

FINANCIAL STATEMENTS

As at 30 June 2005

GWA International Limited and Controlled Entities

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STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2005

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenues from Ordinary Activities	2	648,316	677,393	141,259	52,315
Expenses related to ordinary activities	3(a)	(539,903)	(572,621)	(6)	(7)
Borrowing costs related to ordinary activities	3(b)	(16,871)	(16,371)	-	-
Profit from Ordinary Activities before Income Tax Expense		91,542	88,401	141,253	52,308
Income tax (expense)/benefit relating to ordinary activities	4	(28,389)	(26,348)	12	(595)
Net Profit Attributable to Members of GWA International Limited	20	63,153	62,053	141,265	51,713
Net exchange difference on translation of financial statements of foreign controlled entities	20	(2,083)	1,032	-	-
Total Revenues, Expenses and Valuation Adjustments Attributable to Members of GWA International Limited and recognised directly in Equity		(2,083)	1,032	-	-
Total Changes in Equity other than those resulting from Transactions with Owners as Owners		61,070	63,085	141,265	51,713
Basic and diluted earnings per share (cents per share)	31	22.7	22.3		

The Statements of Financial Performance are to be read in conjunction with Notes 1 to 34 to the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2005

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current Assets					
Cash assets	6	134,854	138,352	-	-
Receivables	7	69,221	66,625	900	501
Inventories	8	97,491	96,380	-	-
Other – Prepayments		6,732	1,594	-	-
Total Current Assets		308,298	302,951	900	501
Non-current Assets					
Receivables	9	7,942	4,288	507,530	461,471
Investments	10	-	-	325,646	325,646
Property, plant and equipment	11	134,643	153,454	-	-
Brand names	12	354,896	356,952	-	-
Goodwill	13	-	875	-	-
Deferred tax assets		25,937	25,258	24,766	24,780
Total Non-current Assets		523,418	540,827	857,942	811,897
Total Assets		831,716	843,778	858,842	812,398
Current Liabilities					
Payables	14	51,889	57,552	-	-
Interest bearing liabilities	15	-	-	48	52
Current tax liabilities		6,281	8,448	6,311	8,774
Provisions	16	30,875	31,975	-	-
Total Current Liabilities		89,045	97,975	6,359	8,826
Non-current Liabilities					
Interest bearing liabilities	17	296,560	297,803	-	-
Non-interest bearing liabilities	17	-	-	424,993	453,024
Deferred tax liabilities		875	818	352	665
Provisions	18	19,666	18,672	-	-
Total Non-current Liabilities		317,101	317,293	425,345	453,689
Total Liabilities		406,146	415,268	431,704	462,515
Net Assets		425,570	428,510	427,138	349,883
Equity					
Contributed equity	19 (a)	346,853	346,853	346,853	346,853
Foreign currency translation reserve	20 (a)	(1,165)	918	-	-
Retained profits	20 (b)	79,882	80,739	80,285	3,030
Total Equity		425,570	428,510	427,138	349,883

The Statements of Financial Position are to be read in conjunction with Notes 1 to 34 to the financial statements.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2005

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash Flows from Operating Activities					
Receipts from customers		705,099	774,258	-	-
Payments to suppliers and employees		(574,942)	(612,154)	(6)	(7)
Dividends and trust distributions received		-	-	141,256	52,315
Interest received		5,748	3,757	3	-
Borrowing costs		(20,960)	(13,667)	-	-
Income tax paid		(31,178)	(37,541)	(29,957)	(376)
Net Cash from Operating Activities	30	83,767	114,653	111,296	51,932
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(21,331)	(20,579)	-	-
Proceeds from sale of property, plant and equipment		2,294	2,781	-	-
Net Cash used in Investing Activities		(19,037)	(17,798)	-	-
Cash Flows from Financing Activities					
Proceeds from borrowings		-	1,186	-	-
Proceeds from issue of shares		-	1,360	-	1,360
Employee share plan loans		(5,627)	(1,360)	(5,627)	(1,360)
Repayment of employee share plan loans		1,524	1,813	1,524	1,813
Dividends paid by the company	5	(64,010)	(50,054)	(64,010)	(50,054)
Loans to related parties		-	-	(43,179)	(3,715)
Loan repaid by other parties		54	1,456	-	-
Loans to other parties		-	(1,837)	-	-
Net Cash used in Financing Activities		(68,059)	(47,436)	(111,292)	(51,956)
Net Increase/(Decrease) in Cash Held					
Cash/(overdraft) at the beginning of the financial period		(3,329)	49,419	4	(24)
Effects of exchange rate changes on cash		138,352	88,505	(52)	(28)
		(169)	428	-	-
Cash/(Overdraft) at the End of the Financial Period	6, 15	134,854	138,352	(48)	(52)

The Statements of Cash Flows are to be read in conjunction with Notes 1 to 34 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

1. Summary of significant accounting policies

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001* which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial statements have been prepared in accordance with the historical cost convention.

To ensure comparability with the current reporting period, certain comparative items have been reclassified in the financial statements to conform with changes in presentation in the current financial year.

(a) Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous year.

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by GWA International Limited (the company) as at 30 June 2005 and the results of all controlled entities for the year then ended. GWA International Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

(c) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the net profit is matched with the accounting profit after allowing for permanent differences. Future income tax benefits relating to timing differences are not brought to account unless realisation is assured beyond reasonable doubt. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse. No provision is made for additional taxes which could become payable if certain reserves of the foreign controlled entities were to be distributed as it is not expected that any substantial amount will be distributed from those reserves in the foreseeable future.

Tax Consolidation

GWA International Limited and its wholly owned Australian subsidiaries formed a tax consolidated group, effective 1 July 2003, for income tax purposes. The company formally notified the Australian Taxation Office of its election to form a tax consolidated group prior to lodgement of the 2004 income tax return in January 2005. The Head Entity of the tax consolidated group is GWA International Limited.

The members of the tax consolidated group have entered into a tax sharing agreement in order to allocate the income tax liabilities between the entities in the tax consolidated group. In forming the tax consolidated group, there was no material impact on the deferred tax balances of the subsidiaries as a result of the resetting of tax values of certain assets of the subsidiaries.

(d) Foreign Currency Translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit and loss for the year, except where the amount is part of a net investment in a self-sustaining foreign operation.

Specific commitment

Forward exchange contracts of generally less than 12 months are entered into to hedge the purchase of components, trading stock and major plant and equipment. Gains or costs arising on entry into a hedge transaction and subsequent exchange gains and losses resulting from those transactions up to the date of purchase are deferred and included in the measurement of the purchase cost.

Foreign controlled entities

As the foreign controlled entities are all self-sustaining, assets and liabilities at balance date are translated into Australian currency at rates of exchange current at balance date. Equity items are translated at historical rates. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

(e) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

(f) Receivables

Trade debtors are reported net of trade discounts and volume rebates. This is consistent with the reporting and measurement of revenue from sale of goods (refer Note 1 (w)).

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed manufacturing overhead expenditure for work in progress and finished goods. Costs are assigned to individual items of stock, mainly on the basis of weighted average costs.

(h) Recoverable Amount

Non-current assets are not carried at an amount above their recoverable amount and where carrying values exceed this recoverable amount assets are written-down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

1. Summary of significant accounting policies (continued)

(i) Investments

Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount.

(j) Leasehold Improvements

The cost of improvements to or on leasehold properties is capitalised and amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

(k) Leased Non-current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of non-current assets (finance leases), and operating leases under which the lessor effectively retains substantially all such risks and benefits of ownership.

Where a non-current asset is acquired by means of a finance lease, the asset is established at its fair value at the inception of the lease. The liability is established at the same amount. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are recognised in profit from ordinary activities in equal instalments over the lease term.

(l) Non-current Assets Constructed by the consolidated entity

The cost of non-current assets constructed by the consolidated entity includes the cost of all materials used in the construction, direct labour on the project and an appropriate proportion of variable and fixed overhead including borrowing costs.

(m) Depreciation

Depreciation is calculated on a straight line basis to write off the cost of each item of property, plant and equipment over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets.

Major depreciation periods are:	2005	2004
Freehold buildings	40 years	40 years
Plant and equipment	3 – 10 years	3 – 10 years
Motor vehicles	5 years	5 years

Major spares purchased specifically for particular plant are included in the cost of plant and are depreciated accordingly.

(n) Brand Names

Expenditure incurred in developing, maintaining or enhancing brand names is written-off against profit from ordinary activities in the year in which it is incurred. The brand names are not amortised as the directors believe that their useful lives are of such duration that the amortisation charge, if any, would not be material. The carrying value of these brand names is reviewed each year to ensure that it is not in excess of their recoverable amount.

