



INNOVATION = FUTURE GROWTH

GWA INTERNATIONAL LIMITED 2005/06 ANNUAL REPORT

caroma®

dorf

CLARK

dux
HOT WATER

Gainsborough

•FOWLER®

i Irwell

WISA®

stylus

ROVER
MOWERS

sebel
form function balance



GWA International Limited listed on the Australian Stock Exchange in May 1993 and is one of Australia's largest designers, manufacturers, importers and distributors of household consumer products. The company has more than 2,000 employees with manufacturing facilities throughout Australia and in Europe.

GWA International Limited currently comprises five business divisions, Caroma Dorf, Dux, Gainsborough, Rover and Sebel,

all of which are well-established businesses with strong brand names and market positions.

GWA International Limited has grown significantly since listing as a result of the strong operating performance of the businesses and successful acquisitions. The company remains committed to growing shareholder wealth through maximising business performance and the pursuit of further appropriate domestic acquisitions.

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Mission Statement

GWA International Limited's primary objective is to grow shareholder wealth. This objective will be achieved by continuing to invest in people, products and technology to sustain and build premium profitability of the businesses over time.

The company will focus on the research, development and release of innovative and environmentally friendly products to maximise

market opportunities, and to assist in reducing domestic water consumption and greenhouse gas emissions.

GWA International Limited is committed to acquiring another major domestic business division, and to also pursue bolt-on acquisitions that add value to existing businesses, and that support expansion into new markets.

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form. function. balance.

Caroma Dorf is Australia's foremost designer, manufacturer, importer and distributor of domestic and commercial bathroom and kitchen products, including sanitaryware, tapware, accessories, bathware, stainless steel sinks and laundry tubs. Caroma Dorf is at the forefront of product innovation and is the market leader in water efficient sanitaryware and tapware.



Dux is an Australian designer, manufacturer, importer and distributor of a range of hot water systems. The range includes mains pressure gas and electric storage, continuous flow gas, electric and gas boosted solar and heat pump products.



Gainsborough is a leading Australian designer, manufacturer, importer and distributor of a comprehensive range of domestic and commercial door hardware and fittings, including security products.



Rover is one of Australia's leading designers, manufacturers and distributors of domestic and commercial lawn and garden care equipment.

Sebel is at the forefront of Australian design, manufacture and distribution of quality commercial furniture and seating.



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→ Performance Highlights

- Net profit after tax of \$56.9 million
- Earnings per share of 20.4 cents
- Fully franked dividend of 21.5 cents (including 3.5 cents in special dividends)
- Return on shareholders' equity of 13.8%

Five Year Financial Summary	2001/02 \$'000	2002/03 \$'000	2003/04 \$'000	2004/05 \$'000	2005/06 \$'000
Revenue	615,843	666,525	677,393	626,866	619,989
Earnings before interest, tax, depreciation, amortisation and reorganisation costs	109,934	120,426	131,564	130,067	117,617
(%)	17.9	18.1	19.4	20.7	19.0
Depreciation and amortisation	28,812	28,034	30,549	26,714	22,420
Earnings before interest, tax and reorganisation costs	81,122	92,392	101,015	103,353	95,197
(%)	13.2	13.9	14.9	16.5	15.4
Interest (net)	14,477	13,816	12,614	11,137	11,490
Trading profit before tax	66,645	78,576	88,401	92,216	83,707
(%)	10.8	11.8	13.1	14.7	13.5
Tax expense	19,995	23,569	26,348	28,328	23,628
(%)	30.0	30.0	29.8	30.7	28.2
Trading profit after tax	46,650	55,007	62,053	63,888	60,079
Reorganisation costs after tax	-	-	-	-	3,227
Net profit after tax	46,650	55,007	62,053	63,888	56,852
Net cash flow provided from operating activities before debt cost and tax	116,807	128,200	162,104	130,157	98,234
Capital expenditure	32,976	24,392	20,579	21,331	30,966
Research and development	5,064	5,770	5,485	6,488	5,775
Net debt	229,435	207,678	159,451	161,706	141,000
Shareholders' equity	387,849	413,787	428,510	409,546	411,968
Other Ratios and Statistics					
Return on shareholders' equity (%)	12.0	13.3	14.5	15.6	13.8
Interest cover (times)	5.6	6.7	8.0	9.3	8.3
Net debt/equity (%)	59.2	50.2	37.2	39.5	34.2
Earnings per share (cents)	16.8	19.8	22.3	23.0	20.4
Ordinary dividend per share (cents)	14.5	15.5	18.0	18.0	18.0
Special dividend per share (cents)	2.5	2.5	2.5	4.5	3.5
Total dividend per share (cents)	17.0	18.0	20.5	22.5	21.5
Franking (%)	100	100	100	100	100
Ordinary dividend payout ratio (%)	86.3	78.3	80.7	78.3	88.2
Share price (30 June) (\$)	2.35	2.70	2.95	2.92	3.11
Dividend yield (total dividend) (%)	7.2	6.7	6.9	7.7	6.9
Number of employees (No.)	2,757	2,646	2,565	2,474	2,226

Notes: EBIT for financial years 2002 to 2004 has been calculated in accordance with previous Australian GAAP. EBIT for financial years 2005 and 2006 has been calculated in accordance with Australian equivalents to IFRS (AIFRS). For impact on EBIT of transition to AIFRS, see note 32 to the Financial Statements



→ Chairman's Review

Barry Thornton
Chairman

The 2005/06 financial year was a challenging year for the Group, with a softening dwelling construction and renovation market across Australia, record raw material prices and the scale of business transformation activities undertaken over the year.

The profit after tax for the period of \$56.9 million, reduced by the business transformation costs, was an 11.0% decrease on the prior year's record performance. This was a commendable result in these market circumstances, and reflects the strength and quality of the Group's businesses. The performance for the year was achieved on sales revenue of \$620.0 million. Earnings per share for the 2005/06 year was 20.4 cents per share, with earnings per share from trading of 21.6 cents per share. I congratulate management and staff on their efforts and commitment in achieving this result in the challenging market conditions whilst undertaking the extensive business reorganisation initiatives.

As outlined in the Group's half year result release in February, the Group has taken the opportunity in the softening market conditions to reorganise its businesses and reduce operating costs. During the year, the Group announced the closure of the Dorf tapware factory at Penrith, the closure of the Caroma vitreous china sanitaryware factory at Coburg and the integration of the Caroma and Dorf Clark divisions, with the head office located in Sydney. The current reorganisation activities are an on-going process aimed at improving financial performance, primarily through the accessing

of supply markets, which offer opportunities to build competitiveness and access growth. It will ensure that the Group is well prepared for the next upturn in the dwelling construction and renovation market.

Together with the reorganisation activities, the Group has implemented a significant capital expenditure program during the 2005/06 year. The major expenditure was aimed at improving the domestic manufacturing capacity and distribution capabilities of the Caroma Dorf division, and will enable domestic manufacturing to remain competitive over the long-term.

As part of the business reorganisation, the Group has continued to invest in its people through the Talent Identification and Management Program designed by Monash University. The Board views this program as essential in developing current and potential managers in the organisation, and ensuring that management has the necessary skills to meet the changing needs of the businesses.

→ Dividends

The Board recognises the importance of dividends to the Group's shareholders, and aims to increase ordinary dividends in line with trading profitability. On 15 August 2006, the directors announced a fully franked final dividend for the 2005/06 year of 11.5 cents per share, which comprises an ordinary dividend of 8.0 cents per share and a special dividend of 3.5 cents per share.

Together with the interim dividend of 10.0 cents per share paid in April, this brings the total fully franked dividend for the 2005/06 year to 21.5 cents per share, which represents an after tax yield of 6.9% based on the closing share price at 30 June 2006.

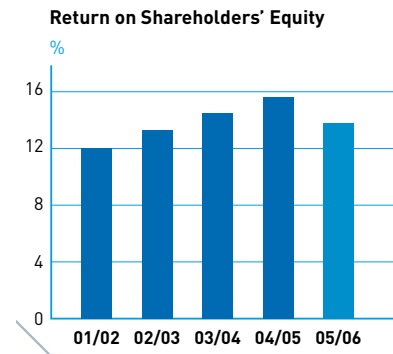
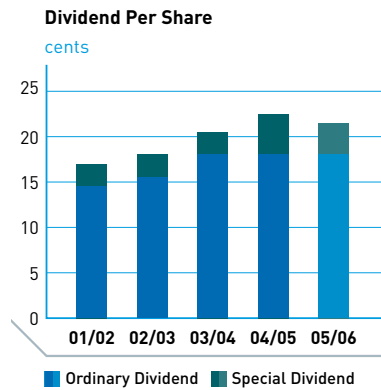
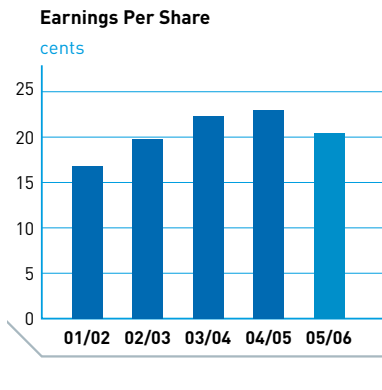
The declaration of a further special dividend for the 2005/06 year continues the Group's track record in distributing surplus cash and franking credits to shareholders. Over the past 5 years, the company has distributed 15.5 cents in fully franked special dividends to shareholders. The Board will give consideration to further special dividends and other capital management initiatives in the 2006/07 year as a means of distributing surplus cash and franking credits to shareholders.

The Group's Dividend Reinvestment and Share Purchase Plans remain suspended, however the Board will consider re-opening these plans when a major acquisition is undertaken.

→ Corporate Governance

The corporate governance practices of the Group were implemented by the Board, and have been in place since listing in 1993. The Board continues to review and monitor the corporate governance practices of the Group to ensure that current best practice is maintained.

The Board comprises long serving and experienced directors with a detailed understanding of the Group's businesses. This knowledge and experience has been a key factor in the success of the Group since listing, and there is a need for



The declaration of a further special dividend for the 2005/06 year continues the Group's track record in distributing surplus cash and franking credits to shareholders.



a stable and experienced Board during the current reorganisation activities in the Group.

The Board has developed succession plans for the future retirement of individual directors. In accordance with the Board succession plans, the Board will give consideration to the appointment of an additional director during the 2006/07 year.

In the important area of risk management, the Group continues to focus on improving the identification and management of risk in the organisation. During the year, an Executive Risk Committee was established to drive this process, and the Committee reports directly to the Audit Committee on risk management matters. I am confident that management have put in place an efficient and effective risk management system for the Group, which ensures that risk management is embedded in all aspects of the Group's operations.

For details of the Group's corporate governance practices, I refer you to the Corporate Governance Statement on page 15 of the Annual Report.

→ Product Innovation

One of the Group's overarching strategies is the continued focus on the development of innovative and environmentally friendly products, such as Caroma Smartflush which is a new range of reduced flush water efficient sanitaryware. The Group's emphasis on product innovation enables the businesses to satisfy relevant regulatory requirements, meet market opportunities to grow profitability, and assist in reducing domestic water consumption and greenhouse gas emissions.

The Group continues to work with all levels of Government in developing solutions for managing the country's precious water resources. In this regard, the recent introduction by the Queensland Government of a rebate scheme for installing dual flush toilets and water efficient tapware in domestic Queensland households is a significant initiative of the Government to assist with the water shortage problem. This initiative provides further market opportunities for the Caroma Dorf business, the market leader in water efficient sanitaryware and tapware.

For details of the Group's product innovations, I refer you to page 12 of the Annual Report.

→ Strategic Direction

Whilst the 2005/06 year has been a challenging period, I am confident that the changes occurring in the Group will grow shareholder wealth in the long-term. The Group will be well prepared for the next upturn in the dwelling construction and

renovation market. In the interim, the Group will continue to maximise profitability through the reorganisation of the businesses, the reduction in operating costs and the focus on product innovation which is a key competitive advantage.

In regard to potential acquisitions, the Group continued the search for appropriate domestic acquisitions during the year. A number of potential acquisition opportunities were evaluated, but none of the opportunities met the Group's acquisition criteria. The Group will continue the search for appropriate domestic acquisitions that are synergistic with the existing building fixtures and fittings businesses, and that will enable the Group to grow shareholder wealth.

