WATERCO LIMITED

ABN 62 002 070 733

CONSOLIDATED FINANCIAL REPORT

FOR THE YEAR ENDED 30TH JUNE 2003

Contents

WATERCO LIMITED AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2003

	Note No.	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Revenues from ordinary activities	2	71,475,281	61,014,127	59,626,538	53,720,508
Changes in inventories of finished goods and work in progress		2,525,986	(2,476,070)	3,289,989	(1,665,563)
Raw Materials and consumables used		(41,949,570)	(31,810,923)	(38,556,000)	(31,090,494)
Employee benefits expense		(10,615,560)	(8,560,696)	(3,740,446)	(2,753,040)
Depreciation and amortisation expense	3	(1,238,483)	(1,338,138)	(818,908)	(967,776)
Borrowing costs expense		(1,200,661)	(1,202,533)	(1,186,643)	(1,179,057)
Advertising expense		(1,199,394)	(1,532,822)	(764,322)	(994,492)
Discounts allowed		(1,963,106)	(1,705,099)	(1,916,059)	(1,673,113)
Outward freight expense		(2,055,195)	(1,660,524)	(1,780,321)	(1,594,556)
Rent expense		(1,352,173)	(1,472,195)	(867,752)	(1,090,016)
Contracted staff expense		(803,886)	(1,045,475)	(793,727)	(1,029,297)
Intercompany labour cost		-	-	(4,855,165)	(4,293,726)
Warranty expense		(522,059)	(496,735)	(231,983)	(199,771)
Commission expense		(282,754)	(455,218)	(415,908)	(471,894)
Other expenses from ordinary activities		(5,508,391)	(5,461,953)	(3,136,181)	(3,821,022)
Profit from ordinary activities before income tax expense	3	5,310,035	1,795,746	3,853,112	896,691
Income tax expense relating to ordinary activities	4	1,497,498	595,115	1,388,538	311,869
Profit from ordinary activities after related income tax expense		3,812,537	1,200,631	2,464,574	584,822
Net Profit		3,812,537	1,200,631	2,464,574	584,822
Net profit/(loss) attributable to outside equity interests	32	(86,427)	15,694	-	-
Net profit attributable to members of the parent entity		3,898,964	1,184,937	2,464,574	584,822
Net exchange difference on translation of financial reports of self-sustaining foreign operations	24b)	(1,000,706)	(589,848)	-	-
Total changes in equity other than those resulting from transactions with owners as owners		2,898,258	595,089	-	-
Basic earnings per share (cents per share)	31	20.6	6.3		
Diluted earnings per share (cents per share)	31	20.6	6.3		

WATERCO LIMITED AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2003

	Note No.	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Current Assets					
Cash assets		2,807,906	951,238	2,081,892	186,117
Receivables	6	10,319,713	8,718,553	4,813,041	6,052,178
Inventories	7	16,711,293	19,464,090	9,239,261	12,701,946
Other	8	535,045	592,619	432,508	543,719
Total Current Assets		30,373,957	29,726,500	16,566,702	19,483,960
Non-Current Assets					
Receivables	9	494,558	541,205	7,365,989	6,547,833
Other financial assets	10	-	-	3,167,989	2,527,712
Property, plant & equipment	12	14,746,753	15,425,027	10,608,348	11,011,240
Intangible assets	13	395,833	542,078	256,415	377,495
Deferred tax assets	14	1,100,398	891,686	691,862	573,902
Other	15	-	53,488	-	-
Total Non-Current Assets		16,737,542	17,453,484	22,090,603	21,038,182
Total Assets		47,111,499	47,179,984	38,657,305	40,522,142
Current Liabilities					
Payables	16	7,899,993	6,237,027	3,995,518	4,020,300
Interest bearing liabilities	17	1,156,278	1,399,261	1,156,278	1,316,060
Current tax liabilities	18	783,082	(227,392)	861,598	(183,108)
Provisions	19	1,762,137	921,709	1,184,568	434,034
Total Current Liabilities		11,601,490	8,330,605	7,197,962	5,587,286
Non-Current Liabilities					
Interest bearing liabilities	20	13,395,466	17,394,692	16,293,658	20,117,706
Deferred tax liabilities	21	457,278	554,495	133,672	162,562
Provisions	22	328,866	339,562	114,010	157,097
Total Non-Current Liabilities		14,181,610	18,288,749	16,541,340	20,437,365
Total Liabilities		25,783,100	26,619,354	23,739,302	26,024,651
Net Assets		21,328,399	20,560,630	14,918,003	14,497,491
Equity					
Contributed equity	23	13,823,338	13,785,838	13,823,338	13,785,838
Reserves	24	(506,812)	493,894	180,426	180,426
Retained profits	25	8,065,729	6,248,327	914,239	531,227
Parent entity interest		21,382,255	20,528,059	14,918,003	14,497,491
Outside equity interest	32	(53,856)	32,571	-	-
Total Equity		21,328,399	20,560,630	14,918,003	14,497,491

The accompanying notes form part of these financial statements.

