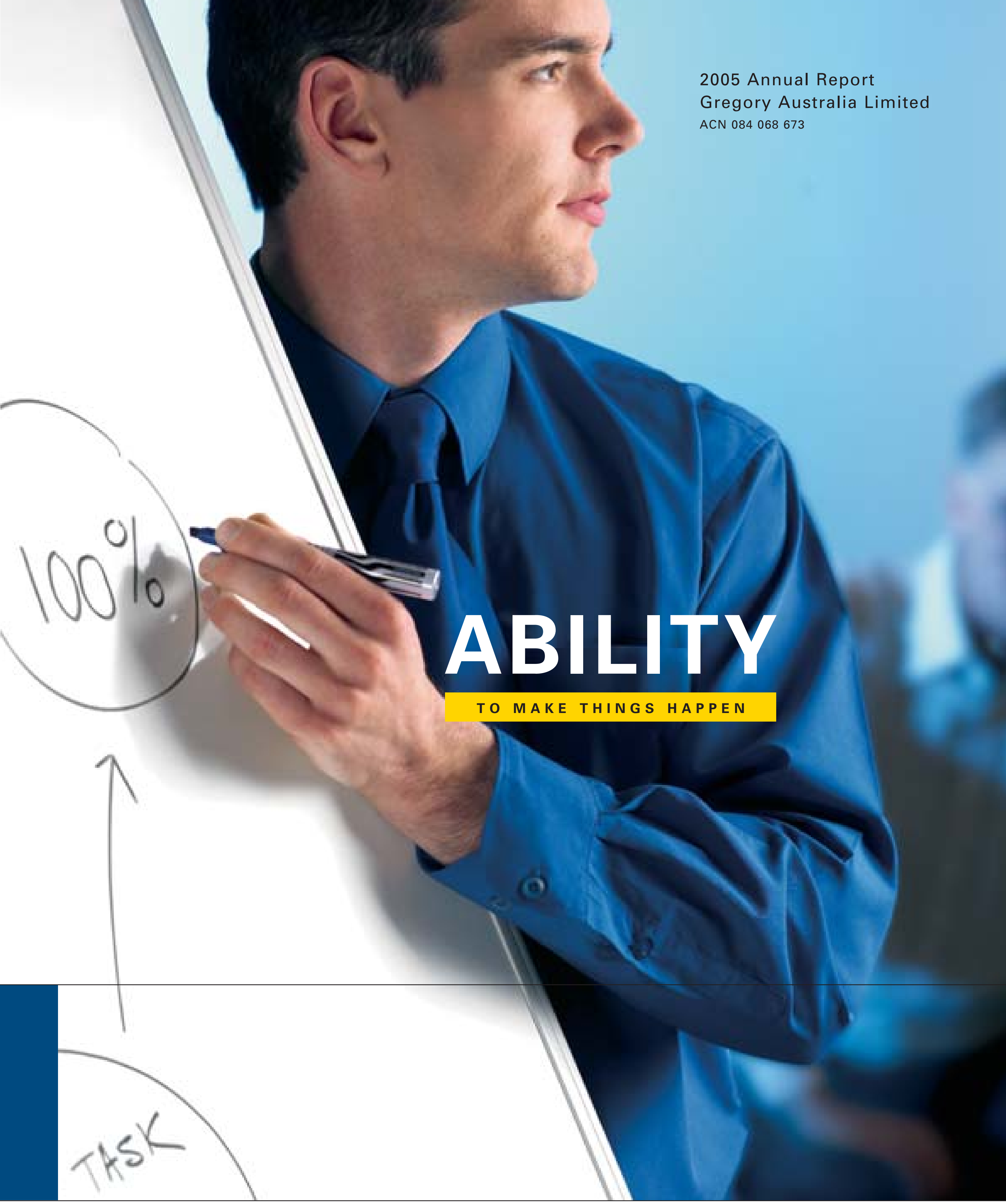
2005 Annual Report
Gregory Australia Limited
ACN 084 068 673



ABILITY

TO MAKE THINGS HAPPEN

GREGORY
ergonomic to the core

THINK
ACT
CHANGE

Vision

This is the era of 'kaizen'.

Kaizen is a powerful business philosophy we've learned from the Japanese.

It's all about continuous improvement. It comes from the Japanese words 'kai' meaning school and 'zen' meaning wisdom. Some, however, translate 'kai' to mean change and 'zen' to mean good, or for the better.

This key to the Japanese way of thinking has translated into success for many businesses around the world.

The kaizen system may be applied to almost any workplace in a short period of time. It is effective. It is empowering. It is about never resting on your laurels. And never being satisfied.

It is a philosophy which will help take Gregory Australia to the next level in growth and achievement.

The best advice gives us perspective. It bridges the gap between information and insight. Above all, it supports sound judgement.

VISION

SUCCESS BEGINS HERE

Dear Shareholders

Following the changes in the senior positions in the Company last financial year a process of review of the Company was commenced by our new CEO, John Scutt. This review included all the financial, operational and strategic directions of the Company. As often, when a new CEO comes to the helm of an organisation there is considerable re-evaluation as new eyes look at the practices of the Company and this instance was no different leading to the inevitable changes that occurred in the last financial year.

Our company has seen considerable change as the operations were re-organised to deliver sustainable long-term profitability. The impact of this change has resulted in $2.7 million in write-offs of assets considered by directors as having no value and the costs associated with reorganisation of the Company and management team.

In the circumstances I believe that John Scutt and his management team have done a credible job to contain the result for the past financial year to $1.7m loss, compared to last year's profit of $0.5m. The good news is that the last quarter of the financial year saw the trading performance of the Company return to profit as many of the initiatives introduced began to deliver results.

Directors

During the past financial year we were pleased to announce the appointment of John Scutt to the Board as an Executive Director; this appointment is in addition to his role as Chief Executive Officer. John was appointed to fill a casual vacancy on the Board and being eligible, he will stand for re-election at the forthcoming Annual General Meeting. Peter Gregory also retires by rotation and being eligible will also offer himself for re-election.

During the year the Directors considered that it was necessary to replenish the cash reserves of the Company and made a placement of shares through THN Pty Limited equalling 15% of the then issued capital of the Company. Mr Tony Noun and interests associated with him subscribed to a significant proportion of these shares. Subsequently, Mr Tony Noun has been appointed as a director of the Company.

A biography of Tony Noun's qualifications and achievements which outline a highly successful business career in finance, manufacturing and the provision of financial services may be seen on page 50. Tony has exceptional contacts in the healthcare sector, an area that is of serious interest to the Company.

The expansion of the Board which I signalled at the last Annual General Meeting will provide a mix of executive and non-executive members and will result in the Board having the competencies and experience for effective management.

Expansion and Fund Raising

The Company has announced that it has signed a major distribution agreement with Boss Design Limited, the United Kingdom's largest seating manufacturer. Boss Design has an established reputation for manufacturing original designed seating solutions of impeccable quality. This initiative will be reviewed in more detail in the CEO's review.

In order to fund initiatives such as these it is important to ensure the Company maintains an adequate level of working capital. The Directors will therefore be recommending for consideration by shareholders a resolution for the specific purpose of raising capital to be used to boost the working capital of the Company.

Dividend

Given the results for the year and the fact that the Directors made a placement during the year to top up the financial reserves of the Company, the Directors do not believe it prudent to recommend a dividend be paid in this current year.

Employee Share Option Scheme

The Directors will also be recommending for consideration by the shareholders the introduction of an Employee Share Option Plan. The Directors believe this sort of incentive is necessary to attract and retain top class executive talent which will be the key to the successful growth of the Company. This past financial year was a very challenging one however I believe that we have now excised the difficulties of the past and created a platform that will give the Company the best opportunity to grow profitably. We now have in place a solid, dedicated and energetic staff, management and Board, all of whom I thank for their efforts in the past year.

Richard Sealy
Chairman

We aim to perform reliably and responsibly on behalf of all our shareholders.


SUCCESS
THROUGH EFFORT.GROWTH.ACHIEVEMENT

For Gregory stakeholders there are a number of exciting developments on the horizon following the 2005 re-organisation of the Company. We are commencing the 2006 year in great shape with:

- a management team capable of building sustainable profitability for our shareholders; and
- a commitment to our 'kaizen 2005' programme designed to continuously improve our levels of productivity and customer service.

For the first time since the acquisition of Pluto Commercial Furniture in 2002 we now have our 'one company, one culture' completely in place with no further significant restructuring expenditure requirements for 2006.

Sales have increased from $14.8m to $15.4m.