In closing, I would again like to thank management and staff for their efforts during the 2005/06 year. We have many talented and loyal staff in the organisation who are committed to the Group's future success.

Whilst many challenges and opportunities lie ahead for the Group, the reorganisation activities will enable the Group to meet these challenges and opportunities, and grow profitability into the future. I confirm that the generation of shareholder wealth remains the primary objective of the Board.

B Thornton
Chairman



→ Managing Director's Review of Operations



Peter Crowley
Managing Director

The 2005/06 year has been an important period for the Group with an extensive set of business transformation initiatives effected during the year and a sound trading performance in difficult market conditions. The business transformation initiatives have incurred \$22 million in expenses for the year, offset by gains on related property sales of \$16 million.

The trading performance for the year was principally impacted by lower demand from the Group's domestic markets. This lower activity added pressure to market pricing which was also eroded following the clearance of stocks by the market prior to the introduction of the Water Efficiency Labelling Standards (WELS) requirements. The major factor affecting demand for the company's products was the decline in dwelling construction with increasing interest rates and lower home affordability levels which delayed any recovery in dwelling commencements.

The continuing development of international supply markets created the opportunity for Dorf to reorganise the supply of tapware products previously assembled and packed in Australia. Dorf's Penrith tapware facility was closed during the year with the costs being accounted for in the first half. A profit on sale of the property was realised in the second half of the year. Caroma and Sebel have also actioned opportunities to reorganise supply. Other business improvement initiatives include the progressive

integration of the Caroma and Dorf Clark businesses, now known as Caroma Dorf. This initiative is creating opportunities to deliver improved value offerings and extend market reach, thereby strengthening the market competitiveness of this business.

→ Sound Trading Profit for 2005/06 Year

Sales revenue for the Group of \$620.0 million, down 1% on the prior year, was a good performance for the year given the domestic market

conditions. An excellent second half sales performance largely recovered the decline in sales for the first half which were down 4.9% on the prior period. In particular, the building fixtures and fittings businesses of Caroma Dorf, Dux and Gainsborough competed strongly for the available market and full year sales revenue for this segment of \$523.1 million was a pleasing performance, near the prior year's sales of \$523.9 million.

Profit after tax for the year of \$56.9 million is after the costs of business restructuring and net of the related gains on property sales.

→ Restructuring Costs

	Trading \$'000's	Re-Organisation \$'000's	Total \$'000's
Profit before Interest and Tax	95,197	Costs: (21,963) Property gain: 16,019	89,253
Borrowing Costs and Interest Income	(11,490)		(11,490)
Profit before Tax	83,707	(5,944)	77,763
Income Tax Expense	(23,628)	2,717	(20,911)
Profit after Tax	60,079	(3,227)	56,852

→ Segment Sales and Profit

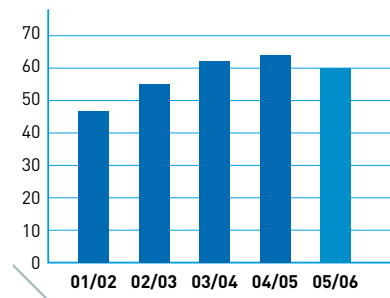
Business Segment	Segment Sales		Segment Profit	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Building fixtures and fittings	523,100	523,850	102,858	105,535
Commercial furniture	56,738	61,608	4,655	5,781
Other	40,151	41,408	(12,316)	(7,963)
Total	619,989	626,866	95,197	103,353
Reorganisation expenses			(5,944)	-
Profit before interest and tax			89,253	103,353

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Trading Profit after Tax

\$ million



Sales revenue for the Group of \$620 million was a good performance for the year given the domestic market conditions.

Trading results and net restructuring costs are listed in the table on page 4.

These reorganisation costs were incurred in the closure of the Penrith tapware and Coburg sanitaryware factories, the closure of the metals and timber manufacturing facilities of Sebel and the head office integration of the Caroma and Dorf Clark businesses.

Property gains were realised on the sale of the Penrith and Bankstown properties during the year.

Trading earnings after tax for the Group of \$60.1 million were down 6% on the prior year. The Group's core Building Fixtures and Fittings segment performed strongly with trading earnings of \$102.9 million being 2.5% down on the prior year's record result.

→ Cash Flow

Trading cash flow, before reorganisation costs, of \$70.7 million was a very strong performance in the market conditions. Working assets increased by \$7.5 million on the prior period through higher debtors and lower payables.

Business reorganisation yielded a positive cash position with the cash expenditures being \$10.6 million and the proceeds from sale of properties contributing proceeds of \$33.5 million in the period. The proceeds from the sale of the Coburg property received in July 2005 also contributed to the cash flow result. Over the 2005/06 year, cash assets increased by \$21.6 million to \$156.5 million.

In the investing cash expenditures of \$30.2 million, the major items were the new warehouse and plant at Caroma's Wetherill Park facility.

→ Operating Performance

The Group's 2005/06 trading earnings before interest and tax of \$95.2 million was a sound result at the trading level which was down 7.9%. The costs expended in business reorganisation have strengthened the competitiveness of the business and these initiatives will contribute to future performance.

Particularly pleasing was the trading performance of the Group's core building fixtures and fittings businesses which was achieved while extensive business reorganisation was undertaken in the period and in very difficult market conditions, particularly in NSW. Each of the divisions in this segment have undertaken initiatives in the 2005/06 year aimed at building their competitiveness and market reach.

The Caroma and Dorf Clark divisions are being progressively integrated under a single management structure which was established during the year. The Caroma division performed well over the year and, with the benefit of a strong last quarter, recorded sales and profit only marginally below the prior year. Dorf Clark's results were impacted by lowering tapware margins as the market cleared stocks ahead of the introduction of the WELS legislation.

Dux hot water contributed another good result with sales and profit near

the prior year results. This business has developed products to meet market demand changes flowing from energy conservation legislation. Whilst significant business establishment costs were incurred in the 2005/06 year in this area, trading performance was maintained.

The Gainsborough business traded above expectations maintaining the level of sales and contributing an increased profit for the year. This continues Gainsborough's history of profit growth.

For the 2005/06 year, the Building Fixtures and Fittings segments which is comprised of these businesses, contributed 84% of the Group's revenue. These businesses have opportunities to build their market competitiveness further in the near term.

Rover's profit contribution reduced significantly in the 2005/06 year, principally on lower industry margins. Sales were only slightly below the prior year on a good sales performance but selling prices were reduced as low cost imports increased in the domestic mower market. This business is transforming to meet the challenges of its changing industry structure.

Sebel's trading contribution for the year was impacted by lower sales with the overall result being increased by the gain on sale of the Bankstown property net of reorganisation costs. The trading result was down 20% on the prior year. The decline in sales was due mainly to lower domestic education sales reflecting lower capital





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Caroma has continued to develop its relationship with overseas sanitaryware suppliers and is assessing opportunities for strategic associations with international companies.

spending by that sector particularly in New South Wales. Education related spending is expected to recover in 2006/07. The sustained high AUD exchange rate has constrained Sebel's export sales growth and initiatives are being assessed to improve competitiveness in their international markets.

→ Investment in Future Performance

Divisional

During the course of the 2005/06 year, the Group's business divisions have taken significant steps in their progressive transformation to realise the new opportunities resulting from their changing and developing markets.

Business Transformation

Each of the businesses continue to assess the opportunities offered by developing international supply markets. In the 2005/06 year, Dorf reorganised its supply of those tapware products which were assembled and packaged in Australia to overseas sourcing thereby reducing product costs, improving supply lead times and reducing investment in the business. The costs of this restructuring were recovered by the gain on disposal of the Penrith property.

Caroma has continued to develop its relationship with overseas sanitaryware suppliers and is assessing opportunities for strategic associations with international

companies. During the year Caroma rationalised its domestic sanitaryware manufacturing with the closure of the Coburg factory. The upgrading of the Wetherill Park sanitaryware factory has progressed to plan. The companion project at this site, a new warehouse has been completed and is in use, generating savings in lease and distribution costs. The cost competitiveness of Caroma's domestic manufacturing has been significantly improved with these initiatives. Caroma is also in an improved cost competitive and supply position to service its international markets. Offshore supply is now in place to service these markets.

Sebel has reorganised the supply of metal and timber furniture to international suppliers with low input costs and scale of operations to maintain cost competitiveness. Sales to Sebel's international markets will also benefit from this sourcing of product.

GWA Trading (Shanghai) Co Ltd, the Group's business in China is now well established and is assisting our Australian and international operations in the development of effective strategic partnerships with suppliers in the Asia Pacific region.

Each of the Group's businesses continues to assess opportunities for business reorganisation aimed at improving cost competitiveness and adding to the value of product and service offerings to the Group's markets.



→ Corporate

The Group is continuing to invest in key initiatives in information technology, people development and employee health and safety.

→ Information Technology

Following on the successful implementation of the Movex Enterprise Resource Planning system at Dux in 2005, an expanded implementation team has been assembled for the Movex roll out in Caroma Dorf. The initial planning and preparation phases of the implementation program have been completed and the system is planned to be progressively installed across the business commencing in the second half of the 2006/07 year. The Movex system is a critical component in enabling the business to meet the challenges of increasingly complex and integrated supply chains. The system will also provide the capability to reduce transaction costs and build value in the Group's trading relationships into the future.



During the year, the Group has implemented a new information technology system to record, monitor and assess workplace health and safety issues, risks and mitigation plans.

Costs incurred to date on the Caroma Dorf implementation of \$737,000 were capitalised in the 2005/06 year.

→ Talent Identification and Development

The collaboration with Monash University has progressed significantly through the 2005/06 year with extensive assessment and feedback for employees across the Group's businesses. Development programs are being established for participating staff. This program is designed to identify, develop, mentor and encourage our talented people to ensure the sustainability of our business and the on-going creation of shareholder wealth. Costs incurred and expensed on this program in the 2005/06 year were \$280,000.

→ Employee Health and Safety

During the year, the Group has implemented a new information technology system to record, monitor and assess workplace health and safety issues, risks and mitigation plans. This new system incorporates the Group's already well defined policy framework.

The Group has established a risk management and mitigation strategy for asbestos in the workplace and during the year the asbestos roof at the Wetherill Park facility was completely replaced at a cost of \$2.5 million. Of this amount \$1.16 million related to the removal



of the asbestos sheeting and was expensed.

→ Environmental

In the 2005/06 year, the Group has commenced a program to realise improved energy efficiency in association with a tertiary institution. The Group has ongoing activities at each business aimed at minimising waste and hazardous materials.

→ Outlook for the 2006/07 Year

I expect the new year to present a challenging trading environment, however, the Group's businesses are improving their market competitiveness and are creating growth opportunities.

Recent, and expected further increases in interest rates together with the continued low level of housing affordability are expected to defer the recovery of domestic dwelling construction. Oil and metal price driven inflation may also result in a further contraction of domestic

renovation activity. Consequently, demand from the domestic market is expected to decline further in the 2006/07 year.

I am confident that the Group's businesses will progressively realise the benefits of the business transformation initiatives effected to date and our aim is to achieve a trading EBIT for the Group above the \$95.2 million achieved in 2005/06.

Further business reorganisation initiatives may result in costs which reduce the Group's 2006/07 consolidated profit and such costs will add to business performance in future years.

→ Longer Term Outlook

GWA International Limited's earnings are predominantly generated from the Building Fixtures and Fittings segment businesses which contribute 84% of Group sales revenue. The principal drivers of demand for the segment's products are domestic construction, commercial building projects, renovation and replacement activity.





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At 30 June 2006, the company had cash assets of \$156.5 million, an increase of \$21.6 million over the financial year.



Recent trends driving the number and value of dwellings constructed have included population growth, lower family sizes and larger houses. Renovation activity is expected to continue to grow as the stock of existing homes age further. Commercial construction activity is limited to national economic growth levels.

Over the long-term, growth is expected to continue in line with overall population and economic growth. However activity will be subject to economic cycles.

The benefits of supply reorganisation across the Group's businesses are improved product cost competitiveness, improved supply flexibility and reduced exchange risk in international markets. The volatility of the Australian currency has been a significant disadvantage over time in the development and maintenance of profitable export markets for the Group's businesses. The small scale of the domestic production relative to overseas market volumes has also restricted supply to international markets

especially when domestic market demand has been high.