WATERCO LIMITED AND CONTROLLED ENTITIES

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
Cash Flows from Operating Activities				
Receipts from customers	68,561,658	59,567,372	59,149,384	51,070,393
Payments to suppliers and employees	(57,516,032)	(55,355,862)	(49,079,282)	(49,683,460)
Interest received	18,079	11,764	15,600	6,809
Other Income	570,090	522,987	463,064	336,871
Borrowing costs	(1,200,660)	(1,202,516)	(1,186,642)	(1,179,057)
Income tax paid	(791,931)	(1,538,006)	(490,682)	(748,329)
Net cash provided by/(used in) operating activities(note 37b)	9,641,204	2,005,739	8,871,442	(196,773)
Cash Flows from Investing Activities				
Dividends received	72	305	72	305
Payment for property, plant & equipment	(1,137,859)	(1,274,159)	(664,679)	(320,365)
Proceeds from sale of property, Plant & equipment	1,097,397	899,412	1,022,229	1,118,903
Proceeds from sale of business (net of cash)	378,467	149,840	378,467	149,840
Proceeds from sale of investments	-	-	16,000	-
Payment for investments	-	-	(642,012)	-
Payments for intangibles	(6)	(100,006)	-	(100,000)
Net cash provided by/(used in) investment activities	338,071	(324,608)	110,077	848,683
Cash Flows from Financing Activities				
Proceeds from/(repayment of) borrowings	(4,065,558)	1,935,608	(4,000,000)	2,000,000
Short term loans	6,503	(1,300)	6,503	(1,600)
Payment of lease liabilities	(135,137)	(190,545)	(135,137)	(190,545)
Dividends paid	(2,081,562)	(2,068,579)	(2,081,562)	(2,068,579)
Employee share plan repayments	84,147	120,320	84,147	120,320
Loans to controlled entities	-	-	(755,185)	(160,525)
Net cash provided by/(used in) financing activities	(6,191,607)	(204,496)	(6,881,234)	(300,929)
Net increase/(decrease) in cash held	3,787,668	1,476,635	2,100,285	350,981
Cash at beginning of the year	(336,473)	(893,956)	(1,018,393)	(1,369,374)
Effects of exchange rate changes on balance of cash held in foreign currencies at the beginning of the year	(1,643,289)	(919,152)	-	-
Cash at the end of the year(Note 37a)	1,807,906	(336,473)	1,081,892	(1,018,393)

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards , Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report covers the economic entity of Waterco Limited and controlled entities , and Waterco Limited as an individual parent entity. Waterco Limited is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accrual 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 value of the consideration given in exchange for assets. The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

a. Principles of Consolidation

The consolidated accounts comprise the accounts of Waterco Ltd and all entities controlled by Waterco Ltd. Control exists where Waterco Ltd has the capacity to dominate the decision making in relation to the financing and operating policies of another entity so that the other entity operates with Waterco Ltd to achieve the objectives of Waterco Ltd. A list of controlled entities is contained in note 11 to the accounts.

All intercompany balances and transactions between entities in the economic entity including any unrealised profits or losses, have been eliminated on consolidation. Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until control ceased.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

b. Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for ownership interest in a controlled entity exceeds the fair value attributed to its net tangible assets at date of acquisition. Goodwill and goodwill on consolidation are amortised on a straight line basis over a period of 20 years, beginning in the year following the year of acquisition. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

c. Investments

Investments in controlled entities are measured on a cost basis less amounts written off for permanent diminutions in the value of the investments.

