



GWA INTERNATIONAL LIMITED  
2007 ANNUAL REPORT

caroma  
thinking bathrooms

The leaders in tapware  
**dorf**

FOWLER  
SINCE 1843

CLARK

RADIANT

stylus

Irwell

Gainsborough  
fine quality door hardware

dux  
think about water

sebel  
form function balance

ROVER  
GREAT STAY - GREAT FINISH

BUILT ON STRONG BRANDS

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

**Dux** is an Australian designer, manufacturer, importer and distributor of a range of hot water systems. The range includes mains pressure gas and electric storage, continuous flow gas, electric and gas boosted solar and heat pump products. Dux has developed an extensive range of innovative environmental products to meet the changing regulatory requirements, and which assist in reducing domestic energy consumption.

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

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

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

GWA International Limited was listed on the Australian Securities Exchange in May 1993 and is one of Australia's largest designers, manufacturers, importers and distributors of household consumer products. The Company is the owner of an extensive range of well-known brands including Caroma, Dorf, Fowler, Stylus, Clark, Radiant, Irwell, Dux, Gainsborough, Sebel and Rover, and is the exclusive Australian distributor of other brands including Hansa and KWC.

GWA International Limited currently comprises five business divisions, Caroma Dorf, Dux, Gainsborough, Rover and Sebel, all of which are well-established businesses with strong brand names and market positions. The Company is a significant Australian employer and has manufacturing facilities located throughout Australia.

GWA International Limited invests significantly in research and new product development which has enabled the businesses to maximise opportunities in a competitive marketplace. The Company is committed to the research and development of innovative environmental products which provide sustainable solutions for reducing domestic and commercial water consumption, and greenhouse gas emissions.

GWA International Limited has grown significantly since listing as a result of the strong operating performance of the businesses and successful acquisitions. The Company remains committed to growing long term shareholder wealth through improved business performance and the pursuit of further appropriate domestic acquisitions that add value to its existing businesses, and that support expansion into new markets.

## Mission Statement

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

The Company's core business segment is building fixtures and fittings which will focus on the research and development of innovative new products to maximise market opportunities for the businesses. The Company will continue to develop products which provide sustainable solutions for reducing domestic and commercial water consumption, and greenhouse gas emissions.

GWA International Limited will grow the profitability of its businesses by investing for sustainable growth and adapting its business models for a changing market. The Company will continue the pursuit of appropriate domestic acquisitions that add value to its existing businesses, and that support expansion into new markets.



## 2006/07 YEAR PERFORMANCE HIGHLIGHTS

- Sales revenue up 4.1% to \$645.7 million
- Trading earnings before interest and tax up 3.7% to \$98.75 million
- Trading earnings per share of 22.0 cents
- Fully franked dividend of 22.0 cents per share (including 4.0 cents in special dividends)

Five Year Financial Summary	2002/03	2003/04	2004/05	2005/06	2006/07
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	666,525	677,393	626,866	619,989	645,669
Earnings before interest, tax, depreciation, amortisation and restructuring costs	120,426	131,564	130,067	117,617	118,533
(%)	18.1	19.4	20.7	19.0	18.4
Depreciation and amortisation	28,034	30,549	26,714	22,420	19,779
Earnings before interest, tax and restructuring costs	92,392	101,015	103,353	95,197	98,754
(%)	13.9	14.9	16.5	15.4	15.3
Interest (net)	13,816	12,614	11,137	11,490	12,366
Trading profit before tax	78,576	88,401	92,216	83,707	86,388
(%)	11.8	13.1	14.7	13.5	13.4
Tax expense	23,569	26,348	28,328	23,628	24,975
(%)	30.0	29.8	30.7	28.2	28.9
Trading profit after tax	55,007	62,053	63,888	60,079	61,413
Restructuring costs after tax	-	-	-	3,227	5,095
Net profit after tax	55,007	62,053	63,888	56,852	56,318
Net cash flow provided from operating activities before debt cost and tax	128,200	162,104	130,157	98,234	63,584
Capital expenditure	24,392	20,579	21,331	30,966	21,516
Research and development	5,770	5,485	6,488	5,775	5,360
Net debt	207,678	159,451	161,706	141,000	191,146
Shareholders' equity	413,787	428,510	409,546	411,968	408,802
<b>Other Ratios and Statistics</b>					
Return on shareholders' equity (%)	13.3	14.5	15.6	13.8	13.8
Interest cover (times)	6.7	8.0	9.3	8.3	8.0
Net debt / equity (%)	50.2	37.2	39.5	34.2	46.8
Earnings per share (cents)	19.8	22.3	23.0	20.4	20.2
Trading earnings per share (cents)	19.8	22.3	23.0	21.6	22.0
Ordinary dividend per share (cents)	15.5	18.0	18.0	18.0	18.0
Special dividend per share (cents)	2.5	2.5	4.5	3.5	4.0
Total dividend per share (cents)	18.0	20.5	22.5	21.5	22.0
Franking (%)	100	100	100	100	100
Ordinary dividend payout ratio (%)	78.3	80.7	78.3	88.2	89.1
Share price (30 June) (\$)	2.70	2.95	2.92	3.11	4.42
Dividend yield (total dividend) (%)	6.7	6.9	7.7	6.9	5.0
Number of employees	2,646	2,565	2,474	2,226	1,957

Note: EBIT for financial years 2003 and 2004 has been calculated in accordance with previous Australian GAAP.  
EBIT for financial years 2005 to 2007 has been calculated in accordance with Australian equivalents to IFRS (AIFRS).



## CHAIRMAN'S REVIEW

A sound financial performance was achieved for the 2006/07 financial year against the backdrop of the extensive restructuring activities of the Group's businesses and a continued soft domestic dwelling construction and renovation market. The decline in market demand, particularly in the major markets of New South Wales and Victoria, together with rising business input costs contributed to difficult domestic market conditions during the year. Importantly, the Group is beginning to realise the benefits of the restructuring activities undertaken to date to reduce costs and improve the long term competitiveness and profitability of the businesses.

The Group achieved a trading profit after tax of \$61.4 million for the 2006/07 year on sales revenue of \$645.7 million. Restructuring expenses after tax of \$5.1 million were incurred during the year, reducing net profit after tax to \$56.3 million. Trading earnings before interest and tax of \$98.75 million represents a 3.7% increase from the prior year, and was in line with guidance provided to the market in February 2007. This is a commendable financial result and demonstrates the strength of the Group's core building fixtures and fittings businesses in challenging market conditions.

### DIVIDENDS

The Board recognises the importance of fully franked cash dividends to shareholders, and aims to increase ordinary dividends in line with growth in trading profitability. The sound financial performance for the 2006/07 year has enabled the Board to declare a final fully franked dividend of 10.5 cents per share comprising an ordinary dividend of 8.0 cents per share and a special dividend of 2.5 cents per share, which will be paid in October 2007. Together with the interim dividend of 11.5 cents per share paid in April 2007, this brings the total dividend for the 2006/07 year to 22.0 cents per share which represents an after tax yield of 5.0% based on the closing share price at 30 June of \$4.42.

The payment of further special dividends of in total 4.0 cents per share for the 2006/07 year continues the Group's impressive track record in delivering fully franked special dividends to shareholders. In this regard, a total of 17.0 cents per share in fully franked special dividends has been paid to shareholders in the past 5 years. The Group will give consideration to further special dividends and other capital management initiatives in future periods as a means of distributing surplus cash and franking credits to shareholders.

The Dividend Reinvestment and Share Purchase Plans remain suspended, but the Board will give consideration to the re-introduction of these plans when a major acquisition is undertaken.

### RESTRUCTURING ACTIVITIES

The Group has realised opportunities to restructure the businesses aimed at reducing costs and creating further competitive advantage. These activities will increase shareholder wealth into the future through improved business performance, and the Group is beginning to realise the benefits of these changes as demonstrated by the sound financial result for the 2006/07 year in difficult market conditions. Some of the restructuring activities undertaken to date include the following:

- Upgrade of the Caroma sanitaryware factory at Wetherill Park, including the significant investment in plant automation and a new Caroma Dorf National Distribution Centre;
- Closure of the sanitaryware factory at Coburg and the movement of the production to the upgraded Wetherill Park factory;
- The establishment of a wholly-owned China subsidiary, GWA Trading (Shanghai) Co Ltd, to provide sourcing and quality assurance services to the Australian businesses;
- Closure of the Dorf tapware factory at Penrith with the movement of production to overseas suppliers;
- Closure of the Rover lawn mower assembly operation at Eagle Farm with the activities moved to overseas suppliers; and
- Closure of the acrylic bath and shower tray factory at Smithfield with product sourced from overseas suppliers.

Barry Thornton  
Chairman



The restructuring activities are an ongoing transformation process of the businesses to meet the challenges of the changing market place. Opportunities will be considered for further restructuring activities in future periods that are consistent with the Group's strategic objectives. The restructuring activities undertaken to date will place the Group in a strong position when the domestic dwelling construction and renovation market recovers in future periods.

### PRODUCT INNOVATIONS

The Group is a significant investor in research and new product development. This has enabled the Group to remain at the forefront of product innovation, particularly in the area of water efficiency through dual flush sanitaryware and tapware products developed by the Caroma Dorf business.

It is well known that Caroma was the first sanitaryware company in the world to introduce dual flush technology, and continues to lead the market in developing water efficient dual flush sanitaryware and tapware products. Recent examples include Caroma Smartflush which was the first Water Efficiency Labelling Standards (WELS) 4A rated dual flush sanitaryware product on the market, and Caroma Profile with Integrated Hand Basin which was developed in collaboration with the Brisbane City Council and was the first WELS 5A rated dual flush sanitaryware product on the market.

In May 2007, Caroma Dorf was the inaugural recipient of the Standards Australia Award for Excellence in Sustainable Design for the Caroma H2Zero Cube Urinal. This product is a waterless urinal and has the potential to save billions of litres of water, further enhancing Caroma Dorf's environmental credentials.

Caroma Dorf continues to work with all levels of Government in Australia and its overseas markets in developing solutions to reduce domestic and commercial water consumption. In this regard, Caroma Dorf has assisted with consumer and commercial retrofit programs of water efficient dual flush toilets and tapware. These measures have had a substantial impact on reducing domestic and commercial water consumption which in turn has reduced pressure on the country's water infrastructure. This is an immediate solution to address this critical water shortage problem, rather than infrastructure solutions which can take many years to have an impact.

The Board is proud of Caroma Dorf's achievements in developing sustainable solutions through the development of innovative products incorporating world leading water saving technologies. The Board is committed to the significant investment in research and development to maintain Caroma Dorf's position as the market leader in water efficient sanitaryware and tapware.

For further information on the Group's environmental product innovations, I refer you to page 15 of the Annual Report.

### CORPORATE GOVERNANCE

The Board of GWA International Limited comprises long serving directors who have overseen the growth of the Company since listing. A stable and effective Board is critical to a successful business, and is particularly important during the current Group restructuring activities. Succession plans have been developed by the Board for the future retirement plans of individual Board members, whilst ensuring the necessary skills and experience are maintained on the Board.