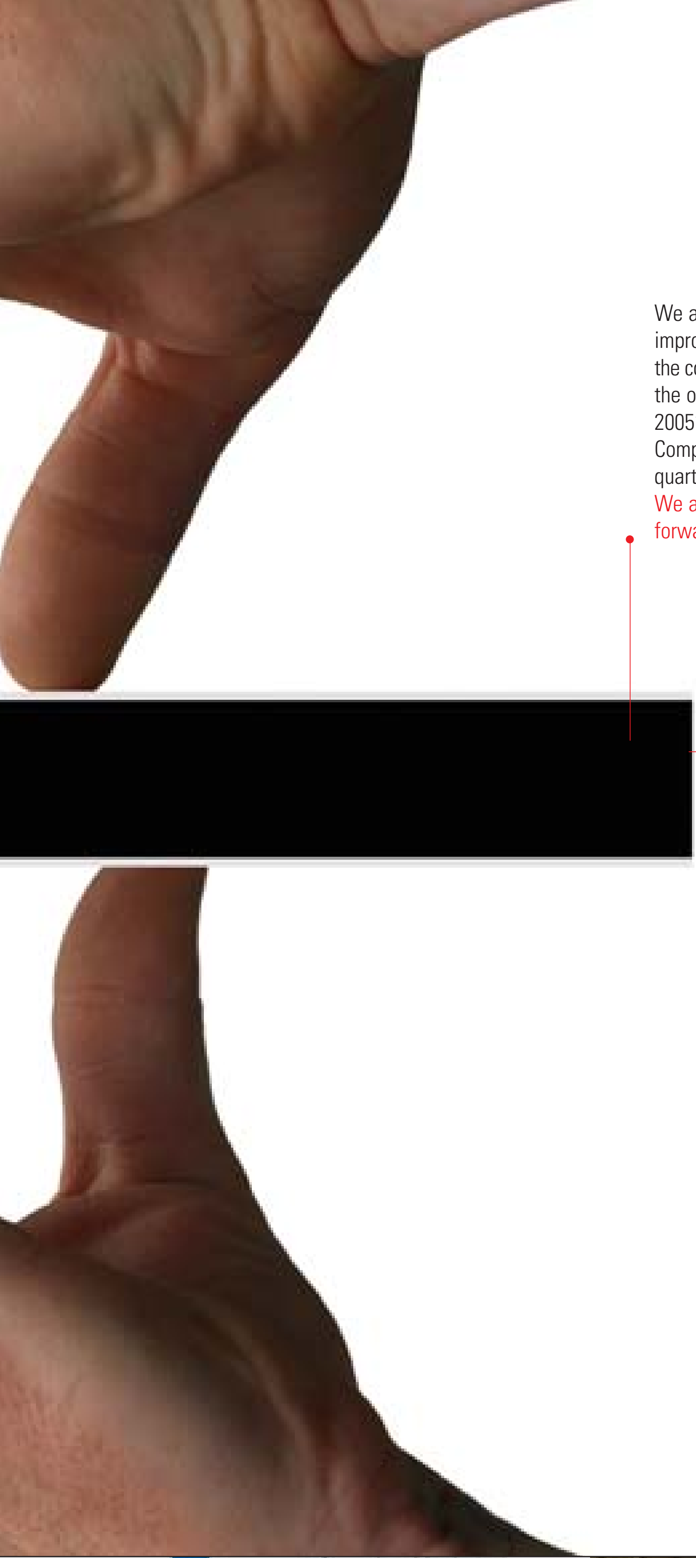
TRANSFORM

RESTRUCTURING FOR HIGHER ADDED VALUE

We have had a number of changes in personnel in 2005 that together with new initiatives outlined in this report will help us achieve further profitability improvements in 2006.

Whilst sales have increased the real message is in the substantial reduction in staff to achieve these sales and the associated reduction in the Company's cost structure. As your Chief Executive Officer it is important to acknowledge that the reorganisation has come at a price in terms of restructuring expenditure. We have been keeping the market appraised of these impacts on the 2005 performance by identifying the $2.7m 'one-off' costs incurred. The result is a Net Loss After Tax of $1.7m compared to a Net Profit After Tax of $0.5m in 2004.

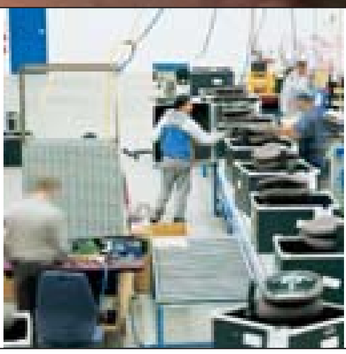
Creating a streamlined and efficient operation through structural reform.

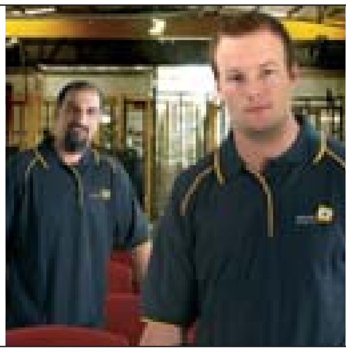


We anticipate further productivity improvements will be achieved in the coming year when we experience the ongoing benefits of the 'kaizen 2005' programme that has seen the Company move to a profitable last quarter 2005 trading performance. We are confident we can look forward to even more in 2006.

The strategic business objectives for the coming year will be to:

- Broaden the branding of Gregory, not only as the leader in ergonomic office solutions but to become the leading commercial office furniture brand in the Australian and New Zealand market place;
- Increase the scale of the Company's operation with a $5.0m target increase in sales over 2005 levels with organic growth from our direct and distributor sales channels involving a targeted Marketing Plan designed to increase the Company's profile in each major market;
- Achieve the 2006 targets for production line capacity of 350 units per day from our operations through the 'kaizen 2005' continuous improvement programme designed to enhance our standard of customer service and product quality;
- Expand the procurement skill base in the Company by reviewing all existing Australian based supplier contracts and developing international supplier partnerships who can deliver higher quality and lower cost prices;
- Identify business opportunities to acquire customers and/or brands through partner programs in the commercial furniture industry; and
- Improve profitability and return on funds employed.





Factory Operations – Production Capacity and Environment

We have been progressively introducing world's best practice assembly processes to our factories in 2005 and this has resulted in improved productivity and production capacity.

The decision was taken in late 2004 to outsource over 90% of our metal components in the Gregory, Pluto and Atlas ranges. This was designed to increase the unit capacity for assembly at both our Wetherill Park and Bayswater factories. During the period of change it took several months to iron out the new component supplier relationships, but as a consequence we are now much more responsive to market demand for our faster selling product ranges with significant increased daily unit capacity.

In conjunction with this change, we have upgraded our Bill of Material costing standards through the Company's information systems and now have the ability to not only measure profitability of product ranges but able to respond to competitor pricing practices more effectively.

The environmental standard associated with ISO 14000 compliance has led to a commitment at an operational level to extend our environmental policy that aims to achieve 100% recyclable products. We have been progressively moving from solvent based gluing to water based gluing in our factories. As a further initiative in 2006 to meet world's best practice we are investigating new processes for our seating ranges that will not require any glue in the assembly procedures.

Our inventory management and cost controls have already delivered significant cost savings in 2005. The 'kaizen 2005' programme will target an upgrading in the quality of purchasing programmes and the adoption of a continuous improvement policy for component sourcing. We will also target our freight and distribution contracts to ensure optimal pricing and distribution practices are met.

Product Ranges - Ergonomic, Value, Health and Aged Care

Gregory is 'ergonomic to the core' and aims to be the leader in innovative and high quality commercial furniture solutions for the corporate, government and healthcare sectors.

The management team has spent considerable time in 2005 realigning the product mix in the Gregory, Pluto and Atlas product ranges, setting agreed sales strategies and defining market sectors for each range.

We will be upgrading our line of Gregory chairs in 2006 to reinforce the Gregory brand's position of leadership in ergonomic design in Australia.

We will also continue to develop our Atlas Health and Aged Care products, catering to the hospital and aged care markets. This range has great potential to further accelerate our sales growth in 2006.

Boss Design

We have secured the exclusive rights for the Boss Design product range (including the Sona Chair exhibited at Orgatec 2004) for the Australian and New Zealand markets.

This is an important partnership for Gregory as we look to establish our credentials with the architect and designer community through innovative and exciting seating designs that compliment our existing strengths in ergonomics. Boss Design has strong credibility in the European market where it is one of only a few seating companies that is sold through Harrods. Boss Design has the distinction of providing the seating for this year's G8 Summit Meeting at Perthshire in Scotland.

Sales – Customer Service

We have a highly energetic sales team with a desire to exceed our customer's expectations. To maximise sales opportunities we have created a seamless Australia and New Zealand sales approach with the appointment of an experienced National Sales Manager as well as strengthening our sales force in the government, architect and designer market sectors.

Specific territories have been allocated in each of the major market segments including distributors, architect and designer, health and aged care, government and Top 500 corporations.

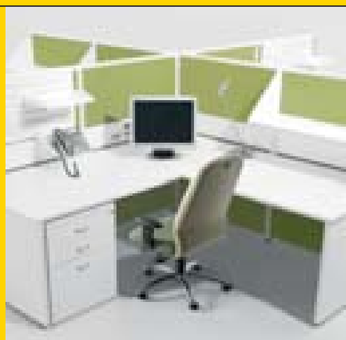
Our sales channel policy is designed to be supportive of both distribution partners and direct sales. In 2005 we have demonstrated that it is possible to avoid conflicts between channels which adversely affect sales. We see the maintenance of strong relationships with our distributors as being vital to the scalability of our business model in 2006.

Marketing – Brand Awareness

Our branding initiatives in 2005 have dramatically changed our profile. The Company changed its name to Gregory Australia to highlight the fact that we are a truly national organisation with great customer service experiences.

To achieve this, we have developed new competencies within the organisation. Specialised staff have been recruited to respond to government tenders. We have enhanced telemarketing programmes to major corporations with increased awareness of future opportunities. We continue to improve community liaison and the introduction of OH&S training services for our

Intensifying our focus on strategic businesses and becoming number one.



RESPONSIVE

CREATING CONTINUING BRAND LEADERSHIP

GREGORY
ergonomic to the core

GREGORY
style and value

GREGORY
health and aged care

boss design

Marketing – Brand Awareness (cont.)

customers and distributors designed to reinforce the importance of ergonomics and our leadership in the field.

Our 'kaizen 2005' programme will see further marketing initiatives for 2006. Gregory will be introducing specific marketing initiatives designed to increase brand awareness in each of the key market sectors being targeted by our sales team.

Marketing initiatives will include:

- Ongoing promotion of our national telephone solution with 13 ERGO where the cost of communicating with Gregory is the same in Broome and Brisbane;
- Improved product search facilities and new marketing programmes through the new website www.gregoryaustralia.com.au launched in 2005;
- Implementation of the Goldmine CRM solution operated by our newly appointed Telesales Officer who will manage the CRM database and track selected inbound telephone/ website requests as well as undertake an expanded telesales programme;
- Promotion of the High Achievers Rewards Sales Promotion to our major distributors;
- Meeting and explaining the Gregory product ranges to the architect and designer sector around Australia;
- Promoting the profile of the Atlas product range in health and aged care sector; and
- Engage a professional market research firm to conduct analysis of each market sector with a view to improving targeted marketing programmes in 2006.

We also plan increased public relations profiling for Gregory and are pleased to advise that we are planning to become a sponsor of the Australian Youth Orchestra in 2006. Through these initiatives we will continue to enhance our presence in the market and increase our participation in a range of corporate events including ergonomic breakfasts, OH&S workshops and participation in office design and furniture exhibitions around Australia.