(o) Maintenance and Repairs

Maintenance, repair costs and minor renewals are recognised as expenses as incurred.

(p) Service Warranties

Provision is made, out of revenue, for the estimated liability on all products still under warranty at balance date. This provision is estimated having regard to service warranty experience on each class of products.

(q) Cash

For the purposes of the statements of cash flows, cash includes cash on hand, in transit and in banks and money market investments readily convertible to cash, net of outstanding bank overdrafts.

Goods and Services Tax received from customers is included in receipts from customers while Goods and Services Tax paid on supplies, acquisitions and plant and equipment is included in payments to suppliers and employees.

Goods and Services Tax is not included in revenue or expenses and is included in receivables and payables.

(r) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee benefits,

are recognised against profits in their respective categories.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

1. Summary of significant accounting policies (continued)

(r) Employee Benefits (continued)

Superannuation Plan

The company and its controlled entities contribute to several defined contribution superannuation plans. Contributions are recognised as an expense as they are made. The company and its controlled entities have no legal or constructive obligation to fund any deficit.

Number of full time employees at year end:

2,474 (2004: 2,565).

(s) Earnings per Share

Basic earnings per share is determined by dividing the profit from ordinary activities by the weighted average number of ordinary shares outstanding during the financial year.

(t) Financial Instruments

The consolidated entity has non-current borrowings and operates internationally, giving rise to significant exposure to market risks from changes in interest rates and foreign exchange rates. Derivative financial instruments are utilised by the consolidated entity to reduce those risks, as explained in this note.

Interest rate related derivatives

Entities within the consolidated entity enter into various types of interest rate contracts with the major banks in managing its floating interest rate risk on a portion of its non-current borrowings. Gains and losses on these contracts are accounted for on the same basis as the underlying borrowing they are hedging.

Exchange rate related derivatives

Entities within the consolidated entity enter into various types of foreign exchange contracts with the major banks in managing its foreign exchange risk with purchases of raw materials and finished goods for resale. Gains or costs arising on entry into a hedge transaction are included in the measurement of the purchase cost. Subsequent exchange gains and losses resulting from those transactions up to the date of purchase are deferred and included in the measurement of the purchase cost, where the hedge is of a specified commitment. Where the hedge is general in nature, exchange gains and losses are included in the statement of financial performance when they arise.

(u) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired at the time of acquisition of shares in the controlled entity. Goodwill is amortised on a straight line basis over the shorter of 20 years and the minimum period during which the benefits are expected to arise. The goodwill purchased with the Gainsborough Hardware Industries Limited acquisition has been fully amortised on a straight line basis over a period of 10 years. The goodwill purchased with the acquisition of the exclusive import and distribution rights to Hansa tapware products has been fully amortised on a straight line basis over a period of 5 years. Amortisation periods are reviewed at each balance date. No goodwill was acquired during the year ended 30 June 2005.

(v) Revenue Recognition

Revenue is recognised (net of goods and services tax) to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods and non-current assets

Control of the goods has passed to the buyer.

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Dividends

Dividends from controlled entities are recognised when the dividend is declared by the controlled entity.

(w) Revenue Measurement

The measurement of revenue from the sale of goods is sales revenue net of trade discounts and volume rebates.

(x) Provision for Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(y) Goods and Services Tax

Revenues, expenses, and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(z) Interest-bearing Liabilities

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in Note 14 Payables (current).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
2. Revenues from ordinary activities				
(a) Revenues from Operating Activities				
- Sale of goods	626,866	667,926	-	-
(b) Other Revenues				
<i>From operating activities</i>				
- Foreign exchange gains	2,148	2,446	-	-
- Dividends received/receivable – Controlled entities	-	-	139,300	50,400
- Interest received/receivable – Other corporations	5,874	3,757	3	-
- Unit trust distribution	-	-	1,956	1,915
<i>From outside operating activities</i>				
- Proceeds from the sale of property, plant and equipment	12,544	2,781	-	-
- Other	884	483	-	-
Total other revenues	21,450	9,467	141,259	52,315
Total revenues from ordinary activities	648,316	677,393	141,259	52,315
3. Expenses from ordinary activities				
(a) Expenses related to Ordinary Activities (excluding borrowing costs)				
- Cost of sales	330,499	358,802	-	-
- Selling and distribution	130,784	129,075	-	-
- Administration	64,511	74,975	6	7
- Other	14,109	9,769	-	-
Total expenses related to ordinary activities (excluding borrowing costs)	539,903	572,621	6	7
(b) Borrowing Costs				
Interest expense				
- Other corporations	16,871	16,371	-	-
(c) Losses/(Gains)				
Net loss on sale of property, plant and equipment	950	1,265	-	-
Net foreign exchange (gain)/loss				
- Realised	235	(1,208)	-	-
- Unrealised	(1,276)	33	-	-
Net loss/(gain) on disposals and foreign exchange	(91)	90	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
3. Expenses from ordinary activities (continued)				
(d) Other Expenses				
Amortisation – Goodwill	875	900	-	-
Depreciation of non-current assets				
- Freehold buildings	1,145	1,135	-	-
- Plant and equipment: depreciation	22,668	23,648	-	-
- Plant and equipment: write-down to net realisable value	-	2,291	-	-
- Motor vehicles	2,683	2,575	-	-
Total depreciation and amortisation expense	27,371	30,549	-	-
Other charges against assets				
- Write-down of inventories	3,186	7,296	-	-
- Provision for doubtful debts and bad debts written-off/(released)	(1,029)	(67)	-	-
Total other charges against assets	2,157	7,229	-	-
Rental expense relating to operating leases				
- Properties	7,030	8,473	-	-
- Plant	535	369	-	-
Research and development – expensed as incurred	6,488	5,485	-	-
4. Income tax				
Reconciliation of Income Tax Expense				
Profit from ordinary activities before income tax	91,542	88,401	141,253	52,308
Prima facie tax on profit from ordinary activities (30%, 2004 – 30%)	27,463	26,520	42,376	15,693
Tax effect of permanent differences:				
- Non-deductible building depreciation and allowances	120	141	22	22
- Non-allowable expenditure	1,035	578	-	-
- Goodwill amortisation	263	270	-	-
- Research and development allowance	-	(128)	-	-
- Rebateable dividends	-	-	(41,790)	(15,120)
Income tax adjusted for permanent differences	28,881	27,381	608	595
Effect of different rates of tax on overseas income	93	226	-	-
Under/(over) provision in previous year	(585)	(1,259)	(620)	-
Income tax expense attributable to ordinary activities	28,389	26,348	(12)	595

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
5. Dividends				
Ordinary				
Franked dividends paid:				
- Final dividend 1 October 2004 (8c per share, 2004: 8c)	22,264	22,224	22,264	22,224
- Special dividend 1 October 2004 (2.5c per share, 2004: nil)	6,958	-	6,958	-
- Interim dividend 1 April 2005 (10c per share, 2004: 10c)	27,830	27,830	27,830	27,830
- Special dividend 1 April 2005 (2.5c per share, 2004: nil)	6,958	-	6,958	-
Total dividends paid	64,010	50,054	64,010	50,054
Dividends proposed and not recognised as a liability: (refer Note 32)				
- Final dividend (8c per share, 2004: 8c) – 100% franked	22,264	22,264	22,264	22,264
- Special dividend (2c per share, 2004: 2.5c) – 100% franked	5,566	6,958	5,566	6,958
Total dividends proposed	27,830	29,222	27,830	29,222
The franked portions of the proposed dividends will be franked out of existing franking credits.				
The amount of franking credits available for the subsequent financial year are:				
- Franking account balance as at the end of the financial year			35,714	33,190
- Franking credits that will arise from the payment of the income tax payable after the end of the financial year			6,311	8,700
			42,025	41,890
The tax rate at which paid dividends have been franked is 30% (2004: 30%). The proposed final and special dividends will be franked at 30% when paid in October 2005.				
6. Cash assets				
Cash at bank and on hand	51,011	51,482	-	-
Deposits at call	83,843	86,870	-	-
	134,854	138,352	-	-
7. Receivables (current)				
Trade debtors	57,927	65,848	-	-
Provision for doubtful debts	(1,394)	(2,523)	-	-
	56,533	63,325	-	-
Other debtors	11,788	2,799	-	-
Unsecured other loans				
- Employee share plan	900	501	900	501
	69,221	66,625	900	501

