ANNUAL REPORT 2012

GAZAL

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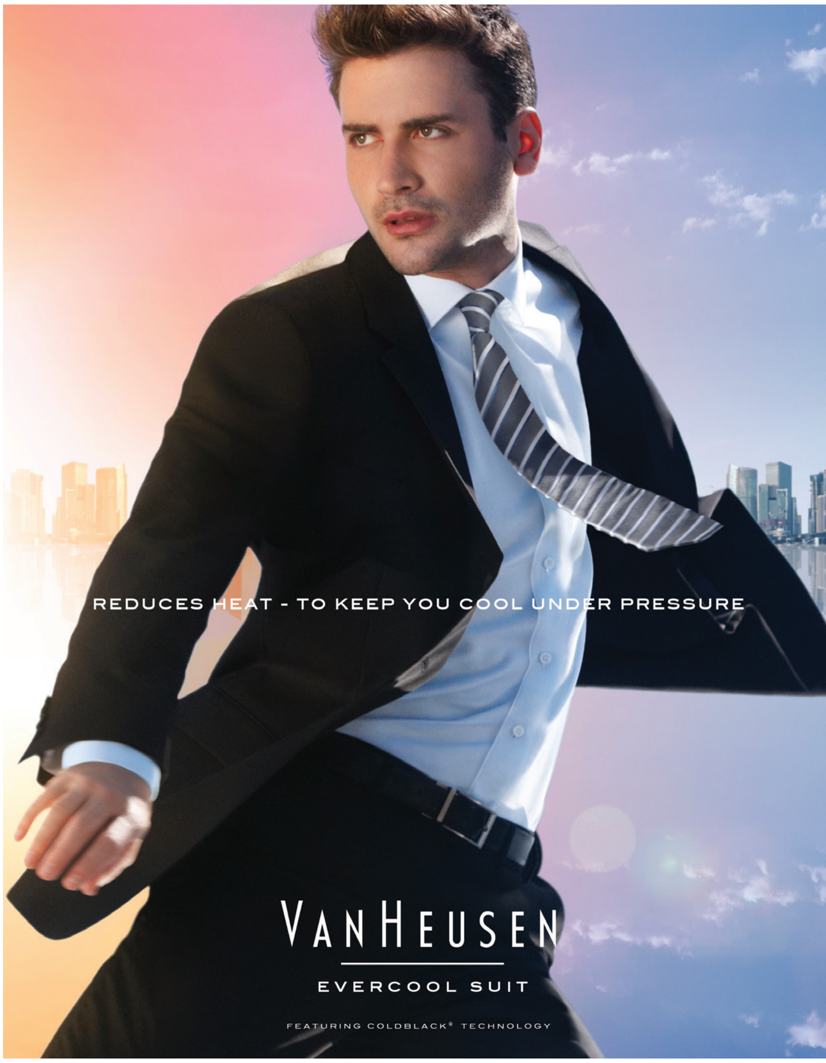
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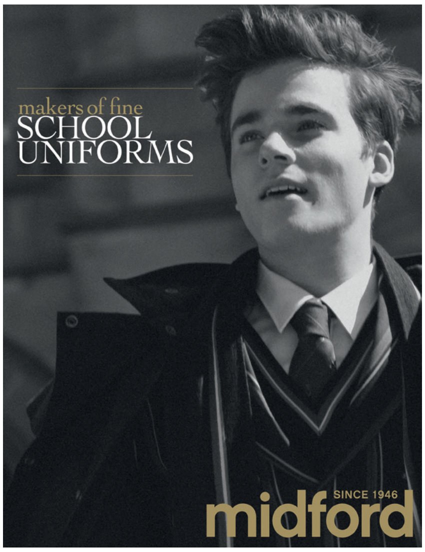
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SPANX
BY SARA BLAKELY
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Gazal Corporation Limited
& its Controlled Entities

Contents

Financial Calendar 2012

Preliminary final report and dividend announcement	8 August
Record date for final dividend	7 September
Final dividend payable	2 October
Annual Report and Notice of Annual General Meeting Mailed to Shareholders	9 October
Annual General Meeting	15 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 15 November 2012 at 11:30am. A formal notice of meeting is enclosed with this Annual Report, setting out the business of the Annual General Meeting.

The Year In Review

The Gazal Corporation Limited Group achieved an after-tax profit for the financial year ended 30th June, 2012 of $11.648 million, an increase of 44% compared to the previous corresponding year.

Trading results

The Gazal Corporation Limited Group recorded sales revenue from continuing operations for the twelve months to 30 June 2012 of $272 million, an increase of 6.7% on the same period last year.

The wholesale segment recorded mixed results. Domestic sales of Bisley Workwear in the period continued to grow compared to the prior year. Whilst Bisley's international sales in FY2011 benefited from the one-time impact of new contracts' commencement orders which were not replicated this year, developing the Workwear business offshore is an ongoing initiative for the Group. Modest sales growth was also achieved in our Schoolwear, Shirting and Calvin Klein underwear/Shapewear wholesale divisions. Profit in the wholesale business was marginally lower compared to last year mainly due to the overall lower sales in the period and some clearance and write-downs of excess inventory which impacted margins.

Revenue increased in the direct-to-consumer segment due to solid performances from the corporate uniform business and our other retail outlets. Better merchandise ranging with improved sell-throughs resulted in lower mark-downs compared to the prior year, which contributed to an improved profit margin in this segment.

Improving working capital management continues to be a key focus for the management team. Cash flows from operating activities in the period were $15.3 million. The improved profit position contributed to this result along with a reduced closing inventory position at 30 June which was $43.3 million compared to $45.6 million at the same time last year.

During this financial year we completed the sale of the Brands United outlet stores and components of the wholesale underwear business including the Lovable and Davenport brands. Divesting these non-core assets has resulted in fewer businesses to run and a simpler structure which allows management to focus their efforts on driving further growth from our core continuing operations. Net cash proceeds from the sale of discontinued businesses in the period were $11.5 million, which has also contributed to the company's improved balance sheet position.

As part of the Company's ongoing capital management objectives, during the financial year a total of 777,532 ordinary shares were bought back and cancelled at a cost of $1.4 million.

Closing net debt as at 30 June 2012 was substantially lower at $19.8 million compared to $30.0 million as at the same time last year.

Dividends

The directors have declared a final dividend of 11 cents per share fully franked compared to the 2011 financial year final dividend of 7 cents per share fully franked. This combined with the interim dividend of 7 cents per share fully franked brings total year dividends to 18 cents per share fully franked, which represents a 38.5% increase on the previous year and a fully franked yield of 9.7% based on today's opening share price. The special dividend of 4 cents per share fully franked paid in April this year was in addition to the interim and final dividends, making total dividends of 22 cents per share fully franked for financial year 2012.

The Directors would like to convey their appreciation to management and staff for their contribution during the year.
We also wish to thank you, our shareholders, for your continuing support.

B. KLATSKY
CHAIRMAN

M.J. GAZAL
MANAGING DIRECTOR

Gazal Corporation Limited
Directors' Report
For the year ended 30 June 2012

Your Directors have pleasure in submitting their report for the year ended 30 June 2012.

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
Bruce Klatsky (Age 64)
Non-Executive Chairman - 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 founding member of LNK Partners, a private equity firm based in New York that specializes in investing in outstanding consumer and retail businesses. In addition, Mr Klatsky is Director Emeritus of the global organisation, Human Rights Watch. He is a member of the Audit and Risk Committee and Chairman of the Remuneration and Nomination Committee.

Michael J. Gazal B.COM. (Age 50)
Managing Director and CEO - Joined the Gazal Group in 1986 after gaining experience in merchant banking and stockbroking. 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 is responsible for the day-to-day management of the Group.

David J. Gazal (Age 44)
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 Sourcing and certain group operating divisions.

Craig Kimberley (Age 71)
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 67)
Non-Executive Director – Previously a partner for twenty three years in Arthur Andersen, Chartered Accountants, retiring from that firm and public practice in July 2001. He is presently a Director of Harvey Norman Holdings Limited, a position he has held since 26 June 2005. He is the Chairman of the Audit and Risk Committee.

Company Secretary
Peter J. Wood CA FICS
Has been the Company Secretary of Gazal Corporation Limited for 25 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.

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
B. Klatsky	1,000,000	-	1,000,000
M.J. Gazal	1,202,211	8,996,600 (1) 1,007,554 (2) 9,546,633 (3)	-
D.J. Gazal	1,139,622	8,996,600 (1) 1,007,554 (2) 9,530,466 (4)	-
C. Kimberley	166,667	681,666	166,667
G. Paton	-	366,666	333,334

1-2 M.J. Gazal and D.J. 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 and D.J. 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.

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
B. Klatsky	7	7	2	2	1	1
M.J. Gazal	7	7	-	-	-	-
D.J. Gazal	7	7	-	-	-	-
C. Kimberley	7	7	2	2	1	1
G. Paton	7	7	2	2	-	-

Principal Activities

The principal activities of Gazal Corporation Limited and its subsidiaries ("the economic entity", "the group" or "the Company") in the course of the financial year were the design, manufacture, importation, wholesale and retail of well known branded apparel and accessories.

Operating and Financial Review

The consolidated profit of the economic entity for the financial year ended 30 June 2012 after income tax was $11,648,000. This represents a 44.4% increase on the 2011 result of $8,064,000. Refer to "The Year In Review".

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 2011 (7c per share) as declared in the 2011 Directors' report paid 4 October 2011	4,006
Interim fully franked dividend for 2012 (7c per share) paid 2 April 2012	3,967
Special fully franked dividend for 2012 (4c per share) paid 2 April 2012	2,267
Final fully franked dividend for 2012 (11c per share) as recommended and declared by the Directors, payable 2 October 2012	6,228

Review of Operations

A review of operations of the economic entity and the results of those operations is contained in "The Year In Review".

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

Other than the appointment of Mr. Patrick Robinson on 13 August 2012 as the Chief Executive Officer, there are no matters or circumstances that have arisen since 30 June 2012 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.

Likely Developments and Expected Results

The Directors have excluded from this report 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.

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 2012.