d. Depreciation of Fixed Assets

Depreciation where applicable has been charged in the accounts so as to write off each asset over the estimated useful life of the asset concerned. Either the diminishing value or prime cost method, as considered appropriate, is used.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate
Buildings	1.5-2.5%
Plant and equipment	6-33.33%
Leased plant and equipment	13-20%

e. Leases

Assets of the economic entity which are subject to finance lease are capitalised. The initial amount of the leased asset and corresponding lease liability is the present value of minimum lease payments. Leased assets are depreciated over the life of the assets. Lease liabilities are reduced by repayments of principal.
The interest components of lease payments are charged against profits.
The finance leases are in respect of motor vehicles and computer software used by the economic entity.
Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor are charged as expenses in the period in which they are incurred. The leases are property leases that are subject to different terms and conditions and are all subject to renewal.
Contingent liabilities are guarantees given by the head lessor (Waterco Ltd or Swimart Pty Ltd) for shops subleased by franchisees. These are based on the rental at the beginning of the lease adjusted for estimated future inflation movements and movements in market value.

f. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a standard cost basis. The cost of manufactured products includes direct materials , direct labour and an appropriate portion of variable and fixed overheads. Net realisable value is determined as the estimated selling price less costs to sell.

g. Taxation

Tax effect accounting is applied whereby income tax expense based on 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 as either deferred income tax liability or an 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 the realisation of the asset is assured beyond reasonable doubt. The future income tax benefit in relation to tax losses is recognised where the company is virtually certain of realisation of the benefit.

h. Foreign Currencies

Foreign currency transactions are converted to Australian dollars at exchange rates ruling at the dates of those transactions. Amounts payable and receivable in foreign currency at balance date are converted to Australian dollars at exchange rates ruling on that date. Exchange differences arising from short term amounts payable and receivable are brought to account in the profit from ordinary activities when the exchange rates change. Foreign controlled entities financial statements have been translated at the exchange rate current at reporting date. The assets and liabilities of the overseas controlled entities , which are self sustaining , are translated at year-end rates and operating results are translated at the rates ruling at the end of each month. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

i. Employee Benefits

Provision for employee benefits, which include long service leave, and annual leave are computed to cover expected benefits at balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related oncosts. 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. Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred. The economic entity has no legal obligation to cover any shortfall in the funds obligations to provide benefits to employees on retirement.

j. Deferred Expenditure
Research and Development costs are charged to profit from ordinary activities as incurred unless it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover these deferred costs. Other significant items of expenditure having a benefit or relationship to more than one accounting period are deferred and amortised over the periods of their expected benefit.

K. Acquisition of Assets
The cost method of accounting has been used for acquisition of all assets (including shares). Cost is defined as the fair value of the assets given up at the date of acquisition plus costs incidental to acquisition. Where goodwill arises it is brought to account on the basis described in note 1 (b) to the accounts.

L. Property, Plant and Equipment
Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property
Freehold land and buildings are measured on the cost basis. It is the policy of the economic entity to have an independent valuation every three years , with annual appraisals being made by the directors.
Following is a summary of valuations based on net market value in respect to land and buildings owned by the economic entity:

Land & Buildings	Date of Valuation	Amount	Type of valuation
Rydalmere , NSW	4 September 2000	7,475,000	Independent Valuation
Bankstown, NSW	20 September 2000	2,450,000	Independent Valuation

These valuations were obtained in accordance with a regular policy of obtaining valuations of land and buildings every three years.

Plant and equipment
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 constructed within the economic entity includes the cost of materials, direct labour, and an appropriate proportion of fixed and variable overheads.
The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land ,is depreciated over their useful lives commencing from the time the asset is ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.
The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in operating profit before income tax of the economic entity in the year of disposal.

M. Revenue
Revenue from the sale of goods is recognised upon the delivery of goods to customers.
Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.
Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting. Rental revenue is recognised when the right to receive the rent has been established.
Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

N. 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 Taxation Office. In these circumstances the GST is recognised as part of the cost acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 2: Revenue				
Operating activities				
* Sales of goods	69,667,362	59,475,004	57,941,775	52,153,958
* dividend received	72	305	72	305
* interest received	18,241	11,581	15,600	6,809
* rent	194,996	212,658	194,996	212,658
* bad debts recovered	85,791	16,098	76,633	14,922
* other	298,461	295,407	191,435	109,291
	70,264,923	60,011,053	58,420,511	52,497,943
Non-operating activities				
* proceeds on disposal of property, plant and equipment				
	1,210,358	1,003,074	1,206,027	1,222,565
	1,210,358	1,003,074	1,206,027	1,222,565
Total Revenue	71,475,281	61,014,127	59,626,538	53,720,508
a) Dividends received or receivable from				
* other persons	72	305	72	305
Total dividend revenue	72	305	72	305
b) Interest received or receivable from				
* other persons	18,241	11,581	15,600	6,809
Total interest revenue	18,241	11,581	15,600	6,809