Included in unsecured other loans – employee share plan, are loans to Specified Directors and Specified Executives (refer Note 21).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
8. Inventories				
Raw materials – At cost	25,007	25,906	-	-
Provision for diminution in value	(3,200)	(3,808)	-	-
	21,807	22,098	-	-
Finished goods – At cost	80,584	77,455	-	-
Provision for diminution in value	(15,602)	(14,043)	-	-
	64,982	63,412	-	-
Work in progress – At cost	10,702	10,870	-	-
Total inventories at lower of cost and net realisable value	97,491	96,380	-	-
9. Receivables (non-current)				
Amount owing by controlled entities	-	-	500,475	458,120
Unsecured other loans				
- Employee share plan	7,055	3,351	7,055	3,351
- Other	887	937	-	-
	7,942	4,288	507,530	461,471
10. Investments				
Unlisted investments				
- Shares in controlled entities – At cost (refer Note 27)	-	-	325,646	325,646
11. Property, plant and equipment				
Freehold land – At cost	23,313	29,122	-	-
Freehold buildings – At cost	35,442	41,966	-	-
Less accumulated depreciation	(7,872)	(8,583)	-	-
	27,570	33,383	-	-
Plant and equipment – At cost	224,958	226,245	-	-
Less accumulated depreciation	(150,620)	(144,906)	-	-
	74,338	81,339	-	-
Motor vehicles – At cost	14,238	14,070	-	-
Less accumulated depreciation	(4,816)	(4,460)	-	-
	9,422	9,610	-	-
Total net book value	134,643	153,454	-	-
Valuations of land and buildings				
Land and buildings are progressively, and independently assessed over a three year period on the basis of market value for existing use. The most recent valuations for all land and buildings are as follows (note valuations have not been recognised):				
- Freehold land	38,240	47,240	-	-
- Buildings	37,290	38,510	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
11. Property, plant and equipment (continued)				
Reconciliations				
<i>Freehold land</i>				
Carrying amount at beginning	29,122	29,119	-	-
Disposals	(5,800)	-	-	-
Net foreign currency movements arising from self-sustaining foreign operations	(9)	3	-	-
	23,313	29,122	-	-
<i>Freehold buildings</i>				
Carrying amount at beginning	33,383	34,128	-	-
Additions/improvements	414	372	-	-
Disposals	(4,996)	(7)	-	-
Depreciation	(1,145)	(1,135)	-	-
Net foreign currency movements arising from self-sustaining foreign operations	(86)	25	-	-
	27,570	33,383	-	-
<i>Plant and equipment</i>				
Carrying amount at beginning	81,339	94,303	-	-
Additions	16,793	14,652	-	-
Disposals	(849)	(1,594)	-	-
Depreciation (incl. write-down to net realisable value)	(22,668)	(25,939)	-	-
Net foreign currency movements arising from self-sustaining foreign operations	(277)	(83)	-	-
	74,338	81,339	-	-
<i>Motor vehicles</i>				
Carrying amount at beginning	9,610	8,934	-	-
Additions	4,280	5,555	-	-
Disposals	(1,849)	(2,479)	-	-
Depreciation	(2,683)	(2,575)	-	-
Net foreign currency movements arising from self-sustaining foreign operations	64	175	-	-
	9,422	9,610	-	-
Total net book value	134,643	153,454	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

12. Brand names

As at 30 June 2005 Brand names of \$354.9 million (2004: \$357.0 million) are being carried at cost (2004: at cost).

PricewaterhouseCoopers Securities Limited provided GWA International Limited with an opinion dated 12 August 2005 that the fair market value of the Brand names was not less than its carrying value of \$354.9 million as at 30 June 2005 (2004: \$357.0 million) and the directors would be justified in continuing to carry it at that amount.

The directors are of the opinion that no events have occurred that would diminish the above carrying value.

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
13. Goodwill				
At cost	8,975	8,975	-	-
Accumulated amortisation	(8,975)	(8,100)	-	-
	-	875	-	-
14. Payables (current)				
Trade creditors	47,972	51,118	-	-
Other creditors	3,917	6,434	-	-
	51,889	57,552	-	-
15. Interest bearing liabilities (current)				
Unsecured bank overdraft	-	-	48	52
16. Provisions (current)				
Employee benefits and on costs	17,612	17,784	-	-
Warranty	4,445	4,561	-	-
Other	8,818	9,630	-	-
	30,875	31,975	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
17. Non-current liabilities				
Interest bearing liabilities				
Unsecured				
- Bank loans	296,560	297,803	-	-
Non-interest bearing liabilities				
- Unsecured loans from controlled entities	-	-	424,993	453,024
Financing arrangements				
GWA International Limited, GWA Finance Pty Limited, a wholly owned controlled entity of GWA International Limited and each other controlled entity of GWA International Limited have entered into a Master Financing Agreement with a number of banks. This document provides for the following:				
(i) GWA Finance Pty Limited and certain other operating controlled entities to borrow and enter into certain risk and hedging facilities;				
(ii) Individual banks to provide facilities direct to GWA Finance Pty Limited and certain other operating controlled entities of GWA International Limited by joining the Master Financing Agreement and being bound by the common covenants and conditions contained therein.				
Unrestricted access was available at balance date to the following lines of credit:				
Total facilities				
- Bank overdrafts	6,413	6,410	-	-
- Bank loans	311,560	312,803	-	-
	317,973	319,213	-	-
Used at balance date				
- Bank overdrafts	-	-	-	-
- Bank loans	296,560	297,803	-	-
	296,560	297,803	-	-
Unused at balance date				
- Bank overdrafts	6,413	6,410	-	-
- Bank loans	15,000	15,000	-	-
	21,413	21,410	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
18. Provisions (non-current)				
Employee benefits and on costs	11,600	10,937	-	-
Warranty	4,788	4,701	-	-
Other	3,278	3,034	-	-
	19,666	18,672	-	-
<i>Movement in total provisions (current and non-current)</i>				
(i) Employee benefits and on costs				
Opening balance	28,721	29,078	-	-
Net foreign currency movements arising from self-sustaining foreign operations	(78)	(54)	-	-
Additional provisions	17,579	15,904	-	-
Provisions utilised	(17,010)	(16,207)	-	-
Closing balance	29,212	28,721	-	-
(ii) Warranty				
Opening balance	9,262	7,057	-	-
Net foreign currency movements arising from self-sustaining foreign operations	(18)	(13)	-	-
Additional provisions	3,808	5,877	-	-
Provisions utilised	(3,819)	(3,659)	-	-
Closing balance	9,233	9,262	-	-
(iii) Other				
Opening balance	12,664	9,839	-	-
Net foreign currency movements arising from self-sustaining foreign operations	(91)	(6)	-	-
Additional provisions	1,857	5,820	-	-
Provisions utilised	(2,334)	(2,989)	-	-
Closing balance	12,096	12,664	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
19. Contributed equity				
(a) Issued and Fully Paid Up Capital				
278,302,995 (2004: 278,302,995) ordinary shares fully paid	346,853	346,853	346,853	346,853
	2005 Number	2005 \$'000	2004 Number	2004 \$'000
<i>Movements in issued paid up capital</i>				
Ordinary shares				
Balance at 1 July 2004	278,302,995	346,853	277,802,995	345,493
Issue of shares to employees (2004: \$2.72)	-	-	500,000	1,360
Balance at 30 June 2005	278,302,995	346,853	278,302,995	346,853

Terms and conditions of contributed equity

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 held.

Ordinary shares entitle their holder to 1 vote, either in person or by proxy, at a meeting of the company.

(b) Dividend Reinvestment Plan and Share Purchase Plan

Suspended

On the 8 February 2000 the directors suspended the Dividend Reinvestment Plan and the Share Purchase Plan.

(c) Employee Share Plan

The employee share plan was established to assist in the retention and motivation of employees. All permanent employees of the company, who are invited to participate, may participate in the Plan.

The maximum number of shares subject to the Plan at any time may not exceed 5% of the nominal amount of all Ordinary Shares on issue. The Plan does not provide for the issue of options and no options have been issued by the company.

The prices of shares issued under the Plan are the market price at the time of issue. During the 2004/05 year, 1,795,000 ordinary shares were purchased on market for employees at an average share price of \$3.13, a total market value of \$5,627,166. In the prior year, 500,000 ordinary shares were issued to employees at the market price of \$2.72 per share, a total market value of \$1,360,000.

As at 30 June 2005, loans are issued for 3,913,750 (2004: 2,785,000) shares and the remaining balances of these loans is \$7,955,648 (2004: \$3,852,370).

During the 2004/05 year, dividends of \$774,700 (2004: \$541,650) were paid against the loans and a further \$749,189 (2004: \$1,271,845) was paid by employees against these loans.