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 20 of the financial statements and form part of this report.

Indemnification and Insurance of Directors and Officers

Insurance arrangements established in the previous year concerning officers of the economic entity were renewed during 2012.

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.

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.

Details of key management personnel

(i) Directors	
B. Klatsky	Chairman (Non-Executive)
M.J. Gazal	Managing Director. Chief Executive Officer until 13 August 2012
D.J. Gazal	Executive Director and General Manager - Sourcing & Certain operating divisions
C. Kimberley	Director (Non-Executive)
G. Paton	Director (Non-Executive)
(ii) Executives	
P. Robinson	Chief Executive Officer - appointed 13 August 2012
C. Barnett	Chief Operating Officer
R. Gazal	General Manager – Retail
D. Coghlan	Chief Financial Officer- retired 31 August 2012
G. Griffiths	Chief Financial Officer- appointed 2 July 2012
P. Wood	Company Secretary

Other than the appointment of Mr G Griffiths, Mr P Robinson and retirement of Mr D Coghlan, 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 FY11 AGM

The FY 11 remuneration report received positive shareholder approval at the FY11 AGM with a vote of 96% in favor.

Remuneration Report (audited) continued

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.

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.

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 Group 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 2012 is detailed in the Table on page 13 of this report.

Remuneration Report (audited) continued

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.

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 Mr. M J Gazal and Mr. D J Gazal and the CEO are provided on page 12.

Approach to setting remuneration

The executive remuneration framework in FY 12 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

External advice on the new CEO's contract was provided by the company's legal and tax advisers having regard to market practices as well as considering the particular circumstances of the company.

The following summarises the MD, CEO's and executives' target remuneration mix between fixed and variable remuneration.

	Target Fixed remuneration	Target Variable remuneration
MD (previously CEO)	50%	50%
CEO	60%	40%
Other executives	50-80%	20-50%

Remuneration Report (audited) continued

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 13.

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 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 2011 and 2012 financial years

The entire STI cash bonus of $1,130,094 for the 2011 financial year as accrued in the previous period vested to executives was paid in the 2012 financial year. The Remuneration and Nomination Committee has approved the STI payments for the 2012 financial year of $734,668 which were accrued at June 2012. 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 2013 financial year. The STI bonus plan was amended in 2009 to align financial targets to the Company's budget in that year.

Remuneration Report (audited) continued

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

The variable remuneration component of executives is detailed in the Table on pages 13.

There were no bonuses forfeited in the year ended 30 June 2012 or 30 June 2011.

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"). LTI grants are made to executives at the discretion of the Board. The most recent SOP was approved by shareholders at the Annual General Meeting held in November 2005.

There are no performance conditions linked to LTI's. Directors consider the alignment of shareholder value and executive performance is achieved by linking optimal executive variable LTI remuneration to increases in the company share price.

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

Post year end the Board appointed Patrick Robinson as CEO. As part of his long LTI-PR plan, subject to shareholder approval at the next AGM, he will be offered a maximum of 1,280,000 performance rights.

The performance rights are eligible to vest in equal tranches over the next four years, subject to performance targets which are linked to growth in the Company's Profit after Tax from continuing operations ("PAT"). The extent to which tranches vest will be dependent on the extent to which PAT growth exceeds minimum growth targets.

The full details regarding Mr Robinson's proposed LTI package will be provided in the 2012 Notice of AGM.

Remuneration Report (audited) continued

Employment contracts

Managing Director

The MD, Mr. Michael J Gazal, is employed under a contract. Mr Gazal was CEO from 1 July 2011 to 13 August 2012. 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. 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. Gazal's remuneration).

CEO

The CEO, Mr. Patrick Robinson appointed 13 August 2012, 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 months 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. Robertson's remuneration).

Other Executives

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

All 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.

Remuneration Report (audited) continued

Directors and Executives Remuneration for the year ended 30 June 2012

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

		Short term benefits				Post Employment		Long-term benefits	Share based payment	Total	Performance related %
Directors	Year	Salary & Fees	Cash Bonus (a)	Non Monetary benefits	Other	Superannuation	Retirement benefits	Long Service Leave	LTI Options		
B. Klatsky	**2012**	**145,287**	**-**	**-**	**-**	**-**	**-**	**-**	**48,154**	**193,441**	**24.89**
Chairman	2011	151,317	-	-	-	-	-	-	103,021	254,338	40.51
M.J. Gazal	**2012**	**586,500**	**236,533**	**-**	**32,895**	**25,000**	**-**	**9,774**	**-**	**890,702**	**26.56**
Chief Executive	2011	486,500	204,844	-	34,169	25,000	-	8,107	-	758,620	27.00
D.J. Gazal	**2012**	**307,500**	**142,717**	**-**	**33,098**	**25,000**	**-**	**5,124**	**-**	**513,439**	**27.80**
Executive	2011	285,000	406,500	-	35,278	25,000	-	4,750	-	756,528	53.73
C. Kimberley	**2012**	**75,000**	**-**	**-**	**-**	**7,500**	**-**	**-**	**24,077**	**106,577**	**22.59**
Non- executive	2011	75,000	-	-	-	7,500	-	-	51,510	134,010	38.44
G. Paton	**2012**	**85,000**	**-**	**-**	**-**	**8,500**	**-**	**-**	**24,077**	**117,577**	**20.48**
Non- executive	2011	85,000	-	-	-	8,500	-	-	51,510	145,010	35.52
Total Directors	**2012**	**1,199,287**	**379,250**	**-**	**65,993**	**66,000**	**-**	**14,898**	**96,308**	**1,821,736**	
	2011	1,082,817	611,344	-	69,447	66,000	-	12,857	206,041	2,048,506	

		Short term benefits				Post Employment		Long-term benefits	Share based payment	Total	Performance related %
Key Management Personnel	Year	Salary & Fees	Cash Bonus (a)	Non Monetary benefits	Other	Superannuation	Retirement benefits	Long Service Leave	LTI Options		
C. Barnett	**2012**	**307,500**	**280,418**	**-**	**31,209**	**25,000**	**-**	**5,125**	**-**	**649,252**	**43.19**
Chief Operating Officer	2011	307,500	348,750	-	27,130	25,000	-	5,125	-	713,505	48.88
R. Gazal	**2012**	**275,000**	**-**	**-**	**27,591**	**25,000**	**-**	**4,583**	**-**	**332,174**	**-**
General Manager - Retail	2011	260,000	-	-	29,327	25,000	-	4,344	-	318,671	-
D. Coghlan	**2012**	**272,500**	**-**	**9,155**	**2,938**	**27,250**	**225,000**	**4,541**	**-**	**541,384**	**-**
Chief Financial Officer	2011	260,000	110,000	7,193	2,278	26,000	-	4,333	-	409,804	26.84
P. Wood	**2012**	**220,000**	**75,000**	**16,868**	**3,554**	**32,570**	**-**	**3,666**	**-**	**351,658**	**21.33**
Company Secretary	2011	210,000	60,000	9,277	2,968	31,161	-	3,500	-	316,906	18.93
Total Executive KMP	**2012**	**1,075,000**	**355,418**	**26,023**	**65,292**	**109,820**	**225,000**	**17,915**	**-**	**1,874,468**	
	2011	1,037,500	518,750	16,470	61,703	107,161	-	17,302	-	1,758,886	

(a) Cash bonuses are payable subsequent to 30 June 2012

Notes:

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 20 of the financial statements.

Remuneration Report (audited) continued
Remuneration Options: Granted and Vested (audited)

There were no options granted to KMP's in either FY11 or FY12 however, during FY 2010 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 20. (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 June 2012	Granted No	Grant Date	Fair Value per Option at Grant Date (cents)	Vesting Date	No. vested during the year	No. of options lapsed during the year	No. of options vested but not exercised
Directors							
B.Klatsky	333,333	10/12/2009	21.7	10/12/2010	-	-	333,334
C. Kimberley	166,667	10/12/2009	21.7	10/12/2010	-	-	-
G. Paton	166,667	10/12/2009	21.7	10/12/2010	-	-	-
B.Klatsky	333,334	10/12/2009	24.8	10/12/2011	333,334	-	333,334
C. Kimberley	166,667	10/12/2009	24.8	10/12/2011	166,667	-	-
G. Paton	166,667	10/12/2009	24.8	10/12/2011	166,667	-	166,667
B.Klatsky	333,334	10/12/2009	26.7	10/12/2012	-	-	-
C. Kimberley	166,667	10/12/2009	26.7	10/12/2012	-	-	-
G. Paton	166,667	10/12/2009	26.7	10/12/2012	-	-	-

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

As indicated above there were no options granted to KMP's in either FY11 or FY12. Details of the value of options not previously exercised that were exercised and lapsed during the year are as follows.

30 June 2012	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
Directors							
B.Klatsky	10/12/2009	333,333	21.7	-	-	-	24.89
B.Klatsky	10/12/2009	333,334	24.8	-	-	-	24.89
C. Kimberley	10/12/2009	166,667	24.8	70,000	-	70,000	22.59
G. Paton	10/12/2009	166,667	24.8	-	-	-	20.48
B.Klatsky	10/12/2009	333,334	26.7	-	-	-	24.89
C. Kimberley	10/12/2009	166,667	26.7	-	-	-	22.59
G. Paton	10/12/2009	166,667	26.7	-	-	-	20.48

Remuneration Report (audited) continued

Shares issued on exercise of remuneration options (audited)

30 June 2012	Shares issued Number	Paid $ per share	Unpaid $ per share	30 June 2011	Shares issued Number	Paid $ per share	Unpaid $ per share
Directors				**Directors**			
C. Kimberley	166,667	1.33	-	C. Kimberley	166,666	1.33	-
				G. Paton	166,666	1.33	-

Shares buy back and share price

As part of the Company's ongoing capital management objectives, during the financial year a total of 777,532 ordinary shares were bought back and cancelled at a cost of $1.4 million.

The company's share price movement on the ASX for the last three financial year ends is as follow:-
30 June 2010 $1.59
30 June 2011 $2.00
30 June 2012 $1.75

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES
The directors received a declaration from the auditor of Gazal Corporation Limited, refer to page 16.