Note 3: Profit from Ordinary Activities

Profit from ordinary activities has been determined after:

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
(a) Expenses:				
Cost of Sales	39,423,584	34,884,337	35,766,363	33,275,942
Borrowing costs:				
* other persons	1,174,937	1,183,020	1,160,919	1,159,544
* finance charges on finance leases	25,724	19,513	25,724	19,513
	1,200,661	1,202,533	1,186,643	1,179,057

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 3: Profit from Ordinary Activities (continued)				
Profit from ordinary activities has been determined after:				
(a) Expenses:				
Depreciation of non current assets:				
* buildings	120,248	125,583	120,248	125,583
* plant & equipment	859,976	935,755	568,333	590,564
* capitalised leased assets	94,506	219,645	94,506	219,645
	1,074,730	1,280,983	783,087	935,792
Amortisation of non current assets:				
* leasehold land	10,905	10,905	10,905	10,905
* goodwill on acquisition	26,871	23,034	24,916	21,079
* goodwill on consolidation	23,216	23,216	-	-
* formation costs	102,761	-	-	-
	163,753	57,155	35,821	31,984
Bad and doubtful debts				
* trade debtors	81,097	229,469	80,374	150,654
Rental expense on operating leases	1,352,173	1,472,195	867,752	1,090,016
Research & development	178,080	164,054	64,335	114,079
Net Loss on disposal of non-current assets				
* property ,plant and equipment	61,831	279,957	30,250	273,579
Foreign currency translation losses/(gains)	1,012,621	371,012	1,012,621	371,012
Auditors' Remuneration				
Remuneration of the auditor of the parent entity for:				
* audit or reviewing the financial report	76,352	95,971	67,452	84,946
* other services	-	-	-	-
Remuneration of other auditors of subsidiaries for:				
* auditing or reviewing the financial report of subsidiaries	55,497	49,442	-	-
* other services	-	-	-	-
No other benefits were received by auditors				
(b) Revenue and Net Gains				
Net gain on disposal of				
* Property,plant and equipment	520,855	19,648	517,941	18,898
* Investments	-	-	14,264	-
* Intangibles	86,394	65,000	86,394	65,000
	607,249	84,648	618,599	83,898

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
NOTE 4: INCOME TAX EXPENSE				
(a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:				
Profit from ordinary activities before income tax	5,310,035	1,795,746	3,853,112	896,691
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2002 30%)	1,593,010	538,724	1,155,934	269,007
Tax effect of permanent differences				
* Depreciation of buildings	10,984	10,984	10,984	10,984
* Entertainment	5,141	2,740	846	858
* Amortisation - Goodwill	15,026	13,876	7,475	6,324
* Amortisation - Leasehold Land	3,272	3,272	3,272	3,272
* Special building write off	(1,888)	(1,888)	(1,888)	(1,888)
* Reinvestment allowance	(181,955)	(84,126)	-	-
* Effects of lower rates in overseas countries	(46,970)	(35,486)	-	-
* Unrealised foreign exchange losses/(gains)	317,479	111,304	303,786	111,304
* Foreign controlled entities not tax effected	(102,696)	227,120	-	-
* Expenses not allowable	17,255	1,019	1,285	1,019
* (Profit)/Loss on sale of building	(70,004)	(73,315)	(70,004)	(73,315)
* (Profit)/Loss on sale of investments	4,202	-	(78)	-
* (Profit)/Loss on sale of goodwill	(1,151)	-	(1,151)	-
* Other	(17,944)	(62,152)	(11)	(1,100)
* (Over)/under provision for tax in prior year	(46,263)	(56,957)	(21,912)	(14,596)
Income tax expense attributable to profit from ordinary activities before income tax	1,497,498	595,115	1,388,538	311,869

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

NOTE 5: REMUNERATION OF DIRECTORS & EXECUTIVES

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
(a) Directors' remuneration Income received or due and receivable by directors of each entity in the economic entity and any related bodies corporate	895,278	806,777	-	-
Income receivable or due and receivable by directors of the chief entity from the chief entity and any related bodies corporate	-	-	680,273	536,764
Number of parent entity directors whose income from the parent entity and any related parties was within the following bands:			NO.	NO.
$30,000- $39,999			3	3
$160,000-$169,999			-	1
$180,000-$189,999			1	-
$250,000 - $259,999				1
$320,000- $329,999			1	-