Corporate Resources – Performance Measurement

Whilst the consolidation of the Company's administration and information systems resulted in our incurring significant costs in 2005, we have produced a single information database for managing the business. With the appointment of an experienced Chief Financial Officer in 2005 we anticipate the full benefits of the new performance measures will be experienced when all reporting and staff appraisals will be aligned to the new procedures in the new financial year.

As the Company and staffing levels grow, we have also identified the need to strengthen our human resources capabilities designed to improve our communication of staff performance measures. Our aim is for Gregory to be the employer of choice for all of our staff.

International Sales – Asia Pacific

In the coming year we will continue to look beyond Australian shores for sources of business and profits. In particular, we will continue to investigate options to have our best selling products sold under licence in to the Asia Pacific markets. Our Boss Design partner is committed to working with Gregory to expand beyond Australia and New Zealand.

Mergers and Acquisitions – Synergy

The improvements to the operations of Gregory outlined in this report are being made with strong organic growth in mind. Nevertheless, we will seek out new acquisition opportunities that have synergy and potential to grow the Company through further acquisitions in the coming year.

Improved Teamwork

It would be remiss of me not to conclude with a personal note of thanks to everyone at Gregory for the support I have received over the past year. The improved teamwork and great enthusiasm for, and belief in, the quality of the furniture we produce has proven that by working together we can achieve even greater things in the future. I will leave you with a consistent message that I talked about last year. We have every reason to 'think positive' about our future as we move ahead with our 'kaizen 2005' continuous improvement programme into 2006.

John Scutt
Chief Executive Officer

There is no place for irrelevance at Gregory Australia. The result - a dramatically changed company profile.

PREVAIL

NEVER BEING SATISFIED

Broadening the Appeal of the Products We Make

In the last year Gregory Australia has carefully considered the mix of products we offer. Our way forward is based on the view that while 'ergonomic to the core' remains the rational reason for selecting our products over competitors, we can never afford to slip behind in terms of visual appeal.

Further, we have differentiated out product ranges. While each brand will be marketed under the Gregory umbrella, each has a role to play in our approach to all of the key market sectors we have identified as part of our business model.

Gregory – the Ergonomic Brand

Headed by the patented Dual Density Posture Support seating range and complemented by intelligently designed tables and workstations. In 2005 we introduced several new products including the Apollo chair, designed by physiotherapist David Kneeshaw, which features the new Multi-Directional Postural Management™ and KIT, a modular workstation system in response to the demand for quick delivery times at an affordable price.

Pluto – the Affordable Brand

The Pluto range of style and value-based designs for the corporate, office, education, hospitality and entertainment sectors includes chairs, tables, stackable models and lounges. This year the Concord task chair has been upgraded to incorporate the new ergonomically advanced Dual Density Column Technology™ and was recently accepted for inclusion in NSW State Government Contract 004/300 chairs.

Atlas – the Health Brand

This segment has highly specialised requirements and our innovative range of Atlas products benefits both patients and staff. We introduced the Transport Chair and have secured the rights to manufacture and distribute the Sitsafe Table. Designed by physiotherapist, Dale Bachelor, this table was recently showcased on ABC's New Inventors Television Progaramme.

Boss Design – the Architects' Brand

The Boss Design name is synonymous with style and quality for a variety of products.

In June 2005, Gregory Australia was able to secure exclusive rights to the Boss Design seating range for Australia and New Zealand.

This means we will be able to market an exciting range of award winning designs which should allow us to make far greater inroads into the architectural and interior designer market sectors than before.

Identifying Key Markets

We have reaffirmed our strategy of aggressively promoting the Gregory brand into our key markets. Here, too, the kaizen approach is working to our advantage. We continue to focus our marketing strategies on five major market sectors:

- Distributors
- 'Top 500' Companies
- Government
- Health and Aged Care
- Architects and Designers

Design has become a force of immense strategic and economic importance that has profoundly affected our business culture.

DESIRE

INNOVATIVE SOLUTIONS

TODAY
TOMORROW

Our Chairs are Always Green Beneath the Surface

The impact we make on people's working environment is one thing. Our aim is always to make the maximum impact through ergonomic advances and overall quality.

We are working towards our ISO 14000 Certification and are conscious of the impact we are making. Here we aim to make as little impact as possible on the wider environment throughout each product's entire life cycle. Not just because it's expected of us; because it's the right thing to do.

Sustainability starts at the design stage. Re-use, reconfiguration and recycling are always top of mind.

Industry Leadership

When it comes to specifying raw materials, we have diligently applied the principals of kaizen. We have moved to water based glues and are working on an upholstery process which completely eliminates the need for glues.

We are also proud of achievements in recycling. Our plastic chair bases contain up to 40% recycled material and old bases are reground and recycled. All steel and aluminium components are 100% recycled via commercial recycling outlets. We even encourage our customers to recycle obsolete furniture and can arrange a recycling service for them.

Zero emission is another objective at Gregory. All foam products used are manufactured CFC free. Powder coatings used are E=0. In other words, zero emission with no volatile organic compounds released into the atmosphere.

A Natural Choice

For upholstered products, we prefer to use wool or naturally tanned (non-chrome) leather. That way, old upholstery can be composted. For similar reasons, timber is sourced from commercial, sustainably managed forests. Down the track, old frames or shells can be chipped or mulched.

We have two long-term aims: to minimise environmental impact during the manufacturing process, and create a product that virtually 'disappears' at the end of its useful life.

That's what making green products is all about.

A Green Approach to Management

Gregory Australia is not just committed to a greener approach to products and production. A greener approach to management demands that we conserve water, energy and paper throughout our operations. We actively seek opportunities in recycling and waste management.

*It takes action that's useful,
not just new.*

ERGO-ECO LOGICAL™

ERGONOMIC AND 'GREEN' IMPROVEMENTS TO BE ENVIED

Corporate Governance Statement

The Directors of Gregory Australia Limited are committed to achieving the highest standard of corporate governance. Except where specified in this statement, the Company has adopted the ASX Corporate Governance Council's **'Principles of Good Corporate Governance and Best Practice Recommendations'.**

Composition and Role of the Board of Directors

The Board is responsible for ensuring corporate governance standards and practices are maintained, providing guidance and direction to executive management and to set the overall strategic direction of the Company.

The Board may comprise from three to ten directors in accordance with the Company's constitution and currently consists of five Non-executive Directors and one Executive Director and of these, three are independent directors.

An independent director is a director who:

- Is not a substantial shareholder;
- Has not held an executive position within the Company within the last three years;
- Has not held a position as a principal in any firm providing professional advice to the Company within the last three years;
- Has no material contractual relationship with the Company other than being a director; and
- Is free from any interest or other relationship which could be perceived to materially interfere with the director's ability to act in the best interests of the Company.

Independent directors at the date of reporting are Mr R Sealy, Mr B Hansen and Ms J Sayer. Mr Sealy is the Chairman of the Company.

The Chairman annually reviews:

- The composition of the Board to ensure that the Board has the appropriate mix of expertise and experience;
- The performance of each director; and
- The approved remuneration levels for directors' fees as set by shareholders and how it is to be divided amongst the directors, currently Non-executive Directors are paid $40,000 per annum and the Chairman is paid $50,000 per annum.

The skills, experience, expertise and term of office held of each director are included in the Corporate Directory on page 50.

The role and code of conduct of the Board and senior executives is to:

- Establish the overall internal control framework over financial reporting, quality and integrity of personnel and investment appraisal;
- Establish and maintain appropriate legal and ethical standards in dealings with business associates, advisors and regulators, competitors, employees and any other stakeholders in the Company;
- Identify areas of significant business risk and implementing corrective action as soon as practicable after a risk has been identified;
- Ensure that the Company adheres to the ASX continuous disclosure requirements and rules of compliance.

Control of the Board and committee meeting agendas is vested in the Chairman of the Board or committee, where appropriate. Prior to each meeting all available information on matters to be discussed is provided to each of the directors or committee members with advice from external advisors as required.

Directors, in carrying out their duties may, after prior consultation with the Chairman, seek independent legal and accounting advice (at the expense of the Company) concerning any aspect of the Company's operations or undertakings.

The directors must declare any conflict of interest when it arises and directors must absent themselves from any discussion pertaining to any matter in which a director has a material personal interest.

Non-executive Directors are asked to commit no less than 20 days per year preparing and attending Board and committee meetings and performing associated corporate activities. The directors meet formally at least 11 times a year and at the Chairman's request, informally to discuss specific matters that may arise between scheduled meetings.

Apart from observing legal requirements, directors inform the Board of any proposed dealing in the Company's shares and are generally required to confine any such dealing (if otherwise appropriate) to a two week window following the release of quarterly reports or significant announcements provided that the market has been fully informed of all matters that could affect the price of the securities in the Company.

Role of Shareholders

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated through the distribution of the annual report; half-yearly report; ASX reporting and calling a vote of shareholders on all proposed major changes in the Company which may impact on share ownership rights.

The Board is responsible for ensuring corporate governance standards and practices are maintained.

Richard Sealy
Chairman

John Scutt
Chief Executive Officer

GOVERNANCE

GOOD CORPORATE GOVERNANCE AND BEST PRACTICE

Peter G Gregory
Non-executive Director

Bruce Hansen
Non-executive Director

Janet C Sayer
Non-executive Director

Tony Noun
Non-executive Director

In addition this Corporate Governance Statement and the annual report are posted on the Company's website www.gregoryaustralia.com.au

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals.

Audit Committee

The Board has formally approved the constitution of an Audit Committee comprising all the directors and Mr G Lewis, the Company Secretary. Because of the composition of the Board, the Audit Committee has a majority of independent Directors.

The charter of the Audit Committee is to provide the link between the external auditors and the Board and carry out the following:

- Nominate the external auditors and review the adequacy of the scope and external audit arrangements;
- Review the accounting policies, practices and disclosure;
- Review the accuracy, timeliness and level of disclosure of the Company's published accounts; and
- Review compliance with the requirements of regulatory authorities.

The primary reporting line for the Company's external auditors is to the Chairman of the Audit Committee and currently this committee is chaired by Mr R Sealy. The Audit Committee met in February and August 2005 and all the then members of the Audit Committee attended the meetings.

