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Income Statements

For the year ended 30 June 2006

		Consolidated		The Company	
	Note	**2006** $'000	2005 $'000	**2006** $'000	2005 $'000
Revenue	2	619,989	626,866	-	-
Cost of sales		(326,128)	(330,499)	-	-
Gross profit		293,861	296,367	-	-
Other income	3	15,797	3,032	30,734	141,256
Distribution expenses		(135,818)	(130,845)	-	-
Administrative expenses		(61,004)	(63,143)	(1)	(6)
Restructuring expenses	8	(21,963)	-	-	-
Other expenses	4	(1,620)	(2,058)	-	-
Results from operating activities		89,253	103,353	30,733	141,250
Financial income	7	6,096	5,874	27	3
Financial expenses	7	(17,586)	(17,011)	-	-
Net financing costs		(11,490)	(11,137)	27	3
Profit before tax		77,763	92,216	30,760	141,253
Income tax expense	9	(20,911)	(28,328)	624	12
Profit for the year		56,852	63,888	31,384	141,265
Basic and diluted earnings per share (cents per share)	10	20.4	23.0		
Dividends per share					
Ordinary shares (cents per share)	22	20.0	23.0		

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 34 to 74.

Statements of Recognised Income and Expense

For the year ended 30 June 2006

		Consolidated		The Company	
	Note	**2006** $'000	2005 $'000	**2006** $'000	2005 $'000
Foreign exchange translation differences		688	(2,183)	-	-
Net gains/(losses) on hedge of net investment in foreign subsidiary		-	100	-	-
Cash flow hedges:					
Gains taken to equity		385	-	-	-
Net income recognised directly in equity		1,073	(2,083)	-	-
Profit for the year		56,852	63,888	31,384	141,265
Total recognised income and expense for the period	22	57,925	61,805	31,384	141,265
Effects of change in accounting policy- financial instruments	33	157	-	-	-

Other movements in equity arising from transactions with owners as owners are set out in note 22.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 34 to 74.

Balance Sheets

As at 30 June 2006

		Consolidated		The Company	
	Note	**2006** $'000	2005 $'000	**2006** $'000	2005 $'000
Assets					
Cash and cash equivalents	11	156,498	134,854	-	-
Trade and other receivables	12	67,853	69,221	518	900
Inventories	13	95,342	97,491	-	-
Income tax receivable	14	2,512	30	2,512	-
Other		4,399	5,750	413	-
Total current assets		326,604	307,346	3,443	900
Receivables	12	3,676	5,142	512,482	489,938
Deferred tax assets	15	26,496	26,565	-	-
Investment in subsidiaries	28	-	-	325,646	325,646
Property, plant and equipment	16	117,839	133,918	-	-
Intangible assets	17	343,786	342,031	-	-
Other		2,333	3,018	1,771	-
Total non-current assets		494,130	510,674	839,899	815,584
Total assets		820,734	818,020	843,342	816,484
Liabilities					
Trade and other payables	18	48,664	51,889	54	48
Employee benefits	20	17,451	17,612	-	-
Income tax payable	14	258	6,311	-	6,311
Provisions	21	19,586	13,263	-	-
Total current liabilities		85,959	89,075	54	6,359
Interest-bearing loans and borrowings	19	297,498	296,560	-	-
Deferred tax liabilities	15	1,462	875	-	-
Payables	18	-	-	458,018	400,579
Employee benefits	20	12,503	11,600	-	-
Provisions	21	11,344	10,364	-	-
Total non-current liabilities		322,807	319,399	458,018	400,579
Total liabilities		408,766	408,474	458,072	406,938
Net assets		411,968	409,546	385,270	409,546
Equity					
Issued capital		346,853	346,853	346,853	346,853
Reserves		(853)	(2,083)	-	-
Retained earnings		65,968	64,776	38,417	62,693
Total equity	22	411,968	409,546	385,270	409,546

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 34 to 74.

Statements of Cash Flows

For the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Cash flows from operating activities					
Cash receipts from customers		683,805	705,099	-	-
Dividends and trust distributions received		-	-	13,142	141,256
Cash paid to suppliers and employees		(585,571)	(574,942)	(1)	(6)
Cash generated from operations		98,234	130,157	13,141	141,250
Interest paid		(14,717)	(20,960)	-	-
Interest received		5,540	5,748	27	3
Income taxes paid		(29,019)	(31,178)	(27,927)	(29,957)
Net cash from operating activities	29	60,038	83,767	(14,759)	111,296
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		46,422	2,294	-	-
Acquisition of property, plant and equipment		(30,228)	(19,420)	-	-
Acquisition of intangibles		(738)	(1,911)	-	-
Net cash from investing activities		15,456	(19,037)	-	-
Cash flows from financing activities					
Issue of employee share loans		-	(5,627)	-	(5,627)
Repayment of employee share loans		1,792	1,524	1,792	1,524
Repayment of loans by controlled entities		-	-	68,621	-
Repayment of loans from controlled entities		-	-	-	(43,179)
Issue of loans to other parties		(7)	-	-	-
Repayment of loans by other parties		284	54	-	-
Dividends paid		(55,660)	(64,010)	(55,660)	(64,010)
Net cash from financing activities		(53,591)	(68,059)	14,753	(111,292)
Net increase in cash and cash equivalents		21,903	(3,329)	(6)	4
Cash and cash equivalents at 1 July		134,854	138,352	(48)	(52)
Effect of exchange rate fluctuations on cash held		(259)	(169)	-	-
Cash and cash equivalents at 30 June	11	156,498	134,854	(54)	(48)

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 34 to 74.

Notes to the Consolidated Financial Statements

1. Significant accounting policies

GWA International Limited (the 'company') is a company domiciled in Australia. The consolidated financial report of the company for the financial year ended 30 June 2006 comprises the company and its subsidiaries (together referred to as the 'consolidated entity').

The financial report was authorised for issue by the directors on 15 August 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the company is provided in note 32.

(b) Basis of preparation

The financial report is presented in Australian dollars. The entity has elected not to early adopt any accounting standards or amendments.

Issued standards not early adopted

Various standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements as they will not impact the results of the company or consolidated entity in future financial periods.

The financial report is prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations including goodwill and fair value adjustments arising on consolidation are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the translation reserve. They are released into the income statement upon disposal.

In respect of all foreign operations, any differences that arose before 1 July 2004, the date of transition to AIFRS, were deemed to be zero in accordance with the exemption available under AASB 1. All differences arising after 1 July 2004 are presented as a separate component of equity.

(e) Derivative financial instruments

Current accounting policy

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised in profit or loss, unless the derivative qualifies for hedge accounting, in which case the recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (f)).

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Comparative period policy

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: interest rate swaps and forward foreign exchange contracts. Derivative financial instruments are not held for speculative purposes.

The quantitative effect of the change in accounting policy is set out in note 33.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(f) Hedging

Current accounting policy

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly or fully effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

(iii) Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement.

Comparative period policy

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are taken directly to equity where the amount is part of a net investment in a self-sustaining foreign operation.

(g) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see accounting policy g(ii)) and impairment losses (see accounting policy (l)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(g) Property, plant and equipment (continued)

(i) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(ii) Depreciation

With the exception of freehold land, depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

• buildings	40 years
• plant and equipment	3-10 years
• fixtures and fittings	7-15 years

The residual value, the useful life and the deprecation method applied to an asset are reassessed annually.

(h) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. Capitalised development expenditure is stated at cost less accumulated amortisation (see accounting policy h(v)) and impairment losses (see accounting policy (l)).

(ii) Brand names

Expenditure incurred in developing, maintaining or enhancing brand names is written-off against profit from ordinary activities in the year in which it is incurred. The brand names are not amortised as the directors believe that the brand names have an indefinite useful life. The carrying value of these brand names is reviewed each year to ensure that no impairment exists.

(iii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (l)).

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

• capitalised software development costs	5 years

(i) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (l)).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity date of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(l) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy (j)) and deferred tax assets (see accounting policy (t)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRSs. An impairment loss of $14,558,000 was recognised as a decrease to retained earnings on transition to AIFRS in relation to the Stylus brand name.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Share capital

(i) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(n) Interest-bearing borrowings

Current accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Comparative period policy

Bank loans are recognised at their principal amount. Interest is recognised as an expense as it accrues.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(o) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted to present value.

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(p) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring

A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(iii) Site restoration

A provision for restoration and dismantling in respect of leased premises is recognised when the obligation to restore or dismantle arises. The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation and the asset dismantling costs at the reporting date. Future restoration and dismantling costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

The amount of the provision for future restoration and dismantling costs is capitalised and is depreciated in accordance with the policy set out in note (g). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(q) Trade and other payables

Trade and other payables are stated at their amortised cost.

(r) Revenue

Goods sold

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (f)). Borrowing costs are expensed as incurred and included in net financing costs. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(t) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is GWA International Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the company as an equity contribution or distribution.

Nature of tax funding arrangements and tax sharing arrangements

The members of the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement GWA International Limited and each of the entities in the tax consolidated group recognise inter-entity receivables (payables) equal in amount to the tax liability (asset) assumed by the head entity.