In accordance with the Board's succession plans, Mr Bill Bartlett joined the Board of GWA International Limited on 21 February 2007. Mr Bartlett is a valuable addition to the Board and his skills and experience as a company director will ensure that shareholders are well served by his appointment. Mr Bartlett is a Fellow of the Institute of Chartered Accountants and has been appointed a member of the Audit Committee. Mr Bartlett will hold office until the 2007 Annual General Meeting where he will be eligible for re-election.

The Board continues to review and monitor the corporate governance practices of the Group to ensure that current good practice is maintained. A review will be conducted on the corporate governance practices in light of the recent release of the revised ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Group will report by reference to these revised guidelines in next year's Annual Report. For a comprehensive overview of the Group's corporate governance practices, I refer you to page 20 of the Annual Report.

### STAFF DEVELOPMENT

The Board recognises the benefits to the Group from investing in the development of staff to improve productivity and individual skills. During the year, the Group has continued the investment in the GWA Leadership Development Program in



conjunction with Monash University. The program's objectives are to identify and develop talent within the organisation for the benefit of both the Group's businesses and the individuals. The Board views the program as critical in developing future leaders in the organisation which is essential to the Group's future success.

### STRATEGIC DIRECTION

The sound financial performance for the 2006/07 year demonstrates the strength of the Group's core building fixtures and fittings businesses in a difficult operating environment. Based on recent housing indicators, it is unlikely there will be a sustained recovery in domestic dwelling construction during the 2007/08 year.

Together with the recent interest rate increases, rising business input costs and record low housing affordability, this means a continued difficult operating environment for the Group's core businesses.

The upturn in the domestic dwelling construction market is forecast to commence during the 2008/09 year, and the introduction of Federal and State Government initiatives to address the housing affordability problem will assist the recovery. I am confident that the Group's businesses are well managed with good prospects for growth, and can build on the sound financial performance of the 2006/07 year as the domestic dwelling construction market recovers.

The restructuring activities undertaken by the Group to date will underpin the future success of the business and provide the Group with flexibility in meeting the needs of a changing market place. The Group is beginning to realise the benefits of the restructuring activities, as evidenced by the sound financial performance for the 2006/07 year in difficult market conditions. The full benefits of the restructuring activities will be realised over future periods and will add to shareholder wealth in the long term.

During the year, the Group announced that following a strategic review, the Sebel Furniture and Rover Mowers businesses would be divested. These businesses are small contributors to Group profitability and are non-core in the Group's business portfolio. To date, the Group has been unsuccessful in divesting the businesses, and the opportunity has been taken to restructure the

businesses to improve their competitiveness and profitability.

The Group is focused on maximising the long term profitability of its businesses, which are all well established businesses with strong brand names and market positions. The Group is committed to acquiring another major domestic business division or bolt-on acquisitions to add value to the existing core businesses and to support expansion into new markets. The Group will continue to review and evaluate potential acquisitions, but will only proceed with acquisitions which are in the best interests of shareholders.

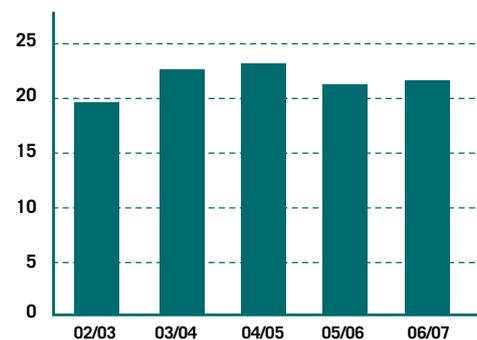
In closing, I would like to thank management and staff for their contributions towards the commendable 2006/07 year financial result. The Group has undergone significant change over the past few years and I am confident that the Group will realise the benefits of the changes in future periods through the generation of increasing shareholder returns.



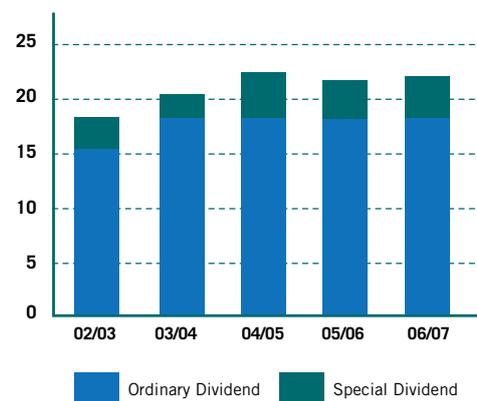
**B Thornton**

Chairman

### Trading Earnings Per Share cents



### Dividend Per Share cents





## MANAGING DIRECTOR'S REVIEW OF OPERATIONS

The GWA Group has recorded a sound trading result for the 2006/07 year in tight domestic trading conditions and has completed further business restructuring for sustainable cost competitiveness. The trading highlights for the year were the performances of the Caroma Dorf and Gainsborough businesses in a market where new dwelling completions tightened further and raw material costs rose significantly, with this impact being partly offset by the rising Australian dollar.

Following on the extensive business transformation initiatives of the prior year, two further supply reorganisation opportunities were realised during the year. The continuing development of international supply markets enabled Rover to access sustainably lower cost supply from China, and Rover closed its mower production facility at the end of the 2006/07 season. In the first half of the year, Caroma Dorf transferred production of its acrylic products, baths and shower trays, to manufacturers of greater scale in China.

The Group's overall trading performance for the year demonstrates the value of scale and market position which is being leveraged with supply restructuring to build sustainable total cost competitiveness. The year's result also highlights the impact of industry change with the trading results of both Rover and Dux being significantly reduced on the prior year.

The 2006/07 year is the third consecutive year of reduced domestic demand from dwelling construction and the Group's businesses have contributed sound earnings through this tight trading period in changing markets whilst also delivering extensive successful business restructuring.

The Group's businesses expected a challenging trading environment for the 2006/07 year with continued low levels of domestic dwelling construction, legislation driven market change in the hot water business and rising raw materials and energy prices.

### 2006/07 TRADING EBIT UP 3.7% TO \$98.75 million

Trading EBIT for the Group of \$98.75 million was a pleasing result on sales revenue of \$645.7 million up 4.1% on the prior year. Property rentals increased in the year with the sale and leaseback of Sebel's Bankstown site at a rental of \$1.8 million for the 2006/07 year.

	2006/07 \$M	2005/06 \$M
Trading EBIT	98.75	95.2
Trading Profit after Tax	61.4	60.1
Reorganisation costs net of tax	(5.1)	(3.2)
Profit after Tax	56.3	56.9

The growth in sales revenue was in the Building Fixtures and Fittings segment. Sebel recorded sales in line with the prior year and Rover's sales reduced on lower market demand in the drought season.

	Building Fixtures & Fittings \$M	Sebel \$M	Rover \$M	Total \$M
Sales revenue				

2006/07	555.6	57.0	33.1	645.7
2005/06	523.1	56.7	40.2	620.0

The sales revenue for Building Fixtures and Fittings was a very good result including revenue growth in hot water flowing from environmental products. Sales growth in Caroma Dorf and Gainsborough was in a market where dwelling construction was at low levels for the third consecutive year.

	2003/04	2004/05	2005/06	2006/07
Dwelling construction				
Starts	172,400	157,500	150,600	149,300
Completions	157,900	160,600	155,800	147,400

Sales revenue includes increases in selling prices as rising product costs are being recovered in market prices.

Peter Crowley  
Managing Director



	2006/07 \$000's	2005/06 \$000's
Interest paid	18,084	17,586
Interest received	(5,718)	(6,096)
Interest Net	12,366	11,490

Borrowing costs, net of interest income, increased over the prior year by 7.6%. The effect of increased interest rates was partly offset by the interest rate swaps in place during the year. Interest income was reduced by a repayment of borrowings from funds on deposit during the year, also reducing interest expense, and the lower funds on deposit flowing principally from an increase in working capital across the year.

Income tax expense for the year, and in the prior year, benefited from recoveries of past capital losses, consequent to the capital gains flowing from the sale of properties under the business reorganisation initiatives.

Profit after tax of \$56.3 million is after the expensing of reorganisation costs net of tax of \$5.1 million.

#### CASH FLOW

Net cash from operating activities was \$28.3 million for the year and this result is net of cash expenditures relating to reorganisation costs of \$12.1 million.

Trading cash flow from operations was reduced for the year by the increase in stocks across the Group's businesses of \$32.9 million. Cash receipts from customers of \$714.4 million was 4.5% above the prior year reflecting the sound debtors management performance.

New plant capital expenditures of \$18.2 million were well below the prior year's \$30.2 million which included the Wetherill Park warehouse construction costs.

#### OPERATING PERFORMANCE

Strong sales revenue and trading EBIT results were achieved even though the difficult domestic trading conditions of the first half continued through the full year across the Group's businesses.

Caroma Dorf and Gainsborough recorded strong sales performances in these trading conditions contributing increased profits over the prior year. Caroma Dorf is continuing to implement initiatives aimed at strengthening total cost competitiveness and extending market reach, through leveraging

on the supply reorganisation and investment of prior years. The Group's European business, Wisa, performed strongly in the 2006/07 year growing sales revenue by 23% and recording an increased profit also in tight market conditions. Caroma Dorf's international business in North America continues to realise its opportunities for growth within niche market segments with all product now competitively supplied ex Asia.

Dux, the Group's hot water business, suffered a significant decline in profit contribution for the year even though sales revenue increased by 7.9%. The changes in market demand flowing from energy conservation legislation are reducing market sales of electric water heaters and whilst sales of environmental products are growing, the profitability of these new products was reduced by a number of factors. The severe fall in the market value of Renewable Energy Certificates in the first half impacted on profitability, combined with the development expenditures and increased marketing and distribution costs of these new products. The expanded product range and more complex supply channels also resulted in higher stock levels which will be reduced to a sustainably lower level in the 2007/08 year. Going forward higher stock levels is one outcome of these changes in the hot water industry.

The Rover business has been transforming to meet the new challenges of its industry. Rover's profitability suffered from the impacts of further reduction in industry margins as imports benefited from the rising exchange rate combined with the impact on demand of the drought. At the end of the season, Rover closed its mower production facility and its products will be cost competitively produced in China. To reflect this outsourcing for both its domestic and international markets, mower stocks have been increased at year end and these stocks will progressively reduce over the 2007/08 selling season. The early winter rains stimulated sales in May and June and Rover has now established a strong cost competitive position going forward, however, industry profitability is likely to remain at a low level in the 2007/08 year.

In the 2005/06 year, Sebel, the Group's commercial furniture business, reorganised supply of its timber and metal products and also sold and leased back its Bankstown site, preparatory to relocating. The 2006/07 year profit contribution is reduced by this leasing cost with assets employed significantly lower. This business contributed a sound sales result, in line with the prior year, with the weakness of its core New South Wales market offsetting growth in other markets. A strong international sales result was achieved even though

competitiveness in these markets was impacted by the rising Australian dollar.