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	63,500

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

Signed for and on behalf of the Directors

B. Klatsky
Chairman

M.J. Gazal
Managing Director

Dated at Sydney the 7th day of September 2012.

Ernst & Young

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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 2012, 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
7 September 2012

Gazal Corporation Limited

Statement of Corporate Governance Practices

For the year ended 30 June 2012

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 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.
- 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 3 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.

Structure of the Board (continued)
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 asterix below, representing a majority of directors, are considered to be independent:

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

Messrs MJ Gazal and DJ Gazal are not considered to be independent as their family interests have a majority ownership of the Gazal Corporation Limited as indicated on page 92 of the shareholder information in this annual report.

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

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a Director, employee or other person subject to ultimate responsibility of the Directors under the *Corporations Act 2001.*The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office	Name	Term in office
B. Klatsky	3 years	M.J. Gazal	26 years
C. Kimberley	8 years	D.J. Gazal	13 years
G.Paton	6 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, Managing Director 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.

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 on pages 7 to 15 and Note 32 to the Financial Statements.

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 Committee Members

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

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 Managing Director, 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 27 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 organizational structure with clearly drawn lines of accountability and delegation of authority. Matters reserved for the Board are set out in the Board Charter which is available on the company's web site.

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

Code of Conduct

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

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

Code of Conduct (Continued)
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.

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.

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.

Diversity at Gazal (Continued)

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.

Objectives	**Steps taken/Outcomes**
Increase the number of women in senior management positions.	At 30 June 2012, women represented 79% of the Group's workforce (2011: 65%). During the year women were appointed to 49 Senior manager or Manager positions. For the 2013 year the Group's target is to maintain overall female representation at present levels within the Group's workforce with women in 58% of manager and senior manager positions.
To review any gender pay gaps in the retail divisions.	During the year the HR department undertook a detailed analysis of any areas of disparity in pay rates and made appropriate changes.
To provide more flexibility in work arrangements.	During the year Gazal employed and or allowed an existing 9 workers to move to flexible work arrangements (2011: 5) These flexible work arrangements included working more days at home or working less hours.
To provide study training incentives for employees completing tertiary qualifications in their chosen career.	During the year the company continued to assist 2 employees with study incentives and are discussing the program with a further 3 employees.
To promote a culture that treats the workforce with fairness and respect.	One of Gazal's company core values is that we respect each other and as such there is no tolerance for discrimination against any employees.

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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 2012, the consolidated income statement, 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 judgement, 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 2012 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 in pages 7 to 15 of the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Gregory J Logue
Partner
Sydney
7 September 2012

Gazal Corporation Limited

Directors' Declaration

For the year ended 30 June 2012

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 2012 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 29 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 2012.

On behalf of the Board

B. Klatsky
Chairman

M.J. Gazal
Managing Director

Dated at Sydney the 7th day of September 2012.

Gazal Corporation Limited

Income Statement

For the year ended 30 June 2012

	Notes	Consolidated Year ended **30 June 2012** $'000	Consolidated Year ended 30 June 2011 Restated $'000
Continuing operations			
Sales revenue	4	272,037	254,932
Cost of sales		(145,318)	(138,856)
Gross profit		126,719	116,076
Other revenues	4	1,072	507
Selling and marketing expenses		(75,182)	(68,835)
Distribution expenses		(12,996)	(12,428)
Administration expenses		(19,314)	(19,146)
Finance costs		(2,298)	(2,324)
Profit before income tax from continuing operations		**18,001**	**13,850**
Income tax expense	5	(5,588)	(4,366)
Profit after tax from continuing operations		**12,413**	**9,484**
Discontinued operations			
Profit/(loss) after tax from discontinuing operations	6	(765)	(1,420)
Net profit for the year		**11,648**	**8,064**
Net profit for the year is attributable to: Owners of the parent		**11,648**	**8,064**
Earnings per share (cents per share)			
Basic for profit for the year	7	20.5	13.6
Basic for profit from continuing operations	7	21.9	16.0
Diluted for profit for the year	7	20.4	13.4
Diluted for profit from continuing operations	7	21.7	15.8

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

Gazal Corporation Limited

Statement of Comprehensive Income

For the year ended 30 June 2012

		Consolidated	
		Year ended	Year ended
		30 June 2012	30 June 2011
	Notes	$'000	$'000
Profit after tax for the year		**11,648**	**8,064**
Other comprehensive income			
Cash flow hedges:			
Gain/(loss) taken to equity		(42)	(3,121)
Transferred to statement of financial position		3,078	(2,453)
Fair value revaluation of land and buildings		123	1,065
Income tax on items of other comprehensive income		(948)	1,353
Other comprehensive income for the year, net of tax		**2,211**	**(3,156)**
Total comprehensive income for the year		**13,859**	**4,908**
Total comprehensive income for the year is attributable to:			
Owners of the parent		13,859	4,908

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

Gazal Corporation Limited
Statement of Financial Position
As at 30 June 2012

	Notes	Consolidated As at **30 June 2012** $'000	Consolidated As at 30 June 2011 $'000
Current assets			
Cash and cash equivalents	25(a)	11,006	16,045
Trade and other receivables	9	14,781	16,483
Inventories	10	43,334	45,575
Derivative financial instruments	28	282	143
Other current assets	11	2,737	4,249
		72,140	82,495
Assets of disposal group classified as held for sale	6	-	6,989
Total current assets		72,140	89,484
Non-current assets			
Property, plant and equipment	12	55,807	58,457
Intangible assets	13	15,050	18,875
Deferred tax assets	5	4,375	5,331
Other non-current assets	14	158	533
Total non-current assets		75,390	83,196
Total assets		**147,530**	**172,680**
Current liabilities			
Trade and other payables	15	30,146	38,301
Derivative financial instruments	28	182	3,080
Interest-bearing loans and borrowings	16	783	16,000
Income tax payable		1,990	3,025
Provisions	17	5,307	4,853
		38,408	65,259
Liabilities directly associated with the assets classified as held for sale	6	-	850
Total current liabilities		38,408	66,109
Non-current liabilities			
Interest-bearing loans and borrowings	18	30,000	30,000
Provisions	19	703	547
Deferred tax liabilities	5	8,864	8,988
Total non-current liabilities		39,567	39,535
Total liabilities		**77,975**	**105,644**
Net assets		**69,555**	**67,036**
Equity			
Contributed equity	20	61,536	62,705
Reserves	21	20,348	18,068
Accumulated losses	22	(12,329)	(13,737)
Total Equity		**69,555**	**67,036**

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 2012

		Consolidated	
		Year ended	Year ended
		30 June 2012	30 June 2011
	Notes	$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		308,003	312,693
Payments to suppliers and employees (inclusive of GST)		(283,653)	(286,367)
Interest and bill discounts received		105	51
Interest and other costs of finance paid		(2,381)	(2,721)
Income taxes paid		(6,793)	(4,202)
Net cash flows from operating activities	25(b)	**15,281**	**19,454**
Cash flows from investing activities			
Purchases of property, plant and equipment		(3,303)	(10,203)
Proceeds from sale of buildings, plant and equipment		157	231
Purchase of intangibles		(2,071)	(2,495)
Proceeds from disposal of discontinued operations		11,523	3,672
Net cash flows from/(used) in investing activities		**6,306**	**(8,795)**
Cash flows from financing activities			
Proceeds from share issue		222	443
Payment for share buy back		(1,391)	(7,148)
Proceeds from borrowings		12,283	24,000
Repayment of borrowings		(27,500)	(10,424)
Dividends paid		(10,240)	(7,797)
Net cash flows used in financing activities		**(26,626)**	**(926)**
Net increase/(decrease) in cash and cash equivalents		(5,039)	9,733
Cash and cash equivalents at the beginning of the period		16,045	6,308
Net foreign exchange differences		-	4
Cash and cash equivalents at the end of the year	25(a)	**11,006**	**16,045**

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 2012

	Consolidated						
	Attributable to shareholders of Gazal Corp Ltd						
	Issued Capital $'000	Asset Revaluation Reserve $'000	Asset Realisation Reserve $'000	Employee Equity Benefit Reserve $'000	Cash Flow Hedge Reserve $'000	Accumulated Losses $'000	Total Equity $'000
At 1 July 2011	62,705	19,143	562	418	(2,055)	(13,737)	67,036
Profit for the year	-	-	-	-	-	11,648	11,648
Other comprehensive income	-	86	-	-	2,125	-	2,211
Total comprehensive income for the year	-	86	-	-	2,125	11,648	13,859
Transactions with owners in their capacity as owners:							
Cost of share-based payments	-	-	-	69	-	-	69
Share buy back	(1,391)	-	-	-	-	-	(1,391)
Exercise of options	222	-	-	-	-	-	222
Equity dividends	-	-	-	-	-	(10,240)	(10,240)
At 30 June 2012	**61,536**	**19,229**	**562**	**487**	**70**	**(12,329)**	**69,555**
At 1 July 2010	69,410	18,398	562	164	1,846	(14,004)	76,376
Profit for the year	-	-	-	-	-	8,064	8,064
Other comprehensive income	-	745	-	-	(3,901)	-	(3,156)
Total comprehensive income for the year	-	745	-	-	(3,901)	8,064	4,908
Transactions with owners in their capacity as owners:							
Cost of share-based payments	-	-	-	254	-	-	254
Share buy back	(7,148)	-	-	-	-	-	(7,148)
Exercise of options	443	-	-	-	-	-	443
Equity dividends	-	-	-	-	-	(7,797)	(7,797)
At 30 June 2011	**62,705**	**19,143**	**562**	**418**	**(2,055)**	**(13,737)**	**67,036**

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 2012

1 CORPORATE INFORMATION

The annual financial report of Gazal Corporation Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 5 September 2012.

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, share-based payments, and certain intangibles held for sale, 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.

Statement of compliance (continued)

New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the impacts of the new accounting standards and interpretations presented below.