(u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the Consolidated Financial Statements

1. Significant accounting policies (continued)

(v) Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

(w) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of intangibles with indefinite useful lives

The consolidated entity assesses whether intangibles with indefinite useful lives are impaired at least annually in accordance with the accounting policy (refer accounting policy (l)). These calculations involve an estimation of the recoverable amount of the cash-generating units to which the intangibles with indefinite useful lives are allocated.

2. Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the mower business, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises the following main business segments:

- *Building fixtures and fittings*
  Sanitaryware
  Building hardware products
  Baths and spas
  Household accessories, sinks and tapware
  Hot water products
- *Commercial furniture*
  Education products
  Hospitality products
  Stadia seating
- *Unallocated*
  Domestic and ride-on mowers
  Corporate administration

Geographical segments

The business segments are managed on a worldwide basis, but operate mainly in one geographical area being Australia. Sales offices are operated in New Zealand, Asia, United States and Europe, however the sales revenue from these geographical areas comprise only 15% of the consolidated entity's total sales revenue and are individually less than 10%.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Notes to the Consolidated Financial Statements

2. Segment reporting (continued)

Business segments

	Building fixtures and fittings*		Commercial furniture*		Unallocated*		Eliminations		Consolidated*	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000	**2006** $'000	2005 $'000	**2006** $'000	2005 $'000	**2006** $'000	2005 $'000
Revenue:										
External sales	523,100	523,850	56,738	61,608	40,151	41,408	-	-	619,989	626,866
Inter-segment sales	-	-	2,810	1,947	-	-	(2,810)	(1,947)	-	-
Total sales revenue	523,100	523,850	59,548	63,555	40,151	41,408	(2,810)	(1,947)	619,989	626,866
Segment result	102,858	105,535	4,655	5,781	(12,316)	(7,963)	-	-	95,197	103,353
Restructuring income/(expenses)	(12,228)	-	6,284	-	-	-	-	-	(5,944)	-
Segment result after restructuring expenses	90,630	105,535	10,939	5,781	(12,316)	(7,963)	-	-	89,253	103,353
Net financing costs									(11,490)	(11,137)
Income tax expense									(20,911)	(28,328)
Profit for the period									56,852	63,888
Segment assets	570,143	567,530	36,941	52,738	213,650	197,752	-	-	820,734	818,020
Segment liabilities	92,655	82,196	8,316	6,663	307,795	319,615	-	-	408,766	408,474
Depreciation	17,023	21,632	3,418	3,412	1,488	1,452	-	-	21,929	26,496
Amortisation	276	-	-	-	215	218	-	-	491	218
Capital expenditure	28,121	17,636	1,024	1,241	1,083	1,681	-	-	30,228	20,558
Impairment losses	1,206	-	1,610	-	-	-	-	-	2,816	-

* All segments are continuing operations

Geographical segments

	Australia*		Unallocated*		Consolidated*	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000	**2006** $'000	2005 $'000
External sales revenue	521,265	532,369	95,724	94,497	619,989	626,866
Segment assets	760,329	762,474	60,405	55,546	820,734	818,020
Capital expenditure	28,437	19,468	1,791	1,090	30,228	20,558

* All segments are continuing operations

Notes to the Consolidated Financial Statements

	Consolidated		The Company	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000
3. Other income				
Foreign currency gains – realised	116	313	-	-
Foreign currency gains – unrealised	551	1,835	-	-
Net gain on disposal of property, plant and equipment	14,471	-	-	-
Impairment reversals	-	-	17,592	-
Dividends received from controlled companies	-	-	-	139,300
Distributions received from controlled trusts	-	-	13,142	1,956
Other	659	884	-	-
	15,797	3,032	30,734	141,256
4. Other expenses				
Foreign currency losses – realised	432	549	-	-
Foreign currency losses – unrealised	1,188	559	-	-
Net loss on disposal of property, plant and equipment	-	950	-	-
	1,620	2,058	-	-
5. Personnel expenses				
Wages and salaries – including annual leave, long service leave and on-costs	138,251	137,074	-	-
	$	$	$	$
6. Auditors' remuneration				
Audit services				
Auditors of the company				
KPMG Australia:				
Audit and review of financial reports	260,000	260,000	10,000	10,000
Other regulatory audit services	36,329	20,700	-	-
Overseas KPMG Firms:				
Audit and review of financial reports	62,559	48,163	-	-
	358,888	328,863	10,000	10,000
Other services				
Auditors of the company				
KPMG Australia				
Due diligence services	101,500	-	-	-
Other	27,500	51,367	-	-
	129,000	51,367	-	-
	$'000	$'000	$'000	$'000
7. Net financing costs				
Interest income	(6,096)	(5,874)	(27)	(3)
Interest expense	17,586	17,011	-	-
Net financing costs/(income)	11,490	11,137	(27)	(3)

Notes to the Consolidated Financial Statements

	Consolidated		The Company	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000
8. Restructuring expenses				
Restructuring expenses	21,963	-	-	-
Gains on property sales (included in other income)	(16,019)	-	-	-
Net expense before tax	5,944	-	-	-
Tax benefit	(2,717)	-	-	-
Net restructuring expense after tax	3,227	-	-	-
9. Income tax expense				
Recognised in the income statement				
Current tax expense				
Current year	21,898	29,596	8	608
Adjustments for prior years	(1,411)	(585)	(632)	(620)
	20,487	29,011	(624)	(12)
Deferred tax expense				
Origination and reversal of temporary differences	434	(556)	-	-
Benefit of tax losses recognised	(10)	(127)	-	-
	424	(683)	-	-
Total income tax expense/(benefit) in income statement	20,911	28,328	(624)	(12)
Numerical reconciliation between tax expense and pre-tax net profit				
Profit before tax	77,763	92,216	30,760	141,253
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	23,329	27,665	9,228	42,376
Increase in income tax expense due to:				
Non-deductible building depreciation	76	382	-	-
Non-deductible expenses	381	898	-	22
Effect of tax rate in foreign jurisdictions	156	95	-	-
Decrease in income tax expense due to:				
Effect of tax losses recognised	(10)	(127)	-	-
Non-assessable income	(576)	-	-	-
Non-assessable capital profits	(934)	-	-	-
Rebateable research and development	(100)	-	-	-
Impairment reversals	-	-	(5,278)	-
Rebateable trust distributions	-	-	(3,942)	-
Rebateable dividends	-	-	-	(41,790)
	22,322	28,913	8	608
Under/(over) provided in prior years	(1,411)	(585)	(632)	(620)
Income tax expense/(benefit) on pre-tax net profit	20,911	28,328	(624)	(12)
Deferred tax recognised directly in equity				
Relating to the recognition of the fair value of hedge derivatives	232	-	-	-

Notes to the Consolidated Financial Statements

10. Earnings per share

	Consolidated 2006	Consolidated 2005
Basic and diluted earnings per share		
Cents per share	20.4	23.0
	$'000	$'000
Profit attributable to ordinary shareholders		
Profit for the period	56,852	63,888
	In thousands of shares	In thousands of shares
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	278,303	278,303
Weighted average number of ordinary shares at 30 June	278,303	278,303

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
11. Cash and cash equivalents				
Bank balances	93,011	51,011	-	-
Call deposits	63,487	83,843	-	-
Cash and cash equivalents in the statement of cash flows	156,498	134,854	-	-
12. Trade and other receivables				
Current				
Trade receivables	65,407	57,927	-	-
Provision for impairment	(1,126)	(1,394)	-	-
Fair value derivatives	920	-	-	-
Other	2,652	12,688	518	900
	67,853	69,221	518	900
Non-current				
Receivables due from controlled entities	-	-	509,021	507,530
Provision for impairment	-	-	-	(17,592)
Other	3,676	5,142	3,461	-
	3,676	5,142	512,482	489,938
13. Inventories				
Raw materials and consumables	19,930	21,807	-	-
Work in progress	8,396	10,702	-	-
Finished goods	67,016	64,982	-	-
	95,342	97,491	-	-

Notes to the Consolidated Financial Statements

14. Current tax assets and liabilities

The current tax asset for the consolidated entity of $2,512,000 (2005: $30,000) and for the company of $2,512,000 (2005: $nil) represents the amount of income taxes recoverable in respect of prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority. The current tax liability for the consolidated entity of $258,000 (2005: $6,311,000) and for the company of $nil (2005: $6,311,000) represents the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the company as the head entity of the Australian tax-consolidated group has assumed the current tax asset/(liability) initially recognised by the members in the tax-consolidated group.

15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Consolidated						
Property, plant and equipment	444	535	(438)	(302)	6	233
Intangible assets	-	65	(95)	-	(95)	65
Inventories	5,001	5,641	-	-	5,001	5,641
Employee benefits	8,987	9,005	-	-	8,987	9,005
Provisions	10,747	9,857	(119)	(7)	10,628	9,850
Other items	1,180	1,335	(810)	(566)	370	769
Tax value of loss carry-forwards recognised	137	127	-	-	137	127
Tax assets/(liabilities)	26,496	26,565	(1,462)	(875)	25,034	25,690
Set off of tax	-	-	-	-	-	-
Net tax assets/(liabilities)	26,496	26,565	(1,462)	(875)	25,034	25,690

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated		The Company	
	2006 $'000 (net)	2005 $'000 (net)	**2006 $'000 (net)**	2005 $'000 (net)
Tax losses	2,160	2,123	-	-

The deductible tax losses accumulated at balance date do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which to offset the tax benefit of these losses.