#### INVESTMENT IN FUTURE PERFORMANCE

In the 2006/07 year, the Group has realised opportunities to improve cost competitiveness and build competitive advantage through further restructuring. The Group's businesses are continuing to invest with new plant capital expenditure projects approved in the year of \$9 million.

#### RESTRUCTURING

In the first half of the year, Caroma Dorf ceased manufacturing acrylic products (baths, shower trays) at the leased Smithfield site. Remaining activities at this site will be progressively relocated prior to termination of the lease in the 2007/08 year. Acrylic products are now entirely sourced cost competitively from Asia.

The mower manufacturing facilities of Rover at Eagle Farm were closed in the second half. The Rover business is now transformed to a significantly lower investment base with competitive operating costs in this highly price competitive market.

The cost incurred in these reorganisation activities in the 2006/07 year were \$7.3 million and this cost was expensed in the year's results.

#### OVERSEAS SOURCING SERVICE

GWA Trading (Shanghai) Co. Ltd, the Group's operating entity in China, has expanded its resources and scope through the 2006/07 year to meet the growing needs of the Group's businesses within China and the Asia region. This Company now employs 24 personnel in quality assurance, vendor management and trading.

#### NEW PRODUCT DEVELOPMENT

Each of the Group's businesses conducts ongoing research and product development. In the 2006/07 year Caroma's H2Zero Cube waterless urinal won the Award for Excellence in Sustainable Design at the Australian Design Awards. This product features another successful innovation in Caroma's long history of the development of water saving Sanitaryware products.

In April 2007, Caroma Dorf launched the first toilet suite in Australia to achieve a WELS 5 star rating. The Caroma Profile™ Toilet Suite with Integrated Hand Basin is an all-in one toilet, basin and tapware system. The Profile incorporates an innovative system whereby water used for hand washing is re-used to fill the toilet's cistern following flushing. The flush cycle activation controls the flow

of fresh water through the basin tap allowing time for thorough hand washing before the water fills the cistern tank. This product offers upwards of a 70% water saving when compared with older style toilet suites used in combination with a separate hand basin and tap.

#### INFORMATION TECHNOLOGY

Caroma Dorf is currently preparing for the implementation of the Movex Enterprise Resource Planning systems and the amount expended during the 2006/07 year of \$2.7 million has been capitalised to Intangibles in the financial accounts. The Movex system will be progressively implemented through Caroma Dorf's activities and subsequently across the Group's other businesses.

#### TALENT IDENTIFICATION AND DEVELOPMENT

The collaboration with Monash University, which commenced in the 2004/05 year, has successfully progressed further in the current year with more than 150 senior staff having participated in the programs conducted to date.

#### EMPLOYEE HEALTH AND SAFETY

The Group's OH&S information systems were successfully upgraded during the 2006/07 year and these improved systems are assisting to identify areas of risk and to track the actions implemented to mitigate these risks, and also to improve the reporting and escalation of priority risks.

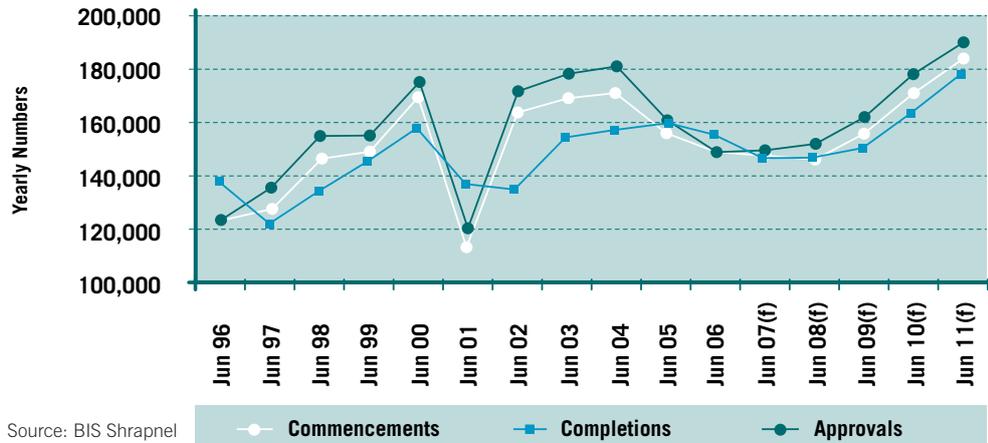
The Group's businesses have undertaken capital projects to mitigate identified risks and management recognise the challenges in creating and maintaining the workplace behaviour and management emphasis required to achieve a safe working environment.

#### ENVIRONMENTAL SUSTAINABILITY

The Company is committed to reducing energy and water usage. By way of example, during the 2006/07 year Gainsborough has reduced liquid waste by 22.7%, solid waste by 13.4% and water usage by 38.7%. Capital expenditure has recently been approved for two major recycling initiatives at Caroma's Wetherill Park factory. The first involves the recycling of water on site to be used for both process and cleaning activities. When commissioned in February 2008 an estimated 166,000 litres per day of water will be saved and recycled. The second initiative involves the recycling of the glaze over-spray. This will reduce glaze use by 30% (approximately 500 tonnes per year), which in turn will further reduce water use and solid waste disposal.



## HOUSING INDICATORS



Source: BIS Shrapnel

## OUTLOOK FOR THE 2007/08 YEAR

The strong and improving trading performance of the Group's Building Fixtures and Fittings segment and, in particular, the Caroma Dorf business will underpin another sound performance for the Group in the 2007/08 year.

I expect some recovery in the trading performance of Dux and Rover over the reduced contributions of the 2006/07 year and also expect the Gainsborough and Sebel businesses to contribute sound results for the 2007/08 year.

Dwelling commencements are forecast to weaken further in the 2007/08 year. No real improvement in dwelling construction activity is expected until the 2008/09 year.

With the benefit of major restructuring initiatives flowing through the business, I expect that Trading EBIT for the 2007/08 year will exceed the 2006/07 result of \$98.75 million.

The Group's businesses continue to consider and evaluate further opportunities for restructuring and the Group's 2007/08 profit after tax may be reduced by such initiatives with the benefits boosting profitability in future years.

## LONGER TERM OUTLOOK

The current growth in profitability of the GWA Group has been generated from the Building Fixtures and Fittings segment and, within that segment, principally by the Caroma Dorf business.

Dwelling construction and renovation activity are major drivers of market demand for this segment. The level of dwelling construction has been at low levels relative to underlying demand for the last three years and is expected to remain so through the 2007/08 year. Dwelling completions are forecast to grow from the 2008/09 year as illustrated in the chart above and this recovery will be positive to

the Group's longer term outlook. The findings of the recent census suggest that underlying demand may be near 180,000 new dwellings per annum whereas dwelling starts in the 2006/07 year were slightly under 150,000 dwellings. The current and ongoing water crisis in Australia and other countries provides a significant market opportunity for Caroma Dorf, which is recognised as a world leader in the development and sale of water efficient plumbing products.

Community, business and Government stakeholders are all increasing their efforts to replace inefficient toilets, showers and tapware, as water demand management is recognised as the critical first step in the execution of large scale water capital programs.

The community water grants program has seen hundreds of schools replace inefficient products, with many hundreds still to go. Businesses are increasingly adopting a "green" position and retrofitting their bathrooms and washrooms. All levels of Government and water authorities are developing and implementing aggressive demand management plans that target product replacement, and consumers are showing a real willingness to support the changes.

We expect retrofitting of inefficient toilets, tapware and showers will gain momentum over the coming years.

The benefits of the Group's extensive business reorganisation initiatives which have strengthened cost competitiveness and competitive advantage will enable the Company to harness the market positions of the businesses to grow domestic market profitability in the long term. The Company also has opportunities in international markets which, with the sustainable low cost supply established through supply reorganisation, offer profitable growth in niche market segments.

GWA International Limited continues to strengthen its strong financial position and is in a position to acquire businesses complementary to our core activities and also to invest further in our industries and markets.

I remain confident that the Company has the growth opportunities to continue to build shareholder wealth through both profitable growth from the current portfolio of businesses and through further acquisitions as opportunities arise.

### FINANCIAL CONDITION

The Group's financial condition remains strong with Cash Assets of \$80.4 million at balance date. During the 2006/07 year, Cash Assets reduced with increases in working capital, principally higher levels of stock and the repayment of \$25 million in borrowings.

The increased stock levels result from a number of factors and include both short term, related to supply restructuring initiatives, and underlying, reflecting expanded product range requirements. Stock levels will reduce through the 2007/08 year from the current high levels.

The major expenditures in the current year were with respect to the factory upgrade project at Wetherill Park and further investment in this factory is committed for the 2007/08 year.

The Company paid \$64 million in dividends in the 2006/07 year, all fully franked. The balance of franking credits at year end was \$30.2 million and the Company remains in a position to continue to pay fully franked ordinary and special dividends.

During the year, the Group's businesses expended \$12.1 million in cash relating to business reorganisation initiatives, having expended \$10.6 million in the prior year. These cash expenditures have been funded from the Group's operating cash flow.

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

Australian Currency	\$260 million
Euro	€7.3 million

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

Over the 2006/07 year the Company held interest rate swaps totalling \$125 million at rates between 5.50% and 5.67% and these swaps have deferred

the impact of domestic interest rate rises through the year on the amount of the swaps.

The major proportion of these swaps will expire in the 2007/08 year in the period August 2007 to November 2007.

The Group's businesses enter into foreign currency hedges with respect to purchases of goods. At balance date the Group held forward exchange contracts principally in US dollars.

The ratio undertakings under the Master Financing Agreement have been comfortably met throughout the 2006/07 year and the Group has maintained the capability to increase borrowings to fund acquisition opportunities.

In the 2006/07 year, the Company issued 1.6 million ordinary shares with respect to an employee share issue which added \$6.2 million to share capital. At balance date, 3.4 million shares were on issue under the scheme with a nominal loan value of \$9.6 million.

### SUMMARY

The 2006/07 year has been challenging for the Group's businesses and the trading results have been very pleasing in the context of the scope and scale of business restructuring and industry change.

The domestic dwelling construction market has now operated at low levels for the past three years and the increasing interest rates and low housing affordability environment can be expected to hold back any recovery through the 2007/08 year. With underlying demand for new dwellings estimated at up to 180,000 per annum, I am confident that dwelling construction levels will increase progressively and sustainably to the level of underlying demand in the medium term.

The Company's management and staff have achieved sound trading results whilst strengthening the Group's businesses through restructuring initiatives, and further benefits of these initiatives are expected to flow through to profitability in the near term.

I am confident that the improved cost competitiveness and strong market positions of the Group's businesses will contribute sustainable and profitable growth going forward for the benefit of our shareholders, customers and staff.