The Board considers that at this stage of the Company's development it would not be cost effective to have a policy of rotating the auditors of the Company as the appointment of new auditors entails considerable cost and expense while new auditors familiarise themselves with the activities of the Company.

International Financial Reporting Standards Committee

The Board has established a committee to monitor the implementation of the Company's transition to IFRS reporting. The committee consists of Mr R Sealy, Ms J Sayer and Mr G Lewis who chairs the committee.

Nominations and Remunerations Committee

The Board has formally approved the constitution of a Nominations and Remuneration Committee comprising Mr B Hansen and Ms J Sayer, both independent directors. The committee is chaired by Ms J Sayer.

The charter of the Nominations and Remuneration Committee is to:

- Set policies for senior officers' remuneration;
- Set policies for directors' remuneration;
- Make recommendations to the Board on remuneration for senior officers and directors;
- Set terms and conditions of employment of the CEO; and
- Undertake the detailed review of the CEO's performance at least annually and set the KPI's for the coming year.

Remuneration Practices

The Company's policy for determining the nature and amount of emoluments of directors, executive officers and senior executives of the Company is as follows:

- The remuneration is based on a number of factors, including particular experience and performance of the individual concerned and the overall performance of the Company; and
- Contracts for service between the Company and the executive officers of the Company and senior executives are on a continuing basis, the terms of which are reviewed regularly by the Board.

The Company seeks to emphasis payments for results through providing various cash bonus reward schemes, especially, the incorporation of incentive payments based on the achievements of agreed Key Performance Indicators. The objective of the reward schemes is to both reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders.

Business Risk Management

The identification and management of risk inherent to the operation of the Company is managed by the CEO on a day to day basis. Where necessary the CEO will advise the Chairman of the Board, or will, through the forum of regular board meetings bring matters before the Board collectively who will review, evaluate and deal with any matters arising, in a manner that serves the best interest of the Company, its shareholders and stakeholders.

Executive Verifications

Mr John Scutt (CEO) and Mr G Lewis (CFO) have stated in writing to the Board that:

- The Company's financial reports present a true and fair view, in all material respects of the Company's financial condition, and operational results are in accordance with relevant accounting standards;
- The statement given above is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and controls system is operating efficiently and effectively in all material respects.

The Board is responsible for ensuring corporate governance standards and practices are maintained.

FINANCIAL STATEMENTS

Financial Statements for the year ended 30 June 2005
Gregory Australia Limited ACN 084 068 673

Directors' Report
for the year ended 30 June 2005

The Directors submit the financial statements of the Company for the year ended 30 June 2005.

DIRECTORS

The names of the Directors of the Company in office during the financial year and until the date of this report are:

Richard Sealy	Bruce Hansen
Peter Gregory	Janet Sayer
John Scutt (Appointed 31/03/05)	Tony Noun (Appointed 31/08/05)

All Directors were in office from the beginning of the financial year until the date of this report, unless otherwise stated.

COMPANY SECRETARY

The following persons held the position of Company Secretary at the end of the financial year.

Mr K. Pitt	1 July 2004 to 24 March 2005
Mr N. Barnitt	24 March 2005 to 12 April 2005
Mr G. Lewis	12 April 2005 to 30 June 2005

Mr Greg Lewis – Fellow NIA. Mr Lewis has over the last 20 years held positions of Financial Controller and Finance Director of a number of private companies in Australia. Mr Lewis has worked for Gregory Australia Limited since April 2005 as Chief Financial Officer and was appointed Company Secretary on 12 April 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the financial year was the marketing and manufacture of commercial furniture. No significant change in the nature of these activities occurred during the year.

REVIEW OF OPERATIONS

The results for the Company after providing for income tax for the financial year amounted to a loss of $1,724,491 (2004: profit $457,122). There was continuing strong market acceptance of the Company's ergonomic office products. One-off costs associated with the integration of the Pluto business and reorganisation of the Bayswater facility have impacted the financial result for the year ended 30 June 2005. The Directors have decided that at the same time as carrying out significant reorganisation of the Company it was appropriate to write off an amount of $1.169m in intangible assets relating to overseas prepaid royalties that had diminished in realisable value.

A comprehensive review of operations is contained in the Chairman and Chief Executive Officer's Reports.

SIGNIFICANT EVENTS AFTER BALANCE DATE

No matters or circumstances have arisen since the end of financial year, which have significantly affected or may significantly affect, the operations, results of operations or the state of affairs of the Company in subsequent financial years.

On 30 June 2005, the Company was advised that the 200,000 options expiring on 1 July 2005 with an exercise price of $0.18 would be exercised, and the funds were received and included in 30 June 2005 cash and payables balances.

LIKELY DEVELOPMENT AND EXPECTED RESULTS

Likely developments in the operations of the Company and the expected results of those operations have not been included in this report as the Directors believe, on reasonable grounds, that the inclusion of such information would likely result in unreasonable prejudice to the Company.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company was not materially affected by any particular and significant environmental regulations of the Commonwealth or a State or Territory during the financial year.

DIVIDENDS

The Board has recommended that no dividends be paid.

INFORMATION ON DIRECTORS

Director	Experience and special responsibilities
Richard Sealy	Chairman and Non-executive Director Mr Sealy has over the last 25 years held positions as Financial Director, Managing Director or Chairman of a number of public and private companies in Australia, New Zealand and the United Kingdom. Mr Sealy brings to Gregory Australia Limited experience in developing and growing companies by applying good business practices and motivating people so that the companies become successful and profitable. He has an in depth knowledge in the corporate and legal structuring of entities when embarking on fund raising and acquisition activities and has been instrumental in numerous public and private debt and/or equity issues and mergers and acquisitions. Directorships held in other listed entities – nil.
Peter Gregory	Non-executive Director Mr Gregory, a qualified physiotherapist and original founder of Gregory Australia, has valuable experience and expertise gained over many years in the Company's core business of designing, manufacturing and distributing commercial furniture and in particular our well known range of ergonomic chairs. Directorships held in other listed entities – nil.
Bruce Hansen	Non-executive Director Mr Hansen has had a long association with both the Company and its products. Bruce has over twenty five years experience in engineering, manufacturing and project managing of products used for the military environments. Currently managing a number of projects for a multinational organisation, Bruce has worked for companies such as BAE Systems, GEC Marconi Australia, and Plessey Australia, and Amalgamated Wireless Australia (AWA). Directorships held in other listed entities – nil.
Janet Sayer	Non-executive Director Ms Sayer has a strong background and understanding of integrated business strategies and has held a number of senior positions including Managing Director of Telstra Payphone and Card Services; Managing Director of GTECH Australasia Corporation; she has held senior executive and board positions within the hotel and travel industries. Her experience in marketing and contacts made over a number of years at high levels within industry is undoubtedly of benefit to Gregory Australia. Directorships held in other listed entities – nil.
John Scutt	Chief Executive Officer - Executive Director John Scutt joined Gregory Australia Limited in May 2004 and has over 30 years of strong business building skills with particular emphasis on sales and finance. Over the past 8 years John has gained extensive retail and government experience in CEO roles and has developed and grown companies through mergers and acquisitions. Prior to joining Gregory Australia John has worked for large Australian and multinational organisations including Austen & Butta Limited, Young & Rubicam Australia Pty Ltd, DFS Australia Pty Ltd, Allders International Pty Ltd, TVSN Limited, Ezishop.net Limited (own company) and CiTR Pty Ltd. Directorships held in other listed entities – nil.
Tony Noun	Non-executive Director - Appointed 31 August 2005 Tony has more than 20 years professional and commercial experience with a proven track record of success in managing start-up operations as well as small, medium and large national and international companies. Currently, he is the Managing Director for a large and substantive group of companies which include THN Pty Limited, a specialist management consultancy practice and Investment Nominees of Australia Pty Limited, an approved trustee of the Australian Prudential Regulation Authority. Both companies are Australian Financial Services Licence holders. Tony's commercial experience, from both an investor and management perspective, spans a diverse range of industries including financial services, healthcare, hospitality, manufacturing as well as sales and marketing. He is presently an active director for a number of national and international companies that cover a broad range of industries and professional disciplines and brings to the Board extensive financial and corporate experience. Directorships held in other listed entities – nil

Interests in the shares and options of the Company:

As at the date of this report the interests of the Directors in the shares and options of the Company were:

Director	Entity/Related Party	Shares	Options
Peter Gregory	Bungan Nominees Pty Limited	4,300,000	-
Bruce Hansen	BC Hansen	5,000	-
Bruce Hansen	Mrs B Hansen	17,863	-
John Scutt	The Lindfield Partners Pty Limited	296,000	-
Richard Sealy	Hammersmith Holdings Limited	518,150	-
Richard Sealy	RM & P Sealy Superannuation Fund	20,000	-
Richard Sealy	PNE Industries Pty Limited	500,000	-
Richard Sealy	E.A Karsten and P.R Speakman - Rarangi Trust	50,000	50,000
Richard Sealy	E.A Karsten and P.R Speakman - Sealy Education Trust	50,000	50,000
Tony Noun	PNE Industries Pty Limited	500,000	-
Tony Noun	Mrs D Noun	500,000	-
Tony Noun	REN Nominees Pty Limited	400,000	-
Tony Noun	Innovative Management Pty Limited	100,000	-

Share Options – Unissued shares

As at 30 June 2005, there were 400,000 unissued ordinary shares under options as follows:

- 200,000 options at an exercise price of $0.18 expiring on 1 July 2005
- 200,000 options at an exercise price of $0.18 expiring on 31 August 2006

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

On 30 June 2005, the Company was advised that the 200,000 options expiring on 1 July 2005 with an exercise price of $0.18 would be exercised, and the funds were received and included in 30 June 2005 cash and payables balances.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of the Company and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering incentives based on key performance areas affecting the Company's financial results. The Board of the Company believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Company is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Remuneration Committee and approved by the Board. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives. The Remuneration Committee reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Company's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives and bonuses and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Remuneration Policy (cont.)

The Directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed.