(d) Options

No options have been issued at any time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
20. Foreign currency translation reserve and retained profits				
(a) Foreign Currency Translation Reserve				
<i>(i) Nature and purpose of reserve</i>				
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations				
<i>(ii) Movements in reserve</i>				
Balance at beginning of year	918	(114)	-	-
Net exchange gain/(loss) on translation of foreign controlled entities	(2,083)	1,032	-	-
Balance at end of year	(1,165)	918	-	-
(b) Retained Profits				
Balance at beginning of year	80,739	68,740	3,030	1,371
Net profit attributable to members	63,153	62,053	141,265	51,713
Total available for appropriation	143,892	130,793	144,295	53,084
Dividends paid by the company	(64,010)	(50,054)	(64,010)	(50,054)
Balance at end of year	79,882	80,739	80,285	3,030

21. Director and executive disclosures

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

Non-executive

B Thornton – Chairman

J J Kennedy – Deputy Chairman

D R Barry

R M Anderson

M D E Kriewaldt

G McGrath – appointed 6 July 2004

Executive

P C Crowley – Managing Director

(ii) Specified executives

E Harrison – Chief Financial Officer

S Wright – Group Operations Manager

C Bizon – General Manager – Caroma – to 30 November 2004

D Duncan – General Manager – Dorf Clark

G Oliver – General Manager – Gainsborough

L Patterson – General Manager – Dux

R Watkins – General Manager – Rover

J Measroch – General Manager – Sebel

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

21. Director and executive disclosures (continued)

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration policy

Nature and amount of remuneration

The Remuneration Committee has determined that the Group's executive remuneration will consist of:

- Salary and Leave
- Executive Incentive Scheme
- Employee Share Plan
- Other benefits

Salary levels are regularly benchmarked against the relevant market rates and reviewed yearly.

The Executive Incentive Scheme has been structured into two incentive schemes based on performance targets, which are set at the beginning of the incentive period, and subject to maximum amounts.

Under the Employee Share Plan, executives are granted an interest free loan to fund the purchase of shares in the company. Executives purchase the shares at the market price at time of issue. Executives receive share allocations up to maximum numbers determined by position in the company and by further entitlements on the achievement of the three year incentive scheme targets. The loans provided by the company are repaid from dividends paid and are repayable in full on termination.

Other benefits, which include statutory leave, the provision of motor vehicles, medical benefits membership, and life and disability insurance, are all regularly benchmarked with salaries and reviewed yearly.

Relationship between remuneration and company performance

The yearly and three year incentive schemes, together with the Employee Share Plan, establish relationships between the short, medium and long term performance of the company and each executive's remuneration.

Cash incentives

The grant date of the yearly incentive scheme operating in this reporting period was 1 July 2004 and the nature of the remuneration granted is cash. Performance criteria were divisional operating profit for divisional executives and group earnings before interest and tax for corporate executives. There were no alterations of the terms and conditions after the grant date.

The grant date for the three year incentive scheme is 1 July 2004 and the nature of the remuneration is cash and additional loans with respect to further allocations of employee shares. The benefits of this scheme are subject to employment throughout the performance period and the performance criteria are divisional profits for divisional executives and earnings per share for corporate executives.

Contract for services

The employment contract with Mr P Crowley provides for a termination payment of 12 months salary by the company. All other executives have a legal entitlement to reasonable notice of termination or payment in lieu by the company.

Directors' emoluments

During the 2004/05 year, Mr Jim Kennedy, Mr Martin Kriewaldt and Mr Robert Anderson were paid their accrued entitlements under the former Directors' Retirement Scheme, pursuant to a resolution of shareholders at the 2004 Annual General Meeting. The total payments made during the year were \$582,750.

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2004 Annual General Meeting, is not to exceed \$1 million per annum (excluding statutory superannuation) and are set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies.

Non-executive directors are remunerated by way of directors' fees only (including statutory superannuation), and are not able to participate in the Executive Incentive Scheme or the GWA International Employee Share Plan. Directors' fees cover all main board activities and membership of Board Committees.

The Directors' Retirement Scheme for non-executive directors was terminated by shareholders at the 2003 Annual General Meeting. Shareholders approved the pay-out to the non-executive directors of their accrued entitlements under the former Scheme at the 2004 Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

21. Director and executive disclosures (continued)

(b) Remuneration of Specified Directors and Specified Executives (continued)

(ii) Remuneration of specified directors and specified executives

	Primary				Post Employment		Other		Total
	Salary, Fees and Leave	1 Year Incentive	3 Year Incentive	Non-monetary	Super-annuation	Retirement Benefits	Termination Benefits	Benefits	\$
Specified directors									
<i>Non-executive</i>									
B Thornton	159,080	-	-	-	95,980	-	-	250	255,310
J Kennedy	127,327	-	-	-	3,603	-	-	250	131,180
M Kriewaldt	93,600	-	-	-	8,424	-	-	250	102,274
D Barry	82,680	-	-	-	7,441	-	-	250	90,371
R Anderson	78,000	-	-	-	7,020	-	-	250	85,270
G McGrath	82,290	-	-	-	7,371	-	-	250	89,911
<i>Executive</i>									
P Crowley	877,263	332,500	190,000	183,230	36,000	-	-	9,519	1,628,512
Total remuneration: Specified directors									
2005	1,500,240	332,500	190,000	183,230	165,839	-	-	11,019	2,382,828
2004*	1,371,479	412,500	-	59,772	86,076	-	-	10,285	1,940,112
Specified executives									
E Harrison	425,251	105,819	70,546	82,738	-	-	-	4,975	689,329
S Wright	383,747	106,418	70,945	79,663	35,472	-	-	4,704	680,949
R Watkins	303,154	-	-	52,155	27,555	-	-	3,598	386,462
C Bizon #	134,551	-	-	84,362	14,500	-	300,000	2,037	535,450
D Duncan	246,785	62,500	50,000	112,197	44,567	-	-	2,849	518,898
J Measroch	257,283	-	-	67,911	24,370	-	-	2,999	352,563
L Patterson	214,364	-	-	47,976	20,850	-	-	2,602	285,792
G Oliver	180,207	71,258	47,505	56,462	119,110	-	-	2,056	476,598
Total remuneration: Specified executives									
2005	2,145,342	345,995	238,996	583,464	286,424	-	300,000	25,820	3,926,041
2004*	2,201,329	480,300	289,080	426,864	186,897	-	300,000	24,768	3,909,238

* Group totals in respect of the financial year ended 2004 do not necessarily equal the sums of amounts disclosed for 2004 for individuals specified in 2005, as different individuals were specified in 2004.

to 30 November 2004

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

21. Director and executive disclosures (continued)

(b) Remuneration of Specified Directors and Specified Executives (continued)

(iii) Shareholdings of specified directors and specified executives

Shares held in GWA International Ltd (number)

	Balance 1 July 2004 Ord	Net Change Other Ord	Balance 30 June 2005 Ord
Specified directors			
<i>Non-executive</i>			
B Thornton	14,355,902	670,000	15,025,902
J Kennedy	50,000	-	50,000
M Kriewaldt	100,000	-	100,000
D Barry	11,537,149	872,040	12,409,189
R Anderson	20,692,832	-	20,692,832
G McGrath#	754,276	(161,250)	593,026
<i>Executive</i>			
P Crowley	500,000	-	500,000
Specified executives			
E Harrison	470,975	150,000	620,975
S Wright	275,750	143,000	418,750
R Watkins	268,750	(168,750)	100,000
J Measroch	150,000	50,000	200,000
G Oliver	156,250	75,000	231,250
D Duncan	2,000	98,000	100,000
L Patterson	-	100,000	100,000
Total	49,313,884	1,828,040	51,141,924

G McGrath was not a specified director of the company at 30 June 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

21. Director and executive disclosures (continued)

(b) Remuneration of Specified Directors and Specified Executives (continued)

(iv) Loans to specified directors and specified executives

(a) Details of aggregates of loans to specified directors and specified executives are as follows:

		Balance 1 July 2004 \$	Interest Charged	Interest Not Charged	Write-off	Balance 30 June 2005 \$	Number in Group 30 June 2005
Specified directors							
	2005	1,310,000	-	88,478	-	1,195,000	1
	2004	NIL	-	43,721	-	1,310,000	1
Specified executives							
	2005	2,167,837	-	222,522	-	3,574,637	8
	2004	2,284,268	-	165,921	-	2,167,837	8
Total specified directors and specified executives							
	2005	3,477,837	-	311,000	-	4,769,637	9
	2004	2,284,268	-	209,642	-	3,477,837	9

(b) Details of individuals with loans above \$100,000 in the reporting period are as follows:

	Balance 1 July 2004 \$	Interest Charged	Interest Not Charged	Write-off	Balance 30 June 2005 \$	Highest Owing in Period
Specified directors						
P Crowley	1,310,000	-	88,478	-	1,195,000	1,310,000
Specified executives						
E Harrison	288,831	-	40,825	-	701,505	741,349
S Wright	213,831	-	35,537	-	626,505	666,349
C Bizon #	503,750	-	21,569	-	240,000	503,750
R Watkins	178,331	-	10,488	-	115,750	178,331
J Measroch	263,750	-	24,688	-	379,745	404,746
G Oliver	219,344	-	25,137	-	409,150	438,056
D Duncan	500,000	-	49,764	-	800,991	813,491
L Patterson	-	-	14,514	-	300,991	313,491

to 30 November 2004

Mr D Duncan has a housing loan of \$500,000 secured by a registered second mortgage. Mr C Bizon has an unsecured housing loan of \$240,000. Mr E Harrison has an unsecured housing loan of \$75,000. Each of these loans is interest free and repayable on termination.