**P C Crowley**

Managing Director

## STRATEGIC DIRECTION AND BUSINESS DIVISIONS

<p>Business Division</p>   <p>The Leaders in tapware</p>	
<p>Business Description</p>	<p>Caroma Dorf is Australia's foremost designer, manufacturer, importer and distributor of domestic and commercial bathroom and kitchen products, including sanitaryware, tapware, accessories, bathware, stainless steel sinks and laundry tubs. Caroma Dorf is at the forefront of product innovation incorporating water saving technologies, and is the market leader in water efficient sanitaryware and tapware</p>
<p>Main Products and Services</p>	<p>Vitreous china toilet suites, urinals, bidets, basins, plastic cisterns, bathroom accessories and fittings. Acrylic and pressed steel spas, baths and shower trays. Tapware and accessories, stainless steel sinks and laundry tubs</p>
<p>Major Brands</p>	<p>Owned: Caroma, Dorf, Fowler, Stylus, Clark, Radiant, Irwell, Wisa Exclusive: Hansa, Keuco, Schell, KWC, Virtu</p>
<p>Operating Locations</p>	<p>Australia, New Zealand, North America, Europe, China</p>
<p>Major Markets</p>	<p>New dwellings, renovation, replacement and commercial markets in Australia, New Zealand and selected international markets</p>
<p>Strategic Direction</p>	<p>Caroma Dorf will maintain leadership in the domestic market through its investment in the research and development of innovative products incorporating water saving technologies. Caroma Dorf is world leading in water efficient sanitaryware and tapware and will continue to work with authorities in Australia and its overseas markets in developing solutions for reducing domestic and commercial water consumption</p>
<p>Head Office Location</p>	<p>Caroma Dorf 4 Ray Road EPPING NSW 2121 Telephone: 61 2 9202 7000 Facsimile: 61 2 9869 0625 Websites: <a href="http://www.caroma.com.au">www.caroma.com.au</a>      <a href="http://www.smartflush.com.au">www.smartflush.com.au</a> <a href="http://www.dorf.com.au">www.dorf.com.au</a>      <a href="http://www.fowler.com.au">www.fowler.com.au</a> <a href="http://www.stylus.com.au">www.stylus.com.au</a>      <a href="http://www.clark.com.au">www.clark.com.au</a> <a href="http://www.wisa-sanitair.com">www.wisa-sanitair.com</a>      <a href="http://www.starion-industries.com">www.starion-industries.com</a></p>

CLARK

sebel

stylus

Irwell

FOWLER  
SINCE 1857

WISA®

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

<p>Business Division</p> 	
<p>Business Description</p>	<p>Dux is an Australian designer, manufacturer, importer and distributor of a range of hot water systems. The range includes mains pressure gas and electric storage, continuous flow gas, electric and gas boosted solar and heat pump products. Dux has developed an extensive range of innovative environmental products to meet the changing regulatory requirements, and which assist in reducing domestic energy consumption</p>
<p>Main Products and Services</p>	<p>Range of hot water systems including mains pressure gas and electric storage, continuous flow gas, electric and gas boosted solar and heat pump products</p>
<p>Major Brands</p>	<p>Owned: Dux, EcoSmart</p>
<p>Operating Locations</p>	<p>Australia, overseas distributors</p>
<p>Major Markets</p>	<p>Dux participates actively in the new home and replacement markets. The primary market for hot water systems is the replacement or breakdown market</p>
<p>Strategic Direction</p>	<p>Dux will continue to focus on improving business performance by developing new innovative environmental products to meet emerging market requirements and regulations, and that will assist in reducing domestic energy consumption. Dux will continue to strengthen its key customer relationships, and reduce costs through improved factory performance and selective sourcing of products and components</p>
<p>Head Office Location</p>	<p>Dux Manufacturing Limited Lackey Road Moss Vale NSW 2577 AUSTRALIA Telephone: 61 2 4868 0200 Facsimile: 61 2 4868 2014 Websites: <a href="http://www.dux.com.au">www.dux.com.au</a> <a href="http://www.ecosmart.com.au">www.ecosmart.com.au</a></p>

caroma  
thinking bathrooms

The leaders in tapware  
dorif

RADIANT

Gainsborough  
the quality door hardware

dux  
thinkhotwater

## STRATEGIC DIRECTION AND BUSINESS DIVISIONS

<p>Business Division</p> 	
<p>Business Description</p>	<p>Gainsborough is a leading Australian designer, manufacturer, importer and distributor of a comprehensive range of domestic and commercial door hardware and fittings, including security products</p>
<p>Main Products and Services</p>	<p>A comprehensive range of door hardware comprising door handles (knobs and levers), door locks, door closers, hinges and other metal door accessories</p>
<p>Major Brands</p>	<p>Owned: Gainsborough, Trilock, Homecraft, Stronghold Series, Contractor Series, In Style, Mode, Aspect</p>
<p>Operating Locations</p>	<p>Australia, New Zealand, export markets</p>
<p>Major Markets</p>	<p>Domestic home builders, DIY and building projects, commercial buildings and multi-dwelling developments</p>
<p>Strategic Direction</p>	<p>Gainsborough's strategic direction encompasses the development of additional door hardware products to suit domestic buildings, continued development of commercial markets and development of export markets</p>
<p>Head Office Location</p>	<p>Gainsborough Hardware Industries Limited          31-33 Alfred Street          Blackburn VIC 3130          AUSTRALIA          Telephone: 61 3 9877 1555          Facsimile: 61 3 9894 1599          Website: <a href="http://www.gainsboroughhardware.com.au">www.gainsboroughhardware.com.au</a></p>

CLARK

sebel

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WISA

GWA International Limited invests significantly in research and new product development which has enabled the businesses to maximise opportunities in a competitive marketplace. The Company is committed to the research and development of innovative environmental products which provide sustainable solutions for reducing domestic and commercial water consumption, and greenhouse gas emissions.

caroma  
thinking bathrooms

The leaders in tapware  
dorff

RADIANT

Guinborough  
fine quality door hardware

dux  
think hot water

<p>Business Division</p> 	
<p>Business Description</p>	<p>Rover is a leading Australian designer, importer and distributor of domestic and commercial lawn and garden care equipment</p>
<p>Main Products and Services</p>	<p>Range of walk-behind and ride-on mower equipment, garden chip and shred products and spare parts</p>
<p>Major Brands</p>	<p>Owned: Rover</p>
<p>Operating Locations</p>	<p>Australia, overseas distributors</p>
<p>Major Markets</p>	<p>Domestic and commercial lawn care and garden products and equipment, marketed in over 35 countries</p>
<p>Strategic Direction</p>	<p>Rover will continue to target market growth segments in Australia and overseas through its focus on new product development and its relationships with its key customers</p>
<p>Head Office Location</p>	<p>Rover Mowers Limited 155 Fison Avenue West Eagle Farm QLD 4009 AUSTRALIA Telephone: 61 7 3213 0222 Facsimile: 61 7 3868 1010 Website: <a href="http://www.rovermowers.com.au">www.rovermowers.com.au</a></p>



## STRATEGIC DIRECTION AND BUSINESS DIVISIONS

<p>Business Division</p> 	
<p>Business Description</p>	<p>Sebel is at the forefront of Australian design, manufacture, import and distribution of quality commercial furniture and seating</p>
<p>Main Products and Services</p>	<p>Broad range of commercial furniture suited to its target markets. The range includes dining seating and tables, outdoor furniture, mass seating for stadia and public areas, casual corporate markets, and tables, desks and chairs for the education market</p>
<p>Major Brands</p>	<p>Owned: Sebel</p>
<p>Operating Locations</p>	<p>Australia, New Zealand, Hong Kong, United Kingdom, export markets</p>
<p>Major Markets</p>	<p>Entertainment, hospitality, healthcare, public seating, sports stadia, corporate and educational markets. Sells direct to builders, developers, clubs and hotels</p>
<p>Strategic Direction</p>	<p>As well as its strong emphasis on new product development, Sebel will continue to pursue traditional markets using its strong brand name and good customer service to drive sales through increased market share. Current export markets will also be expanded, with the division pursuing opportunities in education and stadia markets overseas</p>
<p>Head Office Location</p>	<p>Sebel Furniture Limited            96 Canterbury Road            Bankstown NSW 2200            AUSTRALIA            Telephone: 61 2 9780 2222            Facsimile: 61 2 9793 3152            Website: www.sebel.com.au</p>

CLARK

sebel

stylus

Irwell

FOWLER  
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WISA

## THE GWA SUSTAINABILITY STORY

### Leading the way in eco efficient technology

#### SAVING WATER FROM THE BEGINNING

Caroma Dorf has always been at the forefront of product innovation, corporate responsibility and the development of environmentally sound technologies. A long-standing commitment to helping Australians save water has made Caroma Dorf an international market leader in the development of water efficient products.

#### A HISTORY OF WATER SAVING INNOVATION

Over the last 25 years, as shown in the below chart, Caroma has designed toilets that have progressively reduced water consumption, from the 11/6 litre, to the 9/4.5 litre, to the 6/3 litre dual flush to today's Caroma Smartflush®, Australia's first 4.5/3 litre dual flush toilet, which can save the average household 35,000 litres of water per year.

#### CAROMA DORF ECO LOGICAL SOLUTIONS

Given the nature of our product portfolio, Caroma Dorf has a vested interest in ongoing water saving opportunities. Devising sustainable solutions for homes and businesses is key to our market positioning, whilst ensuring we maintain a leadership position in water saving product innovation.

With around 156,000 new dwellings built in Australia every year, there remains an existing stock of seven million dwellings where there is significant potential to replace inefficient fittings and appliances with the latest water efficient technologies.

The practise of retrofitting inefficient toilets and urinals is often overlooked or considered too hard, as part of a 'demand management' water saving strategy, both within the community and within various levels of government.

It is Caroma Dorf's endeavour to change this perception by devising fully installed solutions that can easily be adopted and implemented by the relevant party resulting in greater levels of water saving, as flushing a toilet involves no behavioural changes and the savings are immediate and profound.

Ongoing government lobbying to recognise the potential water saving benefits of retrofitting and as a result legislate the mandatory retrofitting of water saving products and innovations in established households, is a key objective of our sustainability business.