I expect the Group to build its international markets over time utilising its overseas supply partners and creating profitable growth opportunities into the future.

Over the longer term, I expect our current portfolio of businesses may change through acquisition and divestment as markets and supply chains continue to create new opportunities for strategic partnerships and association.

The GWA Group is in a very strong financial position to acquire businesses complementary to our core activities and to invest further in our existing businesses.

I am confident that the current portfolio of businesses have sufficient growth opportunities for the company to continue to grow shareholder wealth.

→ Financial Condition

At 30 June 2006, the company had cash assets of \$156.5 million, an increase of \$21.6 million over the financial year.

Cash flow from operating activities for the year of \$60 million includes the cash expenditures on business reorganisation of \$10.6 million which will contribute to future profits.

Over the year, \$31 million was expended on new investments, these being principally the new warehouse and production technology at the Wetherill Park site.

These investments will also add to future profitability. The sale of the Penrith and Bankstown properties, receipt of proceeds from the Coburg property sold in the prior year and plant sales contributed investing cash inflows of \$46.4 million over the financial year.

Dividends paid in cash during the year were \$55.66 million with part of this amount reducing the employee share plan loans.

The company's operating cash flow is expected to continue to exceed the operational funding requirements of the business and contribute further funds for investment. The cash assets of \$156.5 million at balance date provide the funding for a significant business acquisition when the opportunity arises.

Debt funding and other financing facilities are provided to the company under a Master Financing Agreement. At balance date, bank loans were made up of:

- Australian Currency \$285 million
- Euro €7.3 million

These loans and other facilities are extended annually under 2 year and 3 year evergreen arrangements.

The Euro loan is a currency hedge with respect to the Group's investment in the Wisa business. At balance date the Group held Euro currency of 2.6 million as a hedge with respect to equipment for the Wetherill Park factory project. The major part of this amount was expended in July 2006. Other cash assets are held predominantly in



The 2005/06 year has been a year of sound performance and strategic progress for the company.



Australian currency placed on deposit for terms up to 90 days.

At balance date, the company held interest rate swaps totalling \$125 million at rates between 5.50% and 5.67% with expiry dates from August 2007 to September 2008. Each of the contract swap rates is below the relevant market rate for the Group's domestic borrowings at balance date and represents a hedge of near 75% of the Group's net interest bearing debt.

The Group's businesses have entered into foreign currency hedges at balance date as set out in the Financial Statements. These hedges are for the purchase of components and finished products and sales in overseas currencies.

The ratio undertakings under the Master Financing Agreement have

been comfortably met throughout the 2005/06 year and the Group has the capability to increase borrowings significantly, within the ratio undertakings, to fund acquisition opportunities of scale.

In addition to further borrowing the company has the option to raise further equity funds by reinstating the Dividend Reinvestment and Share Purchase Plans.

The company did not issue any further employee shares during the year. At balance date the number of shares on issue under this plan was 3.1 million and the loan amount was \$6.2 million, a reduction of \$1.8 million on the opening balance made up of dividends and loan repayments.

In the year, the company has not issued any further shares and no share options have been issued by the company.

The further steps taken in the reorganisation of supply of components and products over the year has increased the Group's imports and reduced the Group's relative exposure to import competition to further increases in the domestic currency rate. The Group's major currency exposures are to the US dollar and Euro currencies. Movements in these

currency rates over this financial year and the prior year are set out in the table below.

→ Summary

The 2005/06 year has been a year of sound performance and strategic progress for the company. I am very pleased with the Group's trading performance for the year and particularly so with Caroma Dorf, Gainsborough and Dux. The excellent trading performance for the fourth quarter which underpinned the sound full year result is an indication of the progress made in transforming the businesses and the opportunities being created through improved cost competitiveness and expanded reach.

The company's management and staff achieved record results in recent years assisted by domestic market growth and are now maintaining a sound trading performance in difficult market conditions whilst undertaking the significant changes necessary for the businesses to meet the challenges and realise the opportunities of their developing markets.

I congratulate our management and staff on their performance and achievements in the 2005/06 year.


P C Crowley
Managing Director

1 Aus Dollar		Jun	Sep	Dec	Mar	Jun
US\$	- 2005/06	0.7637	0.7615	0.7337	0.7159	0.7433
	- 2004/05	0.6889	0.7147	0.7790	0.7719	0.7637
Euro	- 2005/06	0.6315	0.6326	0.6175	0.5889	0.5841
	- 2004/05	0.5702	0.5794	0.5717	0.5973	0.6315



→ Strategic Direction and Business Divisions

Business Divisions	Main Products and Services	Brand Names	Websites
→ caroma dorf	→ Vitreous china toilet suites, urinals, bidets, basins, plastic cisterns, bathroom accessories and fittings. Acrylic and pressed steel spas, baths and shower trays. Tapware and accessories, stainless steel sinks and laundry tubs	→ Owned: Caroma, Fowler, Stylus, Wisa, Clark, Radiant, Myttons, Epure, Dorf, Caroma Taps, Irwell, Donson → Exclusive: Hansa, Keuco, Schell, KWC, Virtu	→ www.caroma.com.au → www.caroma.smartflush.com.au → www.fowler.com.au → www.stylus.com.au → www.wisa-sanitair.com → www.starion-industries.com → www.dorf-clark.com.au
→ dux HOT WATER	→ Dux is an Australian designer, manufacturer, importer and distributor of a range of hot water systems. The range includes mains pressure gas and electric storage, continuous flow gas, electric and gas boosted solar and heat pump products	→ Owned: Dux, EcoSmart	→ www.dux.com.au → www.ecosmart.com.au
→ Gainsborough	→ A comprehensive range of door hardware comprising door handles (knobs and levers), door locks, door closers, hinges and other metal door accessories	→ Owned: Gainsborough, (Architectural Hardware, Stronghold Series, Contractor Series, Aspect Series), Trilock	→ www.gainsboroughhardware.com.au
→ ROVER MOWERS	→ Range of walk-behind and ride-on mower equipment, garden chip and shred products and spare parts	→ Owned: Rover	→ www.rovermowers.com.au
→ sebel form. function. balance.	→ Sebel produces a broad range of commercial furniture suited to its target markets. The range includes dining seating and tables, outdoor furniture, mass seating for stadia and public areas, casual corporate markets, and tables, desks and chairs for the education market.	→ Owned: Sebel	→ www.sebel.com.au

· FOWLER ·

stylus

WISA CLARK

EPURE
by CLARK

Irwell

Donson
tapware

HANSA KEUCO

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GWA International Limited's primary objective is to grow shareholder wealth. This objective will be achieved by continuing to invest in people, products and technology to sustain and build premium profitability of the businesses over time.

	Operating Locations	Major Markets	Strategic Direction
	<ul style="list-style-type: none"> → Australia, New Zealand, China, North America, Europe 	<ul style="list-style-type: none"> → New dwellings, renovation, replacement and commercial markets in Australia, New Zealand and selected international markets 	<ul style="list-style-type: none"> → Caroma Dorf will maintain leadership in the domestic market through its focus on the development and release of innovative and environmentally friendly products, and will expand its international business through new product development and promotion of leading brands
	<ul style="list-style-type: none"> → Australia, overseas distributors 	<ul style="list-style-type: none"> → Dux participates actively in the new home and replacement markets. However, the primary market for hot water systems is the replacement or breakdown market 	<ul style="list-style-type: none"> → Dux will continue to focus on improving business performance by developing new environmentally friendly products to meet emerging market requirements and regulations, strengthening key customer relationships, and reducing costs through both improved plant performance and sourcing of components
	<ul style="list-style-type: none"> → Australia, New Zealand, export markets 	<ul style="list-style-type: none"> → Domestic home builders, DIY and building projects, commercial buildings and multi-dwelling developments 	<ul style="list-style-type: none"> → Gainsborough's strategic direction encompasses the development of additional door hardware products to suit domestic buildings, continued development of commercial markets and development of export markets
	<ul style="list-style-type: none"> → Australia, New Zealand, overseas distributors 	<ul style="list-style-type: none"> → Domestic, commercial, lawn care and garden products and equipment, marketed in over 35 countries 	<ul style="list-style-type: none"> → Rover will continue to target market growth segments in Australia and overseas
	<ul style="list-style-type: none"> → Australia, New Zealand, Hong Kong, United Kingdom 	<ul style="list-style-type: none"> → Entertainment, hospitality, healthcare, public seating, sports stadia, corporate and educational markets. Sells direct to builders, developers, clubs and hotels 	<ul style="list-style-type: none"> → As well as its strong emphasis on new product development, Sebel will continue to pursue traditional markets using its strong brand name and good customer service to drive sales through increased market share. Current export markets will also be expanded, with the division pursuing opportunities in education and stadia markets overseas



→ Environmental Product Innovations

→ Research and Development

Caroma Dorf has recently opened a new "state of the art" R&D Centre, situated in the company's head office at Epping in Sydney. The centre employs a team of fifteen professionals, involved in industrial and ceramic design, engineering design using advanced computer aided design technology to develop world-class products. Other GWA subsidiaries such as Dux and Sebel also conduct their own in-house R&D programs.

With the knowledge that both the local and international markets place ever increasing demand on environmentally friendly products, GWA has for several years focussed its R&D on developing world-class designs that pioneer ways to save water and energy, reduce greenhouse gases or deliver other environmentally sustainable benefits.

Caroma Dorf has focused its R&D efforts in extending its highly successful Smartflush® dual flush sanitaryware and W.E.T.® (Water Efficient Tapware) technology into most product ranges on offer to the

market. Concurrently, extensive R&D work has been undertaken by the company to ensure that all products are in compliance with the Federal Government's WELS (Water Efficiency Labelling and Standards Scheme) that by legislation, commenced on 1 July 2006.

Caroma Dorf has recently launched two new urinals that are the undisputed leaders in water saving technology.

The Caroma Cube 0.8 litre Smartflush® Urinal is Australia's first 6-star rated urinal and uses up to 60% less water compared to standard 2 litre single stall models.

The Caroma H2Zero Cube Urinal transforms the way you think about waterless urinals and heralds a major breakthrough in waterless technology. This product is the first truly viable and sustainable high performance waterless option.

Dux hot water systems have been providing the Australian and International markets with quality heating systems since 1915.

The priority for R&D has been on developing a range of environmentally friendly products, and there has been intensive development focus throughout the year on solar products and heat pumps.

The focus was needed due to rapidly changing political environments that are mandating both solar and ever increasing levels of energy efficiency.

To achieve the required increases in energy efficiency and to also not allow a drop in customer satisfaction, Dux has developed a range of highly sophisticated energy management systems unparalleled in the industry.

These systems typify a transition from "dumb" control to "intelligent" management of energy.

The approach and products produced have set Dux as a market leader in this field, and as an innovator.

The first product onto the market taking this intelligent approach has been the Sunpro 305. The Sunpro has been met with eager acceptance by the builder and new home markets and represents an innovative and technological advance.

This energy management technology is now being applied across the full range of Dux products (electricity, gas and heat pump) lifting the perception of the brand in the market.

Caroma Dorf has focused its R&D efforts in extending its highly successful Smartflush® dual flush sanitaryware and W.E.T.® (Water Efficient Tapware) technology into most product ranges on offer to the market.

caroma smartflush.
WATER-SAVING TECHNOLOGY





← H2ZERO WATERLESS URINAL

SUNPRO 305 →



The Caroma H2Zero Cube Urinal transforms the way you think about waterless urinals and heralds a major breakthrough in waterless technology.

→ Caroma Smartflush®

With the country experiencing some of the harshest drought conditions and water shortages in many years, Governments, water authorities and the community are looking at long-term solutions to conserve water and protect the Australian environment.

Widely recognised as a market leader in the development of water efficient products, Caroma Dorf has become among the first to embrace WELS, the Federal Government's new Water Efficiency Labelling and Standards Scheme, which sets out a national water efficiency rating and labelling criteria to a range of water-using products.

As water restrictions and the WELS scheme are to become a permanent part of our future, the Caroma Smartflush® toilet system becomes a very valuable asset for those households and businesses attempting to meet water conservation guidelines and preserve this valuable resource.