Notes to the Consolidated Financial Statements

15. Deferred tax assets and liabilities (continued)

	Consolidated				The Company			
	Balance 1July 04 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 05 $'000	Balance 1 July 04 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 05 $'000
Movement in temporary differences during the year								
Property, plant and equipment	(10)	243	-	233	-	-	-	-
Intangible assets	-	65	-	65	-	-	-	-
Inventories	5,355	286	-	5,641	-	-	-	-
Employee benefits	8,701	304	-	9,005	-	-	-	-
Provisions	10,377	(527)	-	9,850	-	-	-	-
Other items	584	185	-	769	-	-	-	-
Tax value of loss carry-forwards recognised	-	127	-	127	-	-	-	-
	25,007	683	-	25,690	-	-	-	-
	Balance 1July 05 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 06 $'000	Balance 1 July 05 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 06 $'000
Property, plant and equipment	233	(227)	-	6	-	-	-	-
Intangible assets	65	(160)	-	(95)	-	-	-	-
Inventories	5,641	(640)	-	5,001	-	-	-	-
Employee benefits	9,005	(18)	-	8,987	-	-	-	-
Provisions	9,850	778	-	10,628	-	-	-	-
Other items	769	(167)	(232)	370	-	-	-	-
Tax value of loss carry-forwards recognised	127	10	-	137	-	-	-	-
	25,690	(424)	(232)	25,034	-	-	-	-

Notes to the Consolidated Financial Statements

	Consolidated					The Company				
	Land and buildings $'000	Plant and equip-ment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000	Land and buildings $'000	Plant and equip-ment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000
16. Property, plant and equipment										
Cost										
Balance at 1 July 2004	71,088	220,935	14,070	6,905	312,998	-	-	-	-	-
Acquisitions	414	13,337	4,280	2,527	20,558	-	-	-	-	-
Disposals	(11,999)	(15,104)	(4,170)	-	(31,273)	-	-	-	-	-
Effect of movements in foreign exchange	(748)	(2,961)	58	(15)	(3,666)	-	-	-	-	-
Balance at 30 June 2005	58,755	216,207	14,238	9,417	298,617	-	-	-	-	-
Balance at 1 July 2005	58,755	216,207	14,238	9,417	298,617	-	-	-	-	-
Acquisitions	14,415	7,085	2,463	6,265	30,228	-	-	-	-	-
Disposals	(18,469)	(17,179)	(2,603)	-	(38,251)	-	-	-	-	-
Effect of movements in foreign exchange	287	2,066	(54)	25	2,324	-	-	-	-	-
Balance at 30 June 2006	54,988	208,179	14,044	15,707	292,918	-	-	-	-	-
Depreciation and impairment losses										
Balance at 1 July 2004	(8,583)	(146,236)	(4,460)	-	(159,279)	-	-	-	-	-
Depreciation charge for the year	(1,145)	(22,668)	(2,683)	-	(26,496)	-	-	-	-	-
Disposals	1,203	14,255	2,321	-	17,779	-	-	-	-	-
Effect of movements in foreign exchange	653	2,638	6	-	3,297	-	-	-	-	-
Balance at 30 June 2005	(7,872)	(152,011)	(4,816)	-	(164,699)	-	-	-	-	-
Balance at 1 July 2005	(7,872)	(152,011)	(4,816)	-	(164,699)	-	-	-	-	-
Depreciation charge for the year	(961)	(18,317)	(2,651)	-	(21,929)	-	-	-	-	-
Disposals	2,449	12,386	1,555	-	16,390	-	-	-	-	-
Impairment losses	-	(2,816)	-	-	(2,816)					
Effect of movements in foreign exchange	(222)	(1,788)	(15)	-	(2,025)	-	-	-	-	-
Balance at 30 June 2006	(6,606)	(162,546)	(5,927)	-	(175,079)	-	-	-	-	-
Carrying amounts										
At 1 July 2004	62,505	74,699	9,610	6,905	153,719	-	-	-	-	-
At 30 June 2005	50,883	64,196	9,422	9,417	133,918	-	-	-	-	-
At 1 July 2005	50,883	64,196	9,422	9,417	133,918	-	-	-	-	-
At 30 June 2006	48,382	45,633	8,117	15,707	117,839	-	-	-	-	-

Impairment losses

During the 2006 financial year decisions were made to close certain operating sites. The consolidated entity assessed the recoverable amount of plant and equipment at these sites. Based on this assessment, the carrying amount of this plant and equipment was written down by $2,816,000.

Notes to the Consolidated Financial Statements

17. Intangible assets

	Consolidated			The Company		
	Soft-ware $'000	Brand names $'000	Total $'000	Soft-ware $'000	Brand names $'000	Total $'000
Cost						
Balance at 1 July 2004	-	342,394	342,394	-	-	-
Acquisitions	1,911	-	1,911	-	-	-
Effect of movements in foreign exchange	-	(2,056)	(2,056)	-	-	-
Balance at 30 June 2005	1,911	340,338	342,249	-	-	-
Balance at 1 July 2005	1,911	340,338	342,249	-	-	-
Acquisitions	738	-	738	-	-	-
Effect of movements in foreign exchange	-	1,508	1,508	-	-	-
Balance at 30 June 2006	2,649	341,846	344,495	-	-	-
Amortisation and impairment losses						
Balance at 1 July 2004	-	-	-	-	-	-
Amortisation for the year	(218)	-	(218)	-	-	-
Balance at 30 June 2005	(218)	-	(218)	-	-	-
Balance at 1 July 2005	(218)	-	(218)	-	-	-
Amortisation for the year	(491)	-	(491)	-	-	-
Balance at 30 June 2006	(709)	-	(709)	-	-	-
Carrying amounts						
At 1 July 2004	-	342,394	342,394	-	-	-
At 30 June 2005	1,693	340,338	342,031	-	-	-
At 1 July 2005	1,693	340,338	342,031	-	-	-
At 30 June 2006	1,940	341,846	343,786	-	-	-

In relation to the indefinite life brand names, the recoverable amounts are based on value in use calculations. Those calculations use cash flow projections based on actual operating results and the three-year budget forecast.Management used a growth rate of 2.5% in determining these forecasts. Pre-tax discount rates ranging between 11.0% and 17.5% have been used in discounting the projected cash flows depending on the industry.

18. Trade and other payables

	Consolidated		The Company	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000
Current				
Trade payables and accrued expenses	42,363	47,972	54	48
Fair value derivatives	146	-	-	-
Non-trade payables and accrued expenses	6,155	3,917	-	-
	48,664	51,889	54	48
Non-current				
Payables to controlled entities	-	-	458,018	400,579

Notes to the Consolidated Financial Statements

19. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 23.

	Consolidated		The Company	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000
Non-current liabilities				
Unsecured bank loans	297,498	296,560	-	-
Financing facilities				
Bank overdraft	6,370	6,413	-	-
Standby letters of credit	27,320	26,797	-	-
Unsecured bank facility	312,498	311,560	-	-
	346,188	344,770	-	-
Facilities utilised at reporting date				
Bank overdraft	-	-	-	-
Standby letters of credit	6,967	2,273	-	-
Unsecured bank facility	297,498	296,560	-	-
	304,465	298,833	-	-
Facilities not utilised at reporting date				
Bank overdraft	6,370	6,413	-	-
Standby letters of credit	20,353	24,524	-	-
Unsecured bank facility	15,000	15,000	-	-
	41,723	45,937	-	-

Financing arrangements

GWA International Limited, GWA Finance Pty Limited, a wholly owned controlled entity of GWA International Limited, and each other controlled entity of GWA International Limited, have entered into a Master Financing Agreement with a number of banks.

This document provides for the following:

(i) GWA Finance Pty Limited and certain other operating controlled entities of GWA International Limited to borrow and enter into certain risk and hedging facilities;

(ii) Individual banks to provide facilities direct to GWA Finance Pty Limited and certain other operating controlled entities of GWA International Limited by joining the Master Financing Agreement and being bound by the common covenants and conditions contained therein.

Bank overdraft

The bank overdraft facility available to the consolidated entity is unsecured. Interest on the bank overdraft facility is charged at prevailing market rates. No drawdowns against this facility had been made as at 30 June 2006.

Notes to the Consolidated Financial Statements

19. Interest-bearing loans and borrowings (continued)

Bank loans

Bank loans are provided to GWA Finance Pty Limited under the facility agreements. The bank loans are denominated in Australian dollars, except for the Euro facility which is denominated in Euros. The bank loans are unsecured and have a maximum three year rolling maturity, subject to annual review.

The loans bear interest at market rates and interest is payable every 30 to 90 days. The consolidated entity hedges its exposure to variable interest rates through interest rate swap transactions.

Letter of credit

The letter of credit facilities are committed facilities available to be drawn down under the facility agreements. The limits are specified in the facility agreements.