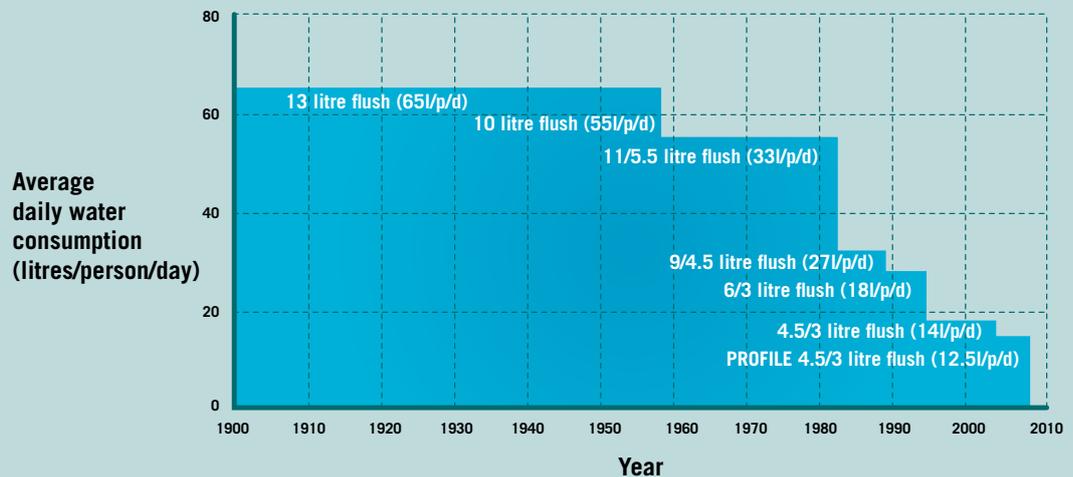
#### ECO LOGICAL SOLUTIONS

To support the development of our sustainability business, a dedicated team has been appointed both at a national and state level to drive the new initiatives. A Caroma Dorf Eco Logical Solutions™ brand platform has been devised to sell the concept at a high level.

#### ECO LOGICAL SOLUTIONS CASE STUDIES

##### Locally

- Queanbeyan Council utilised Caroma dual flush toilet suites to retrofit over 6,000 toilet suites, resulting in significant water and waste savings
- In NSW Caroma Dorf managed a toilet retrofit pilot program for Sydney Water
- In Victoria Caroma Dorf devised a fully installed retrofit program with the Green Plumbers and have retrofitting in excess of 2,000 suites to Smartflush



Reduction in maximum WC flush volumes (for new installations) and corresponding average daily per capita WC water usage in Australia with particular reference to the period since 1982.

caroma dorf



logical solutions

- In coordination with the QLD Department of Public Works Caroma Dorf managed a commercial retrofit program, which has led the way to numerous QLD government buildings being made more water efficient
- In Brisbane Caroma Dorf conducted a mail out to 5,000 swimming pool owners to coincide with moving to Level 4 water restrictions, resulting in over 100 toilet retrofits

#### Internationally

- In San Antonio, Texas over 50,000 toilet suites have been converted to Smartflush
- Consulting with the Beijing Olympics Committee on water saving initiatives

#### OUR HIGHLY AWARDED PRODUCT PORTFOLIO

- 2004 Green Plumbers 'Product of the Year' – Caroma Smartflush®
- 2005 Australian Design Award – Caroma Smartflush®
- 2005 Green Plumbers 'Water Efficient Product of the Year' – Smartflush® Urinals
- 2005 Home Beautiful 'Product of the Year' – Caroma Smartflush®
- 2007 Inaugural winner of the 'Excellence in Sustainable Design' Australian Design Award
- 2007 Winner Australian Design Award for 'Excellence in Australian Design' in the Housing & Building category
- 2007 nominee for 'Global Index' Award – Copenhagen (International Design Competition) H2Zero Waterless Urinal

#### Caroma Profile™ Toilet Suite with Integrated Hand Basin

The first toilet in Australia to achieve a 5-star Water Efficiency Labelling Standards WELS rating, the Caroma Profile™ Toilet Suite with Integrated Hand Basin provides a simple, effective way to re-use water in the bathroom. Profile™ achieves this leading water rating by using the same water twice, for hand washing followed by toilet flushing. Resulting in water saving 10% greater than that of the 4.5/3L Smartflush® System.

Given the high degree of innovation of the Profile™ Toilet Suite, the launch of this product has further consolidated Caroma Dorf's position both in Australia and internationally as a leader in water saving technology. The Profile™ has enhanced Caroma Dorf's already extensive range of water efficient bathroom products, whilst ensuring Caroma Dorf sets the innovation benchmarks within the markets in which it operates.

The 'demand management' approach to bathroom water usage demonstrates the company is well connected with the market place needs. The innovation attached to the Profile™ Toilet Suite is providing new opportunities for new sustainability based discussions with new and existing audiences.

Researched and designed in Australia, Caroma Dorf are ensuring this unique technology is fully accessible to the Australian market from a distribution, ease of installation and price position so the water saving benefits of this innovation can be carried through to our environment.

#### Caroma H2Zero™ Cube Urinal

The Caroma H2Zero™ Cube Urinal won the inaugural **Award for Excellence in Sustainable Design** at the Australian Design Awards. The H2Zero™ Cube Urinal was selected from a shortlist of 32 environmentally friendly entries for its breakthrough design, allowing it to be the first truly viable and sustainable high-performance, waterless urinal option.

The H2Zero™ Urinal also won the **Australian Design Award for Excellence in Australian Design** in the Housing and Building category, as well as being one of six products nominated for Australian Design Award of the year. Entries were judged against a common set of criteria, including innovation, visual appeal, functionality, originality, quality, ergonomics, safety, sustainability, and commercial viability. In addition, the urinal remains in the running for the International Index Award, which will be awarded in October this year.

#### Australian Designed Mixers Deliver Serious Style & 5 Star Water Rating – Dorf Eclipse mixer range

The Eclipse Basin Mixer releases a low 6 litres of water per minute to achieve a superior WELS 5 star rating, while the WELS 3 star rated Eclipse Sink Mixer is durable enough to withstand even the most demanding of kitchen duties. The contemporary good looks of the Eclipse Bath/Shower Mixer, available with optional diverter, will make a stylish addition to any bathroom space.

#### Smartflush – Brand Relaunch

With the market focus on water efficiency we are in the process of re-launching the Smartflush brand, to reinforce our market leading position and to continue educating the market on our superior level of innovation, teamed with the level of industry recognition in the form of awards the Smartflush® System has won.

We have also enhanced the system to include new XPV technology for even greater flushing power. The XPV (Express Power Valve) increases flushing





dorf

smart



performance a further 25%, maximising flow rate performance and minimising water usage.

#### **Dorf Smart – Brand Relaunch**

Additionally, the Dorf range is being enhanced to have Dorf smart as the next phase of the original Water Efficient Tapware W.E.T campaign.

The Dorf smart™ range combines visual appeal with elegant style, advanced technology with innovative thinking, water-saving ideas with energy efficient solutions, and the reliability and reputation of Australia's most respected brand of tapware.

**Smart Styling** – Wide range of innovative designs to suit all bathroom and kitchen styles

**Smart Performance** – Special features to improve water savings, water flow and temperature control

**Smart Engineering** – Beautifully crafted from solid brass for durability and longevity

Caroma Dorf is proud to be embracing the water saving aspect of our business and building a sustainable business around making water efficient decisions easier for Australians and beyond.

#### **Dux Hot Water – At the Forefront of Energy Efficient Water Heating**

##### **The Market Environment**

“Energy Efficient”, previously this term meant different things to different people.

For manufacturers of water heaters, the term energy efficiency is a constant. It reflects the regulatory standards, which set minimum performance and efficiency targets that all water heaters must comply if they are to be sold in the Australian market place.

Given the need to reduce the levels of greenhouse gas emissions, these performance standards are becoming tougher, asking for greater gains in efficiency levels. As a result, manufacturers must look to develop new and better ways to heat water without compromising the consumer's level of comfort.

##### **State Regulation**

Over and above the minimum performance standards set for these appliances are the new state regulations, which only allow the most efficient water heaters to be installed into new homes.

Further to these restrictions, state based regulations are being implemented over a broader section of the community and are now putting limitations on the type of water heater that is used to replace an existing unit.

##### **Dux Approach to this Challenge**

Given this challenging regulatory environment the Dux approach is to drive new product innovation,

which addresses all regulatory standards, provides the tradesperson with a product that is simple to install and importantly provides the consumer with no compromise to their hot water experience.

##### **Product Development**

In simple terms water heaters are viewed by their energy source, either Gas or Electric.

##### **Gas Fuel Source**

With the gas market in mind, Dux offers 5 star storage heaters, and 5 star continuous flow heaters, the award winning Sunpro continuous gas boosted solar heater, and now the Sunpro 305 gas boosted heater. The Sunpro 305 takes a different approach to traditional gas boosted solar units, by using a pre-boost system. This means that the consumer receives full flow mains pressure hot water, meeting their expectations.

##### **Electric Fuel Source**

Most efficiency arguments are focused toward electric powered water heaters, and the challenge for Dux is to maintain our share of this critical market. Our electric boosted solar market continues to grow strongly where Gas fuel is not available. Recently the Solarone was launched in Queensland, which is a single panel solar water heater, perfect for the new home market.

##### **Airoheat**

The most significant event for Dux was the release of the new Dux Airoheat, heat pump water heater.

The Dux Airoheat, features NHT (new heat technology), and through this offers the most efficient domestic heat pump water heater available. Over the years heat pump water heaters have developed a reputation as being noisy, Airoheat on the other hand is the quiet achiever, registering half the sound level of some other units tested. It has been described as being “as quiet as a refrigerator” providing lots of appeal to the consumer. Airoheat reportedly reduces the electricity consumption by approx 65%, compared to an electric water heater.

##### **Water Recirculation**

Although Dux is in the business of creating hot water, substantial water and energy can be wasted waiting for hot water to be delivered. As a result Dux released the Readyhot water recirculation system. Proudly, this innovative system won the HIA Greensmart “Product of the Year” Award, in September 2006. In the same month Readyhot also won the Green Plumbers “Water Saving Product of the Year” Award.

Regulation and Government incentives continues to impact on all areas of the water heater market and Dux is proud to be at the leading edge of this change.

## BOARD OF DIRECTORS

### Barry Thornton KSJ FCA FAICD FAIM FCIS

Chairman and Non-Executive Director, Elected to the Board 1992

**Expertise:** Chartered Accountant, corporate and financial management.

**Special Responsibilities:** Chairman of the Board, Chairman of Nomination Committee and member of Audit Committee.

Mr Thornton joined GWA Limited in 1974 as Finance Director and was appointed Chief Executive in 1981. In 1986, he was appointed Executive Chairman and, following the privatisation of GWA Limited in 1989 and the public float of the Manufacturing Division as GWA International Limited in 1993, he became Non-Executive Chairman. He is also a member of the Brisbane Advisory Board of the Salvation Army, and is the former Chairman of the Brisbane Airport Corporation Limited where he served from 1997 to January 2007.

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

> Stockland Corporation Limited 1995-2004

### Jim Kennedy AO CBE DUniv (QUT) FCA FCPA

Deputy Chairman and Non-Executive Director, Elected to the Board 1992

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

**Special Responsibilities:** Deputy Chairman of the Board, Chairman of Audit Committee and member of Nomination Committee.