The Smartflush® dual flush technology has considerably reduced the amount of water used each time the toilet is flushed. Older style, single flush toilets use up to 11 litres of water with every flush. Converting to the Caroma Smartflush®, which only uses 4.5 litres for a full flush and 3 litres for a half flush, will save the average household an estimated 35,000 litres of water each year.

All Caroma Smartflush® toilet suites carry a WELS 4 star rating, while Caroma 6/3 litre dual flush toilet suites are 3 star rated for water efficiency.

The Caroma Smartflush® system has also been recognised for its environmental qualities through the following awards:

- '2004 Product of the Year' at the GreenPlumbers Awards
- 'Australian Design Award'
- Housing Industry Association's '2005 National GreenSmart Product of the Year' Award
- Engineers' Australia 'Award for Excellence in Engineering Design (Highly Commended)'
- 'Powerhouse Museum Selection Award'

→ Dorf Water Efficient Tapware (W.E.T.®)

Dorf W.E.T.® products are also contributing to a sustainable future by saving water, energy and the environment. A WELS 3 star rating has been achieved for tapware, mixers and showers.

Engineered to regulate the flow of water, whilst still providing optimum performance, the W.E.T.® range of products can be used in the kitchen, bathroom and the laundry.

If used throughout the home, it is estimated that the average household will:

- Save the equivalent of up to one swimming pool worth of water per year
- Use less energy as there is less water to heat
- Reduce greenhouse gas emissions as less energy is used
- Cut up to \$320 off annual household expenses

→ Dux Solar Hot Water Systems

Dux has continued to develop its range of environmental products under the 'Sunpro' brand.

The Sunpro 305 product has become the benchmark in the Victorian housing market as it combines the simplicity of a conventional gas storage unit with solar collectors and a patented 'Hot Logic' controller. This product provides a relatively low capital cost product that meets the stringent requirements of the SEAV whilst ensuring consumers have sufficient hot water, even on cloudy days.

The Sunpro Gas Boosted solar products remain at the forefront of the market and continue to provide solutions at the performance end of the market. These products have gained wide acceptance in Victoria, New South Wales and Queensland, where legislation is driving the market towards higher efficiency products.

Sunpro Electric Boosted solar products are gaining ground in Queensland, along with the new heat pump technology, Airoheat, which reduces demand for electricity compared with conventional water heaters. In South Australia, Electric Boosted solar heaters have established a niche in the market and are assisting to reduce demand for energy compared with conventional electric hot water heaters.

Another innovative environmental product developed by Dux is Readyhot, a new water reticulation pump which reduces water being wasted. Readyhot won the HIA Greensmart Award in Western Australia and is now a national finalist.

Dux remains at the forefront of environmental product development and will continue to differentiate from competitors by taking this leading role in the market.



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→ Board of Directors

→ **B Thornton** KSJ FCA FAICD FAIM FCIS

Chairman and Non-Executive Director

Elected to the Board 1992

Expertise: Chartered Accountant, corporate and financial management

Special Responsibilities:

Chairman of the Board, Chairman of Nomination Committee and member of Audit Committee

Mr Thornton joined GWA Limited in 1974 as Finance Director and was appointed Chief Executive in 1981. In 1986, he was appointed Executive Chairman and, following the privatisation of GWA Limited in 1989 and the public float of the Manufacturing Division as GWA International Limited in 1993, he became Non-Executive Chairman. He is also Chairman of the Brisbane Airport Corporation Limited, and a member of the Brisbane Advisory Board of the Salvation Army.

During the past three years, Mr Thornton has served as a director of the following other listed company, and the period in which the directorship was held:

- Stockland Corporation Limited 1995-2004

→ **J J Kennedy** AO CBE DU^{univ} (QUT) FCA FCPA

Deputy Chairman and Non-Executive Director

Elected to the Board 1992

Expertise: Chartered Accountant and director of a number of public and other corporations

Special Responsibilities:

Deputy Chairman of the Board, Chairman of Audit Committee and member of Nomination Committee

During the past three years, Mr Kennedy has served as a director of the following other listed companies, and the period in which the directorships have been held:

- Suncorp-Metway Limited* since 1997
- Australian Stock Exchange Limited* since 1990
- Macquarie Goodman Funds Management Limited : 1994 – 2004
- Qantas Airways Limited resigned June 2006

* denotes current directorship
+ denotes Chairman

→ **P C Crowley** BA BEcon FAICD

Managing Director

Appointed 6 May 2003

Expertise: Broad manufacturing experience in Australia and overseas

2001: Managing Director and Chief Executive, Austrim Nylex Limited, a diversified industrial company;
1999: Executive Director, Cement and Lime, The Rugby Group PLC, a UK Public Company with extensive international cement operations. During this period, also served as a director of Adelaide Brighton Limited;

1997: Chief Executive, Cockburn Cement Limited (a subsidiary of The Rugby Group PLC), Western Australia's largest cement producer and Australia's largest lime producer;

1982: Various roles with Queensland Cement Limited and its parent company Holderbank culminating in General Management responsibilities within Australia and South-East Asia.

During the past three years, Mr Crowley has served as a director of the following other listed company, and the period in which the directorship was held:

- Austrim Nylex Limited 2001-2003

→ **D R Barry** FAIM

Non-Executive Director

Elected to the Board 1992

Expertise: Importation, distribution and retailing

Special Responsibilities:

Member of Remuneration Committee

Mr Barry was appointed a director of GWA Limited in 1979, and was primarily responsible for one of its major divisions involved in importation, wholesaling and retailing.

Mr Barry was appointed a Non-Executive Director of GWA International Limited in 1992.

→ **M D E Kriewaldt** BA LLB FAICD

Non-Executive Director

Elected to the Board 1992

Expertise: Lawyer and director of a number of public and other corporations

Special Responsibilities: Chairman of Remuneration Committee, member of Audit Committee and member of Nomination Committee

Mr Kriewaldt provides advice to the law firm Allens Arthur Robinson and to Aon, insurance brokers. He formerly practised in a wide range of areas including banking and finance, insurance, insolvency and receivership and intellectual property. Mr Kriewaldt is Chairman of Opera Queensland Limited.

During the past three years, Mr Kriewaldt has served as a director of the following other listed companies, and the period in which the directorships have been held:

- Campbell Brothers Limited* since 2001
- Oil Search Limited* since 2002
- Suncorp-Metway Limited* since 1996
- Peptech Limited* since 2003
- Thin Technologies Limited 2003

→ **R M Anderson**

Non-Executive Director

Elected to the Board 1992

Expertise: Property investment and transport logistics

Mr Anderson was appointed a director of GWA Limited in 1979 after joining the Group in 1955 where he gained wide experience in management, investment and property matters.

Mr Anderson was appointed a Non-Executive Director of GWA International Limited in 1992.

→ **G J McGrath** MIE

Non-Executive Director

Elected to the Board 2004

Expertise: Manufacturing and general management

Special Responsibilities:

Member of Remuneration Committee

2003: Mr McGrath retired as Managing Director of GWA International Limited on 6 May 2003, and continued his involvement with the Group as an adviser to the Board;
1992: Mr McGrath was appointed Managing Director of GWA International Limited;

1982: After the takeover of UPL Group by GWA Limited, Mr McGrath was appointed Managing Director of the GWA Manufacturing Group companies comprising Caroma, Sebel and Rover Mowers.

During the past three years, Mr McGrath has served as a director of the following other listed companies, and the period in which the directorships have been held:

- Campbell Brothers Limited*+ since 2003
- Fletcher Building Limited* since 2003

→ **Company Secretary**

R J Thornton CA B Com LLB (Hons) LLM FTIA

Appointed 4 July 2003

Expertise: Chartered Accountant, taxation and finance

Mr Thornton joined GWA International Limited in 2002 as Group Taxation Manager and Treasurer. He is experienced in accounting, taxation and finance through positions at Coopers & Lybrand, Citibank and Ernst & Young in Australia and overseas.



The Board of Directors is responsible for the corporate governance of GWA International Limited ("the company") which is an essential part of the role of the Board. Corporate governance is about the Board undertaking an active monitoring of the company's activities and ensuring that integrity prevails within the company. The governance principles adopted by the Board are designed to achieve this outcome.

→ Corporate Governance Statement for the year ended 30 June 2006

The corporate governance practices of the company have been in place since listing and are constantly reassessed in the light of experience (within the company and in other organisations), contemporary views and best practice guidelines on good corporate governance practices. The Board adopts practices it considers to be superior and which will lead to better outcomes for the company's shareholders, whilst endeavouring to avoid those which are based on unsound principles or represent temporary fads.

The Board supports the Principles of Good Corporate Governance and Best Practice Recommendations ("the recommendations") released by the ASX Corporate Governance Council. The Board confirms that the current corporate governance practices of the company meet or exceed the recommendations, except for Recommendation 2.2 which provides that the chairperson should be an independent director. The Chairman of the company, Mr Barry Thornton, would not be considered an independent director in accordance with the definition of independence outlined in the recommendations, as he is associated with a substantial shareholder. This matter is outlined in more detail below – *refer Independence of Directors*.

As part of its responsibilities, the Board has ensured that management has put in place a comprehensive system of risk management and internal controls. These are outlined in more detail below – *refer Risk Management and Internal Controls*.

The Board continues to review and monitor the company's risk management and internal control practices to ensure that best practice is maintained.

For further information on the corporate governance practices of the company, please refer to the corporate website at www.gwail.com.au in the Corporate Governance section.

1. Role of the Board

The Board is responsible for the long-term growth and profitability of the company. The Board charts the strategic direction of the company and monitors executive and senior management performance on behalf of shareholders. To achieve this, the Board is engaged in the following activities:

- Final approval of corporate strategies and performance objectives developed by senior management, with Board input
- Approval and monitoring of financial and other reporting
- Monitoring of executive and senior management performance, including the implementation of corporate strategies, and ensuring appropriate resources are available
- Appointment and monitoring of the performance of the Managing Director
- Liaison with the company's External Auditor through the Audit Committee
- Ensuring that the company has appropriate systems of risk management and internal controls,

reporting mechanisms and delegation authority limits in place

- Approval and monitoring of the progress of major capital expenditure, capital management, and acquisitions and divestments
- Any other matters required to be dealt with by the Board from time to time depending upon circumstances of the company
- Other matters referred to in the Board Committee charters

The Board operates under a charter that details the functions and responsibilities of the Board. The charter is regularly reviewed to ensure it remains consistent with the Board's objectives and responsibilities. The Board charter has been posted on the company's website in the Corporate Governance section.

2. Board Meetings

The Board meets at least 11 times each year for scheduled meetings and may, on other occasions, meet to deal with specific matters that require attention between scheduled meetings. Together with the Board Committees, the directors use the Board meetings to challenge and fully understand the business and its operational issues. To assist with the Board's understanding of the businesses, the Board regularly conducts Board meetings at the factories, followed by management presentations and factory tours.

The General Managers of the business divisions are required to regularly attend and present at





the Board meetings on corporate strategies and performance. A Group strategy meeting is held annually, which enables the Board to review corporate strategies and performance with the General Managers of the business divisions. This ensures that the Board is effectively carrying out its duty of approving corporate strategies and performance objectives.

The Chief Financial Officer is required to attend Board meetings and present the Finance Department Monthly Report, and to answer questions from the directors on financial performance, accounting, risk management and treasury matters.

The Company Secretary is responsible for the completion and dispatch of the agenda and Board papers for each meeting. The Company Secretary prepares the draft minutes for each meeting, which are tabled at the next Board meeting for review and approval. The Company Secretary is accountable to the Board, through the Chairman, on all corporate governance matters.

3. Composition of the Board

The Board presently comprises 7 directors, 6 of whom, including the Chairman and Deputy Chairman, are non-executive directors and one, the Managing Director, is an executive director.

Profiles of the directors are set out on page 14 of the Annual Report. The profiles outline the skills, experience and expertise of each Board member.

The composition of the Board is determined by the Nomination Committee and, where appropriate, external advice is sought. The following principles and guidelines are adhered to:

- The Board should maintain a majority of non-executive directors
- The Board should maintain a majority of independent directors
- The Chairperson should be a non-executive director
- The role of Chairperson and Managing Director should not be exercised by the same individual

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- Non-executive directors should not be involved in management of the day to day operations of the company
- All Board members should have financial expertise and relevant experience in the industries in which the company operates

Re-Election of Directors

In accordance with the company's constitution, at each Annual General Meeting, a number of directors will face re-election. One third of the Board (excluding the Managing Director and any director not specifically required to stand for re-election) must stand for re-election. In addition, no director (other than the Managing Director) may hold office for more than three years without standing for re-election, and any director appointed by the Board since the last Annual General Meeting must stand for re-election at the next Annual General Meeting. All retiring directors are eligible for re-election.