	Consolidated		The Company	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000
20. Employee benefits				
Current				
Liability for long service leave	2,048	2,717	-	-
Liability for annual leave	11,985	11,652	-	-
Liability for on-costs	3,418	3,243	-	-
	17,451	17,612	-	-
Non-current				
Liability for long-service leave	11,734	10,724	-	-
Liability for on-costs	769	876	-	-
Total employee benefits	12,503	11,600	-	-

Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. The amount recognised as expense was $10,101,000 for the financial year ended 30 June 2006 (2005: $10,071,000).

	Warranties $'000	Restructuring $'000	Site restoration $'000	Other $'000	Total $'000
21. Provisions					
Consolidated					
Balance at 1 July 2005	9,233	-	4,337	10,057	23,627
Provisions made during the year	4,364	21,963	149	1,801	28,277
Provisions used during the year	(4,261)	(12,787)	-	(2,898)	(19,946)
Provisions reversed during the year	(232)	-	-	(796)	(1,028)
Balance at 30 June 2006	9,104	9,176	4,486	8,164	30,930
Current	4,316	9,176	-	6,094	19,586
Non-current	4,788	-	4,486	2,070	11,344
	9,104	9,176	4,486	8,164	30,930

Warranties

The total provision for warranties at balance date of $9,104,000 relates to future warranty expense on products sold during the current and previous financial years. The major warranty expense relates to hot water systems. The provision is based on estimates made from historical warranty data associated with similar products and services. The consolidated entity expects to expend $4,316,000 of the total provision in the financial year ending 30 June 2007, and the majority of the balance of the liability over the following four years.

Notes to the Consolidated Financial Statements

21. Provisions (continued)

Restructuring

During the financial year ended 30 June 2006, provisions of $21,963,000 were made to cover the estimated costs of redundancies and related costs with respect to the closure of manufacturing operations and other business restructuring. Of this amount, $9,176,000 remains provided for at balance date and this amount represents the estimate of costs to be expended in the financial year ending 30 June 2007. The restructuring is expected to be completed by December 2006.

Site restoration

At balance date the balance of the site restoration provision was $4,486,000. No expenditures were made in the current financial year, the only movement being an adjustment to reflect the net present value of this provision. This provision relates to the removal of plant installed in leased premises where there is a liability under the lease for the plant to be removed on expiry and the leased premises made good. The net present value of the provision has been calculated using a discount rate of 6.5 per cent.

22. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

	Consolidated				
	Share capital $'000	Translation reserve $'000	Hedging reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2004	346,853	-	-	64,898	411,751
Total recognised income and expense	-	(2,083)	-	63,888	61,805
Dividends to shareholders	-	-	-	(64,010)	(64,010)
Balance at 30 June 2005	346,853	(2,083)	-	64,776	409,546
Balance at 1 July 2005	346,853	(2,083)	-	64,776	409,546
Effect of change in accounting policy	-	-	157	-	157
Balance at 1 July 2005 restated	346,853	(2,083)	157	64,776	409,703
Total recognised income and expense	-	688	385	56,852	57,925
Dividends to shareholders	-	-	-	(55,660)	(55,660)
Balance at 30 June 2006	346,853	(1,395)	542	65,968	411,968

Notes to the Consolidated Financial Statements

22. Capital and reserves (continued)

Reconciliation of movement in capital and reserves

	The Company		
	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2004	346,853	(14,562)	332,291
Total recognised income and expense	-	141,265	141,265
Dividends to shareholders	-	(64,010)	(64,010)
Balance at 30 June 2005	346,853	62,693	409,546
Balance at 1 July 2005	346,853	62,693	409,546
Total recognised income and expense	-	31,384	31,384
Dividends to shareholders	-	(55,660)	(55,660)
Balance at 30 June 2006	346,853	38,417	385,270

	The Company Ordinary shares	
	2006 In thousands of shares	2005 In thousands of shares
Share capital		
On issue at 30 June – fully paid	278,303	278,303

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All shares rank equally with regard to the company's residual assets.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different from the presentation currency of the reporting entity, as well as from the translation of liabilities that hedge the company's net investment in a foreign subsidiary.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the Consolidated Financial Statements

22. Capital and reserves (continued)

Dividends

Dividends recognised in the current year by the company are:

	Cents per share	Total amount $'000	Franked %	Date of payment
2006				
Interim 2006 ordinary	10.0	27,830	100	3rd April 2006
Final 2005 ordinary	8.0	22,264	100	3rd Oct 2005
Final 2005 special	2.0	5,566	100	3rd Oct 2005
Total amount	20.0	55,660		
2005				
Interim 2005 ordinary	10.0	27,830	100	1st April 2005
Interim 2005 special	2.5	6,958	100	1st April 2005
Final 2004 ordinary	8.0	22,264	100	1st Oct 2004
Final 2004 special	2.5	6,958	100	1st Oct 2004
Total amount	23.0	64,010		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.
After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

	Cents per share	Total amount $'000	Franked %
Final ordinary	8.0	22,264	100
Final special	3.5	9,741	100
Total amount	11.5	32,005	

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 30 June 2006 and will be recognised in subsequent financial reports.

	The Company	
	2006 $'000	2005 $'000
Dividends		
Dividend franking account:		
30 per cent franking credits available to shareholders of GWA International Limited for subsequent financial years	37,532	42,282

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits/debits that will arise from the payment/settlement of the current tax liabilities/assets; and

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date, but not recognised as a liability, is to reduce it by $13,716,000 (2005: $11,927,000). In accordance with the tax consolidation legislation, the company as the head entity in the tax-consolidated group has also assumed the benefit of $37,532,000 (2005: $42,282,000) franking credits.

Notes to the Consolidated Financial Statements

23. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers within the industries it trades. A risk assessment process is used for customers requiring credit over $50,000 and credit insurance is utilised for major concentrations of trade debts. The consolidated entity does not require collateral in respect of financial assets.

Transactions involving derivative financial instruments are with counterparties with sound credit ratings. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no uninsured concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

Hedging

The consolidated entity adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is reduced. Interest rate swaps, denominated in Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure. The swaps mature over the next 2 years and have fixed swap rates ranging from 5.50 per cent to 5.67 per cent. At 30 June 2006, the consolidated entity had interest rate swaps with a notional contract amount of $125,000,000 (2005: $175,000,000).

The consolidated entity classifies interest rate swaps as cash flow hedges and states them at fair value. The fair value of swaps at 1 July 2005 was adjusted against the opening balance of the hedging reserve at that date.

The net fair value of swaps at 30 June 2006 was $920,000 (2005: $302,000). These amounts were recognised as fair value derivative assets in the current financial year.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated 2006

	Effective interest rate %	Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Cash and cash equivalents	5.57	156,498	156,498	-	-	-	-
Effect of interest rate swap derivatives*	(0.21)	-	125,000	-	(100,000)	(25,000)	-
Unsecured bank loans	5.80	(297,498)	(297,498)	-	-	-	-
		(141,000)	(16,000)	-	(100,000)	(25,000)	-

Consolidated 2005

	Effective interest rate %	Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Cash and cash equivalents	5.42	134,854	134,854	-	-	-	-
Effect of interest rate swap derivatives*	(0.37)	-	175,000	(50,000)	-	(125,000)	-
Unsecured bank loans	5.58	(296,560)	(296,560)	-	-	-	-
		(161,706)	13,294	(50,000)	-	(125,000)	-

* These assets/liabilities bear interest at a fixed rate.

Notes to the Consolidated Financial Statements

23. Financial instruments (continued)

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily NZD, USD and EUR.

The consolidated entity hedges its foreign currency exposure in respect of forecasted sales and purchases by entering into forward exchange contracts. The forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

Forecasted transactions

The consolidated entity classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts at 1 July 2005 was adjusted against the opening balance of the hedging reserve at that date.

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2006 was $146,000 (2005: $78,000). These amounts were recognised as fair value derivative liabilities in the current financial year.

Hedge of net investment in foreign subsidiary

The consolidated entity's EUR denominated bank loan is designated as a hedge of the consolidated entity's investment in its subsidiary in the Netherlands. The carrying amount of the loan at 30 June 2006 was $12,556,000 (2005: $11,560,000).

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Consolidated			
	Carrying amount **2006** $'000	Fair value **2006** $'000	Carrying amount 2005 $'000	Fair value 2005 $'000
Trade and other receivables	70,609	70,609	74,363	74,363
Cash and cash equivalents	156,498	156,498	134,854	134,854
Interest rate swaps:				
Assets	920	920	-	302
Forward exchange contracts:				
Liabilities	(146)	(146)	-	(78)
Unsecured bank loans	(297,498)	(297,498)	(296,560)	(296,560)
Trade payables and accrued expenses	(48,518)	(48,518)	(51,889)	(51,889)
	(118,135)	(118,135)	(139,232)	(139,008)
Unrecognised (losses)/gains		-		224

	The Company			
	Carrying amount **2006** $'000	Fair value **2006** $'000	Carrying amount 2005 $'000	Fair value 2005 $'000
Trade and other receivables	518	518	900	900
Receivables due from controlled entities	512,482	512,482	489,938	489,938
Payables to controlled entities	(458,018)	(458,018)	(400,579)	(400,579)
Trade payables and accrued expenses	(54)	(54)	(48)	(48)
	54,928	54,928	90,211	90,211
Unrecognised (losses)/gains		-		-

Notes to the Consolidated Financial Statements

23. Financial instruments (continued)

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Derivatives

Forward exchange contracts are marked to market by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are obtained. These quotes are back tested using discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

Interest-bearing loans and borrowings

The notional amount of the interest-bearing loans is deemed to reflect the fair value. The interest-bearing loans have a maximum three-year rolling maturity, however are rolled for periods no longer than 90 days. At balance date, the AUD loans were rolled over to 28 July 2006 and the EUR loan was rolled over to 28 August 2006.