The Board policy is to remunerate Non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-executive Directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Performance Based Remuneration

As part of each executive director's and each executives' remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with directors/ executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for company expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Company and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Company's goals and shareholder wealth, before the KPIs are set for the following year.

EMPLOYMENT CONTRACTS OF DIRECTORS AND SENIOR EXECUTIVES

The employment conditions of the Chief Executive Officer, Mr Scutt and specified executives are formalised in contracts of employment. All executives are permanent employees of the Company.

The employment contracts stipulate a range of one to three-month resignation periods. The Company may terminate an employment contract without cause by providing 1 months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

MEETINGS OF DIRECTORS

Director	Number Eligible to Attend	Number Attended
Richard Sealy	12	12
Peter Gregory	12	12
Bruce Hansen	12	12
Janet Sayer	12	12
John Scutt	3	3

The Company has an Audit Committee. The Audit Committee met as part of the Board meetings in February and August 2005.

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

Disclosure relating to directors' and executive officers' emoluments has also been included in Note 5 of the financial report.

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

The Company has not, during or since the financial year-end, in respect of any person who is or has been an officer or an auditor of the Company or a related body:

- indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings, with the exception of the following matters:

DIRECTORS' AND AUDITOR'S INDEMNIFICATION (CONT.)

During or since the end of the financial year, the Company has paid premiums on behalf of each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director, other than conduct involving a wilful breach of duty in relation to the Company. Disclosure of the nature of the insurance cover and the amount of premium involved is prohibited by the contract itself.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit committee is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement; and
- the nature of their services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid to the auditors during the year.

Accounting and tax advice regarding prepaid royalties: $3,029

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Gregory Australia Limited support and have adhered to the principals of corporate governance. The Company's Corporate Governance Statement is contained in the Corporate Governance section of this annual report.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on the page following the Directors' Report.

Signed in accordance with a resolution of the Board of Directors.

Richard Sealy
Chairman

Peter Gregory
Director

Sydney NSW

30 September 2005

BDO

Chartered Accountants
& Advisers

Level 19, 2 Market Street Sydney NSW 2000
GPO Box 2551 Sydney NSW 2001
Tel. +61 2 9286 5555 Fax +61 2 9286 5599
Email: bdosyd@bdosyd.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Gregory Australia Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

BDO
Chartered Accountants

I K FERGUSSON
Partner

Dated in Sydney this 30th day of September 2005

Statement of Financial Performance
for the year ended 30 June 2005

	Note	2005	2004
		$	$
Revenue from ordinary activities	2	**15,439,863**	**15,041,168**
Cost of goods sold	3 (a)	(8,739,225)	(8,094,516)
Distribution expenses		(654,672)	(562,681)
Sales and marketing expenses		(2,117,507)	(1,649,285)
Manufacturing expenses		(1,976,113)	(1,585,546)
Administrative expenses		(4,227,338)	(2,309,265)
Borrowing cost expenses	3 (a)	(117,515)	(98,167)
(Loss)/profit from ordinary activities before income tax benefit/(expense)		**(2,392,507)**	**741,708**
Income tax benefit/(expense) relating to ordinary activities	4	668,016	(284,586)
(Loss)/profit from ordinary activities after income tax benefit/(expense)		**(1,724,491)**	**457,122**
Net (loss)/profit attributable to members of Gregory Australia Limited		**(1,724,491)**	**457,122**
Total changes in equity other than those resulting from transactions with owners as owners		**(1,724,491)**	**457,122**
Basic earnings per share	8	(13.3) cents	3.6 cents
Diluted earnings per share	8	(13.3) cents	3.6 cents

Statement of Financial Position
as at 30 June 2005

	Note	2005	2004
		$	$
Current assets			
Cash assets	9	29,911	627,993
Receivables	11	2,953,580	2,677,310
Inventories	12	1,372,525	1,442,328
Tax assets	14	46,999	-
Other assets	16	232,289	333,526
Total current assets		**4,635,304**	**5,081,157**
Non-current assets			
Plant and equipment	13	751,173	903,036
Tax assets	14	830,281	159,958
Intangible assets	15	2,011,847	2,164,669
Other assets	16	-	1,168,750
Total non-current assets		**3,593,301**	**4,396,413**
Total assets		**8,228,605**	**9,477,570**
Current liabilities			
Payables	17	2,419,944	1,938,658
Interest-bearing liabilities	18	243,152	268,912
Provisions	19	201,608	250,242
Tax liabilities	20	15,792	136,887
Total current liabilities		**2,880,496**	**2,594,699**
Non-current liabilities			
Interest-bearing liabilities	18	787,659	1,064,687
Provisions	19	64,835	76,881
Tax liabilities	20	44,667	68,956
Total non-current liabilities		**897,161**	**1,210,524**
Total liabilities		**3,777,657**	**3,805,223**
Net assets		**4,450,948**	**5,672,347**
Equity			
Contributed equity	21	4,949,170	4,320,819
(Accumulated losses)/retained profits	22	(498,222)	1,351,528
Total equity		**4,450,948**	**5,672,347**

Statement of Cash Flows
for the year ended 30 June 2005

	Note	2005	2004
		$	$
Cash flows from operating activities			
Receipts from customers		16,569,458	15,353,485
Payments to suppliers and employees		(16,881,982)	(14,649,982)
Interest received		12,676	23,558
Interest and other costs of finance paid		(117,515)	(98,167)
Income tax paid		(194,690)	(151,916)
Net cash (used in)/provided by operating activities	10 (b)	**(612,053)**	**476,978**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		51,363	29,454
Payment for plant and equipment		(237,697)	(58,758)
Net cash (used in) investing activities		**(186,334)**	**(29,304)**
Cash flows from financing activities			
Repayment of borrowings		(302,787)	(236,860)
Dividends paid		(125,259)	-
Proceeds from share issue (net of costs)		592,351	-
Proceeds from exercise of share options		36,000	-
Net cash provided by/(used in) financing activities		**200,305**	**(236,860)**
Net increase (decrease) in cash		**(598,082)**	**210,814**
Cash at the beginning of the year		627,993	417,179
Cash at the end of the year	10 (a)	**29,911**	**627,993**

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

This financial report is a general purpose financial report prepared in accordance with the requirements of Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Gregory Australia Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report. The accounting polices have been consistently applied, unless otherwise stated.

(a) Revenue

Revenue from the sale of goods is recognised upon delivery of the goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(b) Income Tax

The Company adopts the liability method of tax effect accounting whereby the income tax expense shown in the Statement of Financial Performance is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account either as a deferred tax liability or a deferred tax asset described as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefits.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by tax legislation.

(c) Foreign Currency Transactions and Balances

Foreign currency transactions during the period are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable at a balance date are converted at the rates of exchange ruling at that date. The gains or losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

(d) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken as at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the date of acquisition, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used in the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

Goodwill is accounted for in accordance with Note 1 (j). Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including the liability for any restructuring costs, exceeds the cost of the acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Any remaining discount is recognised as revenue in the Statement of Financial Performance.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (CONT.)

(e) Receivables

Trade debtors are recognised when the risks and rewards of ownership of the underlying sales transactions have passed to customers. This event usually occurs on delivery of inventories to customers. Trade debtors are recorded at nominal amounts. Credit terms are 30 days from end of month. Collectability of overdue accounts is assessed on an ongoing basis. Specific allowance is made for all doubtful accounts.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(g) Plant and Equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The cost of fixed assets manufactured by the Company includes the cost of materials, direct labor and an appropriate proportion of fixed and variable overheads.

The depreciable amount of plant and equipment including capitalised leased assets, is depreciated on a straight-line basis over their estimated useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Estimates of remaining useful life are reviewed on an annual basis. The deprecation rates used for each class of depreciable assets are:

- Plant and equipment 9 – 50%
- Leased plant and equipment 20 – 33%

(h) Leases

Leases of fixed assets where substantially the entire risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Company are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values.

Leased assets are amortised on a straight-line basis over their estimated useful life, where it is likely that the Company will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(i) Research and Development

Research and development costs are charged to profit from ordinary activities as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future economic benefits will be obtained so as to recover those deferred costs.

(j) Intangibles

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for the business exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill is amortised on a straight-line basis over a period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable is written off.

Patents

Significant costs associated with patents are deferred and amortised on a straight-line basis over the period in which their benefits are expected to be realised.

(k) Trade and Other Creditors

These amounts represent unpaid liabilities for goods received by and services provided to the Company prior to the end of the financial year. Payment terms are 30 days from end of month of purchase. The amounts are unsecured and are normally settled within 45 days.

(l) Interest-Bearing Liabilities

Loans and debentures are carried at their principal amounts. Interest is accrued over the period it becomes due and is recorded as part of other creditors and accruals.

(m) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. These benefits include wages and salaries, annual leave and long services leave. Sick leave is non-vesting and has not been provided for.

Employee benefits expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

The contributions made to superannuation funds by the Company are charged as expenses when incurred.

(n) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, deposits at call and money market investments that are readily convertible into cash.

(o) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(q) Dividends

Provision is made for amounts of dividends declared, determined or publicly recommended by the Directors on or before the end of the financial year but not distributed at balance date.

(r) Recoverable Amount of Non-Current Assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets have not been discounted to their present values.

(s) Impact of adoption of Australian Equivalents to International Financial Reporting Standards

The Company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Company's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (CONT.)

(s) Impact of adoption of Australian Equivalents to International Financial Reporting Standards (cont.)

The Company's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the Company's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The Directors are of the opinion that the key material differences in the Company's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the Company's AIFRS committee.

(i) Impairment of assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or group of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

The Company has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2004 and 30 June 2005. There is no impact to retained earnings at 30 June 2005 as a result of this change.

(ii) Goodwill

Under AASB 3: Business Combinations, goodwill is capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight-line basis over a period of 20 years.

Impairment testing as at 1 July 2004 and 30 June 2005 confirmed no impairment of the goodwill as disclosed in the Company's financial statements as at 30 June 2005. Non-amortisation of goodwill from 1 July 2004 will result in an increase in profit amounting to $130,430 for the year ended 30 June 2005.