The names of the parent entity directors who have held office during the period:

Soon Sinn Goh
Bruce Leitch
Garry Norman
Stuart Lloyd
Ben Hunt

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
b) Executives officers remuneration: Remuneration received or due and receivable by executive officers in the economic entity and any related entities for management of the affairs of the economic entity, whose remuneration is $100,000 or more	1,124,125	865,240	-	-
Remuneration received or due and receivable by executive officers of the parent, from the parent entity and any related parties for the management and affairs of the parent entity and its subsidiaries whose income is $100,000 or more	-	-	746,523	505,481
The number of executives whose income was within the following bands:	No.	No.	No.	No.
$100,000-$109,999	1	-	1	
$110,000-$119,999	1	-	1	-
$120,000-$129,999	2	3	2	3
$130,000-$139,999	1	1	1	1
$140,000-$149,999	1	-	1	-
$160,000-$169,999	-	1	-	-
$180,000-$189,999	1	-	-	-

WATERCO LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
CURRENT ASSETS				
Note 6: Receivables				
Trade debtors	9,190,363	8,134,024	5,068,151	6,325,125
Less: provision for doubtful debts	284,619	372,396	250,000	280,000
	8,905,744	7,761,628	4,818,151	6,045,125
Other debtors	1,413,969	956,925	(5,110)	7,053
	10,319,713	8,718,553	4,813,041	6,052,178
Note 7: Inventories				
Raw materials and stores at cost	4,393,516	4,620,317	522,186	694,882
Work in progress at cost	152,346	121,082	21,735	82,995
Finished goods at cost	11,843,721	14,220,907	8,695,340	11,610,658
Goods in transit at cost	321,710	501,784	-	313,411
	16,711,293	19,464,090	9,239,261	12,701,946
Note 8: Other Current Assets				
Prepayments	410,677	321,410	308,140	272,510
Waterco Share Plan	124,368	271,209	124,368	271,209
	535,045	592,619	432,508	543,719
NON CURRENT ASSETS				
Note 9: Receivables				
Employee Share Plan	494,558	541,205	494,558	541,205
Amount owing by controlled entities	-	-	6,871,431	6,006,628
	494,558	541,205	7,365,989	6,547,833

(a) Foreign currency Receivables Non current assets not effectively hedged to a date at least 12 months after balance date				
- Malaysian ringgit	-	-	2,757,374	2,056,473
- United States dollars 2,186,948	-	-	-	1,491,740
- New Zealand dollars	-	-	839,729	1,020,032
- Hong Kong dollars	-	-	56,864	152,609
- British pounds	-	-	1,498,997	612,920
- Chinese renminbi			226,820	63,909
	-	-	6,871,524	6,092,891

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 10: Other Financial Assets				
a) Shares in controlled entities at cost	-	-	3,167,989	2,527,712
	-	-	3,167,989	2,527,712

Note 11: Controlled Entities

	Country of incorporation	% owned 2003	% owned 2002
Parent Entity			
Waterco Limited	Australia	-	-
Controlled Entities of Waterco Limited:			
Swimart Pty Ltd	Australia	100	100
Waterco Sales & Manfucturing Pty Ltd	Australia	100	100
Zane Solar Systems Australia Pty Ltd	Aust	100	100
Aquaswim Australia Pty Ltd	Australia	100	100
Watershoppe Pty Ltd	Australia	100	100
Waterco USA Inc	USA	100	100
Waterco (M) Sdn Bhd	Malaysia	100	100
Waterco (Far East) Sdn Bhd	Malaysia	100	100
Watershoppe(M)Sdn Bhd	Malaysia	100	100
Lacron Filters (Far East)Sdn Bhd***	Malaysia	100	100
Waterco (HK) Ltd*	Hong Kong	100	100
Waterco (NZ) Ltd	New Zealand	100	100
Swimart (NZ) Ltd	New Zealand	100	100
Watershoppe (NZ)Ltd	New Zealand	100	100
Waterco Guangzhou Ltd	China	100	100
Lacron (UK) Ltd**	United Kingdom	100	-
Waterco (Europe) Ltd	United Kingdom	59.4	59.4
Global Leisure Products Sdn Bhd	Malaysia	51	51

* On 2 July 2002, Waterco Limited sold 100% of the shares in Waterco (HK) Ltd to Waterco (Far East) Sdn Bhd for $A16,000 yielding a profit of $A14,264
** On 19 March 2003, Vivarina Ltd issued 250,000 GBP1.00 shares to Waterco Limited.
On 30 April 2003, Vivarina Ltd changed its name to Lacron (UK) Ltd.
***On 31 July 2003,Waterco Composites Sdn Bhd changed its name to Lacron Filters (Far East) Sdn Bhd.