Trade and other receivables/payables

All receivables/payables are either repayable within twelve months or repayable on demand. Accordingly, the notional amount is deemed to reflect the fair value.

Employee share loans and other employee loans

Employee share loans and other employee loans are carried at fair value using discounted cash flow techniques.

Interest rates used for determining fair value

The entity uses the government yield curve as of 30 June 2006 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2006	2005
Derivatives	5.98% – 6.21%	5.51% – 5.58%
Employee share loans and other loans	7.05% – 7.05%	7.05% – 7.05%
Interest bearing loans and borrowings	5.53% – 5.80%	5.36% – 5.61%

24. Operating leases

Leases as lessee

	Consolidated		**The Company**	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	10,055	6,671	-	-
Between one and five years	23,440	13,707	-	-
More than five years	1,868	1,774	-	-
	35,363	22,152	-	-

The consolidated entity leases a number of warehouse and factory facilities under operating leases. The leases typically run for a period of 5 years, with an option to renew the lease after that date. None of the leases include contingent rentals.

Two of the leased properties have been sublet by the consolidated entity. The two leases and subleases expire in June 2007 and November 2009 respectively. Sublease payments of $429,000 will be received during the following financial year.

During the financial year ended 30 June 2006, $9,497,000 (2005: $7,565,000) was recognised as an expense in the income statement in respect of operating leases, which was net of sub-lease income.

Notes to the Consolidated Financial Statements

	Consolidated		The Company	
	2006 $'000	2005 $'000	**2006** $'000	2005 $'000
25. Capital and other commitments				
Capital expenditure commitments				
Plant and equipment				
Contracted but not provided for and payable:				
Within one year	10,636	29,360	-	-
26. Contingencies				
The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.				
Contingent liabilities considered remote				
Guarantees				
(i) Under the terms of a Deed of Cross Guarantee, described in note 27, the company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed is wound up. No deficiency in net assets exists in these companies at reporting date.				
(ii) Bank guarantees	3,243	2,833	-	-

27. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries as listed in Note 28 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and directors' report.

It is a condition of the Class Order that the company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the company is wound up.

A consolidated income statement and consolidated balance sheet, comprising the company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2006 is set out below.

Summarised income statement and retained profits

	Consolidated	
	2006 $'000	2005 $'000
Profit before tax	63,137	87,619
Income tax expense	(17,972)	(27,149)
Profit after tax	45,165	60,470
Retained profits at beginning of year	43,747	65,119
Adjustment to retained profits on transition to IFRS, net of tax	-	(17,832)
Dividends recognised during the year	(55,660)	(64,010)
Retained profits at end of year	33,252	43,747

Notes to the Consolidated Financial Statements

27. Deed of cross guarantee (continued)

Balance Sheet

	Consolidated 2006 $'000	Consolidated 2005 $'000
Assets		
Cash and cash equivalents	138,298	124,002
Trade and other receivables	61,045	62,933
Inventories	85,869	87,487
Income tax receivable	4,905	-
Other	3,969	6,003
Total current assets	294,086	280,425
Receivables	3,677	4,561
Intercompany receivables	31,252	37,456
Investments	16,280	16,280
Deferred tax assets	25,330	25,394
Property, plant and equipment	92,896	105,977
Intangible assets	319,066	318,819
Other	2,326	3,018
Total non-current assets	490,827	511,505
Total assets	784,913	791,930
Liabilities		
Trade and other payables	45,257	48,772
Employee benefits	16,400	16,412
Income tax payable	-	5,618
Provisions	19,219	14,801
Total current liabilities	80,876	85,603
Interest-bearing loans and borrowings	297,498	296,560
Deferred tax liabilities	967	346
Employee benefits	12,369	11,598
Provisions	11,344	10,600
Total non-current liabilities	322,178	319,104
Total liabilities	403,054	404,707
Net assets	381,859	387,223
Equity		
Issued capital	346,853	346,853
Reserves	1,754	(3,377)
Retained earnings	33,252	43,747
Total equity	381,859	387,223

Notes to the Consolidated Financial Statements

28. Consolidated entities

	Parties to Cross Guarantee	Country of incorporation	Ownership interest 2006	Ownership interest 2005
Parent entity				
GWA International Limited	Y	Australia		
Subsidiaries				
GWA Group Limited	Y	Australia	100%	100%
Gainsborough Hardware Industries Limited	Y	Australia	100%	100%
Caroma Holdings Limited	Y	Australia	100%	100%
GWA (North America) Pty Ltd	Y	Australia	100%	100%
Sebel Furniture Inc	N	USA	100%	100%
Caroma Industries Limited	Y	Australia	100%	100%
G Subs Pty Ltd	Y	Australia	100%	100%
Sebel Furniture (Hong Kong) Ltd	N	Hong Kong	100%	100%
GWA Trading (Shanghai) Co Ltd	N	China	100%	100%
GWA International (Hong Kong) Limited	N	Hong Kong	100%	100%
Stylus Pty Ltd	Y	Australia	100%	100%
Ecohome Pty Ltd	Y	Australia	100%	100%
Fowler Manufacturing Pty Ltd	Y	Australia	100%	100%
Starion Tapware Pty Ltd	Y	Australia	100%	100%
Dorf Clark Industries Ltd	Y	Australia	100%	100%
Dorf Industries (NZ) Ltd	N	New Zealand	100%	100%
McIlwraith Davey Pty Ltd	Y	Australia	100%	100%
Stylus Sales Limited	N	New Zealand	100%	100%
Caroma Industries Europe BV	N	Netherlands	100%	100%
Wisa Beheer BV	N	Netherlands	100%	100%
Wisa BV	N	Netherlands	100%	100%
Wisa Systems BV	N	Netherlands	100%	100%
Wisa GmbH	N	Germany	100%	100%
Stokis Kon Fav. Van Metaalwerken NV	N	Netherlands	100%	100%
Caroma International Pty Ltd	Y	Australia	100%	100%
Caroma USA Inc	N	USA	100%	100%
Caroma Canada Industries Ltd	N	Canada	100%	100%
Caroma Industries (UK) Ltd	N	UK	100%	100%
Canereb Pty Ltd	N	Australia	100%	100%
Dux Manufacturing Limited	Y	Australia	100%	100%
GWA Taps Manufacturing Limited	Y	Australia	100%	100%
Lake Nakara Pty Ltd	N	Australia	100%	100%
Mainrule Pty Ltd	N	Australia	100%	100%
Warapave Pty Ltd	N	Australia	100%	100%
Rover Mowers (NZ) Limited	N	New Zealand	100%	100%
Caroma Industries (NZ) Limited	N	New Zealand	100%	100%
GWAIL (NZ) Ltd	N	New Zealand	100%	100%
Rover Mowers Limited	Y	Australia	100%	100%
Industrial Mowers (Australia) Limited	Y	Australia	100%	100%
Olliveri Pty Ltd	Y	Australia	100%	100%
Sebel Service & Installations Pty Ltd	Y	Australia	100%	100%

Notes to the Consolidated Financial Statements

28. Consolidated entities (continued)

	Parties to Cross Guarantee	Country of incorporation	Ownership interest 2006	Ownership interest 2005
Subsidiaries (continued)				
Sebel Properties Pty Ltd	Y	Australia	100%	100%
Sebel Furniture Limited (NZ)	N	New Zealand	100%	100%
Sebel Furniture Limited	Y	Australia	100%	100%
Sebel Furniture (SEA) Pte Ltd	N	Singapore	100%	100%
Sebel Sales Pty Limited	Y	Australia	100%	100%
Caroma Singapore Pte Limited	N	Singapore	100%	100%
GWA Finance Pty Limited	Y	Australia	100%	100%
Hetset (No. 5) Pty Ltd	Y	Australia	100%	100%
Gainsborough Hardware Limited	N	UK	100%	100%
Bankstown Unit Trust	Y	Australia	100%	100%