All other loans are with respect to the Employee Share Plan. The Employee Share Plan loans are interest free and repayable over 15 years or earlier in certain circumstances. Dividends paid on the shares acquired under the Plan are applied against the balance of the loan outstanding.

(v) Other transactions and balances with specified directors and specified executives

Transactions with specified directors

Mr B Thornton is a director of Great Western Corporation Pty Ltd. Certain entities in the consolidated entity have purchased and sold components and tooling from and to Great Western Corporation Pty Ltd on normal commercial terms and conditions during the year for a net purchase consideration of \$582,608 (2004: \$297,393). At reporting date \$137,089 (2004: \$14,278) formed part of trade creditors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$	2004 \$	2005 \$	2004 \$
22. Remuneration of auditors				
Audit related services:				
Auditors of GWA International Limited:				
<i>Australia</i>				
- audit or review of the financial reports	260,000	300,400	10,000	8,400
- IFRS advice	20,700	-	-	-
<i>Overseas Firms</i>				
- audit or review of the financial report of subsidiary entities	48,163	54,369	-	-
	328,863[#]	354,769⁺	10,000[#]	8,400⁺
Other services:				
Auditors of GWA International Limited:				
<i>Australia</i>				
- Tax advisory and compliance	-	72,370	-	-
- Acquisition due diligence services	-	4,400	-	-
- Superannuation advice and assistance	-	8,650	-	-
- Other	51,367	72,809	-	-
	51,367[#]	158,229⁺	-	-
# These fees are paid to KPMG as the auditors of the consolidated entity and the company for the current financial year.				
+ These fees were paid to Ernst & Young as the auditors of the consolidated entity and the company for the previous financial year.				
	\$'000	\$'000	\$'000	\$'000
23. Contingent liabilities				
Details and estimates of maximum amounts of contingent liabilities, classified in accordance with the party from whom the liability could arise and for which no provisions are included in the accounts, are as follows				
Bank guarantees	2,833	1,078	-	-
Cross guarantee by GWA International Limited as described in Note 28. All these companies have assets in excess of liabilities. The previous freight carrier for Dux has lodged an action in the Industrial Relations Commission of NSW with claims totaling \$3.6 million. Dux is defending the claim. No provision has been made in the financial report for the claimed compensation.				
24. Commitments for expenditure				
(a) Capital Expenditure Commitments				
Total capital expenditure contracted for at balance date but not provided for in the accounts payable				
- Not later than 1 year	29,360	2,768	-	-
(b) Lease Expenditure Commitments				
Operating lease (non-cancelable) expenditure contracted for at balance date:				
- Not later than 1 year	6,671	6,894	-	-
- Later than 1 year but not later than 5 years	13,707	14,575	-	-
- Later than 5 years	1,774	2,237	-	-
Aggregate lease expenditure contracted for at balance date	22,152	23,706	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

25. Superannuation commitments

GWAIL Group Retirement Fund

The Defined Benefits categories of the GWAIL Group Retirement Fund were discontinued effective 30 June 2002. Members have transferred their benefits to other superannuation funds.

As at 30 June 2004 all members had transferred from the fund. During the 2004/05 year, there were no additional company contributions (2003/04: \$161,500). The fund has now been wound up effective 30 June 2004.

26. Related parties

Transactions concerning wholly owned group

The wholly owned group consists of GWA International Limited and its wholly owned controlled entities.

Transactions between GWA International Limited and wholly owned controlled entities during the year ended 30 June 2005 consisted of:

- (i) loans advanced by and to GWA International Limited;
- (ii) loans repaid to and by GWA International Limited; and
- (iii) the payment of dividends to GWA International Limited.

	The Company	
	2005 \$'000	2004 \$'000
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with wholly owned controlled entities were as follows:		
Dividend revenue	139,300	50,400
Trust revenue	1,956	1,915
Aggregate amounts receivable from and payable to wholly owned controlled entities at balance date were as follows:		
Non-current receivables	500,475	458,120
Non-current borrowings	424,993	453,024

Controlling entities

The ultimate controlling entity and the ultimate Australian controlling entity in the wholly owned group is GWA International Limited.

Ownership interests in related parties

Interests held in controlled entities are set out in Note 27.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

		Country of Incorporation	Class of Shares	2005 %	2004 %	Parties to Cross Guarantee
27. Investment in controlled entities						
(a) Name of Entity						
<i>The company</i>						
GWA International Limited		Aust	Ord			Y
<i>Controlled Entities</i>						
GWA Group Limited	(ii)	Aust	Ord	100	100	Y
Gainsborough Hardware Industries Limited	(ii)	Aust	Ord	100	100	Y
Caroma Holdings Limited	(ii)	Aust	Ord	100	100	Y
GWA (North America) Pty Ltd	(ii)	Aust	Ord	100	100	Y
Sebel Furniture Inc	(iii)	USA	Ord	100	100	N
Caroma Industries Limited	(ii)	Aust	Ord	100	100	Y
G Subs Pty Ltd	(ii)	Aust	Ord	100	100	Y
Sebel Furniture (Hong Kong) Ltd	(i)	HK	Ord	100	100	N
GWA Trading (Shanghai) Co Ltd	(iii)	China	Ord	100	N/A	N
GWA International (Hong Kong) Limited	(i)	HK	Ord	100	100	N
Stylus Pty Ltd	(ii)	Aust	Ord	100	100	Y
Stylus Industries Pty Limited	(ii)	Aust	Ord	100	100	Y
Fowler Manufacturing Pty Ltd	(ii)	Aust	Ord	100	100	Y
Starion Tapware Pty Ltd	(ii)	Aust	Ord	100	100	Y
Dorf Clark Industries Ltd	(ii)	Aust	Ord	100	100	Y
Dorf Industries (NZ) Ltd		NZ	Ord	100	100	N
Mcllwraith Davey Pty Ltd	(ii)	Aust	Ord	100	100	Y
Stylus Sales Limited		NZ	Ord	100	100	N
Caroma Industries Europe BV	(i)	Netherlands	Ord	100	100	N
Wisa Beheer BV	(i)	Netherlands	Ord	100	100	N
Wisa BV	(i)	Netherlands	Ord	100	100	N
Wisa Systems BV	(i)	Netherlands	Ord	100	100	N
Wisa GmbH	(i)	Germany	Ord	100	100	N
Stokis Kon Fav. Van Metaalwerken NV	(i)	Netherlands	Ord	100	100	N
Wisa France SA	(i)	France	Ord	100	100	N
Caroma International Pty Ltd	(ii)	Aust	Ord	100	100	Y
Caroma USA Inc	(iii)	USA	Ord	100	100	N
Caroma Canada Industries Ltd	(iii)	Canada	Ord	100	100	N
Caroma Industries (UK) Ltd	(i)	UK	Ord	100	100	N
Canereb Pty Ltd	(iv)	Aust	Ord	100	100	N
Dux Manufacturing Limited	(ii)	Aust	Ord	100	100	Y
GWA Taps Manufacturing Limited	(ii)	Aust	Ord	100	100	Y
Lake Nakara Pty Ltd	(iv)	Aust	Ord	100	100	N
Mainrule Pty Ltd	(iv)	Aust	Ord	100	100	N
Warapave Pty Ltd	(iv)	Aust	Ord	100	100	N
Rover Mowers (NZ) Limited		NZ	Ord	100	100	N
Caroma Industries (NZ) Limited		NZ	Ord	100	100	N
GWAIL (NZ) Ltd		NZ	Ord	100	100	N
Rover Mowers Limited	(ii)	Aust	Ord	100	100	Y
Industrial Mowers (Australia) Limited	(ii)	Aust	Ord	100	100	Y
Olliveri Pty Ltd	(ii)	Aust	Ord	100	100	Y
Sebel Service & Installations Pty Ltd	(ii)	Aust	Ord	100	100	Y