(iii) Income Tax

A 'balance sheet' approach will be adopted under Australian equivalents to IFRSs, replacing the 'statement of financial performance' approach currently used by Australia companies. The 'balance sheet' method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005, the Directors are of the opinion that the impact on the Company's financial performance and position is immaterial.

	Note	2005	2004
		$	$
NOTE 2: REVENUE FROM ORDINARY ACTIVITIES			
Revenue from operating activities			
Sales revenue		15,368,721	14,838,715
Interest – other parties		12,676	23,588
Other		7,103	149,441
Total revenue from operating activities		**15,388,500**	**15,011,714**
Revenue from non-operating activities			
Proceeds on disposal of non-current assets		51,363	29,454
Total revenue from non-operating activities		**51,363**	**29,454**
Total revenue from ordinary activities		**15,439,863**	**15,041,168**
NOTE 3: (LOSS)/PROFIT FROM ORDINARY ACTIVITIES			
(Loss)/profit from ordinary activities before income tax has been determined after:			
(a) Charging as an expense			
Cost of goods sold		**8,739,225**	**8,094,516**
Interest paid/payable to:			
Other persons		83,610	87,050
Finance lease charges		33,905	11,117
Total borrowing costs		**117,515**	**98,167**
Depreciation of non-current assets:			
- Plant and equipment		174,164	166,859
Amortisation of non-current assets:			
- Leased plant and equipment		68,914	50,085
- Goodwill		139,430	139,432
- Royalty prepayment, patents and licenses		13,392	98,392
Total amortisation		**221,736**	**287,909**
Bad and doubtful debts:			
- Provision for doubtful debt		24,000	5,000
Total bad and doubtful debts expense		**24,000**	**5,000**
Rental expense on operating leases:			
- Minimum lease payments		500,145	605,382
Research and development costs		37,230	4,127
Net loss on disposal of non-current assets:			
- Plant and equipment		95,118	-

	Note	2005	2004
		$	$
NOTE 3: (LOSS)/PROFIT FROM ORDINARY ACTIVITIES (CONT.)			
(b) Revenue and net gains			
Net gain on disposal of non-current assets:			
- Plant and equipment		-	13,678
(c) Significant revenues			
The following significant revenue item is relevant in explaining the financial performance of the Company:			
Write back of credit balances – debtor accounts		-	118,315
(d) Significant expenses			
The following significant expenses are relevant in explaining the financial performance of the Company:			
Bayswater and senior management redundancies and reorganisation		428,683	-
Information systems upgrade		332,610	-
Write-off obsolete inventory and brochures		560,000	-
Write-off prepaid royalties		1,168,750	-
		2,490,043	-
NOTE 4: INCOME TAX			
The prima facie tax (benefit)/payable on the operating (loss)/profit is reconciled to the income tax provided for in the accounts as follows:			
Prima facie tax (benefit)/payable on operating (loss)/profit before income tax calculated @ 30%		(717,752)	222,512
Tax effect of permanent differences:			
Add:			
- Amortisation of goodwill		41,830	41,830
- Non-deductible amortisation		4,018	4,018
- Underprovision of income tax in prior year		-	16,226
- Other non-deductible expenses		3,888	-
		49,736	62,074
Income tax (benefit)/expense attributable to (loss)/profit from ordinary activities		**(668,016)**	**284,586**

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) Names and positions held of directors and specified executives in office at any time during the financial year are:

Directors

Mr R M Sealy	Chairman – Non-executive Director	
Mr P G Gregory	Non-executive Director	
Mr B C Hansen	Non-executive Director	
Ms J C Sayer	Non-executive Director	
Mr J Scutt	Chief Executive Officer – Executive Director	Appointed 31/03/05

(a) Names and positions held of directors and specified executives in office at any time during the financial year are (cont.):

Specified Executives

Mr J D Maguire	Company Secretary/Financial Controller	Ceased to be employed 31/08/04
Mr K Pitt	Company Secretary/ Commercial Manager	Ceased to be employed 24/03/05
Mr G Lewis	Company Secretary/Chief Financial Officer	Appointed 18/04/05

There were no other specified executives employed during the year.

(b) Specified Directors' Remuneration

	Mr R M Sealy		Mr P G Gregory		Ms J C Sayer		Mr B C Hansen		Mr J A Scutt		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$	$	$	$	$
Primary benefits												
Directors'fees	50,000	43,333	40,000	40,526	40,000	769	40,000	11,231	-	-	170,000	95,859
Allowances	5,000	1,404	-	-	-	-	-	-	-	-	5,000	1,404
Salary	-	-	34,102	51,712	-	-	-	-	138,463	17,213	172,565	68,925
Consulting	30,000	-	31,818	9,692	-	-	-	-	-	-	61,818	9,692
Post employment benefits												
Superannuation contribution	4,500	3,900	6,331	4,519	3,600	69	3,600	1,011	40,000	5,026	58,031	14,525
Non-cash benefits	-	-	-	-	-	-	-	-	18,109	-	18,109	-
Total	**89,500**	**48,637**	**112,251**	**106,449**	**43,600**	**838**	**43,600**	**12,242**	**196,572**	**22,239**	**485,523**	**190,405**

Included in salary for Mr P G Gregory are payments made whilst Chairman of the Product Development Committee of $34,102.

Consulting fees of $30,000 for Mr RM Sealy and $31,818 for Mr PG Gregory were paid whilst conducting management functions during Q1, 2004/2005.

Mr Scutt, was appointed Chief Executive Officer on 15/05/04 and appointed a director on 31/03/05. The salary and superannuation amounts shown for 2005 are for the period 01/07/04 to 30/06/05.

(c) Specified Executives' Remuneration

	Mr J D Maguire		Mr K Pitt		Mr G Lewis		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$
Primary benefits								
Salary	73,194	52,741	81,115	68,304	29,816	-	184,125	121,045
Allowances	-	-	-	-	-	-	-	-
Post employment benefits								
Superannuation contribution	6,137	4,747	6,222	6,222	2,683	-	15,042	10,801
Total	**79,331**	**57,488**	**87,337**	**74,358**	**32,4991**	**-**	**199,167**	**131,846**

Mr J. Scutt, appointed as Chief Executive Officer on 15/05/04, was appointed a director on 31/03/05, and remuneration benefits for the year 2005 and 2004 have been included in the Specified Directors' Remuneration.

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION (CONT.)

(d) Number of options held by Directors or their related entities

	Balance 1.7.04	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30.6.05	Total Vested & Exercisable 30.6.05
Directors						
Mr R M Sealy	200,000	-	-	-	200,000	NIL

The options owned by Mr R M Sealy were purchased and not issued as part of his remuneration.

Each option can be exercised for one ordinary share.

Each option does not carry any voting or earning right.

(e) Number of shares held by Directors and Specified Executives or their related entities

	Balance 1.7.04	Received as Remuneration	Options Converted	Net Change Other*	Balance 30.6.05
Directors					
Mr P G Gregory	4,300,000	-	-	-	4,300,000
Mr R M Sealy	1,574,448	-	-	(536,298)	1,038,150
Mr J A Scutt	250,000	-	-	46,000	296,000
Mr B Hansen	-	-	-	22,863	22,863
Specified Executives					

* Net change other refers to shares purchased or sold during the financial year

(f) Retirement of Specified Executives

Mr J D Maguire	Ceased to be employed 31/08/04
Mr K. Pitt	Resigned 24/03/05

(g) Remuneration Policy

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering incentives based on key performance areas affecting the Company's financial results. The Board of the Company believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Company is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Remuneration Committee and approved by the Board. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives. The Remuneration Committee reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Company's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives and bonuses and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

(g) Remuneration Policy (cont.)

The directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

(h) Remuneration Practices

The Company's policy for determining the nature and amount of emoluments of board members and senior executives of the Company is as follows:

The remuneration structure for executive officers, including the Executive Director, is based on a number of factors, including particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future.

The Company seeks to emphasise payments for results through providing various cash bonus reward schemes, especially, the incorporation of incentive payments based on the achievements of agreed Key Performance Indicators. The objective of the reward schemes is to reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders.

(i) Employment Contracts of Directors and Senior Executives

The employment conditions of the Chief Executive Officer, Mr Scutt and specified executives are formalised in contracts of employment. All executives are permanent employees of the Company.

The employment contracts stipulate a range of one to three-month resignation periods. The Company may terminate an employment contract without cause by providing 1 months written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time.

	Note	2005	2004
		$	$
NOTE 6: REMUNERATION OF AUDITORS			
Remuneration of the auditor of the Company for:			
- Auditing the financial report		53,500	60,329
- Half year review		14,725	8,246
- Accounting and tax advice on royalties		3,029	-
		71,254	68,575
NOTE 7: DIVIDENDS PAID AND PROPOSED			
Ordinary shares			
A dividend of 1 cent per share ($125,259) was proposed after 30 June 2004 and was paid in the 2005 financial year. Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years.		772,477	782,988
NOTE 8: EARNINGS PER SHARE			
(a) Reconciliation of earnings to net (loss)/profit			
Net (loss)/profit		(1,724,491)	457,122
Earnings used in the calculation of basic and dilutive earnings per share.		(1,724,491)	457,122
		No. of shares	No. of shares
(b) Weighted average number of ordinary shares used in calculating basic earnings per share		**12,987,159**	**12,525,926**
Weighted average number of options outstanding		-	103,093
Weighted average number of ordinary shares used in calculating dilutive earnings per share		**12,987,159**	**12,629,019**
(c) Classification of securities			
The following securities have been classified as potential ordinary shares and are included in determination of dilutive earnings per share:			
- options outstanding			
(d) Potential ordinary shares not considered dilutive			
The following potential ordinary shares are not considered dilutive as at the reporting date, and therefore have not been included in the calculation of dilutive earnings per share:			
		No. of Options	No. of Options
Options over ordinary shares		200,000	600,000