29. Reconciliation of cash flows from operating activities

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Cash flows from operating activities				
Profit for the period	56,852	63,888	31,384	141,265
Adjustments for:				
Depreciation	21,929	26,496	-	-
Amortisation	491	218	-	-
Impairment/(reversal of) losses	2,816	-	(17,592)	-
Foreign exchange (gains)/losses	755	(1,250)	-	-
Interest expense/(income)	11,490	11,137	(27)	(3)
Dividends from controlled entities			-	(139,300)
Distributions from controlled trusts			(13,142)	(1,956)
(Gain)/loss on sale of property, plant and equipment	(14,471)	950	-	-
Income tax expense/(benefit)	20,911	28,328	(624)	(12)
Operating profit before changes in working capital and provisions	100,773	129,767	(1)	(6)
(Increase)/decrease in trade and other receivables	(8,235)	6,619	(41,778)	78,011
(Increase)/decrease in inventories	2,148	(1,111)	-	-
Increase/(decrease) in trade and other payables	(4,498)	(5,012)	54,920	63,245
Increase/(decrease) in provisions and employee benefits	8,046	(106)	-	-
	98,234	130,157	13,141	141,250
Interest received/(paid)	(9,177)	(15,212)	27	3
Income taxes paid	(29,019)	(31,178)	(27,927)	(29,957)
Net cash from operating activities	60,038	83,767	(14,759)	111,296

Notes to the Consolidated Financial Statements

30. Related parties

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

B Thornton (Chairperson)
J Kennedy
M Kriewaldt
D Barry
R Anderson
G McGrath

Executive directors

P Crowley (Managing Director)

Executives

E Harrison (Chief Financial Officer)
S Wright (Group Operations Manager)
A Rusten (Group Marketing Manager) – appointed 27 June 2005
R Watkins (General Manager – Rover)
J Measroch (General Manager – Sebel)
G Oliver (General Manager – Gainsborough)
D Duncan (General Manager – Dorf Clark)
L Patterson (General Manager – Dux)
C Bizon (General Manager – Caroma) – terminated 30 November 2004

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 5) are as follows:

	Consolidated		The Company	
	2006 $	2005 $	**2006** $	2005 $
Short-term employee benefits	4,263,776	5,519,767	-	-
Post-employment benefits	570,997	452,263	-	-
Termination benefits	-	300,000	-	-
Other benefits	39,054	36,839	-	-
	4,873,827	6,308,869	-	-

Notes to the Consolidated Financial Statements

30. Related parties (continued)

Key management personnel compensation (continued)

Individual directors and executives compensation

Apart from the details disclosed in this note, no director has entered into a material contract with the company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Details of the nature and amount of each major element of remuneration of each director of the company and other key management personnel are:

		Short-term					Post-employment		
		Salary and fees $	1 year incentive $	Non-monetary benefits $	3 year* incentive $	Total $	Superannuation benefits $	Other $	Total $
Directors:									
Non-executive									
B Thornton	**2006**	166,173	-	-	-	166,173	101,640	250	268,063
	2005	159,080	-	-	-	159,080	95,980	250	255,310
J Kennedy	**2006**	137,477	-	-	-	137,477	-	250	137,727
	2005	127,327	-	-	-	127,327	3,603	250	131,180
M Kriewaldt	**2006**	98,280	-	-	-	98,280	8,845	250	107,375
	2005	93,600	-	-	-	93,600	8,424	250	102,274
D Barry	**2006**	86,814	-	-	-	86,814	7,813	250	94,877
	2005	82,680	-	-	-	82,680	7,441	250	90,371
R Anderson	**2006**	81,900	-	-	-	81,900	7,371	250	89,521
	2005	78,000	-	-	-	78,000	7,020	250	85,270
G McGrath	**2006**	86,814	-	-	-	86,814	7,813	250	94,877
	2005	82,290	-	-	-	82,290	7,371	250	89,911
Executive directors									
P Crowley	**2006**	917,997	-	158,916	(190,000)	886,913	36,000	10,727	933,640
	2005	877,263	332,500	183,230	190,000	1,582,993	36,000	9,519	1,628,512
Total – directors	**2006**	**1,575,455**	**-**	**158,916**	**(190,000)**	**1,544,371**	**169,482**	**12,227**	**1,726,080**
Total – directors	**2005**	**1,500,240**	**332,500**	**183,230**	**190,000**	**2,205,970**	**165,839**	**11,019**	**2,382,828**

* 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.

Notes to the Consolidated Financial Statements

30. Related parties (continued)

Key management personnel compensation (continued)

Individual directors and executives compensation (continued)

		Short-term					Post-employment			
		Salary and fees $	1 year incentive $	Non-monetary benefits $	3 year* incentive $	Total $	Super-annuation benefits $	Other $	Termin-ation benefits $	Total $
Executives										
E Harrison	**2006**	447,268	-	87,546	(70,546)	464,268	-	5,118	-	469,386
	2005	425,251	105,819	82,738	70,546	684,354	-	4,975	-	689,329
S Wright	**2006**	387,089	-	60,845	(70,945)	376,989	100,592	3,993	-	481,574
	2005	383,747	106,418	79,663	70,945	640,773	35,472	4,704	-	680,949
A Rusten	**2006**	263,209	-	23,835	-	287,044	25,288	3,070	-	315,402
	2005	-	-	-	-	-	-	-	-	-
R Watkins	**2006**	281,171	-	50,936	-	332,107	58,725	3,152	-	393,984
	2005	303,154	-	52,155	-	355,309	27,555	3,598	-	386,462
J Measroch	**2006**	275,764	-	67,223	-	342,987	25,485	3,125	-	371,597
	2005	257,283	-	67,911	-	325,194	24,370	2,999	-	352,563
G Oliver	**2006**	177,333	79,425	62,289	(47,505)	271,542	138,475	1,973	-	411,990
	2005	180,207	71,258	56,462	47,505	355,432	119,110	2,056	-	476,598
D Duncan	**2006**	258,151	-	123,019	(50,000)	331,170	27,420	3,266	-	361,856
	2005	246,785	62,500	112,197	50,000	471,482	44,567	2,849	-	518,898
L Patterson	**2006**	250,744	-	62,554	-	313,298	25,530	3,130	-	341,958
	2005	214,364	-	47,976	-	262,340	20,850	2,602	-	285,792
C Bizon (terminated 30 November 2004)	**2006**	-	-	-	-	-	-	-	-	-
	2005	134,551	-	84,362	-	218,913	14,500	2,037	300,000	535,450
Total – executives	**2006**	**2,340,729**	**79,425**	**538,247**	**(238,996)**	**2,719,405**	**401,515**	**26,827**	**-**	**3,147,747**
Total – executives	**2005**	**2,145,342**	**345,995**	**583,464**	**238,996**	**3,313,797**	**286,424**	**25,820**	**300,000**	**3,926,041**
Total – directors and executives	**2006**	**3,916,184**	**79,425**	**697,163**	**(428,996)**	**4,263,776**	**570,997**	**39,054**	**-**	**4,873,827**
Total – directors and executives	**2005**	**3,645,582**	**678,495**	**766,694**	**428,996**	**5,519,767**	**452,263**	**36,839**	**300,000**	**6,308,869**

* 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.

Notes to the Consolidated Financial Statements

30. Related parties (continued)

Loans to key management personnel and their related parties (consolidated)

Details regarding loans outstanding at the reporting date to key management personnel and their related parties, where the individual's aggregate loan balance exceeded $100,000 at any time in the reporting period, are as follows:

	Balance 1 July 2005 $	Balance 30 June **2006** $	Interest paid and payable in the reporting period $	Highest balance in period $
Directors				
P Crowley	1,195,000	1,085,000	-	1,195,000
Executives				
E Harrison	701,505	610,255	-	701,505
S Wright	626,505	141,269	-	626,505
R Watkins	115,750	95,750	-	115,750
J Measroch	379,745	339,745	-	379,745
G Oliver	409,150	362,900	-	409,150
D Duncan	800,991	780,991	-	800,991
L Patterson	300,991	280,991	-	300,991
C Bizon	240,000	-	-	240,000

No loans (2005: $1,959,320) were made to key management personnel or their related parties during the year. The loans made in the previous financial year related to the Employee Share Scheme.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the consolidated entity to key management personnel and their related parties, and the number of individuals in each group, are as follows:

	Opening balance $	Closing balance $	Interest paid and payable in the reporting period $	Number in group at 30 June
Total for key management personnel 2006	4,769,637	3,696,901	-	8
Total for key management personnel 2005	3,477,837	4,769,637	-	9

Mr D Duncan has a housing loan of $500,000 secured by a registered second mortgage. Mr E Harrison has an unsecured housing loan of $75,000. Each of these loans is interest free and repayable on termination. Mr C Bizon repaid a $240,000 housing loan during the current financial year. All other loans are with respect to the Employee Share Plan. The Employee Share Plan loans are interest free and repayable over 15 years or earlier in certain circumstances. Dividends paid on the shares acquired under the Plan are applied against the balance of the loan outstanding.

