space for a market rent here at the company's Banksmeadow property.

Proposed Distribution to Shareholders

Further to the previous advice to shareholders regarding the surplus proceeds from the sale to TJX, the Directors have determined the best method to distribute the proceeds is by way of two special dividends that will be timed so that both can be fully franked.

Therefore, today the Directors resolved to pay a special dividend of 35 cents per share fully franked. The record date for determining shareholders' entitlement is 11th December, 2015 and the special dividend is payable on 18th December, 2015.

Additionally, subject to there being no adverse developments, the Directors currently intend to pay a second special dividend of 30 to 35 cents per share fully franked early in the new financial year. In the event that another method of distribution is considered by the directors to be more appropriate the shareholders will be informed.

Outlook

Although there has been mixed media commentary on the recent performance of the economy, the first four months trading results for continuing operations, which now comprises of the PVH JV and the Bisley workwear business, have been well ahead of expectations. Therefore, at this stage, provided there is no material adverse change to trading conditions, results for the first half of FY2016 are likely to be well ahead of last year.