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

- > Suncorp-Metway Limited 1997 – 2006
- > Australian Stock Exchange Limited 1990 – 2006
- > Macquarie Goodman Funds Management Limited 1994 – 2004
- > Qantas Airways Limited 1995 – 2006

### Peter Crowley BA BEcon FAICD

Managing Director, Appointed 6 May 2003

**Expertise:** Broad manufacturing experience in Australia and overseas.

2001: Managing Director and Chief Executive, Austrim Nylex Limited, a diversified industrial company;

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

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

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

### David Barry FAIM

Non-Executive Director, Elected to the Board 1992

**Expertise:** Importation, distribution and retailing.

**Special Responsibilities:** Member of Remuneration Committee.

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

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

### Robert Anderson

Non-Executive Director, Elected to the Board 1992

**Expertise:** Property investment and transport logistics.

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

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

### Martin Kriewaldt BA LLB FAICD

Non-Executive Director, Elected to the Board 1992

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

**Special Responsibilities:** Member of Remuneration Committee, member of Audit Committee and member of Nomination Committee.

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

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

- > Campbell Brothers Limited\* since 2001
- > Oil Search Limited\* since 2002
- > Suncorp-Metway Limited\* since 1996
- > Peptech Limited 2003 – 2007

\*denotes current directorship

### Geoff McGrath MIE

Non-Executive Director, Elected to the Board 2004

**Expertise:** Manufacturing and general management.

**Special Responsibilities:** Chairman of Remuneration Committee.

2003: Mr McGrath retired as Managing Director of GWA International Limited on 6 May 2003, and continued his involvement with the Group as an adviser to the Board;  
 1992: Mr McGrath was appointed Managing Director of GWA International Limited;  
 1982: After the takeover of UPL Group by GWA Limited, Mr McGrath was appointed Managing Director of the GWA Manufacturing Group companies comprising Caroma, Sebel and Rover Mowers.

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

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

\* denotes current directorship

+ denotes Chairman

### Bill Bartlett FCA, CPA, FCMA, CA(SA)

Non-Executive Director, Elected to the Board 21 February 2007

**Expertise:** Chartered Accountant, actuarial, insurance and financial services.

**Special Responsibilities:** Member of Audit Committee.

Mr Bartlett is a Fellow of the Institute of Chartered Accountants, with over 35 years experience in accounting, and was a partner at Ernst & Young in Australia for 23 years, retiring on 30 June 2003. He is a director of the Bradman Foundation and Museum and Moneyswitch Limited.

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

- > Suncorp-Metway Limited \* since 2003
- > Reinsurance Group of America Inc (NYSE) \*since 2004
- > Peptech Limited\* since 2004
- > Abacus Property Group\* since 14 February 2007
- > Retail Cube Limited 2004 - 2006

\*denotes current directorship

### Company Secretary

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

Appointed 4 July 2003

**Expertise:** Chartered Accountant, taxation and finance.

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

## CORPORATE GOVERNANCE STATEMENT for the year ended 30 June 2007

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

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

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

As part of its responsibilities, the Board has ensured that management has put in place a comprehensive system of risk management and internal controls. These are outlined in more detail below – refer Risk Management and Internal Controls. The Board continues to review and monitor the Company’s risk management and

internal control practices to ensure that good practice is maintained.

For further information on the corporate governance practices of the Company, please refer to the corporate website at [www.gwail.com.au](http://www.gwail.com.au) in the Corporate Governance section.

### 1. ROLE OF THE BOARD

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

- Final approval of corporate strategies and performance objectives developed by senior management, with Board input
- Approval and monitoring of financial and other reporting
- Monitoring of executive and senior management performance, including the implementation of corporate strategies, and ensuring appropriate resources are available
- Appointment and monitoring of the performance of the Managing Director
- Liaison with the Company’s External Auditor through the Audit Committee
- Ensuring that the Company has appropriate systems of risk management and internal controls, reporting mechanisms and delegation authority limits in place
- Approval and monitoring of the progress of major capital expenditure, capital management, acquisitions and divestments
- Any other matters required to be dealt with by the Board from time to time depending upon circumstances of the Company
- Other matters referred to in the Board Committee charters

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

## 2. BOARD MEETINGS

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

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

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

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

## 3. COMPOSITION OF THE BOARD

The Board presently comprises 8 Directors, 7 of whom, including the Chairman and Deputy Chairman, are non-executive directors and one, the Managing Director, is an executive director.

Profiles of the directors are set out on page 18 of the Annual Report. The profiles outline the skills, experience and expertise of each Board member.

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

- The Board should maintain a majority of non-executive directors
- The Board should maintain a majority of independent directors
- The Chairperson should be a non-executive director
- The role of Chairperson and Managing Director should not be exercised by the same individual
- Non-executive directors should not be involved in management of the day to day operations of the Company
- All Board members should have financial expertise and relevant experience in the industries in which the Company operates

### *Re-Election of Directors*

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

## 4. INDEPENDENCE OF DIRECTORS

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

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

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

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

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

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

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

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

#### **(ii) Mr Geoff McGrath – Non-Executive Director**

At the Annual General Meeting on 28 October 2004 shareholders approved the re-election of Mr Geoff McGrath as director. As disclosed in the 2003/04 Annual Report, Mr McGrath was the former Managing Director of the Company and accordingly, does not meet the definition of an independent director as outlined in the recommendations of the ASX Corporate Governance Council. In the Board's view, this in no way impacts on Mr McGrath's effectiveness and performance as a director, nor does it affect Mr McGrath's ability to exercise

independent judgment in carrying out his duties as a Director.

#### **(iii) Director Tenure**

The current Non-Executive Board members have been in office for many years, as disclosed on page 18 of the Annual Report (excluding Mr Geoff McGrath and Mr Bill Bartlett who were appointed in the 2003/04 and 2006/07 years respectively). The Board does not consider that the independence of a director can be assessed by reference to an arbitrary and set period of time. The Board has overseen the growth and development of the Company since listing and in the Board's view the Company derives benefits from having long serving directors with a detailed knowledge of the Company's operations. The Board considers this a significant factor in their effectiveness and performance in their roles as directors of the Company.

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

In accordance with the succession plans, Mr Bill Bartlett was appointed Non-Executive Director of GWA International Limited on 21 February 2007. Mr Bartlett is a Fellow of the Institute of Chartered Accountants and is an experienced company director, and has been appointed a member of the Audit Committee.

## **5. CONFLICTS OF INTEREST**

The directors are required to disclose to the Board any relationships from which a conflict of interest might arise. A director who has an actual or potential conflict of interest or a material personal interest in a matter is required to absent himself from any meeting of the Board or Board Committee, whenever the matter is considered. In addition, the director does not receive any Board papers or other documents in which there is a reference to the matter.

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

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

## 6. ACCESS TO INDEPENDENT ADVICE

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

## 7. BOARD COMMITTEES

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

The standing Board Committees are:

### (i) Audit Committee

The Audit Committee consists of the following Non-Executive Directors:

- J J Kennedy (Chairman) AO CBE DUniv (QUT)  
FCA FCPA
- M D E Kriewaldt BA LLB FAICD
- B Thornton KSJ FCA FAICD FAIM FCIS
- W J Bartlett FCA, CPA, FCMA, CA (SA)

The Audit Committee meets as required and on several occasions throughout the year. For attendance details of the Audit Committee, refer to page 37 of the Annual Report.

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

- The Audit Committee should consist of Non-Executive Directors only
- The Audit Committee should maintain a majority of Independent Directors
- The Chairperson must be independent, and not Chairperson of the Board

- The Audit Committee should consist of at least three members
- The Audit Committee should include members who are financially literate with at least one member who has financial expertise

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

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

The main responsibilities of the Audit Committee include:

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

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

### ***Certification of Financial Reports***

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

### **(ii) Nomination Committee**

The Nomination Committee consists of the following Non-Executive Directors:

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

The Nomination Committee meets as required and on several occasions throughout the year. For attendance details of the Nomination Committee, refer to page 37 of the Annual Report.

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

- The Nomination Committee should consist of Non-Executive Directors only
- The Nomination Committee should maintain a majority of Independent Directors
- The Nomination Committee should consist of a minimum of three members
- The Chairperson should be the Chairperson of the Board or another Non-Executive Director

The Nomination Committee operates under a charter that details the Committee's role and responsibilities, composition, structure and membership requirements. The charter is regularly reviewed to ensure it remains consistent with

the Board's objectives and responsibilities. The Nomination Committee charter has been posted on the Company's website in the Corporate Governance section.

The main responsibilities of the Committee include:

- Assessment of the necessary and desirable competencies of Board members
- Review of the Board succession plans
- Evaluation of the performance and contributions of Board members
- Recommendations for the appointment and removal of Directors
- Review of the remuneration framework for the Non-Executive Directors
- Reporting to the Board on the Committee's role and responsibilities covering all the functions in its charter

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

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

### ***Selection and Appointment of Directors***

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

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

### **Induction Program**

The Nomination Committee is responsible for ensuring that an effective induction program for new directors is in place, and regularly reviewed to ensure its effectiveness. The Board has developed a comprehensive induction program for new directors to allow the new appointees to participate fully and actively in Board decision making. The Board views the induction program as critical in enabling the new directors to gain an understanding of the Company and the markets in which it operates.

A similar induction program is also available for key executives.

### **Performance Evaluation**

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

### **(iii) Remuneration Committee**

The Remuneration Committee consists of the following Non-Executive Directors:

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

The Remuneration Committee meets as required and on several occasions throughout the year. For attendance details of the Remuneration Committee, refer to page 37 of the Annual Report.

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

- The Remuneration Committee should consist of Non-Executive Directors only
- The Remuneration Committee should maintain a majority of Independent Directors
- The Remuneration Committee should consist of a minimum of three members
- The Chairperson of the Remuneration Committee should be a Non-Executive Director

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

The main responsibilities of the Committee include:

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

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

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

## **8. CODE OF CONDUCT**

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

The Code of Conduct states the values and policies of the Company and complements the Company's

risk management and internal control practices. The Code of Conduct is regularly reviewed and updated to ensure that it reflects current good practice, and to promote the ethical behaviour of all employees. The Code of Conduct has been posted on the Company's website in the Corporate Governance section. In addition, a whistleblowing policy has been put in place to enable employees to report unacceptable workplace behaviour.

## 9. SHARE TRADING POLICY

The Company has developed a share trading policy which prohibits directors, officers and other "potential insiders" from trading in GWA International Limited shares during designated periods. The designated periods are 30 June until the release of the Company's full year results to the Australian Securities Exchange and 31 December until the release of the Company's half year results to the Australian Securities Exchange, unless otherwise determined by the directors.

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

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

## 10. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board recognises that effective risk management processes help ensure the business is more likely to achieve its business objectives, and that the Board meets its Corporate Governance responsibilities. In meeting its responsibilities, the Board has ensured that management has put in place comprehensive risk management policies and practices across the Company which addresses each of the key elements and requirements of AS/NZS Standard 4360: 2004 - Risk Management.

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

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

The Company has implemented risk management software across the Group for the purpose of identifying and managing employee health and safety, business continuity and environmental risks. The software is a critical tool for senior management and has enhanced the identification, reporting and monitoring of actions in this important area, in order to support management's objectives.