Notes to the Consolidated Financial Statements

30. Related parties (continued)

Other key management personnel transactions with the company or its controlled entities

The consolidated entity purchased components and tooling of $304,009 (2005: $582,608) from Great Western Corporation Pty Ltd, a company of which Mr B Thornton is a director. Amounts were billed based on normal market rates for such supplies and were due and payable under normal payment terms. Amounts receivable from and payable to key management personnel at reporting date arising from these transactions were as follows:

	Consolidated		The Company	
	2006 $	2005 $	**2006** $	2005 $
Trade creditors	3,982	137,089	-	-

From time to time, key management personnel of the company or its controlled entities, or their related entities, may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

Movements in shares

The movement during the reporting period in the number of ordinary shares in GWA International Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Purchases	Sales	Held at 30 June **2006**
Directors: non-executive				
B Thornton	15,025,902	-	(2,500)	15,023,402
J Kennedy	50,000	-	(40,000)	10,000
M Kriewaldt	100,000	-	-	100,000
D Barry	12,409,189	-	(36,800)	12,372,389
R Anderson	20,692,832	8,198,000	-	28,890,832
G McGrath	593,026	-	(172,568)	420,458
Executive directors				
P Crowley	500,000	-	-	500,000
Executives				
E Harrison	620,975	-	-	620,975
S Wright	418,750	-	(250,000)	168,750
A Rusten	-	-	-	-
R Watkins	100,000	-	-	100,000
J Measroch	200,000	-	-	200,000
G Oliver	231,250	-	-	231,250
D Duncan	100,000	-	-	100,000
L Patterson	100,000	-	-	100,000

Notes to the Consolidated Financial Statements

30. Related parties (continued)

Movements in shares (continued)

	Held at 1 July 2004	Purchases	Sales	Held at 30 June 2005
Directors: non-executive				
B Thornton	14,355,902	670,000	-	15,025,902
J Kennedy	50,000	-	-	50,000
M Kriewaldt	100,000	-	-	100,000
D Barry	11,537,149	872,040	-	12,409,189
R Anderson	20,692,832	-	-	20,692,832
G McGrath	754,276	-	(161,250)	593,026
Executive directors				
P Crowley	500,000	-	-	500,000
Executives				
E Harrison	470,975	150,000	-	620,975
S Wright	275,750	143,000	-	418,750
R Watkins	268,750	-	(168,750)	100,000
J Measroch	150,000	50,000	-	200,000
G Oliver	156,250	75,000	-	231,250
D Duncan	2,000	98,000	-	100,000
L Patterson	-	100,000	-	100,000

No shares were granted to key management personnel during the reporting period as compensation. The aggregate number of shares held by key management person related parties at 30 June 2006 was 57,036,806 (2005: 48,863,874).

31. Subsequent events

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

Notes to the Consolidated Financial Statements

32. Explanation of transition to AIFRSs

Reconciliation of equity

	Note	Consolidated Previous GAAP $'000	Consolidated Effect of transition to AIFRSs $'000	Consolidated AIFRSs $'000	The Company Previous GAAP $'000	The Company Effect of transition to AIFRSs $'000	The Company AIFRSs $'000
		1 July 2004					
Assets							
Cash and cash equivalents		138,352	-	138,352	-	-	-
Trade and other receivables		66,625	-	66,625	501	-	501
Inventories		96,380	-	96,380	-	-	-
Other		1,594	-	1,594	-	-	-
Total current assets		302,951	-	302,951	501	-	501
Receivables	e,g	4,288	-	4,288	461,471	6,523	467,994
Deferred tax assets	f,g	25,258	567	25,825	24,780	(24,780)	-
Investment in subsidiaries		-	-	-	325,646	-	325,646
Property, plant and equipment	a,c	153,454	265	153,719	-	-	-
Intangible assets	c,e	357,827	(15,433)	342,394	-	-	-
Total non-current assets		540,827	(14,601)	526,226	811,897	(18,257)	793,640
Total assets		843,778	(14,601)	829,177	812,398	(18,257)	794,141
Liabilities							
Trade and other payables		57,552	-	57,552	52	-	52
Employee benefits		17,784	-	17,784	-	-	-
Income tax payable		8,448	-	8,448	8,774	-	8,774
Provisions		14,191	-	14,191	-	-	-
Total current liabilities		97,975	-	97,975	8,826	-	8,826
Interest-bearing loans and borrowings		297,803	-	297,803	-	-	-
Payables		-	-	-	453,024	-	453,024
Deferred tax liabilities	g	818	-	818	665	(665)	-
Employee benefits		10,937	-	10,937	-	-	-
Provisions	a	7,735	2,158	9,893	-	-	-
Total non-current liabilities		317,293	2,158	319,451	453,689	(665)	453,024
Total liabilities		415,268	2,158	417,426	462,515	(665)	461,850
Net assets		428,510	(16,759)	411,751	349,883	(17,592)	332,291
Equity							
Issued capital		346,853	-	346,853	346,853	-	346,853
Reserves	b	918	(918)	-	-	-	-
Retained earnings	h	80,739	(15,841)	64,898	3,030	(17,592)	(14,562)
Total equity		428,510	(16,759)	411,751	349,883	(17,592)	332,291

Notes to the Consolidated Financial Statements

32. Explanation of transition to AIFRSs (continued)

Reconciliation of equity (continued)

		Consolidated			The Company		
		Previous GAAP $'000	Effect of transition to AIFRSs $'000	AIFRSs $'000	Previous GAAP $'000	Effect of transition to AIFRSs $'000	AIFRSs $'000
	Note	30 June 2005					
Assets							
Cash and cash equivalents		134,854	-	134,854	-	-	-
Trade and other receivables		69,221	-	69,221	900	-	900
Inventories		97,491	-	97,491	-	-	-
Income tax receivable		30	-	30	-	-	-
Other	c	6,732	(982)	5,750	-	-	-
Total current assets		308,328	(982)	307,346	900	-	900
Receivables	e	5,142	-	5,142	507,530	(17,592)	489,938
Deferred tax assets	f,g	25,937	628	26,565	24,766	(24,766)	-
Investment in subsidiaries		-	-	-	325,646	-	325,646
Property, plant and equipment	a,c	134,643	(725)	133,918	-	-	-
Intangible assets	c,e	354,896	(12,865)	342,031	-	-	-
Other	c	2,800	218	3,018	-	-	-
Total non-current assets		523,418	(12,744)	510,674	857,942	(42,358)	815,584
Total assets		831,746	(13,726)	818,020	858,842	(42,358)	816,484
Liabilities							
Trade and other payables		51,889	-	51,889	48	-	48
Employee benefits		17,612	-	17,612	-	-	-
Income tax payable		6,311	-	6,311	6,311	-	6,311
Provisions		13,263	-	13,263	-	-	-
Total current liabilities		89,075	-	89,075	6,359	-	6,359
Interest-bearing loans and borrowings		296,560	-	296,560	-	-	-
Payables	g	-	-	-	424,993	(24,414)	400,579
Deferred tax liabilities	g	875	-	875	352	(352)	-
Employee benefits		11,600	-	11,600	-	-	-
Provisions	a	8,066	2,298	10,364	-	-	-
Total non-current liabilities		317,101	2,298	319,399	425,345	(24,766)	400,579
Total liabilities		406,176	2,298	408,474	431,704	(24,766)	406,938
Net assets		425,570	(16,024)	409,546	427,138	(17,592)	409,546
Equity							
Issued capital		346,853	-	346,853	346,853	-	346,853
Reserves	b	(1,165)	(918)	(2,083)	-	-	-
Retained earnings	h	79,882	(15,106)	64,776	80,285	(17,592)	62,693
Total equity		425,570	(16,024)	409,546	427,138	(17,592)	409,546

Notes to the Consolidated Financial Statements

32. Explanation of transition to AIFRSs (continued)

As stated in significant accounting policies note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the previous and following tables and the notes that accompany the tables.

Notes to the reconciliation of equity

a) Restoration and dismantling provision

An obligation exists to restore certain sites for the effect of the consolidated entity's operations. Under previous GAAP, the cost of rectification was recognised as an expense when incurred. In accordance with AIFRSs, restoration costs should be recognised as part of the cost of assets and as a provision at the time of the obligating event.

The effect in the consolidated entity is to increase *Property, plant and equipment* by $265,000 at 1 July 2004 and by $204,000 at 30 June 2005, to increase *Provisions* by $2,158,000 at 1 July 2004 and by $2,298,000 at 30 June 2005 and to increase *Distribution expenses* by $61,000 and *Financial expenses* by $140,000 for the financial year ended 30 June 2005.

b) Cumulative foreign exchange differences

Translation differences that arose prior to the date of transition to AIFRSs in respect of all foreign entities have been reversed to zero. Accordingly the foreign currency translation reserve as at 1 July 2004 of $918,000 was transferred to retained earnings.

c) Software development costs

Software assets developed for internal use have been reclassified from property, plant and equipment and prepayments to intangible assets. The effect was to increase *Intangible assets* by $1,693,000 at 30 June 2005; to increase *Other assets* by $218,000 at 30 June 2005; to decrease *Property, plant and equipment* by $929,000 at 30 June 2005; and to decrease *Prepayments* by $982,000 at 30 June 2005.

d) Gain/loss on disposal of property, plant an equipment

Under AIFRS the gain or loss on the disposal of property, plant and equipment is recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity the effect of this is to decrease *Other operating income* and *Other operating expenses* by $12,544,000 for the year ended 30 June 2005.

e) Impairment

Under AASB3 *Business Combinations* goodwill is no longer amortised but instead is subject to annual impairment testing. The goodwill booked by the consolidated entity with the purchase of Gainsborough has a written down value on transition of $875,000. Under the new methodology in impairment testing cash-generating units, this goodwill has been treated as impaired. The effect of this was to decrease *Retained earnings* and *Intangible assets* by $875,000 at 1 July 2004 for the consolidated entity. The effect was also to decrease *Other operating expenses* by $875,000 for the year ended June 2005 for the consolidated entity.