4. Independence of Directors

The Board considers that directors must be independent from management and free of any business or other relationship that could interfere, or reasonably be perceived to interfere, with the exercise of their unfettered and independent judgment. In applying the definition of independence outlined in the recommendations of the ASX Corporate Governance Council, it has been determined that the majority of the Board members of GWA International Limited are independent.

The following directors are considered by the Board to constitute the independent directors of the company:

- **Mr Jim Kennedy**,
Deputy Chairman and
Non-Executive Director
- **Mr Martin Kriewaldt**,
Non-Executive Director
- **Mr David Barry**,
Non-Executive Director
- **Mr Robert Anderson**,
Non-Executive Director

The Board is responsible for ensuring that the action of individual directors in the Boardroom is that of independent persons. The Board distinguishes between the concept of independence and issues of conflict of interest or material personal interest which may arise from time to time – refer Conflicts of Interest below.

In recognising the importance of the independence of directors and the immediate disclosure of conflicts of interest, the Board has included both matters as permanent items on the agenda at Board meetings. Any independence or conflict of interest issues arising during the relevant period must be disclosed to the Chairman prior to each Board meeting. The disclosure is recorded in the Register of Directors' Interests and in the Board minutes.

(i) Mr Barry Thornton – Chairman and Non-Executive Director

As indicated above, the Chairman, Mr Barry Thornton, would not be considered an independent director based on the definition of independence outlined in the recommendations of the ASX Corporate Governance Council. This is on the basis that Mr Thornton is associated with a substantial shareholder. In the Board's view, Mr Thornton's association with a substantial shareholder in no way prevents Mr Thornton from exercising independent judgment in carrying out his duties as Chairman of the Board. Mr Thornton is a long serving Chairman and has overseen the efficient and effective conduct of the Board's functions since listing in 1993.

In the event that any independence or conflict of interest issue arises with respect to Mr Thornton's association with a substantial shareholder, the company has procedures in place for the Deputy Chairman, Mr Jim Kennedy to assume the role as acting Chairman of the Board.

(ii) Mr Geoff McGrath – Non-Executive Director

At the Annual General Meeting on 28 October 2004 shareholders



approved the re-election of Mr Geoff McGrath as director. As disclosed in the 2003/04 Annual Report, Mr McGrath was the former Managing Director of the company and accordingly, does not meet the definition of an independent director as outlined in the recommendations of the ASX Corporate Governance Council. In the Board's view, this in no way impacts on Mr McGrath's effectiveness and performance as a director, nor does it affect Mr McGrath's ability to exercise independent judgment in carrying out his duties as a director.

(iii) Director Tenure

The current Board members have been in office for many years, as disclosed on page 14 of the Annual Report (excluding Mr Peter Crowley and Mr Geoff McGrath who were appointed in the 2002/03 and 2003/04 years respectively). The Board does not consider that the independence of a director can be assessed by reference to an arbitrary and set period of time. The Board has overseen the growth and development of the company since listing and in the Board's view the company derives benefits from having long serving directors with a detailed knowledge of the company's operations. The Board considers this a significant factor in their effectiveness and performance in their roles as directors of the company.

The Board has developed succession plans for the future retirement of individual directors. In formulating the succession plans, the Board recognises the importance of maintaining corporate memory and ensuring the appropriate balance of skills required to maintain an efficient and effective Board.

5. Conflicts of Interest

The directors are required to disclose to the Board any relationships from which a conflict of interest might arise. A director who has an actual or potential conflict of interest or a material personal interest in a matter is required to absent himself from any meeting of the Board or Board Committee, whenever the matter is

considered. In addition, the director does not receive any Board papers or other documents in which there is a reference to the matter.

This process is applied to business and trading relationships, dealings with the directors, dealings with companies with common directors and dealings with any significant shareholders of the company.

The materiality thresholds used for the determination of independence and issues of conflict of interest has been considered from the point of view of the company and directors. For the company, a relationship which accounts for 5% or more of its revenue is considered material. For a director, a relationship which accounts for 5% or more of the total income of a director is considered material. Directors' fees are not subject to this test.

6. Access to Independent Advice

Directors and the Board Committees have the right in connection with their duties and responsibilities to seek independent advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld. Where appropriate, directors share such advice with the other directors.

7. Board Committees

The Board has a number of standing Board Committees to assist in carrying out its duties and responsibilities as outlined in the Board charter. All members of Board Committees are non-executive directors.

The standing Board Committees are:

(i) Audit Committee

The Audit Committee consists of the following non-executive directors:

- **J J Kennedy** AO CBE DUW (QUT) FCA FCPA (Chairman)
- **M D E Kriewaldt** BA LLB FAICD
- **B Thornton** KSJ FCA FAICD FAIM FCIS

The Audit Committee meets as required and on several occasions throughout the year. For attendance details of the Audit Committee, refer to page 28 of the Annual Report.

The composition of the Audit Committee is based on the following principles:

- The Audit Committee should consist of non-executive directors only
- The Audit Committee should maintain a majority of independent directors
- The Chairperson must be independent, and not Chairperson of the Board
- The Audit Committee should consist of at least three members
- The Audit Committee should include members who are financially literate with at least one member who has financial expertise

The Audit Committee was established in 1993 and is governed by a charter which outlines the Committee's role and responsibilities, composition, structure and membership requirements. The charter is regularly reviewed to ensure it remains consistent with the Board's objectives and responsibilities. The Audit Committee charter has been posted on the company's website in the Corporate Governance section.

The External Auditor, Managing Director, Chief Financial Officer, Company Secretary, Group Commercial Manager and other company executives (as required) attend Audit Committee meetings, by invitation, to present the relevant statutory information, financial statements, reports, and to answer the questions of the Audit Committee members. At the Audit Committee meetings to consider the half and full year financial results, the Audit Committee members will meet with the External Auditor without management present.

The main responsibilities of the Audit Committee include:

- Review of financial statements and external financial reporting
- Assess the management processes supporting external reporting





- Assess whether the external reporting is adequate to meet the information needs for shareholders
- Recommendations on the appointment and removal of the External Auditor
- Review and monitor the performance and independence of the external audit
- Review of tax planning and tax compliance systems and processes
- Review and monitor risk management and internal compliance and control systems
- Assess the performance and objectivity of the internal audit function
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter

The Company Secretary prepares the draft minutes for each Audit Committee meeting, which are tabled at the next Audit Committee meeting for review and approval. The draft minutes are also included in the Board papers of the next Board meeting following the Audit Committee meeting.

Performance Evaluation

On a regular basis, the Audit Committee conducts an evaluation of the performance of Audit Committee members to determine whether the Committee is functioning effectively by reference to current best practice. The performance evaluation is conducted by the Chairman of the Audit Committee through interviews with individual Committee members, the results of which are reported to the Board.

Certification of Financial Reports

The Managing Director and Chief Financial Officer state in writing to the Board each reporting period that in their opinion the company's financial reports present a true and fair view of the company's financial position and performance, and are in accordance with relevant Accounting Standards. The statements from the Managing Director and Chief Financial Officer are based on a formal sign-off framework established throughout the company

and reviewed by the Audit Committee as part of the financial reporting process.

(iii) Nomination Committee

The Nomination Committee consists of the following non-executive directors:

→ **B Thornton** K SJ FCA FAICD FAIM FCIS (Chairman)

→ **J J Kennedy** AO CBE DUniv (QUT) FCA FCPA

→ **M D E Kriewaldt** BA LLB FAICD

The Nomination Committee meets as required and on several occasions throughout the year. For attendance details of the Nomination Committee, refer to page 28 of the Annual Report.

The composition of the Nomination Committee is based on the following principles:

- The Nomination Committee should consist of non-executive directors only
- The Nomination Committee should maintain a majority of independent directors
- The Nomination Committee should consist of a minimum of three members
- The Chairperson should be the Chairperson of the Board or another non-executive director

The Nomination Committee operates under a charter that details the Committee's role and responsibilities, composition, structure and membership requirements. The charter is regularly reviewed to ensure it remains consistent with the Board's objectives and responsibilities. The Nomination Committee charter has been posted on the company's website in the Corporate Governance section.

The main responsibilities of the Committee include:

- Assessment of the necessary and desirable competencies of Board members
- Review of the Board succession plans
- Evaluation of the performance and contributions of Board members
- Recommendations for the appointment and removal of directors

- Review of the remuneration framework for the non-executive directors
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter

In performing its responsibilities, the Nomination Committee receives appropriate advice from external consultants and other advisers as required.

The Company Secretary prepares the draft minutes for each Nomination Committee meeting, which are tabled at the next Nomination Committee meeting for review and approval. The draft minutes are also included in the Board papers of the next Board meeting following the Nomination Committee meeting.

Selection and Appointment of Directors

The Nomination Committee is responsible for the selection and appointment of directors. In the circumstances where there is a need to appoint a director, whether due to the retirement of a director, growth of the company, or changed circumstances of the company, certain procedures will be followed, including the following:

- Determination of the skills and experience appropriate for an appointee, having regard to those of the existing directors and other likely changes to the Board;
- Upon identifying a potential appointee, consider the competency and qualifications, independence, other directorships, time availability, and the effect that their appointment would have on the overall balance of the composition of the Board; and
- All existing Board members consenting to the proposed appointee.

Induction Program

The Nomination Committee is responsible for ensuring that an effective induction program for new directors is in place, and regularly reviewed to ensure its effectiveness. The Board has developed a comprehensive induction program for new directors to allow the new



appointees to participate fully and actively in Board decision making. The Board views the induction program as critical in enabling the new directors to gain an understanding of the company and the markets in which it operates.

A similar induction program is also available for key executives.

Performance Evaluation

On an annual basis, the Nomination Committee conducts an evaluation of the performance of Board members to determine whether the Board is functioning effectively by reference to current best practice. The performance evaluation is conducted by the Chairman of the Board through interviews with individual Board members, the results of which are reported to the Board.

Remuneration Committee

The Remuneration Committee consists of the following non-executive directors:

- **M D E Kriewaldt** BA LLB FAICD (Chairman)
- **G J McGrath** MIIIE
- **D R Barry** FAIM

The Remuneration Committee meets as required and on several occasions throughout the year. For attendance details of the Remuneration Committee, refer to page 28 of the Annual Report.

The composition of the Remuneration Committee is based on the following principles:

- The Remuneration Committee should consist of non-executive directors only
- The Remuneration Committee should maintain a majority of independent directors
- The Remuneration Committee should consist of a minimum of three members
- The Chairperson of the Remuneration Committee should be a non-executive director

The Remuneration Committee operates under a charter that details the Committee's role and responsibilities, composition, structure and membership

requirements. The charter is regularly reviewed to ensure it remains consistent with the Board's objectives and responsibilities. The Remuneration Committee charter has been posted on the company's website in the Corporate Governance section.

The main responsibilities of the Committee include:

- Review of the company's remuneration and incentive policies
- Review of executive and senior management remuneration packages
- Review of the company's recruitment, retention and termination policies and procedures
- Review of the company's superannuation arrangements
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter

In performing its responsibilities, the Remuneration Committee receives appropriate advice from external consultants and other advisers as required.

The Company Secretary prepares the draft minutes for each Remuneration Committee meeting, which are tabled at the next Remuneration Committee meeting for review and approval. The draft minutes are also included in the Board papers of the next Board meeting following the Remuneration Committee meeting.

8. Code of Conduct

The company conducts its business with the highest standards of personal and corporate integrity. To assist employees in achieving this objective, the company has developed a comprehensive Code of Conduct which guides the behaviour of directors, officers and employees and demonstrates the commitment of the company to ethical practices. The Code of Conduct is incorporated as part of new employees' induction training and an acceptance form is signed by new employees acknowledging their understanding and on-going compliance.

The Code of Conduct states the values and policies of the company

and complements the company's risk management and internal control practices. The Code of Conduct is regularly reviewed and updated to ensure that it reflects current best practice, and to promote the ethical behaviour of all employees. The Code of Conduct has been posted on the company's website in the About GWA section.