Risk management is embedded in the Company's policies and procedures which has enabled the Company to pro-actively identify and manage all

types of risk within the organisation. The Board aims to continually evaluate and re-assess the risk management and internal control practices of the Company to ensure current good practice is maintained, and to preserve and create value within the organisation.

### **Certification of Risk Management Controls**

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

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

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

### **11. REMUNERATION POLICIES**

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

The Nomination Committee is responsible for determining the remuneration for the non-executive directors, with the maximum aggregate amount approved by shareholders. The directors receive their remuneration by way of directors' fees only (including statutory superannuation), and are not able to participate in the Executive Incentive Scheme or the GWA International Employee Share Plan.

The Remuneration Committee is responsible for reviewing and determining the remuneration and incentive arrangements for the executives. The Remuneration Committee takes advice from external remuneration consultants to assist in determining market remuneration levels. The remuneration and incentive arrangements have

been structured to ensure that performance is fairly rewarded and to attract, motivate and retain a high quality executive team.

For details of the Company's remuneration policies and disclosures, refer to the Remuneration Report on page 32 of the Annual Report.

### **12. EMPLOYEE SHARE PLAN**

The Company has operated an Employee Share Plan since listing in 1993 as part of the remuneration and incentive arrangements for executives and senior management. Full details of the operation of the Employee Share Plan are described in the Remuneration Report on page 32 of the Annual Report.

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

### **13. AUDIT AND AUDITOR INDEPENDENCE**

The Board recognises the importance of a truly independent audit firm to ensure that the audit function delivers, for the benefit of the Board and all other stakeholders, an unbiased confirmation of both the Financial Statements and the state of affairs of the Company. Consistent with the Board's commitment to an independent audit firm, a policy has been prepared and approved by the Board on the role of the External Auditor, which is designed to ensure the independence of the external audit function.

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

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

During the year, KPMG provided an Auditor Independence Declaration to the Board (refer page 37 of the Annual Report) that, to the best of their knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the Corporations Act 2001 in relation to the audit
- Any applicable code of professional conduct in relation to the audit.

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

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

#### **Rotation of External Auditor**

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

### **14. SHAREHOLDER COMMUNICATIONS**

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

- Complying with the continuous disclosure obligations contained in the ASX Listing Rules and the Corporations Act 2001. The Company has for many years included continuous disclosure as a permanent item on the agenda for Board meetings. The Board has approved a Continuous Disclosure Policy to ensure the Company complies with the continuous disclosure requirements, and to ensure accountability at the executive and senior management level for that compliance
- Ensuring that all shareholder communications (including Annual Report, Half Year Report and Notice of Annual General Meeting) satisfy relevant statutory requirements and the guidelines of the ASX Corporate Governance Council and other professional bodies. The Company is committed to producing shareholder communications in plain English with full and open disclosure about the Company's policies and procedures, operations and performance

- Ensuring that all shareholders have the opportunity to receive externally available information issued by the Company. The Company has a corporate website at [www.gwail.com.au](http://www.gwail.com.au) for the purpose of enhancing communication with shareholders and other parties. All Company announcements and information released to the market are located on the website and may be accessed by shareholders. There is also a Corporate Governance section on the website which outlines the practices of the Company and other Company information
- The Board is committed to the continued development and enhancement of electronic communications to shareholders. Shareholders are able to register with its Share Registry to receive Company communications electronically, although not all Company communications are made available electronically. Electronic communications is a developing area for all publicly listed companies and the Company will continue to monitor what is happening in the market place, particularly regarding cost savings, take-up rates and service features
- Pursuant to new legislation recently passed by the Federal Government, the Company has communicated to shareholders that Annual Reports will no longer be mailed to shareholders, unless specifically requested. Annual Reports are made available to shareholders on the Company's website at [www.gwail.com.au](http://www.gwail.com.au) in an easily accessible and user friendly format. Shareholders are mailed the Notice of Annual General Meeting and Proxy Form, which include details on accessing the online Annual Report
- The Company encourages shareholders to attend the Company's Annual General Meeting to canvass the relevant issues of interest. If shareholders are unable to attend the Annual General Meeting personally, they are encouraged to participate through the appointment of a proxy or proxies. The Company endeavours to set the timing and the location of the Annual General Meeting so that it is convenient for shareholders generally
- The attendance at the Annual General Meeting by the External Auditor to answer questions from shareholders about the conduct of the audit and the preparation and content of the Independent Audit Report. Shareholders attending the Annual General Meeting are made aware they can ask questions of the External Auditor concerning the conduct of the audit.

## DIRECTORS' REPORT as at 30 June 2007

Your Directors present their report on the consolidated entity of GWA International Limited and the entities it controlled ("the Company") during the financial year ended 30 June 2007.

### DIRECTORS

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

#### **B Thornton**

Chairman and Non-Executive Director

#### **J J Kennedy**

Deputy Chairman and Non-Executive Director

#### **P C Crowley**

Managing Director

#### **D R Barry**

Non-Executive Director

#### **R M Anderson**

Non-Executive Director

#### **M D E Kriewaldt**

Non-Executive Director

#### **G J McGrath**

Non-Executive Director

#### **W J Bartlett**

Non-Executive Director

Mr W J Bartlett was appointed Non-Executive Director of GWA International Limited on 21 February 2007.

Details of the Directors' qualifications, experience and special responsibilities are located on page 18 of the Annual Report.

Details of the directorships of other listed companies held by each director in the three years prior to the end of the 2006/07 financial year, and the period for which each directorship has been held, are listed on page 18 of the Annual Report.

#### **Company Secretary**

Mr R J Thornton was appointed Company Secretary of GWA International Limited on 4 July 2003. Details of Mr Thornton's qualifications and experience are located on page 19 of the Annual Report.

### DIRECTORS' INTEREST

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

Director	Ordinary Shares	Interest
B Thornton	Nil	Note 4
J J Kennedy	1,000	Notes 1 and 4
D R Barry	3,398,961	Notes 2 and 4
R M Anderson	8,198,000	Notes 2 and 4
M D E Kriewaldt	100,000	Notes 2 and 4
P C Crowley	500,000	Notes 3 and 4
G J McGrath	300,000	Notes 1 and 4
W J Bartlett	Nil	Note 4

**Note 1:** Beneficially and legally owned.

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

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

**Note 4:** Note 30 to the Financial Statements sets out the number of shares held directly, indirectly or beneficially by directors or their related entities at balance date as prescribed in Accounting Standard AASB 124, this being 57,221,623 shares (last year 57,317,081 shares).

### CORPORATE STRUCTURE

GWA International Limited is a Company limited by shares that is incorporated and domiciled in Australia. GWA International Limited has prepared a Consolidated Financial Report incorporating the entities that it controlled during the financial year ended 30 June 2007, which are outlined in Note 28 of the Financial Statements.

### PRINCIPAL ACTIVITIES

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

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

## EMPLOYEES

The Company employed 1,957 employees as at 30 June 2007 (last year 2,226 employees).

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

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

## REVIEW OF OPERATIONS AND STATE OF AFFAIRS

A review of the operations of the Company and the results of those operations for the financial year ended 30 June 2007 is provided in the Managing Director's Review of Operations which is located on page 5 of the Annual Report.

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

## SEGMENT SALES AND PROFIT

The segment sales and profit of the Company for the financial year ended 30 June 2007 is as follows:

Business Segment	Segment Sales		Segment Profit	
	2006/07 \$'000	2005/06 \$'000	2006/07 \$'000	2005/06 \$'000
Buildings, fixtures and fittings	555,633	523,100	110,521	102,858
Commercial furniture	56,973	56,738	3,619	4,655
Other	33,063	40,151	(15,386)	(12,316)
<b>Total</b>	<b>645,669</b>	<b>619,989</b>	<b>98,754</b>	<b>95,197</b>
Restructuring expenses			(7,279)	(5,944)
Profit before interest and tax			91,475	89,253

## EARNINGS PER SHARE

	2006/07 cents	2005/06 cents
Basic earning per share	20.2	20.4
Basic earnings per share (prior to restructuring expenses)	22.0	21.6

## DIVIDENDS

Dividends paid or declared by the Company to shareholders since the end of the previous financial year were:

### Declared and paid during 2006/07 financial year

Dividends	Cents per share	Total amount \$'000	Franked/unfranked	Date of payment
Final 2005/06 ordinary	8.0	22,264	Franked	3 Oct 2006
Special 2005/06	3.5	9,741	Franked	3 Oct 2006
Interim 2006/07 ordinary	10.0	27,830	Franked	2 April 2007
Special 2006/07	1.5	4,175	Franked	2 April 2007
	<b>23.0</b>	<b>64,010</b>		

Franked dividends declared and paid during the year were franked at the corporate tax rate of 30%

### Declared after end of the 2006/07 financial year

Dividends	Cents per share	Total amount \$'000	Franked/unfranked	Date of payment
Final 2006/07 ordinary	8.0	22,394	Franked	2 Oct 2007
Special 2006/07	2.5	6,998	Franked	2 Oct 2007
	<b>10.5</b>	<b>29,392</b>		

After the balance sheet date the above dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.

The financial effect of these dividends has not been brought to account in the Financial Statements for the year ended 30 June 2007 and will be recognised in subsequent Financial Reports.

#### SIGNIFICANT EVENTS AFTER BALANCE DATE

On 21 August 2007, the directors of GWA International Limited declared a final ordinary dividend of 8.0 cents per share and a special dividend of 2.5 cents per share in respect of the financial year ended 30 June 2007. The dividends will be fully franked at the 30% corporate tax rate. The total amount of the dividend is \$29.392 million (last year \$32.005 million). In accordance with Accounting Standards, the dividends have not been provided for in the Financial Statements for the year ended 30 June 2007.

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

#### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely developments and expected results of the operations of the Company are provided in the Managing Director's Review of Operations which is located on page 05 of the Annual Report.

In the next financial year, the Company will continue to pursue strategies for increasing the profitability and market share of the businesses. There will be further investment in research and new product development to ensure that the Company generates the best possible returns from the businesses.

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

### ENVIRONMENTAL REGULATION AND PERFORMANCE

#### Environmental Licences

The Company holds licences issued by Environmental Protection Authorities and Water Authorities that specify limits for discharges to the environment, which arise from the operations of entities that it controls. These licences regulate the management of discharge to air, storm water run-off, removal and transport of waste associated with the manufacturing operations in Australia. Where appropriate, an independent review of the Company's compliance with licence conditions is made by external advisors.

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

The Company in conjunction with external advisors monitors storage and treatment of hazardous materials within particular operations. Prior to any discharge to sewers, effluent is treated and monitored to ensure strict observance with licence conditions.

The directors are not aware of any breaches of the Company's licence conditions during the financial year ended 30 June 2007.

#### Environmental Remediation

During the year, the Company investigated and reported two environmental contamination issues at factory sites at Eagle Farm, Queensland and Revesby, NSW. The Eagle Farm site is an owned site and is currently occupied by Rover Mowers Limited and the Revesby site is a leased site and is currently occupied by McIlwraith Davey Pty Ltd. Both entities are wholly owned subsidiaries of GWA International Limited.