Notes to the Consolidated Financial Statements

32. Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity (continued)

e) Impairment (continued)

Under AASB136 *Impairment*, intangible assets that have an indefinite useful life are tested for impairment annually. The recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

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

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

As a result of the impairment testing being on a cash generating unit level under AIFRS which is a lower level than under previous GAAP, an impairment loss was recognised in relation to the Stylus brand name. The effect of this was to decrease *Retained earnings* and *Intangible assets* by $14,558,000 at 1 July 2004 and 30 June 2005 for the consolidated entity.

As a consequence of this and other AIFRS adjustments, an impairment of intercompany receivables of $17,592,000 was recognised in the company. The effect of this was to decrease *Retained earnings* and *Inter-company receivable* by $17,592,000 at 1 July 2004 and 30 June 2005.

f) Deferred tax

The above changes increased the deferred tax asset as follows:

	Consolidated		The Company	
	1 July 2004 $'000	30 June 2005 $'000	1 July 2004 $'000	30 June 2005 $'000
Restoration and dismantling costs	567	628	-	-

The effect on the income statement for the financial year ended 30 June 2005 was to decrease the previously reported tax charge for the period by $61,000 in the consolidated entity and Nil in the company.

g) Tax consolidations

The consolidated entity had applied UIG 52 for tax consolidation purposes under previous GAAP, resulting in the company as the head entity of the tax-consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax-consolidated group.

Under AIFRS, the consolidated entity has adopted UIG 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability (asset) and deferred tax assets from tax losses. Under AIFRS the subsidiaries are now required to recognise deferred tax assets relating to temporary differences, other than for tax losses.

Notes to the Consolidated Financial Statements

32. Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity (continued)

g) Tax consolidations (continued)

Under previous GAAP, the tax funding arrangements assets and liabilities were recognised as inter-entity tax-related balances whereas tax funding arrangements expenses and revenues were recognised as a component of income tax expense or revenue.

Upon adoption of UIG 1052 under AIFRS, all tax funding arrangements amounts are recognised as inter-entity amounts, giving rise to a contribution by or distribution to equity participants to the extent they differ from the amounts assumed by the head entity from subsidiaries. The entities in the Australian tax-consolidated group have revised the tax funding arrangement to address only current tax amounts and deferred tax assets from tax losses/credits so that no net contributions or distributions to equity participants are expected to arise in the future.

The effect of the above in the company at 1 July 2004 is to increase *Inter-company receivable* by $24,115,000, decrease *Deferred tax liability* by $665,000 and decrease *Deferred tax asset* by $24,780,000. The effect in the company at 30 June 2005 is to decrease *Inter-company payable* by $24,414,000, decrease *Deferred tax liability* by $352,000 and decrease *Deferred tax asset* by $24,766,000.

For the consolidated entity, the impact of moving from UIG 52 to UIG 1052 is the same as the impact of moving to AASB 112. There is nil impact on the consolidated entity from the tax funding arrangement changes as upon consolidation the inter-company balances are eliminated.

h) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

		Consolidated		The Company	
	Note	1 July 2004 $'000	30 June 2005 $'000	1 July 2004 $'000	30 June 2005 $'000
Impairment	*e*	(15,433)	(14,558)	(17,592)	(17,592)
Restoration and dismantling costs	*a*	(1,893)	(2,094)	-	-
Deferred tax	*f*	567	628	-	-
Transfer from foreign currency translation reserve	*b*	918	918	-	-
Total adjustment to retained earnings		(15,841)	(15,106)	(17,592)	(17,592)

Notes to the Consolidated Financial Statements

32. Explanation of transition to AIFRSs (continued)

Explanation of material adjustments to the cash flow statement for 2005

There are no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

Reconciliation of profit for 2005

		Consolidated			The Company		
	Note	Previous GAAP $'000	Effect of transition to AIFRSs $'000	AIFRSs $'000	Previous GAAP $'000	Effect of transition to AIFRSs $'000	AIFRSs $'000
Revenue		626,866	-	626,866	-	-	-
Cost of sales		(330,499)	-	(330,499)	-	-	-
Gross profit		296,367	-	296,367	-	-	-
Other income	d	15,576	(12,544)	3,032	141,256	-	141,256
Distribution expenses	a	(130,784)	(61)	(130,845)	-	-	-
Administrative expenses		(63,143)	-	(63,143)	(6)	-	(6)
Other expenses	d,e	(15,477)	13,419	(2,058)	-	-	-
Results from operating activities		102,539	814	103,353	141,250	-	141,250
Financial income		5,874	-	5,874	3	-	3
Financial expenses	a	(16,871)	(140)	(17,011)	-	-	-
Net financing costs		(10,997)	(140)	(11,137)	3	-	3
Profit before tax		91,542	674	92,216	141,253	-	141,253
Income tax expense	f	(28,389)	61	(28,328)	12	-	12
Profit for the period		63,153	735	63,888	141,265	-	141,265
Basic and diluted earnings per share (cents per share)		22.7		23.0			

Notes to the Consolidated Financial Statements

33. Changes in accounting policy

In the current financial year the consolidated entity adopted AASB 132: *Financial Instruments: Disclosure & Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the Group recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of the hedging reserve at 1 July 2005.

The impact on the balance sheet in the comparative period is set out below as an adjustment to the opening balance sheet at 1 July 2005. The impact on the income statement of the comparative period would have been to increase financial expenses and decrease profit for the period to the extent that cash flow hedges were not 100 per cent effective. The transitional provisions will not have any effect in future reporting periods.

Derivatives

Under previous Australian GAAP, the consolidated entity did not recognise any derivatives at fair value on the balance sheet. In accordance with AIFRSs all derivatives would be recognised at fair value. At 1 July 2005, the fair value of the forward exchange contracts was $(78,000) and the fair value of the interest rate swaps was $302,000. The effect in the consolidated entity is to decrease *Fair value derivatives* by $224,000, increase *Hedging reserve* by $157,000 and increase *Deferred tax liabilities* by $67,000 at 1 July 2005. No adjustment has arisen for the company.

Employee share loans

Under previous Australian GAAP, the consolidated entity recognised loans made to employees under the Employee Share Scheme at face value. In accordance with AIFRSs, the loans have been measured at present value discounted at 7.05 per cent. The discount has been recognised as a prepayment as the loans are full recourse and dependant on future employment by the consolidated entity.

The effect in the consolidated entity and the company is to decrease *Current receivables* by $244,000 at 1 July 2005, decrease *Non-current receivables* by $2,713,000 at 1 July 2005, to increase *Current prepayments* by $537,000 at 1 July 2005 and to increase *Non-current prepayments* by $2,420,000 at 1 July 2005.

Employee loans

Under previous Australian GAAP, the consolidated entity recognised loans made to employees at face value. In accordance with AIFRSs, the loans have been measured at present value discounted at 7.05 per cent. The discount has been recognised as a prepayment as the loans are full recourse and dependent on future employment by the consolidated entity.

The effect in the consolidated entity is to increase *Current receivables* by $244,000 at 1 July 2005, decrease *Non-current receivables* by $668,000 at 1 July 2005, to increase *Current prepayments* by $43,000 at 1 July 2005 and to increase *Non-current prepayments* by $381,000 at 1 July 2005. No adjustment has arisen for the company.

Directors' Declaration

1 In the opinion of the directors of GWA International Limited ('the company'):

(a) the financial statements and notes are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2 There are reasonable grounds to believe that the company and the controlled entities identified in Note 27 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and those controlled entities pursuant to ASIC Class Order 98/1418.

3 The directors have been given the declarations by the Managing Director and Chief Financial Officer for the financial year ended 30 June 2006 pursuant to Section 295A of the *Corporations Act 2001*.

Dated at Brisbane on 15 August 2006.

Signed in accordance with a resolution of the directors:

Barry Thornton

Director

Peter Crowley

Director

Independent Audit Report to the Members of GWA International Limited

Scope

The Financial Report and Directors' responsibility

The Financial Report comprises the Income Statements, Statements of Recognised Income and Expense, Balance Sheets, Statements of Cash Flows, accompanying notes 1 to 33 to the Financial Statements and the Directors' Declaration for both GWA International Limited (the "Company") and GWA International Limited and its controlled entities ("the Consolidated Entity"), for the financial year ended 30 June 2006. The Consolidated Entity comprises GWA International Limited ("the Company") and the entities it controlled during that financial year.

The Directors of the Company are responsible for the preparation and true and fair presentation of the Financial Report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the Financial Report. The Directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time adoption of Australian equivalents to International Financial Reporting Standards*.

Audit approach

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

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

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

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the Financial Report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Audit opinion

In our opinion, the Financial Report of GWA International Ltd is in accordance with:

(a) the *Corporations Act 2001*, including:

i. giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

Mark Epper

Partner

Sydney, 15 August 2006