9. Share Trading Policy

The company has developed a share trading policy which prohibits directors, officers and other "potential insiders" from trading in GWA International Limited shares during designated periods. The designated periods are six weeks immediately prior to the release of the company's full year results to the Australian Stock Exchange and four weeks immediately prior to the release of the company's half year results to the Australian Stock Exchange, unless otherwise determined by the directors.

Outside of these designated periods, there are no trading restrictions where the directors, officers and other "potential insiders" are not in the possession of unpublished insider information. At all times, if an employee possesses unpublished insider information about the company, that person is prohibited from trading. In addition, employees must not engage in any short-term trading in the company's shares.

As an additional restriction, the directors must advise the Chairman prior to trading outside the designated periods and confirm to the Chairman that they do not possess unpublished insider information. The policy also requires the directors to notify the Company Secretary within three business days after trading, to enable the Company Secretary to lodge the required disclosures with the Australian Stock Exchange.

10. Risk Management and Internal Controls

The Board recognises that effective risk management processes help ensure the business is more likely





to achieve its business objectives, and that the Board meets its Corporate Governance responsibilities. In meeting its responsibilities, the Board has ensured that management has put in place comprehensive risk management policies and practices across the company which addresses each of the key elements and requirements of AS/NZS Standard 4360: 2004 – Risk Management.

Such processes include defining the risk oversight responsibilities of the Board and the responsibilities of management in ensuring risks are both identified and effectively managed. The agreed policies and practices are made effective through the combined activities of:

- an Audit Committee that reports to the Board on risk management and internal control matters in accordance with its main responsibilities as outlined in the Audit Committee charter (refer above);
- an Executive Risk Committee, comprising the senior management of the company, which has been established to review and monitor the day to day risk activities, and to report to the Audit Committee on such matters;
- a Group Commercial Manager who has primary responsibility for designing, implementing and co-ordinating the overall risk management and internal control practices of the company. Whilst reporting to the Chief Financial Officer on a day to day basis, the Group Commercial Manager has the authority to report directly to the Board on any matter;
- other managers, such as the Group Compliance Manager, who has specific responsibilities in respect of health, safety and environmental risks; and
- internal audit activities, undertaken by a combination of internal and appropriately qualified external resources, based on a Board approved programme of work. Such activities link to the risk management practices of the company by ensuring risks are being adequately identified and managed through the effective and efficient operation of control procedures.

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The Board aims to continually evaluate and re-assess the risk management and internal control practices of the company to ensure current best practice is maintained, and to preserve and create value within the organisation. In recent years, the Board has reviewed the risk management policies and practices within the company, and the recommendations arising from this review have been implemented.

Improvements to the identification, reporting and monitoring of actions in relation to health, safety and environmental risks have also been implemented in order to support management's objectives in this area. This has included the introduction of risk management software across the company for the recording, escalation and management of such risks.

Certification of Risk Management Controls

In conjunction with the certification of financial reports (refer above), the Managing Director and Chief Financial Officer state in writing to the Board each reporting period that in their opinion:

- the statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The statements from the Managing Director and Chief Financial Officer are based on a formal sign-off framework established throughout the company and reviewed by the Audit Committee as part of the financial reporting process.

11. Remuneration Policies

The Board's objective in setting the company's remuneration policies is to provide maximum stakeholder benefit from the retention of a high quality Board and executive team. This is achieved by remunerating directors and executives fairly and appropriately based on relevant employment market conditions, and

the linking of the Managing Director's and executives emoluments to the company's financial and operating performance.

The Nomination Committee is responsible for determining the remuneration for the non-executive directors, with the maximum aggregate amount approved by shareholders. The directors receive their remuneration 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.

The Remuneration Committee is responsible for reviewing and determining the remuneration and incentive arrangements for the executives. The Remuneration Committee takes advice from external advisers to assist in determining appropriate remuneration levels. The remuneration and incentive arrangements have been structured to ensure that performance is fairly rewarded and to attract, motivate and retain a high quality executive team.

For details of the company's remuneration policies and disclosures, refer to the Remuneration Report on page 24 of the Annual Report.

12. Employee Share Plan

The company has operated an Employee Share Plan since listing in 1993 as part of the remuneration and incentive arrangements for executives and senior management. Full details of the operation of the Employee Share Plan are described in the Remuneration Report on page 26 of the Annual Report.

The Employee Share Plan does not provide for the issue of options and no options have been issued by the company.

13. Audit and Auditor Independence

The Board recognises the importance of a truly independent audit firm to ensure that the audit function



delivers, for the benefit of the Board and all other stakeholders, an unbiased confirmation of both the financial statements and the state of affairs of the company. Consistent with the Board's commitment to an independent audit firm, a policy has been prepared and approved by the Board on the Role of the External Auditor, which is designed to ensure the independence of the external audit function.

During each year, the Audit Committee examines the non-audit roles performed by the audit firm and other potential audit service providers to satisfy itself that the auditor's independence will not be compromised and that alternate providers are available if considered desirable. Whilst the value of the non-audit services could, in extreme cases, compromise audit independence, more important is to ensure that the External Auditor is not passing an audit opinion on the non-audit work of its own firm.

At the Annual General Meeting on 28 October 2004, shareholders approved the appointment of KPMG as the company's External Auditor for the financial year commencing 1 July 2004. This followed a comprehensive tender process for the external audit conducted by the Audit Committee. KPMG replaced Ernst & Young who had been the company's External Auditor since the 1995 financial year.

During the year, KPMG provided an Auditor Independence Declaration to the Board (refer page 28 of the Annual Report) that, to the best of their knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

In considering this declaration, the Board were satisfied with the continuing independence of the audit function.

For details of the non-audit roles performed by KPMG during the year, please refer to note 6 of the Financial Statements.

Rotation of External Auditor

KPMG has advised the company that their policy of audit partner rotation requires a change in the lead engagement partner and review partner after a period of five years.

14. Communication with Shareholders

The company is committed to ensuring shareholders and the financial markets are provided with full, open and timely information about its activities. This is achieved by the following:

- Complying with the continuous disclosure obligations contained in the ASX Listing Rules and the *Corporations Act 2001*. The company has for many years included continuous disclosure as a permanent item on the agenda for Board meetings. The Board has approved a Continuous Disclosure Policy to ensure the company complies with the continuous disclosure requirements, and to ensure accountability at the executive and senior management level for that compliance.
- Ensuring that all shareholder communications (including Annual Report, Half Year Report and Notice of Annual General Meeting) satisfy relevant statutory requirements and the guidelines of the ASX Corporate Governance Council and other professional bodies. The company is committed to producing shareholder communications in plain English with full and open disclosure about the company's policies and procedures, operations and performance.
- Ensuring that all shareholders have the opportunity to receive externally available information issued by the company. The company has a corporate website at www.gwail.com.au for the purpose of enhancing communication with shareholders and other parties. All company announcements and information released to the market are located on the website and may be accessed by shareholders. There is also a Corporate Governance section on the website which outlines the practices of the company and other company information.

→ The Board is committed to the continued development and enhancement of electronic communications to shareholders. This is a developing area for all publicly listed companies and the Board will continue to monitor what is happening in the market place, particularly regarding cost savings, take-up rates and service features. Currently, shareholders are able to register to receive company communications electronically (eg Annual Report), although not all company communications are made available electronically.

- The company encourages shareholders to attend the company's Annual General Meeting to canvass the relevant issues of interest. If shareholders are unable to attend the Annual General Meeting personally, they are encouraged to participate through the appointment of a proxy or proxies. The company endeavours to set the timing and the location of the Annual General Meeting so that it is convenient for shareholders generally.
- The attendance at the Annual General Meeting by the External Auditor to answer questions from shareholders about the conduct of the audit and the preparation and content of the Independent Audit Report. Shareholders attending the Annual General Meeting are made aware they can ask questions of the External Auditor concerning the conduct of the audit.



Your directors present their report on the consolidated entity of GWA International Limited and the entities it controlled ("the company") during the financial year ended 30 June 2006.

→ Directors' Report as at 30 June 2006

→ Directors

The following persons were directors of the company during the financial year and up to the date of this report. Directors were in office this entire period unless otherwise stated.

→ B Thornton

Chairman and Non-Executive Director

→ J J Kennedy

Deputy Chairman and Non-Executive Director

→ P C Crowley

Managing Director

→ D R Barry

Non-Executive Director

→ R M Anderson

Non-Executive Director

→ M D E Kriewaldt

Non-Executive Director

→ G J McGrath

Non-Executive Director

Details of the directors' qualifications, experience and special responsibilities are located on page 14 of the Annual Report.

Details of the directorships of other listed companies held by each director in the three years prior to the end of the 2005/06 financial year, and the period for which each directorship has been held, are listed on page 14 of the Annual Report.

Company Secretary

Mr R J Thornton was appointed Company Secretary of GWA International Limited on 4 July 2003. Details of Mr Thornton's qualifications and experience are located on page 14 of the Annual Report.

→ Directors' Interests

At the date of this report, the relevant interest (as defined in the *Corporations Act 2001*) of the directors in shares of the company were:

Director	Ordinary Shares	Interest (see notes below)
B Thornton	Nil	Note 4
J J Kennedy	10,000	Notes 1 and 4
D R Barry	3,398,961	Notes 2 and 4
R M Anderson	8,198,000	Notes 2 and 4
M D E Kriewaldt	100,000	Notes 2 and 4
P C Crowley	500,000	Notes 3 and 4
G J McGrath	420,458	Notes 1 and 4

Note 1: Beneficially and legally owned.

Note 2: The relevant interest is the power to exercise control over the disposal of the shares and the power to control the right to vote.

Note 3: In accordance with a resolution of shareholders at the Annual General Meeting on 30 October 2003, Mr Crowley was issued 500,000 shares on 14 November 2003 under the terms and conditions of the GWA International Employee Share Plan.

Note 4: Note 30 to the Financial Statements sets out the number of shares held directly, indirectly or beneficially by directors or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 57,317,081 shares (last year 49,370,949 shares).

→ Corporate Structure

GWA International Limited is a company limited by shares that is incorporated and domiciled in Australia. GWA International Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year ended 30 June 2006, which are outlined in note 28 of the Financial Statements.

→ Principal Activities

The principal activities during the year within the consolidated entity were the research, design, manufacturing, importing, and marketing of household consumer products as well as the distribution of these various products through a range of distribution channels in Australia and overseas.

There have been no significant changes in the nature of these activities during the year.

→ Employees

The company employed 2,226 employees as at 30 June 2006 (last year 2,474 employees).

The company recognises the productivity benefits to be gained from investing in its employees to improve motivation and individual skills. The company remains committed to ensuring that staff are provided access to appropriate training and development programs.

All companies in the consolidated entity are active equal opportunity employers.

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The company remains committed to ensuring that staff are provided access to appropriate training and development programs.

→ Segment Sales and Profit

The segment sales and profit of the company for the financial year ended 30 June 2006 were as follows:

Business Segment	Segment Sales		Segment Profit	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Building fixtures and fittings	523,100	523,850	102,858	105,535
Commercial furniture	56,738	61,608	4,655	5,781
Other	40,151	41,408	(12,316)	(7,963)
Total	619,989	626,866	95,197	103,353
Reorganisation expenses			(5,944)	-
Profit before interest and tax			89,253	103,353

→ Earnings Per Share

	2006 cents	2005 cents
Basic earnings per share	20.4	23.0

→ Review of Operations and State of Affairs

A review of the operations of the company and the results of those operations for the financial year ended 30 June 2006 is provided in the Managing Director's Review of Operations which is located on page 4 of the Annual Report.

In the opinion of the directors, there were no significant changes in the state of affairs of the company during the financial year, other than that referred to in the Financial Statements or notes thereto.

→ Dividends

In respect of the financial year ended 30 June 2005, as detailed in the Directors' Report for that financial year, a final ordinary dividend of 8.0 cents per share and a special dividend of 2.0 cents per share, fully franked at the 30% corporate income tax rate was paid on 3 October 2005 to the holders of fully paid ordinary shares.

In respect of the financial year ended 30 June 2006, an interim ordinary dividend of 10.0 cents per share, fully franked at the 30%

corporate income tax rate was paid on 3 April 2006 to the holders of fully paid ordinary shares.