Waterco USA Inc carries on business in the United States. Waterco (FE)Sdn Bhd, Waterco (M) Sdn Bhd,Global Leisure Products Sdn Bhd, Watershoppe (M) Sdn Bhd and Lacron Filters (Far East) Sdn Bhd carry on business in Malaysia. Waterco (HK) Ltd carries on business in Hong Kong. Waterco (NZ) Ltd, Swimart (NZ) Ltd and Watershoppe (NZ) Ltd carry on business in New Zealand. Waterco (Europe) Ltd and Lacron (UK) Ltd both carry on business in the United Kingdom. Waterco (Guangzhou) Ltd carries on business in China.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 12: Property, Plant & Equipment				
Freehold land at cost	3,763,152	3,972,661	3,763,152	3,972,661
Freehold buildings at cost	4,627,477	4,809,943	4,627,477	4,809,943
Less: accumulated depreciation	655,464	605,165	655,464	605,165
	3,972,013	4,204,778	3,972,013	4,204,778
Leasehold land at cost	268,318	268,318	268,318	268,318
Less: accumulated amortisation	103,135	92,230	103,135	92,230
	165,183	176,088	165,183	176,088
Plant & equipment at cost	14,372,274	13,839,880	5,813,912	5,431,802
Less: accumulated depreciation	8,022,730	7,133,945	3,602,773	3,139,654
	6,349,544	6,705,935	2,211,139	2,292,148
Leased plant & equipment at cost	612,523	441,466	612,523	441,466
Less: accumulated depreciation	115,662	75,901	115,662	75,901
	496,861	365,565	496,861	365,565
Total written down value	14,746,753	15,425,027	10,608,348	11,011,240

a)Movements in Carrying Amounts

	Freehold Land	Buildings	Leasehold Land	Plant & Equipment	Leased Plant & Equipment	Total
Economic Entity:						
Balance at the beginning of year	3,972,661	4,204,778	176,088	6,705,935	365,565	15,425,027
Additions	-	38,975	-	1,298,601	246,199	1,583,775
Additions through acquisition of a business	-	-	-	462,250	-	462,250
Disposals	(209,509)	(151,492)	-	(262,610)	(20,397)	(644,008)
Depreciation expense	-	(120,248)	(10,905)	(1,854,632)	(94,506)	(2,080,291)
Carrying amount at the end of year	3,763,152	3,972,013	165,183	6,349,544	496,861	14,746,753
Parent Entity						
Balance at the beginning of year	3,972,661	4,204,778	176,088	2,292,148	365,565	11,011,240
Additions	-	38,975	-	646,102	246,199	931,276
Disposals	(209,509)	(151,492)	-	(158,778)	(20,397)	(540,176)
Depreciation expense	-	(120,248)	(10,905)	(568,333)	(94,506)	(793,992)
Carrying amount at the end of year	3,763,152	3,972,013	165,183	2,211,139	496,861	10,608,348

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 13: Intangibles				
Goodwill (note 1b)	460,797	560,791	421,594	521,594
Less: accumulated amortisation	175,334	152,299	165,559	144,479
	285,463	408,492	256,035	377,115
Preliminary expenses	2,241	2,241	380	380
Goodwill on consolidation	464,314	464,314	-	-
Less: accumulated amortisation	356,185	332,969	-	-
	108,129	131,345	-	-
	395,833	542,078	256,415	377,495
Note 14: Deferred Tax Assets				
Future income tax benefits	1,100,398	891,686	691,862	573,902
The future income tax benefits is made up of the following estimated tax benefits:				
- tax losses	135,912	199,166	77,062	180,929
- timing differences	964,486	692,520	614,800	392,973
	1,100,398	891,686	691,862	573,902
Note 15: Other				
Deferred expenditure carried forward	-	53,488	-	-
CURRENT LIABILITIES				
Note 16: Payables				
Trade creditors	6,347,586	5,035,035	2,868,319	3,102,964
Sundry creditors and accrued expenses	1,552,407	1,201,992	1,127,199	917,336
	7,899,993	6,237,027	3,995,518	4,020,300
Note 17: Interest Bearing Liabilities				
Bank loans - secured	1,000,000	1,000,000	1,000,000	1,000,000
Bank overdraft - secured	-	287,711	-	204,510
Lease liability	156,278	111,550	156,278	111,550
	1,156,278	1,399,261	1,156,278	1,316,060