Reference	Title	Application date of standard	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures	1 July 2011	1 July 2011
AASB 2010-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	1 January 2011	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	1 January 2011	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	1 July 2011	1 July 2011

(ii) 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 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).	1 July 2012	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2012
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124.	1 July 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013

Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	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. 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. (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. (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. (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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss 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. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11	1 January 2015	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2015

Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities*. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB128.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013

Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013
Annual Improvements 2009–2011 Cycle ****	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) 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. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards • Repeated application of IFRS 1 • Borrowing costs IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment • Classification of servicing equipment IAS 32 Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013

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.

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 (continued)

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,
- 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".

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) Transaction 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.

Comparatives

Certain amounts for 30 June 2011 have been restated to reflect the discontinued operations as detailed in Note 6.

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.

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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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 balance sheet.

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:

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. Retail product is valued using standard costs.

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.

Property, plant and equipment (continued)

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.

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 balance sheet 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.

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 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.

Intangible assets (continued)

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.

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.

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.

Collectibility 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.

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.

Derivative financial instruments and hedging (continued)

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.

Share-based payment transactions

The Group provides benefits to certain employees (including directors) of the Group in the form of share options, whereby employees render services in exchange for options 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 Share Option Plan was established in 2005 to provide benefits to eligible participants as determined by the board. In valuing equity-settled transactions, account is taken of performance conditions as indicated in note 20, in this case a profitability hurdle. 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 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.

Revenue recognition (continued)

(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.

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. 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;
(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.

(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.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the assets (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

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 13.

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 12.

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 STI's assessed and allocated to each executive who is deemed to have met their performance target.

Stock Obsolescence Provision
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.

Classification of assets and liabilities as held for sale
The Group classifies assets and liabilities as held for sale when the carrying amount will be recovered through a sale transaction. The assets and liabilities must be available for immediate sale and the Group must be committed to selling the asset either through the entering into a contractual sale agreement or the activation and commitment to a program to locate a buyer and dispose of the assets and liabilities.

4 REVENUES AND EXPENSES

	Note	Consolidated Year ended **30 June 2012** $'000	Year ended 30 June 2011 Restated $'000
Revenue and Expense from Continuing Operations			
(i) Revenue			
Sales revenue		272,037	254,932
Other revenue			
Interest revenue		104	46
Royalty revenue		199	154
Foreign exchange gain		337	-
Other		432	307
Total other revenue		1,072	507
Total revenue		**273,109**	**255,439**
(ii) Expenses and losses			
Depreciation, amortisation and impairment			
Depreciation of buildings		394	316
Depreciation of plant and equipment		3,938	4,112
Depreciation of leasehold improvements		1,553	1,491
Amortisation of intangible		389	389
Amortisation of software		1,176	1,225
		7,450	7,533
Employee benefit expense			
Wages and salaries		37,262	33,976
Defined contribution superannuation expense		3,203	2,866
Employee entitlements		3,142	2,708
Share-based payments		69	254
		43,676	39,804
Borrowing costs - Interest expenses to other persons		2,298	2,324
Bad & doubtful debts		120	52
Operating lease rentals		13,216	10,905
Provision for inventories obsolescence		1,303	1,919
Foreign exchange loss		-	628
Net loss on disposal of non-current assets		14	43

5 INCOME TAX

(a) Income tax expense

The major components of income tax expense are:

	Note	Consolidated Year ended **30 June 2012** $'000	Consolidated Year ended 30 June 2011 $'000
Income Statement			
Current income tax			
Current income tax charge		5,760	5,546
Adjustments in respect of current income tax of previous years		(3)	(116)
Deferred income tax			
Relating to origination and reversal of temporary differences		(144)	(276)
Income tax expense reported in the income statement		5,613	5,154

(b) Amounts charged or credited directly to equity

Deferred income tax related to items charged or credited directly to equity		
Net gain/(loss) on cash flow hedges	911	(1,672)
Net gain on revaluation of buildings	37	319
Income tax expense reported in equity	948	(1,353)

(c) Numerical reconciliation between aggregate Tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before tax from continuing operations	18,001	13,850
Profit/(loss) before tax from discontinued operations	(740)	(632)
Accounting profit before income tax	17,261	13,218
At statutory income tax rate of 30% (2011: 30%)	5,178	3,965
Amortisation of Intangibles	117	117
Entertainment expenses	50	53
Effect of higher rates of tax on overseas income	(1)	-
Impairment of intangibles	119	951
Profit on sale of intangibles	(11)	(56)
Unrecovered tax losses	(58)	(19)
Other items	260	259
Amounts under/(over) provided in prior years	(41)	(116)
Total income tax attributable to operating profit	**5,613**	**5,154**
Income tax reported in the consolidated income statement	5,588	4,366
Income tax attributable to discontinued operations	25	788
	5,613	**5,154**

5 INCOME TAX (continued)

(d) Recognised deferred tax assets and liabilities

Deferred income tax at 30th June relates to the following:

		Statement of Financial Position		Income Statement	
		Year ended	Year ended	Year ended	Year ended
		30 June 2012	30 June 2011	**30 June 2012**	30 June 2011
	Note	$'000	$'000	$'000	$'000
CONSOLIDATED					
Deferred tax liabilities					
Revaluation of land and buildings to fair value		(7,930)	(7,945)	(52)	(28)
Accelerated amortisation of industrial designs for tax purposes		-	(19)	(19)	-
Accelerated amortisation/depreciation for tax purposes		(849)	(898)	(49)	397
Derivative asset/other		(85)	(126)	(126)	(12)
		(8,864)	(8,988)	(246)	357
CONSOLIDATED					
Deferred tax assets					
Accelerated depreciation for book purposes		34	-	(34)	-
Software development expenses for book purposes		311	316	5	28
Unrealised foreign exchange gains		1	117	116	(77)
Provisions for employee benefits		1,803	1,683	(148)	(97)
Other provisions not deductible		304	368	64	(138)
Provisions relating to inventory		930	1,021	91	(110)
Doubtful debts		80	54	(26)	10
Accrual for rent free period		683	746	63	(278)
Prepayments/other		10	1	(9)	2
Uplift to retail stock value		164	144	(20)	27
Derivative liability		55	881	-	-
		4,375	**5,331**	**102**	**(633)**

(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 $7,318,000. 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.

5 INCOME TAX (continued)

(f) Tax consolidation

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

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

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

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

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated 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 DISCONTINUED OPERATIONS

Following a strategic decision to place more emphasis on core activities, the Group entered into agreements to sell components of its wholesale and retail underwear businesses during the six months to December 2011. Included with the wholesale underwear sale were the Lovable, Crystelle and Fineform brands which were not classified as held for sale at 30 June 2011.

The disposals were largely concluded under sale contracts with two separate parties dated 31st August and 14th October 2011 respectively. The Davenport brand together with the brands mentioned above were sold with the wholesale underwear business. The Group recognised an impairment charge of $397,000 compared with book value during the six months to December 2011 with respect to these businesses. An impairment charge has been included in the profit/loss from discontinued operations in the income statement (see below). The Group recorded a loss on sale after tax of discontinued operations of $334,000 which is also in the income statement below.

The results of the discontinued operations are presented below:

	2012			2011		
	Underwear Operations $'000	Licensing Operations $'000	Total $'000	Underwear Operations $'000	Licensing Operations $'000	Total $'000
Trading						
Sales revenue	5,058	-	5,058	28,533	-	28,533
Other revenue	215	41	256	1	943	944
Cost of sales	(2,163)	-	(2,163)	(13,451)	-	(13,451)
Depreciation and amortisation	(62)	-	(62)	(781)	(2)	(783)
Impairment	(397)	-	(397)	(3,190)	-	(3,190)
Employees benefit expenses	(1,518)	-	(1,518)	(4,979)	(11)	(4,990)
Finance costs	(96)	-	(96)	(393)	-	(393)
Other expenses	(1,331)	(487)	(1,818)	(7,298)	(4)	(7,302)
Profit/(loss) before tax from discontinuing operations	(294)	(446)	(740)	(1,558)	926	(632)
Tax (expense)/benefit	(159)	134	(25)	(566)	(222)	(788)
Profit/(loss) for the year from discontinuing operations	**(453)**	**(312)**	**(765)**	**(2,124)**	**704**	**(1,420)**

	2012 cents	2011 cents
Earnings per share - cents per share:		
- Basic from discontinued operations	(1.3)	(2.4)
- Diluted from discontinued operations	(1.3)	(2.4)

6 DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities at 30th June are as follows:

	2012			2011		
	Underwear Operations $'000	Licensing Operations $'000	Total $'000	Underwear Operations $'000	Licensing Operations $'000	Total $'000
Assets						
Cash and short term deposits	-	-	-	-	-	-
Inventory	-	-	-	2,209	-	2,209
Fixed assets	-	-	-	782	-	782
Intangibles	-	-	-	3,972	-	3,972
Other receivables	-	-	-	26	-	26
Assets classified as held for sale	**-**	**-**	**-**	**6,989**	**-**	**6,989**
Liabilities						
Trade and other payables	-	-	-	638	-	638
Provisions	-	-	-	212	-	212
Classified as held for sale	**-**	**-**	**-**	**850**	**-**	**850**
Net assets attributable to discontinued operations	**-**	**-**	**-**	**6,139**	**-**	**6,139**

Net cash flows of the discontinuing operations are as follows:

	2012				2011			
	Underwear Operations $'000	Licensing Operations $'000	Mambo European Operations $'000	Total $'000	Underwear Operations $'000	Licensing Operations $'000	Mambo European Operations $'000	Total $'000
Operating activities	1,232	(325)	-	907	1,991	834	-	2,825
Investing activities	11,564	15	-	11,579	(17)	3,636	(147)	3,472
Financing activities	-	-	-	-	-	-	-	-
Net cash inflow/(outflow)	**12,796**	**(310)**	**-**	**12,486**	**1,974**	**4,470**	**(147)**	**6,297**

6 DISCONTINUED OPERATIONS (continued)

Assets, liabilities and cash flow information of the underwear business disposed during the year are as follows:

	30 June 2012 $'000
Assets	
Inventory	3,563
Cash and short term deposits	12
Intangibles	7,679
Property, plant and equipment	732
Deferred tax assets	29
Other receivables	205
Other payables	(4)
Provisions	(97)
Net assets attributable to discontinued operations	12,119
Consideration received or receivable	
Cash	11,905
Deposit held in trust	250
Total disposal consideration	12,155
Less net assets disposed	(12,119)
Less incidental payments	(370)
Loss on disposal before income tax	(334)
Income tax expense	-
Loss on disposal after income tax	**(334)**
Net cash inflow on disposal	
Cash and cash equivalents consideration	11,905
Less cash and cash equivalents balance disposed	(12)
Less incidental payments	(370)
Reflected in the consolidated cash flow statement	11,523

7 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 2012** $'000	Consolidated Year ended 30 June 2011 $'000
Net Profit attributable to ordinary equity holders of the parent from continuing operations	12,413	9,484
Profit/(loss) attributable to ordinary equity holders of the parent from discontinuing operations	(765)	(1,420)
Earnings used in calculating basic and diluted earnings per share	**11,648**	**8,064**

	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	56,766,088	59,427,218
Effect of dilutive securities		
Share options	402,057	611,384
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**57,168,145**	**60,038,602**

To calculate earnings per share amounts for the discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit figures for disccontinued operations used as the numerator:

	Consolidated Year ended **30 June 2012** $'000	Consolidated Year ended 30 June 2011 $'000
Profit/(loss) attributable to ordinary equity holders of the parent from discontinuing operations		
- for basic earnings per share	(765)	(1,420)
- for diluted earnings per share	(765)	(1,420)

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

8 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 and our other retail stores sales.