In conjunction with the Company's external environmental consultant, investigations and testing at both the sites is continuing, the results of which will form the basis of any remediation plans for the sites. For further information in relation to these environmental contamination issues, please refer to Note 26 of the Financial Statements.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND EXECUTIVES

### Indemnification

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

### Insurance Premiums

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

Premiums were paid in respect of every current (and former) director and officer of the Company and controlled entities, including the directors named on page 18 of the Annual Report, the Chief Financial Officer, the Company Secretary and all persons concerned or taking part in the management of the Company and its controlled entities.

## REMUNERATION REPORT

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

### Remuneration Objectives

The performance of the Company depends upon the quality of its directors and executives. To maximise the performance of the Company's businesses, the Company must attract, motivate and retain a highly skilled director and executive team. This is achieved through a remuneration and

incentive framework which has been put in place by the Board, and is guided by the following objectives:

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

### Remuneration Structure

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

### Non-Executive Directors' Remuneration Policy

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

The non-executive directors are remunerated by way of directors' fees only (including statutory superannuation) and are not able to participate in the Executive Incentive Scheme or the GWA International Employee Share Plan (refer below). An additional fee is also paid for each Board Committee on which a director sits. The payment of additional fees for serving on a Committee recognises the additional time commitment required by directors who serve on one or more Committees. The Company permits directors to salary sacrifice directors' fees into superannuation.

In setting the level of non-executive Directors fees' and the manner in which it is to be apportioned amongst the directors, the Nomination Committee takes advice from external remuneration consultants to determine market remuneration levels, with the objective of ensuring that the

levels are market based and fairly represent the responsibilities and time spent by the Non-Executive Directors on Company matters.

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

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

For details of the emoluments paid to the non-executive directors for the year ended 30 June 2007, refer to the Remuneration Tables on page 35 of the Annual Report.

#### **Executives' Remuneration Policy**

The Remuneration Committee is responsible for determining and reviewing the remuneration arrangements for the executives. The Remuneration Committee takes advice from external remuneration consultants to ensure the appropriateness of the nature and amount of emoluments of such officers, with the overall objective of ensuring maximum stakeholder benefits from the retention of a high quality executive team.

The executives' remuneration consists of the following key elements:

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

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

#### **Fixed Remuneration**

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Remuneration Committee based on advice from external remuneration consultants for determining market remuneration levels, as well as having regard to Company, divisional and individual performance.

The fixed remuneration of the five most highly remunerated executives is detailed in the Remuneration Tables on page 35 of the Annual Report.

#### **Variable Remuneration**

To assist in achieving the objective of retaining a high quality executive team, the Remuneration Committee links the nature and amount of the executive emoluments to the Company's financial and operating performance. Executives have the opportunity to qualify for participation in the Executive Incentive Scheme. Under the scheme there are two incentives, one based on yearly performance and one based on discrete three year periods. All performance plan payments are subject to maximum amounts.

#### **Executive Incentive Scheme**

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

The Operating Performance Incentive operates from divisional operating profit targets for divisional executives, and group earnings before interest and tax targets for corporate executives. Where the yearly profit targets are achieved, participating executives receive an incentive payment, subject to a cap of 30% to 35% of their base salary. The yearly profit targets are set by the Remuneration Committee at the beginning of the year having regard to the major external factors which are expected to impact each division including forecast economic conditions, expected benefits from new products, capital expenditure and other relevant factors. The Remuneration Committee ensures that the profit targets are challenging yet achievable, and will assist in

focusing divisional and corporate executives on maximising operating performance of the Company's businesses.

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

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

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

#### Employee Share Plan

As a further component of remuneration, employees of the Company may be invited to participate in the GWA International Employee Share Plan which commenced on the listing of the Company in 1993. Under the plan, employees are provided with a non-interest bearing loan from the Company to acquire shares in the Company at market value. The loan is repaid through dividends, or in full upon an employee ceasing employment with the Company. The employee bears the risk of share price movements below the issue price.

In accordance with the rules of the plan, the total number of employee shares on issue may not exceed 5% of the total Company shares on issue. At 30 June 2007 there are currently 3.44 million shares issued under the GWA International Employee Share Plan, which have an outstanding loan balance of \$9.6 million. The plan does not

provide for the issue of options and no options have been issued by the Company.

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

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

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

#### Shareholder Wealth

The table on page 35 is a summary of key shareholder wealth statistics for the Company over the last five years.

EBIT has been flat since the year ended 30 June 2004 due to the softer domestic dwelling construction and renovation market, and rising business input costs. Despite the difficult market conditions, the Company's core building fixtures and fittings businesses have performed strongly enabling the Company to maintain its high dividend pay-out ratio, and continue its track record in paying fully franked dividends to shareholders including special dividends. The Company has realised opportunities to restructure the businesses aimed at reducing costs and creating further competitive advantage. The restructuring activities will place the Company in a strong position when the market recovers and will underpin profitability growth into the future.

The remuneration and incentive framework, which has been put in place by the Board, has ensured that executives are focused on both maximising short term operating performance and long term strategic growth. This has contributed to the Company generating the shareholder returns as set

out in the below table, including a total of \$1.045 in fully franked dividends paid to shareholders in the last five financial years, which includes 17.0 cents in special dividends.

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

### Termination of Employment

The specified executives on page 36 of the Annual Report are on open-ended contracts, except for the Executive Director, Mr Peter Crowley, whose employment contract specifies an initial term of twelve months with subsequent rolling terms of twelve months.

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

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

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

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

### SHAREHOLDER WEALTH

Financial Year	EBIT <sup>(3)</sup> (\$m)	EPS <sup>(3)</sup> (cents)	DPS <sup>(2)</sup> (cents)	Share Price (\$)
30 June 2003	92.4	19.8	18.0	2.70
30 June 2004	101.0	22.3	20.5	2.95
30 June 2005	103.4	23.0	22.5	2.92
30 June 2006	95.2	21.6	21.5	3.11
30 June 2007	98.8	22.0	22.0	4.42

**Notes:** (1) EBIT for financial years 2003 and 2004 has been calculated in accordance with previous Australian GAAP. EBIT for financial years 2005 to 2007 has been calculated in accordance with Australian equivalents to IFRS (AIFRS)  
(2) Total dividends per share including special dividends  
(3) EBIT and EPS is prior to restructuring costs

### REMUNERATION TABLES

**Table 1: Emoluments of the Directors of GWA International Limited**

	Directors' Fees	Incentives	Other Benefits	Superannuation	Termination Payments	Total	Proportion Emoluments Performance Related
	\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Directors</b>							
B Thornton	177,873	-	250	102,693	-	280,816	-
J J Kennedy	144,024	-	250	-	-	144,274	-
D R Barry	90,948	-	250	8,185	-	99,383	-
R M Anderson	85,800	-	250	7,722	-	93,772	-
M D E Kriewaldt	102,960	-	250	9,266	-	112,476	-
G J McGrath	22,737	-	250	76,396	-	99,383	-
W J Bartlett	-	-	250	36,434	-	36,684	-

**Table 1: Emoluments of the Directors of GWA International Limited (Continued)**

	Salary and Leave Entitlements \$	Incentives			Other Benefits \$	Super-annuation \$	Termination Payments \$	Total \$	Proportion of Emoluments Performance Related %
		1 Year Plan \$	3 Year Plan \$						
<b>Executive Director</b>									
P Crowley	1,057,228	-	-	164,730	36,000	-	1,257,958	-	

**Table 2: Emoluments of the Five Most Highly Paid Executives of the Company and the Consolidated Entity**

	Salary and Leave Entitlements \$	Incentives			Other Benefits \$	Super-annuation \$	Termination Payments \$	Total \$	Proportion of Emoluments Performance Related %
		1 Year Plan \$	3 Year Plan \$						
<b>Executives</b>									
S Wright Group Operations Manager	417,957	-	-	54,542	123,420	-	595,919	-	
E Harrison Chief Financial Officer	365,707	-	-	87,605	105,000	-	558,312	-	
R Watkins General Manager, Rover	161,844	-	-	47,235	70,000	250,000	529,079	-	
G Oliver General Manager, Gainsborough	194,603	84,810	-	49,119	147,695	-	476,227	17.8	
L Patterson General Manager, Dux	285,269	-	-	79,903	28,163	-	393,335	-	

**Notes: Incentives and Vesting**

The incentive for Mr G Oliver of \$84,810 is based on his entitlement under the yearly Executive Incentive Scheme, and is fully vested in the 2006/07 year. None of the other executives are entitled to any incentive payments under the Executive Incentive Scheme for the 2006/07 year.

**Other Benefits**

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

**Termination Payments**

Mr R Watkins received a payment from the Company of \$250,000 on termination of employment on 14 February 2007.

**DIRECTORS' MEETING**

The number of meetings of directors (including meetings of Committees of directors) held during the financial year ended 30 June 2007 and the number of meetings attended by each director are outlined in the table on page 37.

Director	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
B Thornton	11	11	3	3			3	3
J J Kennedy	10	11	3	3			3	3
P C Crowley <sup>(2)</sup>	11	11						
D R Barry	11	11			2	2		
R M Anderson	11	11						
M D E Kriewaldt	11	11	3	3	2	2	3	3
G J McGrath	9	11			2	2		
W J Bartlett <sup>(1)</sup>	3	3	1	1				

**Notes:** A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year

<sup>(1)</sup> W J Bartlett was appointed Non-Executive Director on 21 February 2007

<sup>(2)</sup> P C Crowley attends Committee meetings by invitation of the Board

As at the date of this report, the Company had an Audit Committee, a Remuneration Committee and a Nomination Committee of the Board of Directors. The charter for each Committee outlines its role and responsibilities, a summary of which is provided in the Corporate Governance Statement on page 20 of the Annual Report.

The members of the Audit Committee are:

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

Mr W J Bartlett was appointed a member of the Audit Committee on 21 February 2007.

### NON-AUDIT SERVICES

Details of the non-audit services provided by the Company's External Auditor, KPMG, during the financial year ended 30 June 2007 are outlined in Note 6 of the Financial Statements. Based on advice from the Company's Audit Committee, the directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

### LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out below and forms part of the Directors' Report for the financial year ended 30 June 2007.

### ROUNDING

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

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

The members of the Remuneration Committee are:

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

During the year, the Chairman of the Remuneration Committee was rotated and Mr Geoff McGrath was appointed the new Chairman, in replace of Mr Martin Kriewaldt who remains a member of the Committee.

The members of the Nomination Committee are:

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

Details of the Committee members qualifications and experience are located on page 18 of the Annual Report.

Signed in accordance with a resolution of the Directors.



**B Thornton**  
Chairman  
Brisbane, 21 August 2007



**P C Crowley**  
Managing Director

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

To the Directors of GWA International Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

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



KPMG  
21 August 2007




Mark Epper  
Partner