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

		Country of Incorporation	Class of Shares	2005 %	2004 %	Parties to Cross Guarantee
27. Investment in controlled entities (continued)						
(a) Name of Entity (continued)						
Sebel Properties Pty Ltd	(ii)	Aust	Ord	100	100	Y
Sebel Furniture Limited (NZ)		NZ	Ord	100	100	N
Sebel Furniture Limited	(ii)	Aust	Ord	100	100	Y
Sebel Furniture (SEA) Pte Ltd	(i)	Sing	Ord	100	100	N
Sebel Sales Pty Limited	(ii)	Aust	Ord	100	100	Y
Caroma Singapore Pte Limited	(i)	Sing	Ord	100	100	N
GWA Finance Pty Limited	(ii)	Aust	Ord	100	100	Y
Hetset (No. 5) Pty Ltd	(ii)	Aust	Ord	100	100	Y
Gainsborough Hardware Limited	(iii)	UK	Ord	100	100	N
Bankstown Unit Trust		Aust	Units	100	100	Y

All controlled entities are controlled by GWA International Limited.

- (i) Controlled entities which are audited by other member firms of KPMG International.
- (ii) Pursuant to Class Order 98/1418, relief has been granted to these controlled entities of GWA International Limited from the *Corporations Act 2001* requirements for preparation, audit and publication of a financial report.
- (iii) There is no requirement to prepare a financial report for these overseas companies and accordingly separate audits were not performed.
- (iv) In accordance with the *Corporations Act 2001* the directors have elected not to prepare or have audited a financial report for the controlled entity as the entity meets the definition of a small proprietary company.

(b) Controlled Entities

GW Nominees Pty Ltd and GWAIL ESF Nominees Pty Ltd which are the trustee companies of the former GWAIL Group Retirement Fund and the former GWAIL Superannuation Fund respectively, are wholly owned by a controlled entity of GWA International Limited. These trusteeships are the sole activities of the companies, which do not trade in their own right. As superannuation trustees, these entities are not controlled entities for the purpose of Accounting Standard AASB 1024 *Consolidated Accounts* and are therefore not consolidated with the group of companies comprising GWA International Limited and its controlled entities.

28. Deed of cross guarantee

GWA International Limited, and specific controlled entities (as set out in Note 27) having their place of incorporation in Australia, are parties to a deed of cross guarantee which has been lodged with and approved by the Australian Securities and Investments Commission. Under the deed of cross guarantee each of the parties to the deed guarantees the debts of the other.

Pursuant to Class Order 98/1418, relief has been granted to the companies in the closed group from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

The consolidated statement of financial performance and statement of financial position of the entities which are parties to the Deed of Cross Guarantee (Closed Group) are as follows:

	2005 \$'000	2004 \$'000
Consolidated Statement of Financial Performance		
Profit from ordinary activities before income tax	86,945	82,619
Income tax attributable to ordinary activities	(27,209)	(23,829)
Profit from ordinary activities after income tax	59,736	58,790
Retained profits at the beginning of the financial year	65,119	56,383
Total available for appropriation	124,855	115,173
Dividends paid	(64,010)	(50,054)
Retained profits at the end of the financial year	60,845	65,119

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
28. Deed of cross guarantee (continued)		
Consolidated Statement of Financial Position		
Current assets		
Cash assets	124,002	117,044
Receivables	62,933	60,777
Inventories	87,487	87,243
Other	6,405	1,452
Total current assets	280,827	266,516
Non-current assets		
Receivables	7,942	4,288
Investments	16,280	16,280
Property, plant and equipment	106,702	123,956
Inter-company	37,456	52,110
Brand names	331,685	331,685
Goodwill	-	875
Deferred tax assets	24,766	24,780
Total non-current assets	524,831	553,974
Total assets	805,658	820,490
Current liabilities		
Payables	48,772	53,630
Current tax liabilities	5,618	8,774
Provisions	29,222	30,289
Total current liabilities	83,612	92,693
Non-current liabilities		
Interest bearing liabilities	296,560	297,803
Deferred tax liability	346	665
Provisions	19,901	18,671
Inter-company	-	-
Total non-current liabilities	316,807	317,139
Total liabilities	400,419	409,832
Net assets	405,239	410,658
Equity		
Contributed equity	346,853	346,853
Foreign currency translation reserve	(2,459)	(1,314)
Retained profits	60,845	65,119
Total equity	405,239	410,658

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

29. Segment reporting

(a) Primary Reporting – Business Segments

	Building Fixtures and Fittings	Commercial Furniture	Unallocated	Intersegment Eliminations	Total Consolidated
	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000	2005 \$'000
Revenue					
External sales	523,850	61,608	41,408	-	626,866
Intersegment sales	-	1,947	-	(1,947)	-
Total sales revenue	523,850	63,555	41,408	(1,947)	626,866
Other revenue	14,556	628	6,266	-	21,450
Total segment revenue	538,406	64,183	47,674	(1,947)	648,316
Segment result	105,736	5,781	(19,975)	-	91,542
Income tax expense					(28,389)
Net profit					63,153
Total assets	583,480	52,738	195,498	-	831,716
Total liabilities	82,122	6,663	317,361	-	406,146
Other segment information:					
Acquisition of property, plant and equipment, intangible assets and other non-current assets	18,565	1,241	1,681	-	21,487
Depreciation and amortisation expenses	22,289	3,412	1,670	-	27,371
Non-cash expenses other than depreciation and amortisation	-	-	-	-	-
	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000	2004 \$'000
Revenue					
External sales	552,504	68,148	47,274	-	667,926
Intersegment sales	31	2,065	-	(2,096)	-
Total sales revenue	552,535	70,213	47,274	(2,096)	667,926
Other revenue	3,796	1,296	4,375	-	9,467
Total segment revenue	556,331	71,509	51,649	(2,096)	677,393
Segment result	102,176	6,832	(20,607)	-	88,401
Income tax expense					(26,348)
Net profit					62,053
Total assets	595,781	57,011	190,986	-	843,778
Total liabilities	78,582	7,536	329,150	-	415,268
Other segment information:					
Acquisition of property, plant and equipment, intangible assets and other non-current assets	16,640	2,615	1,324	-	20,579
Depreciation and amortisation expense	25,704	3,305	1,540	-	30,549
Non-cash expenses other than depreciation and amortisation	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

29. Segment reporting (continued)

(a) Primary Reporting – Business Segments (continued)

Notes to and forming part of Segment Reporting

(i) The above industry segments derive revenue from sales of the following products

Building fixtures and fittings

Sanitaryware
 Building hardware products
 Baths, shower screens and spas
 Household accessories, sinks and tap ware
 Hot water products

Commercial furniture

Education products
 Hospitality products
 Stadia seating

Unallocated

Domestic and ride-on mowers
 Corporate administration and treasury

(ii) Intersegment pricing is on an arms' length basis

(b) Secondary Reporting – Geographical Segments

	Australia	Unallocated	Total Consolidated
	2005 \$'000	2005 \$'000	2005 \$'000
Segment revenue from sales to external customers	532,369	94,497	626,866
Other revenue	21,055	395	21,450
Segment assets	776,170	55,546	831,716
Acquisition of property plant and equipment, intangibles and other non-current segment assets	20,731	756	21,487
	2004 \$'000	2004 \$'000	2004 \$'000
Segment revenue from sales to external customers	578,546	89,380	667,926
Other revenue	8,882	585	9,467
Segment assets	785,818	57,960	843,778
Acquisition of property plant and equipment, intangibles and other non-current segment assets	19,489	1,090	20,579

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
30. Reconciliation of profit from ordinary activities after income tax to net cash from operating activities				
Profit from ordinary activities after income tax	63,153	62,053	141,265	51,713
Depreciation and amortisation	27,371	30,549	-	-
Net loss on sale of non-current assets	950	1,265	-	-
Net exchange differences	(793)	213	-	-
Decrease/(increase) in assets				
Decrease/(increase) in inventories	(1,111)	21,258	-	-
Decrease/(increase) in trade debtors	6,792	18,617	-	-
Decrease/(increase) in future income tax benefit	(679)	(3,153)	14	(24,780)
Decrease/(increase) in other assets	(3,882)	56	2,140	15,935
Increase/(decrease) in liabilities				
Increase/(decrease) in accounts payable and bills payable	(5,818)	(9,845)	-	-
Increase/(decrease) in provision for income tax payable	(2,167)	(7,679)	(31,810)	8,399
Increase/(decrease) in provision for deferred tax	57	(362)	(313)	665
Increase/(decrease) in other provisions	(106)	1,681	-	-
Net cash flow from operating activities	83,767	114,653	111,296	51,932

	2005	2004
31. Earnings per share		
Basic earnings per share	22.7c	22.3c
Profit used to determine earnings per share	63,153,000	62,053,000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	278,302,995	278,023,543
The company has only ordinary shares on issue and there is no other class of securities that could dilute earnings per share.		