In respect of the financial year ended 30 June 2006, the directors recommend the payment on 3 October 2006 to the holders of fully paid ordinary shares of a final ordinary dividend of 8.0 cents per share and a special dividend of 3.5 cents per share, fully franked at the 30% corporate income tax rate.

→ Significant Events after Balance Date

On 15 August 2006, the directors of GWA International Limited declared a final ordinary dividend of 8.0 cents per share and a special dividend of 3.5 cents per share in respect of the financial year ended 30 June 2006. The dividends will be fully franked at the 30% corporate income tax rate. The total amount of the dividend is \$32,005 million (last year \$27,830 million). In accordance with Accounting Standards, the dividends have not been provided for in the Financial Statements for the year ended 30 June 2006.

There has not been any other matter or circumstance, other than that referred to in the Financial Statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company.





→ Likely Developments and Expected Results

Likely developments and expected results of the operations of the company are provided in the Managing Director's Review of Operations which is located on page 4 of the Annual Report.

In the next financial year, the company will continue to pursue its policies of increasing profitability and market share of all its businesses. Strategies have been formulated which focus on maintaining growth and ensuring that the company generates the best possible returns from its businesses.

Further information on likely developments and expected results of the operations of the company have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the company.

→ Environmental Regulation and Performance

The company holds licences issued by Environmental Protection Authorities and Water Authorities that specify limits for discharges to the environment, which arise from the operations of entities that it controls. These licences regulate the management of discharge to air, storm water run-off, removal and transport of waste associated with the manufacturing operations in Australia and the Netherlands.

Designated entities comply with the Australian National Pollutant Inventory by reporting on emissions annually.

In Victoria, licenced entities develop annual Waste Management Plans, in conjunction with the Victorian Environmental Protection Authority.

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Where appropriate, an independent review of the company's compliance with licence conditions is made by external advisors.

The company in conjunction with external advisors monitors storage and treatment of hazardous materials within particular operations. Prior to any discharge to sewers, effluent is treated and monitored to ensure strict observance with licence conditions. The directors are not aware of any breaches of the company's licence conditions during the financial year ended 30 June 2006.

→ Indemnification and Insurance of Directors and Executives

Indemnification

The company's Constitution provides that, to the extent permitted by the law, every current (and former) director or secretary of the company shall be indemnified out of the assets of the company against all costs, expenses and liabilities which results directly or indirectly from facts or circumstances relating to the person serving (or having served) in their capacity as director or secretary of the company, but excluding any liability arising out of conduct involving a lack of good faith or conduct known to the person to be wrongful or any liability to the company or related body corporate.

Insurance Premiums

The company has paid premiums in respect of insurance contracts which provide cover against certain liabilities of every current (and former) director and officer of the company and its controlled entities. The contracts of insurance prohibit disclosure of the total amount of the premiums paid, or the nature of the liabilities covered under the policies.

Premiums were paid in respect of every current (and former) director and officer of the company and controlled entities, including the directors named on page 14 of the Annual Report, the Chief Financial Officer, the Company Secretary and all persons concerned or taking part

in the management of the company and its controlled entities.

→ Remuneration Report

This report outlines the remuneration arrangements in place for the directors and executives of the company.

Remuneration Objectives

The performance of the company depends upon the quality of its directors and executives. To maximise the performance of the company's businesses, the company must attract, motivate and retain a highly skilled director and executive team. This is achieved through a remuneration and incentive framework which has been put in place by the Board, and is guided by the following objectives:

- Provide fair and competitive rewards to attract high quality executives
- Linking of executive reward to improvement in company performance
- Significant proportion of executive remuneration is "at risk," dependent upon meeting pre-determined performance benchmarks
- The establishment of challenging and achievable performance hurdles in relation to variable executive remuneration
- An employee share plan which rewards performance and represents a long-term financial commitment to employment with the company

Remuneration Structure

The remuneration structure for the non-executive directors is separate and distinct from the remuneration structure for the executives.

Non-Executive Directors' Remuneration Policy

The Nomination Committee is responsible for determining the remuneration arrangements for the non-executive directors, with the annual maximum aggregate amount approved by shareholders. At the Annual General Meeting on 28 October 2004, shareholders approved an annual maximum aggregate amount of \$1 million (excluding statutory superannuation).



The 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 (refer below). An additional fee is also paid for each Board Committee on which a director sits. The payment of additional fees for serving on a Committee recognises the additional time commitment required by directors who serve on one or more Committees.

In setting the level of non-executive directors fees' and the manner in which it is to be apportioned amongst the directors, the Nomination Committee takes advice from external advisers to determine market remuneration levels, with the objective of ensuring that the levels fairly represent the responsibilities and time spent by the non-executive directors on company matters.

Following shareholder approval of the termination of the Directors' Retirement Scheme for non-executive directors at the Annual General Meeting on 30 October 2003, retirement benefits are not available for any new non-executive directors of the company, other than statutory superannuation.

At the Annual General Meeting on 28 October 2004, shareholders approved the payment of the accrued benefits to the non-executive directors under the former Directors' Retirement Scheme, when each director requests that payment be made.

For details of the emoluments paid to the non-executive directors for the year ended 30 June 2006, refer to the Remuneration Tables on page 27 of the Annual Report.

Executives' Remuneration Policy

The Remuneration Committee is responsible for determining and reviewing the remuneration arrangements for the executives. The Remuneration Committee takes advice from external advisers to ensure the appropriateness of the nature and amount of emoluments of such officers, with the overall



objective of ensuring maximum stakeholder benefits from the retention of a high quality executive team.

The executives' remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
 - Short-term Incentive
 - Medium-term Incentive
- Employee Share Plan

The fixed remuneration component includes base salary, statutory superannuation, and non-monetary benefits including medical benefits membership, life and disability insurance and the provision of motor vehicles. The variable remuneration component includes a short-term incentive and medium-term incentive under the Executive Incentive Scheme. As a further component of remuneration, employees of the company may be invited to participate in the GWA International Employee Share Plan.

Fixed Remuneration

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. Fixed remuneration is reviewed annually by the Remuneration Committee based on external advice for determining market remuneration levels, as well as having regard to company, divisional and individual performance.

The fixed remuneration of the five most highly remunerated executives is detailed in the Remuneration Tables on page 27 of the Annual Report.

Variable Remuneration

To assist in achieving the objective of retaining a high quality executive team, the Remuneration Committee



links the nature and amount of the executive emoluments to the company's financial and operating performance. Executives have the opportunity to qualify for participation in the Executive Incentive Scheme. Under the scheme there are two incentives, one based on yearly performance and one based on discrete three year periods. All performance plan payments are subject to maximum amounts.

Executive Incentive Scheme

The Executive Incentive Scheme came into effect on 1 July 2001 and its participants include the members of the divisional and corporate executive. There are two incentives including an Operating Performance Incentive and a Strategic Growth Incentive, with the objective of maximising short-term operating performance and medium-term strategic growth.

The Operating Performance Incentive operates from divisional operating profit targets for divisional executives, and group earnings before interest and tax targets for corporate executives. Where the yearly profit targets are achieved, participating executives receive an incentive payment, subject to a cap of 30% to 35% of their base salary.

The yearly profit targets are set by the Remuneration Committee at the beginning of the year having regard to the major external factors which are expected to impact each division including forecast economic conditions, expected benefits from new products, capital expenditure and other relevant factors. The Remuneration Committee ensures that the profit targets are challenging and achievable, and will assist in focusing divisional and corporate executives on maximising operating performance of the company's businesses.





The Strategic Growth Incentive rewards progressive growth in underlying divisional profitability and earnings per share over time. The incentive is calculated based on divisional profits for divisional executives, and earnings per share for corporate executives, within discrete three year periods. Where the three year profit and earnings per share targets are achieved, participating executives receive an incentive payment, subject to a cap of 20% to 30% of their base salary.

The three year profit and earnings per share targets are set by the Remuneration Committee at the beginning of the three year period having regard to current performance and forecast external factors expected to impact each division, and are also subject to minimum return on investment achievement. The Remuneration Committee ensures that the three year profit and earnings per share targets are challenging and achievable, and will assist in focusing divisional and corporate executives on maximising growth in profitability and return on investment.

The total combined payments under the abovementioned two incentives are capped at 50% to 65% of salary for each participating executive. Payments are delivered by way of cash bonus, and are paid when the company's annual Financial Statements are completed.

Employee Share Plan

As a further component of remuneration, employees of the company may be invited to participate in the GWA International Employee Share Plan which commenced on the listing of the company in 1993. Under the plan, employees are provided with a non-interest bearing loan from the company to acquire shares in the company at market value. The loan is repaid through dividends, or in

full upon an employee ceasing employment with the company. The employee bears the risk of share price movements below the issue price.

In accordance with the rules of the plan, the total number of employee shares on issue may not exceed 5% of the total company shares on issue. At 30 June 2006 there are currently 3.08 million shares issued under the GWA International Employee Share Plan, which have an outstanding loan balance of \$6.16 million. The plan does not provide for the issue of options and no options have been issued by the company.

There are three events which trigger employee share issues, all of which must be approved by the Remuneration Committee, including:

- Appointment of new divisional and corporate executives as recommended by the Managing Director
- Achievement of three year targets by divisional and corporate executives pursuant to the Executive Incentive Scheme (refer above)
- The periodic issue to employees who merit additional recognition of their performance and are integral to the future success of the company, as recommended by the Managing Director

The GWA International Employee Share Plan is an effective incentive in encouraging and rewarding sustained higher performance from executives and senior management, and represent a long-term financial commitment to their employment with the company.

Shareholder Wealth

The shareholder wealth table set out on page 27 of the Annual Report provides a summary of key shareholder wealth statistics for the company over the last five years.

As can be seen from the table, aside from the year ended 30 June 2006, the company has improved operating performance in each of the years, enabling increased cash dividends to be paid to shareholders. The softening external market conditions and record raw material prices resulted in a reduced level of profitability for the year ended 30 June 2006. This was a commendable result in the

circumstances, and together with the current reorganisation activities, will underpin profitability growth into the future.

The remuneration and incentive framework, which has been put in place by the Board, has ensured that executives are focused on both maximising short-term operating performance and long-term strategic growth. This has contributed to the company generating the shareholder returns as set out in the above table, including a total of 15.5 cents in fully franked special dividends paid to shareholders in the last five financial years.

The Board will continue to review and monitor the remuneration and incentive framework to ensure that performance is fairly rewarded and encouraged, and to attract, motivate and retain a high quality executive team.

Termination of Employment

The specified executives on page 27 of the Annual Report are on open-ended contracts, except for the Executive Director, Mr Peter Crowley, whose employment contract specifies an initial term of twelve months with subsequent rolling terms of twelve months.

The employment contract for Mr Crowley provides that if either the company or Mr Crowley wishes to terminate employment for any reason, three months notice of termination is required, or payment in lieu, based upon current salary levels. On termination by the company, Mr Crowley will be entitled to receive payment of twelve months salary.

For the other specified executives, the company is legally required to give reasonable notice of termination, or payment in lieu, based upon current salary levels.

Under the Executive Incentive Scheme, no incentive is payable in the event of termination of employment during the incentive period.

Any loan to an executive under the GWA International Employee Share Plan, must be repaid in full upon the cessation of employment with the company.