Accounting policies and inter-segment transactions
The accounting polices 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

8 SEGMENT INFORMATION – OPERATING SEGMENTS (continued)

	Wholesale $'000	Direct to Consumer $'000	Unallocated Items $'000	Total $'000
Year ended 30 June 2012				
Revenue				
Sales to external customers	114,306	157,731	-	272,037
Other revenue from external customers	369	71	-	440
Inter-segment sales	7,851	-	-	7,851
Segment revenue	**122,526**	**157,802**	-	**280,328**
Segment net profit before tax	**14,493**	**3,790**	-	**18,283**
includes the following:				
- Interest revenue	9	1	94	104
- Interest expense	-	-	(2,298)	(2,298)
- Depreciation and amortisation	(1,040)	(4,058)	(2,352)	(7,450)
- Other non-cash expenses	(20)	(8)	(92)	(120)
- Discontinued operations before income tax	(736)	(29)	-	(765)
Operating assets	**48,394**	**41,260**	-	**89,654**
Capital expenditure	755	2,273	2,346	5,374
Operating liabilities	**17,105**	**17,314**	-	**34,419**

Restated	Wholesale $'000	Direct to Consumer $'000	Unallocated Items $'000	Total $'000
Year ended 30 June 2011				
Revenue				
Sales to external customers	115,903	139,029	-	254,932
Other revenue from external customers	185	224	-	409
Inter-segment sales	7,324	-	-	7,324
Segment revenue	**123,412**	**139,253**	-	**262,665**
Segment net profit before tax	**15,913**	**1,587**	-	**17,500**
includes the following:				
- Interest revenue	7	-	39	46
- Interest expense	-	-	(2,324)	(2,324)
- Depreciation and amortisation	(1,319)	(3,427)	(2,787)	(7,533)
- Other non-cash expenses	(48)	-	(258)	(306)
- Discontinued operations before income tax	(489)	(931)	-	(1,420)
Operating assets	**56,946**	**45,104**	-	**102,050**
Capital expenditure	694	8,803	1,288	10,785
Operating liabilities	**20,011**	**22,142**	-	**42,153**

8 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 10.4% of external revenue (2011: 12.0%). The next most significant customer accounts for 4.6% (2011: 4.4%) of external revenue.

i) Segment revenue reconciliation to the income statement

	Consolidated	
	30 June 2012	30 June 2011
	$'000	$'000
Reconciliation of segment revenue to the income statement		
Total segment revenue	280,328	262,665
Inter-segment sales elimination	(7,851)	(7,324)
Other revenues from continuing activities	632	98
Total revenue from continuing operations per the income statement	**273,109**	**255,439**

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.

	Consolidated	
	30 June 2012	30 June 2011
	$'000	$'000
Reconciliation of segment net operating profit before tax to net profit before tax		
Segment net operating profit before tax	18,283	17,500
Interest revenue	94	39
Interest expense	(2,298)	(2,324)
Depreciation and amortisation	(2,352)	(2,787)
Other non-cash expenses	(161)	(258)
Over-allocation of corporate overhead to segments	4,435	1,680
Total net profit before tax from continuing operations per the income statement	**18,001**	**13,850**

8 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.

	Consolidated	
	30 June 2012	30 June 2011
	$'000	$'000
Reconciliation of segment operating assets to total assets		
Segment operating assets	89,654	102,050
Intersegment eliminations	(1,374)	(1,446)
Cash at bank	11,006	16,045
Corporate property, plant and equipment	38,009	39,140
Corporate IT software	5,578	4,428
Derivative assets	282	143
Deferred tax assets	4,375	5,331
Assets of disposal group classified as held for sale	-	6,989
Total assets per the statement of financial position	**147,530**	**172,680**

iv) Segment liabilities reconciliation to the statement of financial position

Segment liabilities include trade and other payables. The Group has a centralized 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.

	Consolidated	
	30 June 2012	30 June 2011
	$'000	$'000
Reconciliation of segment operating liabilities to total liabilities		
Segment operating liabilities	34,419	42,153
Intersegment eliminations	(1,374)	(1,446)
Borrowings	30,783	46,000
Income tax payable	1,990	3,025
Provisions	3,111	2,994
Derivative financial instruments	182	3,080
Deferred tax liabilities	8,864	8,988
Liabilities directly associated with assets classified as held for sale	-	850
Total liabilities per the statement of financial position	**77,975**	**105,644**

9 TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Trade receivables	15,046	16,664
Allowance for impairment loss (a)	(265)	(181)
Carrying amount	**14,781**	**16,483**

(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 loss of $84,000 (2011: $33,000 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	181	214
Charge for the year	120	-
Written off	(36)	(33)
At 30 June	265	181

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

	Total	**0-30 Days**	**31-60 Days**	**61-90 Days PDNI***	**61-90 Days**	**+91 Days PDNI***	**+91 Days CI***
2012 Consolidated	15,046	14,168	228	385	-	-	265
2011 Consolidated	16,664	16,172	118	170	-	23	181

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

Receivables past due but not considered impaired are: Consolidated $385,000 (2011: $193,000). 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 29. Loans to wholly owned group entities are repayable on demand.

9 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 27 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 27.

10 INVENTORIES (CURRENT)

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Raw materials and stores, at cost	35	23
Provision for inventory obsolescence	(9)	(1)
Raw materials and stores, net	26	22
Finished goods, at cost	40,577	46,473
Provision for inventory obsolescence	(2,831)	(3,100)
	37,746	43,373
Stock in transit	5,562	2,180
Total inventories	**43,334**	**45,575**

(a) Inventory expenses
Inventories recognised as an expense for the year ended 30 June 2012 totalled $147,481,000 (2011: $152,307,000) for the Group. This expense has been included in cost of sales. The obsolescence expense/net realisable value gain of $267,160 (2011: $348,770 expense) has been included as an expense in the cost of sales.

11 OTHER ASSETS (CURRENT)

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Prepayments	2,356	1,837
Other	381	2,412
Total other current assets	**2,737**	**4,249**

12 PROPERTY, PLANT AND EQUIPMENT

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

	Consolidated			
Year ended 30 June 2012	Land & Building $'000	Leasehold Improvement $'000	Plant & Machinery $'000	Total $'000
At 1 July 2011 net of accumulated depreciation	35,376	8,547	14,534	58,457
Additions	-	392	2,926	3,318
Disposals	-	-	(215)	(215)
Revaluation	123	-	-	123
Depreciation charge for the year	(394)	(1,553)	(3,938)	(5,885)
Reclassification	(15)	-	-	(15)
Others - Currency translation difference	-	11	13	24
Assets included in discontinued operations (note 6)	-	-	-	-
At 30 June 2012 net of accumulated depreciation	35,090	7,397	13,320	55,807
At 30 June 2012				
Cost or fair value	35,090	14,902	37,934	87,926
Accumulated depreciation	-	(7,505)	(24,614)	(32,119)
Net carrying amount	**35,090**	**7,397**	**13,320**	**55,807**

	Consolidated			
Year ended 30 June 2011	Land & Building $'000	Leasehold Improvement $'000	Plant & Machinery $'000	Total $'000
At 1 July 2010 net of accumulated depreciation	34,558	5,431	14,866	54,855
Additions	69	5,013	5,121	10,203
Disposals	-	-	(281)	(281)
Revaluation	1,065	-	-	1,065
Depreciation charge for the year	(316)	(1,598)	(4,662)	(6,576)
Others - Currency translation difference	-	(28)	1	(27)
Assets included in discontinued operations (note 6)	-	(271)	(511)	(782)
At 30 June 2011 net of accumulated depreciation	35,376	8,547	14,534	58,457
At 1 July 2010				
Cost or fair value	34,558	10,158	38,012	82,728
Accumulated depreciation	-	(4,727)	(23,146)	(27,873)
Net carrying amount	**34,558**	**5,431**	**14,866**	**54,855**
At 30 June 2011				
Cost or fair value	35,376	14,570	39,444	89,390
Accumulated depreciation	-	(6,023)	(24,910)	(30,933)
Net carrying amount	**35,376**	**8,547**	**14,534**	**58,457**

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

12 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 2012.

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

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Cost	13,599	13,614
Accumulated depreciation	(4,431)	(4,195)
Net carrying amount	**9,168**	**9,419**

(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 26(c).