32. Events occurring after balance date

On 16th August 2005, the directors of GWA International Limited declared a final dividend on ordinary shares in respect of the 2005 financial year. The total amount of the dividend is \$27,830,300, which represents a fully franked ordinary dividend of 8.0 cents per share and a fully franked special dividend of 2.0 cents per share. The dividend has not been provided for in the 30 June 2005 financial statements.

To the best of our knowledge, since balance date, no other matters have arisen which will, or may, significantly affect the operation or results of the consolidated entity in later years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

33. Financial instruments

(a) Terms, Conditions and Accounting Policies

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Note	Accounting Policies	Terms and Conditions
<i>(i) Financial assets</i>			
Receivables – Trade	7	Trade receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are predominantly on 30 day terms.
Cash assets	6	Cash at bank and short-term deposits are stated at face value. Interest is recognised in the profit and loss when earned.	Short-term deposits have maturities from 24 hours to 60 days and effective interest rates of 4.2% to 5.7% (2004: 4.2% to 5.4%).
<i>(ii) Financial liabilities</i>			
Bank overdrafts	15	The bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.	Interest is charged at the bank's benchmark rate plus a margin. No security has been given for bank overdrafts.
Bank loans	17	The bank loans are carried at the principal amount. Interest is recognised as an expense as it accrues.	The bank loans have a maximum 3-year rolling maturity. Interest is charged at the market rate plus a margin. No security has been given for bank loans.
Trade creditors and accruals	14	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 30 day terms.
Dividends payable	5	Dividends payable are recognised when declared by the company.	In accordance with Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' no dividend has been recognised at 30 June 2005 (2004: nil). The extent to which the dividends are franked, details of the franking account balance at the balance date and franking credits available for the subsequent financial year are disclosed in Note 5.
<i>(iii) Equity</i>			
Ordinary shares	19	Ordinary share capital is recognised at the fair value of the consideration received by the company.	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

33. Financial instruments (continued)

(a) Terms, Conditions and Accounting Policies (continued)

Financial Instruments	Note	Accounting Policies	Terms and Conditions																																				
<i>(iv) Derivatives</i>																																							
Forward exchange contracts		The consolidated entity enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the company against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months. Exchange gains or losses on forward exchange contracts are recognised to the profit and loss except those relating to hedges of specified commitments which are deferred and included in the measurement of the sale or purchase.	At balance date the company had entered into the following forward exchange contracts relating to specified commitments and agreed to																																				
			<table border="1"> <thead> <tr> <th>Buy/Sell</th> <th>Foreign Currency Amount</th> <th>Effective Rate</th> </tr> </thead> <tbody> <tr> <td colspan="3">2005</td> </tr> <tr> <td>Buy USD</td> <td>USD 6.46 million</td> <td>0.7646</td> </tr> <tr> <td>Buy EUR</td> <td>EUR 0.67 million</td> <td>0.6092</td> </tr> <tr> <td>Buy YEN</td> <td>YEN 26.97 million</td> <td>82.398</td> </tr> <tr> <td>Sell NZD</td> <td>NZD 0.65 million</td> <td>1.0847</td> </tr> <tr> <td>Sell USD</td> <td>USD 2.80 million</td> <td>0.7710</td> </tr> <tr> <td colspan="3">2004</td> </tr> <tr> <td>Buy CHF</td> <td>CHF 0.04 million</td> <td>0.8615</td> </tr> <tr> <td>Buy USD</td> <td>USD 3.30 million</td> <td>0.6974</td> </tr> <tr> <td>Sell NZD</td> <td>NZD 11.60 million</td> <td>1.1517</td> </tr> <tr> <td>Sell USD</td> <td>USD 1.20 million</td> <td>0.6926</td> </tr> </tbody> </table>	Buy/Sell	Foreign Currency Amount	Effective Rate	2005			Buy USD	USD 6.46 million	0.7646	Buy EUR	EUR 0.67 million	0.6092	Buy YEN	YEN 26.97 million	82.398	Sell NZD	NZD 0.65 million	1.0847	Sell USD	USD 2.80 million	0.7710	2004			Buy CHF	CHF 0.04 million	0.8615	Buy USD	USD 3.30 million	0.6974	Sell NZD	NZD 11.60 million	1.1517	Sell USD	USD 1.20 million	0.6926
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At balance date, the company had the following interest rate swap agreements																																							
<table border="1"> <thead> <tr> <th>Swap Term Remaining</th> <th>Notional Amount</th> <th>Effective Rate</th> </tr> </thead> <tbody> <tr> <td colspan="3">2005</td> </tr> <tr> <td>May 06*</td> <td>A\$ 50 million</td> <td>4.63%</td> </tr> <tr> <td>Aug 07</td> <td>A\$ 25 million</td> <td>5.67%</td> </tr> <tr> <td>Sep 07</td> <td>A\$ 25 million</td> <td>5.62%</td> </tr> <tr> <td>Oct 07</td> <td>A\$ 25 million</td> <td>5.52%</td> </tr> <tr> <td>Nov 07</td> <td>A\$ 25 million</td> <td>5.50%</td> </tr> <tr> <td>Sep 08</td> <td>A\$ 25 million</td> <td>5.63%</td> </tr> <tr> <td colspan="3">2004</td> </tr> <tr> <td>Oct 04</td> <td>A\$100 million</td> <td>5.13%</td> </tr> <tr> <td>Mar 05</td> <td>A\$ 50 million</td> <td>5.04%</td> </tr> <tr> <td>May 06*</td> <td>A\$ 50 million</td> <td>4.63%</td> </tr> </tbody> </table>	Swap Term Remaining	Notional Amount	Effective Rate	2005			May 06*	A\$ 50 million	4.63%	Aug 07	A\$ 25 million	5.67%	Sep 07	A\$ 25 million	5.62%	Oct 07	A\$ 25 million	5.52%	Nov 07	A\$ 25 million	5.50%	Sep 08	A\$ 25 million	5.63%	2004			Oct 04	A\$100 million	5.13%	Mar 05	A\$ 50 million	5.04%	May 06*	A\$ 50 million	4.63%			
Swap Term Remaining	Notional Amount	Effective Rate																																					
2005																																							
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* Bank has an option for a further 12 months																																							
Interest rate swaps		GWA International Limited enters into interest rate swap agreements that are used to convert the variable interest rate of its short-term borrowing to medium-term fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates. It is the company's policy not to recognise interest rate swaps in the financial statements. Net receipts and payments are recognised as an adjustment to interest expense.																																					

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

33. Financial instruments (continued)

(b) Interest Rate Risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating Interest Rate	Fixed Financial Instruments Maturing in			Non-Interest Bearing	Total Carrying Amount as Per Statement of Financial Position	Weighted Average Effective Interest Rate
		1 Year or Less	Over 1-5 Years	More than 5 Years			
	2005 \$	2005 \$	2005 \$	2005 \$	2005 \$	2005 \$	2005 %
Financial assets							
Cash and deposits at call	134,854	-	-	-	-	134,854	5.42
Trade receivables	-	-	-	-	57,927	57,927	N/A
Total financial assets	134,854	-	-	-	57,927	192,781	N/A
Financial liabilities							
Bank loans	296,560	-	-	-	-	296,560	5.58
Trade creditors	-	-	-	-	47,972	47,972	N/A
Interest rate swaps	-	50,000	125,000	-	-	-	5.21
Forward exchange contracts	-	14,126	-	-	-	-	N/A
Total financial liabilities	296,560	64,126	125,000	-	47,972	344,532	N/A
Financial Instruments	Floating Interest Rate	Fixed Financial Instruments Maturing in			Non-Interest Bearing	Total Carrying Amount as Per Statement of Financial Position	Weighted Average Effective Interest Rate
		1 Year or Less	Over 1-5 Years	More than 5 Years			
	2004 \$	2004 \$	2004 \$	2004 \$	2004 \$	2004 \$	2004 %
Financial assets							
Cash and deposits at call	138,352	-	-	-	-	138,352	5.12
Trade receivables	-	-	-	-	65,848	65,848	N/A
Total financial assets	138,352	-	-	-	65,848	204,200	N/A
Financial liabilities							
Bank loans	297,803	-	-	-	-	297,803	5.45
Trade creditors	-	-	-	-	51,118	51,118	N/A
Interest rate swaps	-	100,000	100,000	-	-	-	5.00
Forward exchange contracts	-	16,997	-	-	478	478	N/A
Total financial liabilities	297,803	116,997	100,000	-	51,596	349,399	N/A