	Note	2005	2004
		$	$
NOTE 9: CASH ASSETS			
Cash on hand		2,037	1,200
Cash at bank		27,874	476,793
Deposits at call		-	150,000
Total cash assets		**29,911**	**627,993**
NOTE 10: CASH FLOW INFORMATION			
(a) Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:			
Cash on hand		2,037	1,200
Cash at bank		27,874	476,793
Deposits at call		-	150,000
		29,911	627,993
(b) Reconciliation of cash flow from operations			
(Loss)/profit from ordinary activities after income tax		(1,724,491)	457,122
Non-cash flows in (loss)/profit from ordinary activities:			
Amortisation		221,736	287,909
Depreciation		174,164	166,859
Net gain on sale of property, plant and equipment		95,118	(13,678)
Changes in assets and liabilities:			
(Increase) in receivables		(276,270)	(891,334)
Decrease in other assets		1,269,987	90,612
Decrease in inventories		69,803	109,722
(Increase) in tax assets		(717,322)	(32,880)
(Decrease)/Increase in income taxes payable		(121,095)	136,887
(Decrease)/Increase in deferred tax payable		(24,289)	28,661
(Decrease)/Increase in provisions		(60,680)	71,153
Increase in trade creditors and accruals		481,286	65,945
Net cash (used in)/ provided by operating activities		**(612,053)**	**476,978**
(c) Non-cash financing and investing activities			
During the year the Company did not acquire any plant and equipment by means of finance leases (2004: $214,484). These acquisitions are not reflected in the Statement of Cash Flows.		-	214,484
		-	214,484

	Note	2005	2004
		$	$
NOTE 10: CASH FLOW INFORMATION (CONT.)			
(d) Credit standby arrangements with banks			
Credit facility		350,000	350,000
Amount utilised		-	-
Unused credit facility		**350,000**	**350,000**

The major facilities are summarised as follows:

The credit facility is represented by a bank overdraft, which has been arranged with a single Australian bank. The interest rate on the facility is variable and is subject to adjustment. The facility was renewed on 12 May 2005, till 30 April 2007.

	Note	2005	2004
(e) Loan facilities			
Loan facilities		1,081,333	1,081,333
Amount utilised		881,333	1,081,333
Unused loan facilities		**200,000**	**-**

The major facilities are summarised as follows:

- The loan facility of $583,333 has a fixed term of 5 years and repaid by monthly instalments of principal and interest being completed by 1 May 2007. The interest rate on the facility is fixed quarterly and is subject to adjustment.

- The loan facility of $498,000 is repayable on 1 May 2007. The facility is interest only and the interest rate on the facility is fixed quarterly and is subject to adjustment. The facility is subject to renegotiation at the end of the term. Finance will be provided under all facilities provided the Company does not breach any borrowing requirements and the required financial ratios are met.

NOTE 11: RECEIVABLES

	Note	2005	2004
Current			
Trade debtors		3,022,659	2,702,389
Provision of doubtful debts		(79,000)	(55,000)
		2,943,659	2,647,889
Amounts receivable from:			
Director-related entities	26	9,921	9,921
Other		-	20,000
		9,921	29,921
Total current receivables		**2,953,580**	**2,677,310**

	Note	2005	2004
		$	$

NOTE 12: INVENTORIES

	2005 $	2004 $
Current		
Raw materials and stores at cost	1,116,817	1,055,317
Allowance for obsolescence	(200,000)	-
	916,817	1,055,317
Work in progress at cost	182,310	166,808
Allowance for obsolescence	-	(75,232)
	182,310	91,576
Finished goods at cost	323,398	295,435
Allowance for obsolescence	(50,000)	-
	273,398	295,435
	1,372,525	**1,442,328**

NOTE 13: PLANT AND EQUIPMENT

	2005 $	2004 $
Owned plant and equipment:		
At cost	1,472,182	1,422,625
Less accumulated depreciation	(841,698)	(746,017)
Total owned plant and equipment	630,484	676,608
Capitalised leased plant and equipment:		
At cost	208,200	309,088
Less accumulated amortisation	(87,511)	(82,660)
Total leased plant and equipment	120,689	226,428
Total plant and equipment	**751,173**	**903,036**

Movements in carrying amounts

	Owned plant and equipment	Leased plant and equipment	Total
Carrying amount at start of year	676,608	226,428	903,036
Additions	237,697	-	237,697
Disposals	(109,657)	(36,825)	(146,482)
Depreciation/amortisation	(174,164)	(68,914)	(243,078)
Carrying amount at end of year	**630,484**	**120,689**	**751,173**

	Note	2005	2004
		$	$
NOTE14: TAX ASSETS			
Current			
Tax refund receivable		46,999	-
Non-current			
The future income tax benefit is made up of the following estimated tax benefits:			
Timing differences		606,618	159,958
Tax losses		222,663	-
Future income tax benefit		830,281	159,958
NOTE 15: INTANGIBLE ASSETS			
Goodwill at cost		2,788,580	2,788,580
Less accumulated amortisation		(803,522)	(664,092)
		1,985,058	2,124,488
Patents/trademarks/licences at cost		100,000	100,000
Less accumulated amortisation		(73,211)	(59,819)
		26,789	40,181
Total intangible assets		**2,011,847**	**2,164,669**
NOTE 16: OTHER ASSETS			
Current			
Prepayments		232,289	230,973
Advertising material		-	102,553
Total current other assets		**232,289**	**333,526**
Non-current			
Prepayments		-	1,168,750
Total non-current assets		-	**1,168,750**
NOTE 17: PAYABLES			
Current			
Unsecured liabilities:			
Trade creditors		1,917,619	1,334,735
Other creditors and accruals		484,927	595,078
Amounts payable to:			
Director-related entities	26	17,398	8,845
Total current payable		**2,419,944**	**1,938,658**

	Note	2005	2004
		$	$
NOTE 18: INTEREST-BEARING LIABILITIES			
Current			
Secured liabilities:			
Bank loans		200,000	200,000
Lease liabilities	24	43,152	68,912
Total current interest-bearing liabilities		**243,152**	**268,912**
Non-current			
Secured liabilities:			
Bank loans		681,334	881,333
Lease liabilities	24	106,325	183,354
Total non-current interest-bearing liabilities		**787,659**	**1,064,687**

Securities

Bank loans – are secured by a first registered fixed and floating debenture charge over the assets, undertakings and uncalled capital of the Company. Interest is payable monthly in arrears at a rate currently of 8.19% on $383,333 repayable over 4 years and 7.92% on $498,000 repayable at the end of 4 years.

Lease liabilities – are secured by a charge over the underlying plant and equipment. Lease contract periods vary from between 3 and 4 years. Interest rates are fixed at inception of each contract and range between 7 and 19%.

NOTE 19: PROVISIONS

	2005	2004
Current		
Employee entitlements	201,608	250,242
Non-current		
Employee entitlements	64,835	76,881
Aggregate employee benefits	**266,443**	**327,123**

	Employee numbers	
	2005	2004
Number of employees at reporting date	55	72

	Note	2005	2004
		$	$

NOTE 20: TAX LIABILITIES

	2005 $	2004 $
Current		
Income tax	15,792	136,887
Non-current		
Deferred income tax liability	44,667	68,956

NOTE 21: CONTRIBUTED EQUITY

(a) Share capital

	Note	2005 Shares	2004 Shares	2005 $	2004 $
Ordinary shares:					
Fully paid	(b)	14,375,926	12,525,926	4,949,170	4,320,819

Shares issued during the year	1,850,000	-
	$	No. Shares
Share capital at beginning of year	4,320,819	12,525,926
Proceeds from shares issued	647,500	1,850,000
Cost associated from shared issued	(55,149)	-
	4,913,170	14,375,926
Proceeds banked 30 June, 2005 from exercise of share options due 1 July 2005	36,000	-
	4,949,170	-

(b) Terms and conditions

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(c) Options

At 30 June 2005, there were 400,000 (2004: 1,000,000) unissued ordinary shares for which options were outstanding. For information relating to these share options held by directors refer to Note 5(d).

NOTE 22: ACCUMULATED (LOSSES)/RETAINED PROFITS

	2005 $	2004 $
Retained profits		
Retained profits at the beginning of the financial year	1,351,528	894,406
(Loss)/profit attributable to members of the Company	(1,724,491)	457,122
Dividend paid	(125,259)	-
(Accumulated losses)/retained profits at the end of the financial year	**(498,222)**	**1,351,528**

NOTE 23: FINANCIAL INSTRUMENTS

(a) Interest rate risk exposure

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out as follows:

			Fixed Interest Rate Maturing				
	Note	Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total
		$	$	$	$	$	$
30 June 2005							
Financial assets							
Cash and deposits	9	27,874	-	-	-	2,037	29,911
Receivables	11	-	-	-	-	2,953,580	2,953,580
		27,874	-	-	-	2,955,617	2,983,491
Weighted average interest rate		5.0%					
Financial liabilities							
Bank loans	18	-	200,000	681,334	-	-	881,334
Payables	17	-	-	-	-	2,419,944	2,419,944
Lease liabilities	18	-	43,152	106,325	-	-	149,477
		-	243,152	787,659	-	2,419,944	3,450,755
Weighted average interest rate			8.6%	10.6%			
30 June 2004							
Financial assets							
Cash and deposits	9	476,793	150,000	-	-	1,200	627,993
Receivables	11	-	-	-	-	2,677,310	2,677,310
		476,793	150,000	-	-	2,678,510	3,305,303
Weighted average interest rate		5.3%	5.3%				
Financial liabilities							
Bank loans	18	1,081,333	-	-	-	-	1,081,333
Payables	17	-	-	-	-	1,938,658	1,938,658
Lease liabilities	18	-	68,912	183,354	-	-	252,266
		1,081,333	68,912	183,354	-	1,938,658	3,272,257
Weighted average interest rate		7.8%	11.0%	11.0%			

(b) Credit risk exposure

Credit risk is the risk that counter parties to a financial asset will fail to discharge their obligations, causing the Company to incur a financial loss.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to all recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

(c) Net fair value

The carrying amounts of cash and non-interest bearing monetary financial assets and liabilities (e.g. receivables and payables) approximate their net fair value.