13 INTANGIBLE ASSETS

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

	Consolidated					
	Trademarks	Industrial Designs	Goodwill	Finite life Intangible	Software	Total
Year ended 30 June 2012	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2011 net of accumulated amortisation	6,059	87	7,092	939	4,698	18,875
Additions	-	-	-	-	2,071	2,071
Disposal	(4,070)	(30)	-	-	(15)	(4,115)
Amortisation	-	(31)	-	(389)	(1,176)	(1,596)
Reclassification	26	(26)	-	-	-	-
Others - Currency translation difference	-	-	(185)	-	-	(185)
At 30 June 2012 net of accumulated amortisation	**2,015**	**-**	**6,907**	**550**	**5,578**	**15,050**
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)
Net carrying amount	**2,015**	**-**	**6,907**	**550**	**5,578**	**15,050**

Year ended 30 June 2011	Consolidated					
At 1 July 2010 net of accumulated amortisation	7,673	226	14,237	1,328	5,306	28,770
Additions	1,874	-	-	-	621	2,495
Disposal	(3,488)	-	-	-	-	(3,488)
Amortisation	-	(123)	-	(389)	(1,228)	(1,740)
Impairment	-	-	(3,190)	-	-	(3,190)
Assets included in discontinued operations (note 6)	-	(16)	(3,955)	-	(1)	(3,972)
At 30 June 2011 net of accumulated amortisation	**6,059**	**87**	**7,092**	**939**	**4,698**	**18,875**
At 1 July 2010						
Cost (gross carrying amount)	7,673	1,971	14,237	3,996	8,520	36,397
Accumulated amortisation	-	(1,745)	-	(2,668)	(3,214)	(7,627)
Net carrying amount	**7,673**	**226**	**14,237**	**1,328**	**5,306**	**28,770**
At 30 June 2011						
Cost (gross carrying amount)	6,059	1,925	7,092	3,996	9,110	28,182
Accumulated amortisation	-	(1,838)	-	(3,057)	(4,412)	(9,307)
Net carrying amount	**6,059**	**87**	**7,092**	**939**	**4,698**	**18,875**

Carrying amounts attributed to trademarks and goodwill are as follows:

	2012 Consolidated		2011 Consolidated	
	Trademarks	Goodwill	Trademarks	Goodwill
	$'000	$'000	$'000	$'000
Wholesale	2,015	3,614	6,059	3,799
Direct to consumer	-	3,293	-	3,293
Total trademarks & goodwill	**2,015**	**6,907**	**6,059**	**7,092**

13 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% (2011: 6% to 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. (2011: 2%) for subsequent three years plus terminal value. Terminal value represents the discounted value of all subsequent cashflow for the following years after which a unique forecast has been included. A pre-tax discount rate range of 14.4% to 17.1% (2011: 18.3%to 21.1%) was used in the NPV calculations. Discount rates are lower in FY12 versus prior year as a component of the discount rate is the risk free rate of return which was lower in FY12. A reasonably possible change in growth rates and discount rates would not result in impairment.

(ii) Industrial designs
The useful life of industrial designs is estimated as being 16 years from the date of recognition at fair value on acquisition. No industrial designs were owned at June 2012.

(iii) Goodwill
(a) Continuing operations
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 14.4% to 19.7% (2011: 18.3% to 21.1%) 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% (2011: 2%) for the subsequent three years plus terminal value. A reasonably possible change in growth rates and discount rates would not result in impairment.

(b) Discontinued operations
Immediately before the classification of the wholesale underwear and retail underwear business as a discontinued operation, recoverable amount was estimated for the intangible assets. An impairment loss of $397,000 (2011: $3,190,000) was recognised to write down the intangible assets to fair value less costs to sell. The impairment loss has been recognised in the statement of comprehensive income in the profit/(loss) after tax from the discontinued operations.

(iv) Finite life intangible
A distribution agreement which was acquired as part of a business combination which has been classified as an intangible asset with a finite life which is amortised and assessed for impairment on an annual basis. No impairment loss was charged for the 2012 financial year (2011: nil).

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

14 OTHER ASSETS (NON-CURRENT)

	Consolidated	
	Year ended	Year ended
	30 June 2012	30 June 2011
	$'000	$'000
Procurement fee	158	533
Total other non-current assets	**158**	**533**

15 TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated	
	Year ended	Year ended
	30 June 2012	30 June 2011
	$'000	$'000
Trade payables (a)	20,014	22,036
Other payables	9,377	14,976
Goods and services tax	755	1,289
Total trade and other payables	**30,146**	**38,301**
(a) Foreign exchange risk		
The carrying amounts of the Group's trade and other payables denominated in foreign currencies are:		
Great British Pound	95	-
US Dollar	6,247	3,563
Carrying amount of foreign currency trade and other payables	**6,342**	**3,563**

(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 27. Refer to note 27 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 24 and note 29 for further information relating to the Parent's financial guarantee.

16 INTEREST-BEARING LOANS AND BORROWING (CURRENT)

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Bank loans - secured (Refer Note 18(a))	783	16,000
Total current borrowings	**783**	**16,000**

17 PROVISIONS (CURRENT)

	Consolidated		
	Provision for annual leave $'000	Provision for long service leave $'000	Total $'000
At 1 July 2011	3,216	1,637	4,853
Arising during the year	2,941	285	3,226
Utilised	(2,548)	(224)	(2,772)
At 30 June 2012	**3,609**	**1,698**	**5,307**

(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.

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

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Bank loans - secured (a)	30,000	30,000
Total non-current borrowings	**30,000**	**30,000**

(a) The Bank loans of $30,783,000 (2011: $46,000,000) 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 $124,928,000 (2011: $139,551,000), refer to note 26(c). Bank loans have been classified as non-current and current liabilities. The loan facilities with our bankers do not expire until 30 September, 2014. The current portion is the portion which will be repaid over the next 12 months as indicated in Note 16. 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. The Company's bank covenants were compliant at 30 June 2012.

The interest rates on floating rate borrowings at year-end ranged from 3.31% to 5.45% (2011: 6.29% to 6.51%). Borrowings at 30 June 2012 were in Australian dollars and New Zealand dollars.

19 PROVISIONS (NON-CURRENT)

	Consolidated
	Provision for long service leave
	$'000
At 1 July 2011	547
Arising during the year	156
At 30 June 2012	**703**

(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.

20 CONTRIBUTED EQUITY

	Consolidated	
	Year ended **30 June 2012**	Year ended 30 June 2011
	$'000	$'000
Ordinary shares		
Issued and fully paid	61,536	62,705

Movements in contributed equity for the year

	Consolidated	
	Number	Value
	'000	$'000
Opening balance at 1 July 2010	60,403	69,410
Share buy-back	(3,508)	(7,148)
Shares issued	333	443
Closing balance at 30 June 2011	**57,228**	**62,705**
Opening balance 1 July 2011	57,228	62,705
Share buy-back	(778)	(1,391)
Shares issued	167	222
Closing balance at 30 June 2012	**56,617**	**61,536**

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.

20 CONTRIBUTED EQUITY (continued)

Share Based Payment Plans

In November 2005 the Company established the Gazal Group 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:

Date Granted	Exercise Price (f)	On issue 30 June 2011	Granted during the year (c)(d)	Converted to fully paid shares (e)	Lapsed/ cancelled	On issue 30 June 2012 (b)	Exercise period
1 July 2009 (a)	0.93	80,000	-	-	-	80,000	1 July 2012 to 30 June 2014*
10 Dec 2009	1.33	1,666,668	-	166,667	-	1,500,001	10 Dec 2010 to 9 Dec 2014*
1 July 2010	1.59	50,000	-	-	-	50,000	1 July 2013 to 30 June 2015*
TOTAL		1,796,668	-	166,667	-	1,630,001	

* Expiry date

(a) These options were granted to brand ambassadors on similar terms as the Employee Options

(b) The remaining contractual life for the share options outstanding at 30 June 2012 is between 2 Years and 3.5 years (2011: 3 Years and 4.5 years).

(c) The weighted average fair value of options granted during the year was nil (2011: $0.34).

(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 $1.75.

(f) The weighted average exercise price of options on issue at 30 June 2012 is $1.32 (2011: $1.32)

The following table lists the inputs to the model used for the years ended 30 June 2012 and 30 June 2011:

	1 July 2009	10 Dec 2009(1)	10 Dec 2009(2)	10 Dec 2009(3)	1 July 2010
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).

20 CONTRIBUTED EQUITY (continued)

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 2012, management paid dividends of $10,240,000 (2011: $7,797,000).

Management has no current plans to issue further shares on the market but intends to further reduce the capital structure by buying back shares in accordance with ASX listing rule up until February 2013 when the current buy-back expires or such longer period as considered appropriate by the Board in order to reduce the share capital.

Management monitors capital through the gearing ratio (net debt/total capital). The gearing ratios based on continuing operations at 30 June 2012 and 2011 were as follows:

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Total borrowings *	60,929	84,939
Less cash and cash equivalents	(11,006)	(16,045)
Net debt	49,923	68,894
Total equity	69,555	67,036
Total Capital	119,478	135,930
Gearing ratio	42%	51%

** Includes interest bearing loans and borrowings and trade and other payables of continuing and discontinued operations*

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.

21 RESERVES

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Asset revaluation	19,229	19,143
Asset realisation	562	562
Employee equity benefit	487	418
Cash flow hedge	70	(2,055)
Total reserves	**20,348**	**18,068**
Transfer to/(from) reserves:		
(a) Asset revaluation reserve		
Opening balance	19,143	18,398
Revaluation of land and building	86	745
Closing balance	**19,229**	**19,143**
(b) Employee equity benefits reserve		
Opening balance	418	164
Recognition of share-based payment cost	69	254
Closing balance	**487**	**418**
(c) Cash flow hedge reserve		
Opening balance	(2,055)	1,846
Gain/(loss) taken to equity	(42)	(3,121)
Transferred to statement of financial position	3,078	(2,453)
Income tax related to movement in cash flow hedge reserve	(911)	1,673
Closing balance	**70**	**(2,055)**

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 20 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.