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

33. Financial instruments (continued)

(c) Net Fair Values

The aggregate net fair values of the consolidated entity's financial assets and financial liabilities, both recognised and unrecognised, at the balance date, are as follows:

	Total Carrying Amount as Per the Statements of Financial Position		Aggregate Net Fair Value ⁽ⁱ⁾	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Financial assets				
Cash and deposits at call	134,854	138,352	134,854	138,352
Receivables – Trade	57,927	65,848	57,927	65,848
Total financial assets	192,781	204,200	192,781	204,200
Financial liabilities				
Bank loans	296,560	297,803	296,560	297,803
Trade creditors	47,972	51,118	47,972	51,118
Interest rate swaps – (Gain)/loss	-	-	2,348	(677)
Forward exchange contracts – (Gain)/loss	-	478	75	454
Total financial liabilities	344,532	349,399	346,955	348,698

(i) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised financial instruments

Cash and deposits at call: The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables and creditors: The carrying amount approximates fair value.

Long-term borrowings: The carrying amount of long-term borrowings approximates fair value because their incremental borrowing rates were rolled over no later than 28 September 2005. The current rate would be the same as the current incremental rate applicable to the borrowings.

Forward exchange contracts: The carrying amount of forward exchange contracts is determined as the recognised gain or loss at balance date calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Unrecognised financial instruments

Interest rate swap agreements: The fair values of interest rate swap contracts are determined as the difference in present value of the future interest cash flows.

(d) Credit Risk Exposures

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the Statement of Financial Position.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The consolidated entity's maximum credit risk exposure in relation to these is as follows:

- (i) forward exchange contracts – the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to the company. At balance date the net loss amount was \$75,000 (2004 net loss: \$454,000);
- (ii) interest rate swap contract – which is limited to the net fair value of the swap agreement at balance date, being a net loss of \$2,348,000 (2004 net gain: \$677,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

33. Financial instruments (continued)

(d) Credit Risk Exposures (continued)

Concentrations of credit risk

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers within the specified industries. However, the majority of customers are concentrated in Australia. Refer also to Note 29 Segment Reporting.

Concentrations of credit risk on trade receivables arise in the following industries

	Maximum Credit Risk Exposure* for Each Concentration			
	Consolidated			
	Percentage of Total Trade Debtors (%)		\$'000	
	2005	2004	2005	2004
Industry				
Buildings, fixtures and fittings	74	78	43,111	51,147
Commercial furniture	16	15	9,201	9,900
Unallocated	10	7	5,615	4,801
Total	100	100	57,927	65,848

Credit risk in trade receivables is managed in the following ways:

- payment terms are predominantly 30 days;
- a risk assessment process is used for customers over \$50,000; and
- credit insurance is obtained for major customers.

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

(e) Hedging Instruments

(i) Interest rate swaps

GWA International Limited has entered into interest rate swap contracts to hedge against fluctuations in interest rates on its borrowing facilities.

(ii) Forward exchange contracts

GWA International Limited has entered into forward exchange contracts to hedge against fluctuations in foreign currencies on purchases and sale of goods.

34. Impact of adopting Australian equivalents to international financial reporting standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

Transition management

The consolidated entity established an implementation project to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005. The company has allocated internal resources and engaged expert consultants to conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures. This phase included:

- a high-level review and identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS
- assessment of new information requirements to comply with AIFRS
- preparation of a conversion plan to implement the changes to the consolidated entity's accounting, reporting and information requirements

The assessment and planning phase is completed at 30 June 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

34. Impact of adopting Australian equivalents to international financial reporting standards (continued)

Design phase

The design phase involved setting out the changes required to existing accounting policies and procedures in order to transition to AIFRS. The design phase incorporated:

- analysis of the differences between AIFRS and current Australian accounting standards
- preparation of papers setting out the key differences impacting the consolidated entity
- development of revised AIFRS disclosures

The design phase is completed at 30 June 2005.

Implementation phase

The implementation phase includes documentation and calculation of the identified changes to accounting policies and procedures and enables the consolidated entity to report the required reconciliations and disclosures of AASB1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. The implementation phase is in progress at 30 June 2005.

Impact of transition to AIFRS

The impact of transition to AIFRS, and the selection and application of AIFRS accounting policies are based on AIFRS standards that management expect to be in place when preparing the first complete AIFRS financial report. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

The significant changes in accounting policies expected to be adopted upon transition to AIFRS are set out below:

Business combinations

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date will not be restated in preparing the opening AIFRS balance sheet.

Goodwill

Under AASB 3 *Business Combinations* goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. The goodwill booked by the consolidated entity with the purchase of Gainsborough was fully amortised at 30 June 2005.

Other intangible assets

Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses. Software assets developed for internal use will be reclassified from property, plant and equipment to intangible assets on transition to AIFRS. This is not a material amount.

Impairment

Under current Australian GAAP the carrying amounts of non-current assets are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

Under AIFRS, intangible assets that have an indefinite useful life and intangible assets not yet ready for use are tested for impairment annually. The recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment. An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

At transition date, the consolidated entity had recognised \$357.0 million of intangibles (brand names) as non-current assets at cost. The consolidated entity has completed its impairment testing on brand names. As a result of the impairment testing being on a cash generating unit level under AIFRS which is a lower level than under current Australian GAAP, an impairment loss will be recognised in relation to the Stylus brand name. An impairment loss of \$14.6 million will be recognised as a decrease in retained earnings on transition to AIFRS in relation to the Stylus brand name.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

34. Impact of adopting Australian equivalents to international financial reporting standards (continued)

Property, plant and equipment

Under AIFRS the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity an amount of \$12.5 million is expected to be reclassified from revenue to other expenses for the financial year ended 30 June 2005.

AIFRS requires that contractual liabilities for removal and disposal costs of plant be brought to account on acquisition of the assets. This cost must be expensed over the life of the asset by creating a provision, against which the actual expenses are charged when incurred. On transition a provision of \$1.5 million for make good costs associated with certain items of plant and equipment is expected to be recognised in the consolidated entity.

Financial statements of foreign operations

Under current Australian GAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

Under AIFRS each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the company or its subsidiaries.

The AASB 1 election to reset the existing foreign currency translation reserve balance to nil is expected to be adopted. Foreign currency translation differences amounting to \$0.9 million that have arisen prior to the date of transition will be transferred directly from foreign currency translation reserve to retained earnings.

Employee share plan loans

Under AIFRS interest free employee share plan loans are required to be discounted to net present value and a prepayment recognised in the balance sheet to reflect the future service being provided by employees in respect of the interest free loan. The financial impact of discounting employee share plan loans currently in existence is not material.

Classification of financial instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be recognised in the Statements of Financial Position. The financial instruments must also be classified into one of five categories. The financial instruments are to be carried at either fair value or amortised cost depending on their classification. This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. Under AASB 139, in order to achieve a qualifying hedge, the entity is required to meet certain criteria. The entity's foreign exchange contracts relating to the purchase of components and finished goods for resale are hedges and are expected to be qualifying hedges under these criteria. The future financial effect of these changes has not yet been quantified.

Income taxes

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP. The expected impact on the consolidated entity of this change in basis has not yet been quantified.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of GWA International Limited ("the company"), we state that:

1. In the opinion of the directors:
 - (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2005.
3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



B Thornton

Director



P C Crowley

Director

Brisbane, 16 August 2005

INDEPENDENT AUDIT REPORT



Independent audit report to the members of GWA International Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 34 to the financial statements, and the directors' declaration for both GWA International Limited (the Company) and GWA International Limited and its controlled entities (the Consolidated Entity), for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of GWA International Limited is in accordance with:

- (a) the *Corporations Act 2001*, including
 - (i) giving a true and fair view of the financial position of GWA International Limited and the Consolidated Entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Trent van Veen
Partner
Sydney
16 August 2005