	Note	2005	2004
		$	$
NOTE 24: CAPITAL AND LEASING COMMITMENTS			
(a) Finance lease commitments			
Payable:			
No later than one year		56,509	93,407
Later than one year but not later than five years		118,086	218,942
Minimum lease payments		174,595	312,349
Less future finance changes		(25,118)	(60,083)
Total lease liability		149,477	252,266
Represented by:			
Current liability	18	43,152	68,912
Non-current liability	18	106,325	183,354
		149,477	252,266
(b) Operating lease commitments			
Non-cancellable operating leases contracted for but not capitalised in the financial statements:			
Payable: No later than one year		542,212	447,806
Later than one year but not later than five years		1,319,169	338,703
Commitments not capitalised in the financial statements		1,861,381	786,509

The operating lease amounts include three property leases and are non-cancellable leases.

The Wetherill Park factory lease term is for 5 years and expires on 12/12/09. The Bayswater factory lease term is for 5 years and expires 30/04/07. The South Melbourne showroom lease term is for 3 years and expired 22/07/05. Rent payments for each property are payable monthly in advance. Contingent rental provisions within each lease agreement require minimum lease payments to be increased by CPI.

NOTE 25: EVENTS SUBSEQUENT TO BALANCE DATE

No matters have arisen since the end of the financial year that have significantly affected or may significantly affect the operations, results of operations or the state of affairs of the Company in subsequent financial years.

	Note	2005	2004
		$	$ NOTE
NOTE 26: RELATED PARTY TRANSACTIONS			
Transactions with Director-related entities:			
Transactions were made on normal terms and conditions			
Transaction type:			
Rent		307,660	298,330
Licence fees		8,164	9,199
Salary		34,102	51,712
The above figures relate to transactions with entities associated with Mr Peter Gregory.			
Aggregate amounts receivable from (payable to) Director-related entities at balance date:			
Current assets	11	9,921	9,921
Current liabilities	17	17,398	8,845

NOTE 27: SEGMENT REPORTING

The Company operates predominately in one business and geographical segment being the manufacture and sale of furniture throughout Australia.

NOTE 28: COMPANY DETAILS

Registered office and principal place of business

125-131 Cowpasture Road
Wetherill Park NSW 2164

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Directors' Declaration
for the year ended 30 June 2005

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 24 to 45, are in accordance with the Corporations Act 2001:

    (a) comply with Accounting Standards and the Corporations Regulations 2001, and

    (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the Company.

2. The Chief Executive Officer and Chief Financial Officer have each declared that:

    (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

    (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

    (c) the financial statements and notes for the financial year give a true and fair view.

3. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Richard Sealy
Chairman

Peter Gregory
Director

Sydney, NSW

30 September 2005

BDO

Chartered Accountants
& Advisers

Level 19, 2 Market Street Sydney NSW 2000
GPO Box 2551 Sydney NSW 2001
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Email: bdosyd@bdosyd.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GREGORY AUSTRALIA LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Gregory Australia Limited (the company), for the year ended 30 June 2005.

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

Audit Approach

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

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

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

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Audit Opinion

In our opinion, the financial report of Gregory Australia Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

BDO	I K FERGUSSON
Chartered Accountants	Partner

Dated in Sydney this 30th day of September 2005

Additional Information for Listed Companies

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding as at 11 August 2005:

	Ordinary Shares	
	Shares	Options
0 to 1,000	16	-
1,001 to 5,000	176	-
5,001 to 10,000	40	-
10,001 to 100,000	107	-
100,001 and above	28	-
	367	-

(b) 20 largest shareholders – ordinary shares

The names of the twenty largest holders of equity securities as at 11 August 2005 are listed below:

	Ordinary Shares	
Name of Holder	Number Held	% of Issued Shares
Bungan Nominees Pty Ltd	4,300,000	29.91
Mozart Nominees Limited	1,482,199	0.31
Hammersmith Holdings Limited	518,150	3.60
Mr & Mrs John Liley	518,149	3.60
Mrs D Noun	500,000	3.48
PNE Industries Pty Ltd	500,000	3.48
REN Nominees Pty Limited	400,000	2.78
The Lindfield Partners Pty Limited	296,000	2.06
Jackson International Pty Ltd	255,960	1.78
Ellavile Holdings Pty Ltd	238,000	1.66
Mr & Mrs Richard Egglesfield	200,000	1.39
Mr Donald James Miller	200,000	1.39
Nupcone Pty Ltd	179,000	1.25
Dr Rebecca Mary Chin	150,000	1.04
Dr Stephen Gregory Cooper	150,000	1.04
Dr David Rex George Littlejohn	150,000	1.04
W Brooks Investments Pty Ltd	130,000	0.90
Mr & Mrs John Ronald Jones	110,000	0.77
East Coast Industrial Supplies Pty Ltd	100,000	0.70
Faaborg Pty Ltd	100,000	0.70
	10,477,458	**72.88**

(b) 20 largest shareholders – ordinary shares

	Number on Issue	Number of Holders
Unquoted equity securities		
Options on issue	400,000	2
	400,000	**2**

(c) Substantial holdings

The names of the substantial shareholders listed in the Company's register as at 11 August 2005 are:

	Ordinary Shares
Bungan Nominees Pty Ltd	4,300,000
Mozart Nominees Limited	1,482,199

(d) Voting rights

Every ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

(e) Restricted securities

The Company has no restrictions on any of its securities as at 30 June 2005.

(f) Company Secretary

The name of the Company Secretary is Mr Greg Lewis.

(g) Stock Exchange listing

Quotation has been granted for all ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

Richard Sealy, CA, MAICD
Chairman and Non-executive Director
(Appointed Non-executive Director 28 April 2002 and Chairman 19 November 2002)

Mr Sealy has over the last 25 years held positions as Financial Director, Managing Director or Chairman of a number of public and private companies in Australia, New Zealand and the United Kingdom.

Mr Sealy brings to Gregory Australia Limited experience in developing and growing companies by applying good business practices and motivating people so that the companies become successful and profitable. He has an in depth knowledge in the corporate and legal structuring of entities when embarking on fund raising and acquisition activities and has been instrumental in numerous public and private debt and/or equity issues and mergers and acquisitions.

John Scutt, BComm (hons) Newcastle, FAICD, FCPA, FAIM
Chief Executive Officer
(Appointed 31 March 2005)

John Scutt joined Gregory Australia Limited in May 2004 and has over 30 years of strong business building skills with particular emphasis on sales and finance. Over the past 8 years John has gained extensive retail and government experience in CEO roles and has developed and grown companies through mergers and acquisitions. Prior to joining Gregory Australia John has worked for large Australian and multinational organisations including Austen & Butta Limited, Young & Rubicam Australia Pty Ltd, DFS Australia Pty Ltd, Allders International Pty Ltd, TVSN Limited, Ezishop.net Limited (own company) and CiTR Pty Ltd.

Peter G Gregory, BSc Dip Phyt
Non-executive Director
(Appointed 7 April 1999)

Mr Gregory, a qualified physiotherapist and original founder of Gregory Australia, has valuable experience and expertise gained over many years in the Company's core business of designing, manufacturing and distributing commercial furniture and in particular our well known range of ergonomic chairs.

Bruce Hansen, Mechanical Engineering (Diploma)
Non-executive Director
(Appointed 22 March 2004)

Mr Hansen has had a long association with both the Company and its products. Bruce has over twenty five years experience in engineering, manufacturing and project managing of products used for the military environments. Currently managing a number of projects for a multinational organisation, Bruce has worked for companies such as BAE Systems, GEC Marconi Australia, and Plessey Australia, and Amalgamated Wireless Australia (AWA).

Janet C Sayer, MBA, MAICD, MAITT
Non-executive Director
(Appointed 24 June 2004)

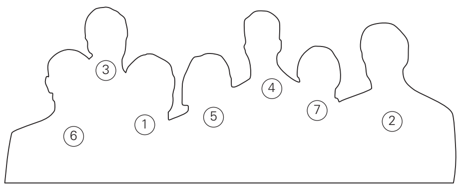
Ms Sayer has a strong background and understanding of integrated business strategies and has held a number of senior positions including Managing Director of Telstra Payphone and Card Services; Managing Director of GTECH Australasia Corporation; she has held senior executive and board positions within the hotel and travel industries. Her experience in marketing and contacts made over a number of years at high levels within industry is undoubtedly of benefit to Gregory Australia.

Tony Noun, MBA, FAIM
Non-executive Director
(Appointed 31 August 2005)

Tony has more than 20 years professional and commercial experience with a proven track record of success in managing start-up operations as well as small, medium and large national and international companies. Currently, he is the Managing Director for a large and substantive group of companies which include THN Pty Limited, a specialist management consultancy practice and Investment Nominees of Australia Pty Limited, an approved trustee of the Australian Prudential Regulation Authority. Both companies are Australian Financial Services Licence holders. Tony's commercial experience, from both an investor and management perspective, spans a diverse range of industries including financial services, healthcare, hospitality, manufacturing as well as sales and marketing. He is presently an active director for a number of national and international companies that cover a broad range of industries and professional disciplines and brings to the Board extensive financial and corporate experience.

Mr. Greg Lewis, FPNA
Chief Financial Officer and Company Secretary
(Appointed 18 April 2005)

Mr Greg Lewis joined Gregory Australia Limited in April 2005 as Chief Financial Officer and Company Secretary. Greg has extensive experience in a wide variety of manufacturing and distribution industries, having held senior financial positions and directorships within international companies. He has a successful track record in building the expertise, skills and quality of the finance team to support growing and diversified businesses. He also has had significant involvement in mergers and acquisitions having completed some 70 acquisitions and integrations over the last six years. Greg is a Fellow Professional practice member of the National Institute of Accountants and is currently completing his MBA.



1. Richard Sealy
2. John Scutt
3. Peter G Gregory
4. Bruce Hansen
5. Janet C Sayer
6. Tony Noun
7. Greg Lewis

Registered Office

125-131 Cowpasture Road
Wetherill Park NSW 2164

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

Auditors

BDO Chartered Accountants & Advisors
Level 19, 2 Market Street
Sydney NSW 2000

Solicitors

Eakin McCaffery Cox
Level 34, St Martins Tower
31 Market Street
Sydney NSW 2000

Designed by: Pat and Mouse Computer Graphics t. 02 9587 4947

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