22 RETAINED PROFITS AND DIVIDENDS

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Accumulated losses		
(a) Movement in accumulated losses		
Balance at the beginning of the financial year	(13,737)	(14,004)
Net profit attributable to members - continuing	12,413	9,484
Net profit/(loss) attributable to members - discontinued	(765)	(1,420)
Dividends provided for or paid	(10,240)	(7,797)
Balance at the end of the financial year	**(12,329)**	**(13,737)**
(b) Dividends paid during the financial year		
Interim franked dividend 7 cents (2011: 6cents) paid 2 April 2012	3,967	3,570
Special dividend 4 cents (2011: nil) paid 2 April 2012	2,267	-
Prior year final franked dividend 7 cents (2011: 7 cents) paid 4 October 2011	4,006	4,227
(c) Dividends declared but not recognised as a liability		
Final fully franked dividend 11 cents (2011: 7 cents) payable 2 October 2012	6,228	4,006
Franking credit balance		
Franking credits available for the subsequent financial year are:		
Balance at the end of the financial year at 30% (2011: 30%)	14,629	12,472
Franking credits that will arise from the payment/(receipt) of income tax payable/(receivable) as at the end of the financial year	1,903	2,999
	16,532	15,471
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	(2,669)	(1,717)
	13,863	**13,754**

23 COMMITMENTS

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
(a) Commitments		
Capital expenditure contracted for is payable as follows:		
Not later than one year	2,225	2,212
Operating lease expenditure contracted for is payable as follows:		
Not later than one year	15,459	15,333
Later than one year but not later than five years	46,440	46,508
Later than five years	27,569	22,497
	89,468	**84,338**

Operating leases have remaining terms between 1 and 10 years with an average lease term of 4.6 years (2011: 4 years) and an average implicit interest rate of 6.4% (2011: 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.

24 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 2012 (30 June 2011: nil)

25 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	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Cash at bank and on hand	11,006	16,045
	11,006	**16,045**

25 CASH AND CASH EQUIVALENTS (CURRENT) (continued)

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

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Operating profit after income tax	11,648	8,064
Adjustments for non-cash income & expenses items:		
Depreciation, amortisation and impairment expense	7,909	11,506
Other	266	280
Loss on sale of property, plant and equipment	53	50
(Profit) on sale of trademark	(36)	(185)
Changes in assets and liabilities		
(Increase)/decrease in trade debtors	1,702	(1,911)
(Increase)/decrease in inventory	887	(5,075)
(Increase)/decrease in prepaid expenses	1,696	341
Increase/(decrease) in trade creditors	(2,569)	(1,307)
Increase/(decrease) in other creditors	(5,600)	6,412
Increase/(decrease) in income tax payable	(1,035)	1,237
Increase/(decrease) in deferred income tax	(135)	(285)
Increase/(decrease) in employee entitlements provisions	495	327
	15,281	**19,454**

26 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.

26 FINANCING FACILITIES AVAILABLE (continued)

(b) Financing facilities available
At reporting date, the following financing facilities have been negotiated and were available:

	Consolidated		
	Accessible	Drawdown	Unused
At 30 June 2012	$'000	$'000	$'000
Bank overdraft facility	3,078	-	3,078
Bank loan facilities	55,783	(30,783)	25,000
Total financing facilities	**58,861**	**(30,783)**	**28,078**
At 30 June 2011			
Bank overdraft facility	3,077	-	3,077
Bank loan facilities	55,772	(46,000)	9,772
Total financing facilities	58,849	(46,000)	12,849

Expiry date: 30 September 2014 (2011: 30 September 2012)

All of the economic entity's facilities are subject to annual review and subject to the conditions referred to Note 18(a).

At reporting date, the Group has approximately $28.1 million of unused credit facilities available for its immediate use.

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

		Consolidated	
		Year ended	Year ended
		30 June 2012	30 June 2011
	Note	$'000	$'000
Current			
Floating charge			
Cash at bank	25(a)	11,006	16,045
Receivables	9	14,781	16,483
Inventory	10	43,334	47,784
Total current assets pledged as security		**69,121**	**80,312**
Non-current			
First mortgage			
Freehold land and buildings	12	35,090	35,376
Floating charge			
Leasehold improvement	6,12	7,397	8,818
Plant and machinery	6,12	13,320	15,045
Total non-current assets pledged as security		**55,807**	**59,239**
Total assets pledged as security		**124,928**	**139,551**

27 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	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Financial assets		
Cash and cash equivalents	11,006	16,045
	11,006	16,045
Financial liabilities		
Bank loans at floating rate	25,783	41,000
	25,783	41,000
Net exposure	**(14,777)**	**(24,955)**

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

27 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 ($55,000) (2011: $143,000). The table included in Note 28 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 **30 June 2012**	Year ended 30 June 2011	Year ended **30 June 2012**	Year ended 30 June 2011
	$'000	$'000	$'000	$'000
Consolidated				
+1% (100 basis points)	(103)	(175)	51	79
-.5% (50 basis points)	52	87	(26)	(40)

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. The sensitivity is lower in 2012 than in 2011 because of a decrease in outstanding borrowings and unhedged financial assets.

Significant assumptions used in the interest rate sensitivity analysis include:

i) Reasonably possible movements in interest rates were determined based on the Australian interest rates, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two year's historical movements and economic forecaster's expectations.

ii) The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from the reporting date.

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

27 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% (2011: 16%) 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	
	Year ended	Year ended
	30 June 2012	30 June 2011
	$'000	$'000
Financial assets		
Cash and cash equivalents	53	62
Trade and other receivables	228	963
	281	1,025
Financial liabilities		
Trade and other payables	-	-
	-	-
Net exposure	**281**	**1,025**

The Group has, as outlined in note 28, 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.

27 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 **30 June 2012**	Year ended 30 June 2011	Year ended **30 June 2012**	Year ended 30 June 2011
	$'000	$'000	$'000	$'000
Consolidated				
AUD/USD +10%	(18)	(57)	(1,824)	(2,670)
AUD/USD - 5%	10	33	1,056	1,546

The movements in profit in 2012 are less sensitive than in 2011 due to the lower level of US Dollar receivables not designated as cash flow hedges at balance date. The movements in equity are lower in 2012 than in 2011 owing to the lower level of USD hedging of inventory purchases as at 30 June 2012.

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.

27 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 2012. 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 2012.

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

	Consolidated	
	Year ended	Year ended
	30 June 2012	30 June 2011
	$'000	$'000
Financial liabilities		
0-12 months	31,111	58,019
1-5 years	31,924	32,390
Over 5 years	-	-
	63,035	**90,409**

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

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

28 DERIVATIVE FINANCIAL INSTRUMENTS

Hedging activities

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Current assets		
Interest rate swaps - cash flow hedges	-	143
Forward currency contracts - cash flow hedges	282	-
	282	**143**
Current liabilities		
Interest rate swaps - cash flow hedges	55	-
Forward currency contracts - cash flow hedges	127	3,080
	182	**3,080**

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

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 $3,235,000 (2011: $5,532,000) 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 $282,000 (2011: $nil) and a liability of $127,000 (2011: $3,080,000) at 30 June 2012.

The cash flows are expected to occur between 0-12 months from 1 July 2012 and the profit and loss within cost of sales will be affected over the next few years as the inventory is either used in production or sold. At reporting date, the details of outstanding contracts are:

Year ended 30 June 2012	**Amount**	**Expiry Date**	**Rate**
Consolidated			
Forward Exchange Contracts - Buy (US$'000)	USD 29,367	02.07.12 - 09.11.12	0.9803 - 1.0524

Year ended 30 June 2011	**Amount**	**Expiry Date**	**Rate**
Consolidated			
Forward Exchange Contracts - Buy (US$'000)	USD 45,107	01.07.11 - 29.06.12	0.9339 - 1.0498

28 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 2012** $'000	Year ended 30 June 2011 $'000
Opening balance	(3,080)	2,453
Transferred to inventory	3,078	(2,409)
Charge to equity	157	(3,124)
Closing balance	155	(3,080)

(ii) Interest rate swaps – cash flow hedges
At 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.

Year ended 30 June 2012	**Amount**	**Maturity**	**Interest Rate**
Consolidated			
Interest Rate Swaps	A$5,000,000	03.02.2014	4.00%
Year ended 30 June 2011	**Amount**	**Maturity**	**Interest Rate**
Consolidated			
Interest Rate Swaps	A$5,000,000	03.02.2014	4.00%

The swap is 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 2012** $'000	Year ended 30 June 2011 $'000
Opening balance	143	185
Transferred to interest expense	(29)	(45)
Charge to equity	(169)	3
Closing balance	(55)	143

(iii) Hedge of net investments in foreign operations
No hedge of this type existed at 30 June 2012 (2011: nil).

b) Interest rate risk

Information regarding interest rate risk exposure is set out in note 27.

c) Credit risk

Information regarding credit risk exposure is set out in note 27.

29 RELATED PARTY DISCLOSURES

The consolidated financial statements as at 30 June 2012 include the financial statements of Gazal Corporation Limited and the subsidiaries listed in the table below.

Name of controlled entity	**Notes**	**Country of incorporation**	**Equity interest 2012**	**Equity interest 2011**
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
Body Art Australia Pty Limited	(a)	Australia	100	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
E-Commerce Apparel 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

29 RELATED PARTY DISCLOSURES (continued)

(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.