→ Shareholder Wealth

	EBIT ⁽¹⁾ \$m	EPS cents	Total DPS ⁽²⁾ cents	Share Price \$
30 June 2002	81.1	16.8	17.0	2.35
30 June 2003	92.4	19.8	18.0	2.70
30 June 2004	101.0	22.3	20.5	2.95
30 June 2005	103.4	23.0	22.5	2.92
30 June 2006	95.2 ⁽³⁾	21.6 ⁽³⁾	21.5	3.11

Notes: (1) EBIT for financial years 2002 to 2004 has been calculated in accordance with previous Australian GAAP. EBIT for financial years 2005 and 2006 has been calculated in accordance with Australian equivalents to IFRS (AIFRS). For impact on EBIT of transition to AIFRS, see note 32 to the Financial Statements

(2) Includes special dividends

(3) Prior to reorganisation costs



Remuneration Tables

→ Emoluments of the Directors of GWA International Limited

Non-Executive Directors	Salary and Leave Entitlements \$	Incentives		Other Benefits \$	Super-annuation \$	Termination Payments \$	Total \$	Proportion of Emoluments Performance Related %
		1 Year Plan \$	3 Year Plan \$					
B Thornton	166,173	-	-	250	101,640	-	268,063	-
J J Kennedy	137,477	-	-	250	-	-	137,727	-
D R Barry	86,814	-	-	250	7,813	-	94,877	-
R M Anderson	81,900	-	-	250	7,371	-	89,521	-
M D E Kriewaldt	98,280	-	-	250	8,845	-	107,375	-
G J McGrath	86,814	-	-	250	7,813	-	94,877	-
Executive Director								
P Crowley	917,997	-	(190,000)	169,643	36,000	-	933,640	-

→ Emoluments of the Five Most Highly Paid Executives of the Company and the Consolidated Entity

Executives	Salary and Leave Entitlements \$	Incentives		Other Benefits \$	Super-annuation \$	Termination Payments \$	Total \$	Proportion of Emoluments Performance Related %
		1 Year Plan \$	3 Year Plan \$					
S Wright Group Operations Manager	387,089	-	(70,945)	64,838	100,592	-	481,574	-
E Harrison Chief Financial Officer	447,268	-	(70,546)	92,664	-	-	469,386	-
G Oliver General Manager, Gainsborough	177,333	79,425	(47,505)	64,262	138,475	-	411,990	7.7
R Watkins General Manager, Rover	281,171	-	-	54,088	58,725	-	393,984	-
J Measroch General Manager, Sebel	275,764	-	-	70,348	25,485	-	371,597	-

Notes: Incentives

The incentive for Mr G Oliver is based on his entitlement under the yearly Executive Incentive Scheme. The incentives for the Executive Director and executives under the three year Executive Incentive Scheme were provided for in the 2004/05 year and written back in the 2005/06 year as the targets are not currently expected to be achieved.

Other Benefits

Other benefits for the Executive Director and executives include the provision of fringe benefits including motor vehicles, loans under the Employee Share Plan, insurances and applicable fringe benefits tax.

Vesting of Incentives

The incentive for Mr G Oliver under the yearly Executive Incentive Scheme is fully vested in the 2005/06 year.





INNOVATION = FUTURE GROWTH



→ Directors' Meetings

The number of meetings of directors (including meetings of Committees of directors) held during the financial year ended 30 June 2006 and the number of meetings attended by each director were as follows:

	Directors' Meetings	Meetings of Committees		
		Audit	Remuneration	Nomination
Number of Meetings held:	11	3	2	1
Number of Meetings attended:				
B Thornton	11	3	-	1
J J Kennedy	10	3	-	1
P C Crowley	11	-	-	-
D R Barry	10	-	2	-
R M Anderson	10	-	-	-
M D E Kriewaldt	11	3	2	1
G J McGrath	10	-	2	-

Notes: As at the date of this report, the company had an Audit Committee, a Remuneration Committee and a Nomination Committee of the Board of Directors. The charter for each Committee outlines its role and responsibilities, a summary of which is provided in the Corporate Governance Statement on page 15 of the Annual Report.

The members of the Audit Committee are:

- Mr J J Kennedy (Chairman)
- Mr B Thornton
- Mr M D E Kriewaldt

The members of the Remuneration Committee are:

- Mr M D E Kriewaldt (Chairman)
- Mr G J McGrath
- Mr D R Barry

The members of the Nomination Committee are:

- Mr B Thornton (Chairman)
- Mr J J Kennedy
- Mr M D E Kriewaldt

Details of the Committee members qualifications and experience are located on page 14 of the Annual Report.

→ Rounding

The company is of a kind referred to in Class Order 98/100 issued by the Australian Securities Investment Commission relating to the rounding of amounts in the Directors' Report.

Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors.

B Thornton

Chairman

P C Crowley

Managing Director

Brisbane, 15 August 2006

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of GWA International Limited.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Mark Epper

Partner

Sydney, 15 August 2006



→ Non-Audit Services

Details of the non-audit services provided by the company's External Auditor, KPMG, during the financial year ended 30 June 2006 are outlined in note 6 of the Financial Statements. Based on advice from the company's Audit Committee, 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 2001*.

The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

→ Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out adjacent and forms part of the Directors' Report for the financial year ended 30 June 2006.



Other Statutory Information

As at 15 August 2006

Statement of shareholding

In accordance with the Australian Stock Exchange Listing Rules, the directors state that, as at 15 August 2006, the share capital in the company was held as follows:-

Range	Ordinary shareholders	Ordinary shares	%
1 – 1,000	1,555	1,060,861	0.4
1,001 – 5,000	7,080	21,696,949	7.8
5,001 – 10,000	3,626	27,451,551	9.9
10,001 – 100,000	2,167	45,554,806	16.4
100,001 and over	122	182,538,828	65.5
Total	14,550	278,302,995	100.0

The number of shareholders with less than a marketable parcel of shares is 153.

Voting rights

The voting rights attached to shares are as set out in clause 10.20 of the company's Constitution. Subject to that clause, at General Meetings of the company:

1. On a show of hands, every person present as a member, proxy, attorney or representative of a member has one vote; and
2. On a poll, every person present as a member, proxy, attorney or representative of a member, has one vote for each fully paid share.

Substantial shareholders

The following information is extracted from the company's register of substantial shareholders as at 15 August 2006:

Shareholder	Number of shares	% of shares on issue
HGT Investments Pty Ltd	14,448,152	5.19



Other Statutory Information

As at 15 August 2006

20 Largest shareholders

Shareholder	Number of Shares	% of Shares on Issue
JP Morgan Nominees Australia Limited	14,708,023	5.28
HGT Investments Pty Ltd	14,448,152	5.19
National Nominees Limited	10,280,559	3.69
Erand Pty Ltd	9,898,229	3.56
KFA Investments Pty Ltd	9,863,817	3.54
RBC Dexia Investor Services Australia Nominees Pty Limited (BKCUST A/C)	9,755,670	3.51
CJZ Investments Pty Ltd	9,700,651	3.49
JMB Investments Pty Ltd	8,800,425	3.16
Ashberg Pty Ltd	8,198,000	2.95
Citicorp Nominees Pty Limited	7,514,060	2.70
Theme (No 3) Pty Ltd	7,201,160	2.59
Australian Foundation Investment Company Limited	6,612,136	2.38
Westpac Custodian Nominees Limited	5,674,906	2.04
ITA Investments Pty Ltd	5,152,338	1.85
Mr Barry Thornton and Mr Chris Hamlin (The Sharp Family A/C)	4,740,033	1.70
Dabary Investments Pty Ltd	3,398,961	1.22
Cogent Nominees Pty Limited	3,306,758	1.19
ANZ Nominees Limited (Cash Income A/C)	2,869,642	1.03
Harvest Home Holdings Pty Ltd	2,586,416	0.93
Mr Michael John McFadyen (Michael McFadyen A/C)	2,497,990	0.90
Total	147,207,926	52.89



Shareholder Information

Annual General Meeting

The Annual General Meeting of GWA International Limited will be held in The Grand Ballroom, Stamford Plaza Brisbane, Cnr Edward and Margaret Streets Brisbane on Thursday 26 October 2006 commencing at 10:30 am. A Notice of Annual General Meeting and Proxy Form are enclosed with the Annual Report.

Shareholder Enquiries

Shareholders with enquiries about their shareholding or dividend payments should contact the company's share registry, Computershare Investor Services Pty Ltd, on 1300 552 270 or write to GPO Box 523 Brisbane Queensland Australia 4001.

Change of Address

Shareholders who have changed their address should immediately notify the company's share registry in writing.

Consolidation of Shareholdings

Shareholders who wish to consolidate their separate shareholdings into one holding should notify the company's share registry in writing.

Annual Reports

If shareholders do not wish to continue receiving the Annual Report, please notify the company's share registry in writing. Shareholders will still be sent the Notice of Annual General Meeting and other legally required information. The latest Annual Report can be accessed from the company's website at www.gwail.com.au.

Dividends

Dividends are determined by the Board, having regard to the financial circumstances of the company.

A final ordinary dividend of 8.0 cents per share, and a special dividend of 3.5 cents per share will be paid on 3 October 2006. The dividends will be 100% franked for Australian tax purposes at the corporate tax rate of 30%.

Direct Credit of Dividends

Dividends may be paid directly to a bank, building society or credit union account in Australia. Payments are electronically credited on the dividend payment date and confirmed by an advice mailed to shareholders on that date.

To ensure the prompt receipt of dividends, the company encourages shareholders to provide direct credit instructions. Direct credit application forms can be obtained from the company's share registry.

Dividend Reinvestment Plan and Share Purchase Plan

Both Plans were suspended on 8 February 2000. Past support from shareholders has provided sufficient funds to meet the growth needs of the company. Directors keep this position under review.

Stock Exchange Listing

The company's shares are listed on the Australian Stock Exchange under the ASX code: GWT. Details of the trading activity of the company's shares are published in most daily newspapers, generally under the abbreviation GWA Intl.



Shareholder Information

Shareholder timetable 2006

30 June	Financial year end
15 August	Year end result and final dividend announcement
15 September	Record date for determining final dividend entitlement
22 September	Notice of Annual General Meeting, Proxy Form and Annual Report mailed to shareholders
3 October	Final ordinary dividend and special dividend paid
24 October	Proxy returns close 10:30 am Brisbane
26 October	Annual General Meeting
31 December	Half year end

→ Corporate Directory



→ Directors

- **B Thornton**, Chairman
- **J J Kennedy**, Deputy Chairman
- **P C Crowley**, Managing Director
- **D R Barry**, Non-Executive Director
- **R M Anderson**, Non-Executive Director
- **M D E Kriewaldt**, Non-Executive Director
- **G J McGrath**, Non-Executive Director

Company Secretary

- **R J Thornton** CA B Com (Acc) LLB (Hons) LLM

Chief Financial Officer

- **E J Harrison** CPA B Bus (Acc)

→ Registered Office

Level 14 10 Market Street Brisbane QLD 4000 AUSTRALIA

Telephone 61 7 3109 6000

Facsimile 61 7 3236 0522

www.gwail.com.au

ASX code: **GWT**

→ Auditor

KPMG

10 Shelley Street Sydney NSW 2000 AUSTRALIA

Telephone 61 2 9335 7000

Facsimile 61 2 9299 7077

→ Share Registry

Computershare Investor Services Pty Ltd

Level 19 307 Queen Street Brisbane QLD 4000 AUSTRALIA

GPO Box 523 Brisbane QLD 4001 AUSTRALIA

Telephone 1300 552 270

Facsimile 61 7 3237 2152

www.computershare.com

→ Group Bankers

BNP Paribas

Citibank

Commonwealth Bank of Australia

National Australia Bank

→ Head Office Locations

→ GWA INTERNATIONAL LIMITED

Level 14
10 Market Street
Brisbane QLD 4000
AUSTRALIA

Telephone 61 7 3109 6000

Facsimile 61 7 3236 0522

Website www.gwail.com.au

→ CAROMA DORF

4 Ray Road
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AUSTRALIA

Telephone 61 2 9202 7000

Facsimile 61 2 9869 0625

Websites www.caroma.com.au
www.caroma.smartflush.com.au
www.fowler.com.au
www.stylus.com.au
www.wisa-sanitair.com
www.starion-industries.com
www.dorf-clark.com.au

→ DUX MANUFACTURING LIMITED

Collins Road
Moss Vale NSW 2577
AUSTRALIA

Telephone 61 2 4868 0200

Facsimile 61 2 4868 2014

Websites www.dux.com.au
www.ecosmart.com.au

→ GAINSBOROUGH HARDWARE INDUSTRIES LIMITED

190 Whitehorse Road
Blackburn VIC 3130
AUSTRALIA

Telephone 61 3 9877 1555

Facsimile 61 3 9894 1599

Website www.gainsboroughhardware.com.au

→ ROVER MOWERS LIMITED

155 Fison Avenue West
Eagle Farm QLD 4009
AUSTRALIA

Telephone 61 7 3213 0222

Facsimile 61 7 3868 1010

Website www.rovermowers.com.au

→ SEBEL FURNITURE LIMITED

96 Canterbury Road
Bankstown NSW 2200
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Telephone 61 2 9780 2222

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Website www.sebel.com.au



INNOVATION =
FUTURE GROWTH



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