(c) Financial information for class order "closed group"

Gazal Corporation Limited Closed Group
Income Statement for the year ended 30 June 2012

	Consolidated	
	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Sales revenue	265,724	244,923
Cost of sales	(142,664)	(132,151)
Gross profit	123,060	112,772
Other revenues	3,710	458
Selling and marketing expenses	(75,252)	(67,430)
Distribution expenses	(13,030)	(11,711)
Administration expenses	(15,619)	(18,580)
Finance costs	(2,230)	(2,317)
Profit before income tax expense	**20,639**	**13,192**
Income tax expense	(5,601)	(4,180)
Net profit after tax from continuing operations	**15,038**	**9,012**
Profit/(loss) after tax from discontinuing operations	(814)	(1,052)
Net profit for the year	**14,224**	**7,960**
Retained profits at the beginning	(14,145)	(14,308)
Dividends paid	(10,240)	(7,797)
Retained profits at the ending	**(10,161)**	**(14,145)**

29 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 2012

	Consolidated As at **30 June 2012** $'000	As at 30 June 2011 $'000
Current assets		
Cash and cash equivalents	10,604	15,314
Trade and other receivables	18,272	18,144
Inventories	42,075	44,563
Derivative financial instruments	282	143
Other current assets	2,705	4,213
	73,938	82,377
Assets of disposal group classified as held for sale	-	6,989
Total current assets	73,938	89,366
Non-current assets		
Investment	4,695	4,695
Property, plant and equipment	55,656	58,325
Intangibles	8,947	13,010
Deferred tax assets	4,281	5,262
Other	158	533
Total non-current assets	73,737	81,825
Total assets	**147,675**	**171,191**
Current liabilities		
Trade and other payables	28,807	37,274
Derivative financial instruments	182	3,080
Interest-bearing loans and borrowings	-	16,000
Tax payables	2,195	3,000
Provisions	5,201	4,825
	36,385	64,179
Liabilities directly associated with the assets classified as held for sale	-	850
Total current liabilities	36,385	65,029
Non-current liabilities		
Interest bearing liabilities	30,000	30,000
Provisions	703	547
Deferred tax liabilities	8,864	8,988
Total non-current liabilities	39,567	39,535
Total liabilities	**75,952**	**104,564**
Net assets	**71,723**	**66,627**
Equity		
Contributed equity	61,536	62,705
Reserves	20,348	18,067
Retained earnings	(10,161)	(14,145)
Total Equity	**71,723**	**66,627**

30 SIGNIFICANT EVENTS AFTER BALANCE DATE

Other than the appointment of Mr. Patrick Robinson on 13 August 2012 as the Chief Executive Officer, there are no matters or circumstances that have arisen since 30 June 2012 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.

31 REMUNERATION OF AUDITOR

	Year ended **30 June 2012** $	Year ended 30 June 2011 $
Audit and review services		
Ernst & Young		
- Audit	186,800	165,277
- Royalty and turnover audits	18,200	24,902
- Taxation	63,500	76,776
- Other non-audit services	17,700	-
Total fees paid to Ernst & Young	**286,200**	**266,955**

32 KEY MANAGEMENT PERSONNEL

(a) Remuneration by Category: Key Management Personnel

	Consolidated	
	Year ended **30 June 2012**	Year ended 30 June 2011
Short-Term	3,166,263	3,398,031
Post Employment	400,820	173,161
Long-Term Benefits	32,813	30,159
Share-based Payments	96,308	206,041
	3,696,204	**3,807,392**

32 KEY MANAGEMENT PERSONNEL (continued)

(b) Option holdings of Key Management Personnel

	Balance at beginning of period 1 July 2011	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2012	Total	Vested at 30 June 2012 Not Exercisable	Vested at 30 June 2012 Exercisable
Directors								
B. Klatsky	1,000,000	-	-	-	1,000,000	1,000,000	333,333	666,667
C. Kimberley	333,334	-	166,667	-	166,667	166,667	166,667	-
G. Paton	333,334	-	-	-	333,334	333,334	166,667	166,667
Total	**1,666,668**	**-**	**166,667**	**-**	**1,500,001**	**1,500,001**	**666,667**	**833,334**

	Balance at beginning of period 1 July 2010	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2011	Total	Vested at 30 June 2011 Not Exercisable	Vested at 30 June 2011 Exercisable
Directors								
B. Klatsky	1,000,000	-	-	-	1,000,000	1,000,000	666,667	333,333
C. Kimberley	500,000	-	166,666	-	333,334	333,334	333,334	-
G. Paton	500,000	-	166,666	-	333,334	333,334	333,334	-
Total	**2,000,000**	**-**	**333,332**	**-**	**1,666,668**	**1,666,668**	**1,333,335**	**333,333**

32 KEY MANAGEMENT PERSONNEL (continued)

(c) Shareholdings of Key Management Personnel

30 June 2012 Shares held in Gazal Corporation Limited (Number)	Balance 1 July 2011 Ordinary	Granted as Remuneration Ordinary	On Exercise of Options Ordinary	Net Change Other Ordinary	Balance 30 June 2012 Ordinary
Directors					
B. Klatsky	1,000,000	-	-	-	1,000,000
M.J. Gazal (1)	11,940,120	-	-	-	11,940,120
D.J. Gazal (1)	11,923,953	-	-	-	11,923,953
C. Kimberley	681,666	-	166,667	-	848,333
G. Paton	366,666	-	-	-	366,666
Executives					
C. Barnett	150,000	-	-	-	150,000
R. Gazal (1)	11,858,407	-	-	-	11,858,407
D. Coghlan	492,640	-	-	-	492,640
P. Wood	324,000	-	-	-	324,000

30 June 2011 Shares held in Gazal Corporation Limited (Number)	Balance 1 July 2010 Ordinary	Granted as Remuneration Ordinary	On Exercise of Options Ordinary	Net Change Other Ordinary	Balance 30 June 2011 Ordinary
Directors					
B. Klatsky *	1,000,000	-	-	-	1,000,000
M.J. Gazal (1)	9,872,653	-	-	2,067,467	11,940,120
D.J. Gazal (1)	9,856,486	-	-	2,067,467	11,923,953
C. Kimberley	515,000	-	166,666	-	681,666
G. Paton	200,000	-	166,666	-	366,666
Executives					
C. Barnett	150,000	-	-	-	150,000
R. Gazal (1)	9,790,941	-	-	2,067,466	11,858,407
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.

32 KEY MANAGEMENT PERSONNEL (continued)

(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 Shopfitting Pty Limited, a subsidiary of Harvey Norman Holdings Limited provided shopfitting services on normal commercial terms amounting to $86,872 (2011: $3,894,699). In addition Harvey Norman Flooring Pty Limited trading as Austfloor another subsidiary of Harvey Norman Holdings Limited provided flooring on normal commercial terms amounting to $206,103 (2011:$nil).

33 EMPLOYEES

	Consolidated	
	Year ended	Year ended
	30 June 2012	30 June 2011
	$'000	$'000
(a) Employee entitlements		
Aggregate employee entitlement liability (Refer Notes 17 & 19)	6,010	5,612

	30 June 2012	30 June 2011
	Number	Number
(b) Number of Employees	712	827

(c)Superannuation

Gazal Corporation Limited and its controlled entities contribute to superannuation funds for officers and employees. Employee and employer contributions and benefits are set out below:

	Employees	Officers
Benefit type	Accumulated fund	Accumulated fund
Form of benefit	Lump sum benefit on retirement or withdrawal	Lump sum benefit on retirement or withdrawal
Contributions by		
- Employee	Various	-
- Employer	9%	10%

The assets of the above funds were sufficient to satisfy all benefits, which would have been vested in the event of termination of the funds, or in the event of the voluntary or compulsory termination of the employment of each employee.

34 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 as below

Statement of Financial Position at 30 June

	As at **30 June 2012** $'000	As at 30 June 2011 $'000
Current assets		
Trade and other receivables	27,902	23,284
Tax assets	3,481	1,187
Total current assets	31,383	24,471
Non-current assets		
Investment	37,722	37,722
Deferred tax assets	164	150
Total non-current assets	37,886	37,872
Total assets	**69,269**	**62,343**
Current liabilities		
Total liabilities	**-**	**-**
Net assets	**69,269**	**62,343**
Equity		
Contributed equity	61,536	62,705
Employee equity benefit reserve	488	418
Retained earnings	7,245	(780)
Total Equity	**69,269**	**62,343**

Income Statement for the year ended 30 June

	Year ended **30 June 2012** $'000	Year ended 30 June 2011 $'000
Other revenues	19,231	10,450
Administration expenses	(919)	(962)
Profit before income tax expense	**18,312**	**9,488**
Income tax expense	(47)	(52)
Net profit and total comprehensive income after related income tax expense	**18,265**	**9,436**
Retained profits at the beginning	(780)	(2,419)
Dividends paid	(10,240)	(7,797)
Retained profits at the ending	**7,245**	**(780)**

Gazal Corporation Limited
Shareholder Information

Supplementary Information as Required by Australian Stock Exchange Listing Requirements.

Ordinary Shareholders as at 31 August, 2012

These statistics relate to 775 shareholders of 56,617,153 Ordinary Shares. The proportion of shares held by the twenty largest shareholders is 89.73%. There are 85 shareholders who hold less than a marketable parcel.

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

Distribution of Shareholders and Shareholdings as at 31 August, 2012

Size of Holding	Number of Shareholders	Number of Ordinary Shares	% of Total
1 - 1,000	262	118,511	0.21
1,001 - 5,000	293	842,810	1.49
5,001 - 10,000	90	696,018	1.23
10,001 - 100,000	102	2,965,533	5.24
100,001 and over	28	51,994,281	91.83
Total	775	56,617,153	100.00

Substantial Shareholders
The following information is extracted from the Company's Register of substantial shareholders as at 31 August 2012.

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 31 August 2012

Registered Holder.	Number of Ordinary Shares	% of Total Shares
1. M J & H H Gazal Pty Limited	9,546,633	16.86
2. David Gazal Family Company Pty Limited	9,530,466	16.83
3. Cinu Investments Pty Limited	9,464,920	16.72
4. Woodcray Pty Limited	8,996,600	15.89
5. RBC Global Services Australia Nominees Pty Limited	3,489,659	6.16
6 UBS Wealth Management Aust Nominees Pty Ltd	1,355,778	2.40
7. Michael Joseph Gazal	1,202,211	2.12
8. David Joseph Gazal	1,139,622	2.01
9. Gazal Nominees Pty Limited (Mathilda Malouf Trust)	1,007,554	1.78
10. Bruce Klatsky	1,000,000	1.77
11. Yoogalu Pty Limited	1,000,000	1.77
12. Andrew Rich Enterprises Pty Limited	738,480	1.30
13. David John Coghlan	492,640	0.87
14. G & V Paton (the Anchorage Super Fund)	366,666	0.65
15. Gwynvill Investments Pty Limited	366,000	0.65
16. Lippo Securities Nominees (BVI) Limited	250,000	0.44
17. P & M Wood Nominees Pty Limited	235,500	0.42
18. Brickworks Investments Company Limited	211,865	0.37
19. David John Holmes	203,333	0.36
20. De Bruin Nominees Pty Ltd (De Bruin Super Fund)	203,000	0.36
	50,800,927	89.73

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

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


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