Bank facilities of the parent entity and subsidiaries are secured by a first ranking and registered fixed and floating debenture charge over the assets of the parent entity, and registered mortgages over freehold land and buildings and guarantees and indemnities from subsidiaries. That part of the facilities that fluctuate on an annual basis, are classified as current.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 18 : Current Tax Liabilities				
Income Tax	783,082	(227,392)	861,598	(183,108)
Note 19: Provisions				
Employee benefits 22a)	1,762,137	921,709	1,184,568	434,034
NON-CURRENT LIABILITIES				
Note 20: Interest Bearing Liabilities				
Bank loans - secured	13,122,016	17,187,576	13,000,000	17,000,000
Amounts payable to controlled entities	-	-	3,020,208	2,910,590
Lease liability	273,450	207,116	273,450	207,116
	13,395,466	17,394,692	16,293,658	20,117,706
Foreign Currency Payables Non current liabilities not effectively hedged to a date at least 12 months after balance date				
- Malaysian ringgit	-	-	2,356	-
	-	-	2,356	-
Note 21: Deferred Tax Liabilities				
Provision for deferred income tax	457,278	554,495	133,672	162,562
	457,278	554,495	133,672	162,562
Note 22: Provisions				
Employee benefits 22a)	328,866	339,562	114,010	157,097
a)Aggregate employee entitlement liability	2,091,003	1,261,271	1,298,578	591,131
b)Number of employees at year end	419	360	54	49
Note 23: Contributed Equity				
18,909,650 ordinary shares fully paid at beginning of the year (2002 18,680,000)	13,785,838	13,395,433	13,785,838	13,395,433
On 10 January 2003 25,000 ordinary shares were issued at $1.50 each under the Waterco Employee Share Plan	37,500	-	37,500	-
On 22 January 2002 229,650 Ordinary shares were issued at $1.70 each under the Waterco Employee Share Plan	-	390,405	-	390,405

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Note No	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 23 : Contributed Equity (continued)					
18,934,650 ordinary shares fully paid at the end of the year (2002 18,909,650)		13,823,338	13,785,838	13,823,338	13,785,838
Note 24: Reserves					
a) Capital profits		210,562	210,562	180,426	180,426
The capital profits reserve relates to non taxable profits on sale of property.					
b) Foreign currency translation					
The foreign currency translation reserve records exchange differences on translation of foreign controlled subsidiaries					
Balance at beginning of year		283,332	873,180	-	-
Net exchange differences on translation of foreign controlled entities		(1,000,706)	(589,848)	-	-
Balance at end of year		(717,374)	283,332	-	-
		(506,812)	493,894	180,426	180,426
Note 25 : Retained Profits					
Opening retained profits		6,248,327	7,131,969	531,227	2,014,984
Net profit attributable to the members of the parent entity		3,898,964	1,184,937	2,464,574	584,822
Dividends paid	30	2,081,562	2,068,579	2,081,562	2,068,579
Closing retained profits		8,065,729	6,248,327	914,239	531,227
Note 26: Lease Commitments					
Finance leases					
Lease expenditure contracted and provided for:					
not later than one year		180,957	131,705	180,957	131,705
later than one year but not later than five years		292,517	222,919	292,517	222,919
Total minimum lease commitments		473,474	354,624	473,474	354,624
Future finance charges		43,746	35,958	43,746	35,958
Lease liability		429,728	318,666	429,728	318,666
Current portion	17	156,278	111,550	156,278	111,550
Non-current portion	20	273,450	207,116	273,450	207,116
		429,728	318,666	429,728	318,666

Finance leases are taken out on motor vehicles, telephone systems, computer hardware and computer software, with an option to purchase the asset at the end of the lease term.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 26: Lease Commitments (continued)				
Operating lease payable:				
not later than one year	654,505	598,442	554,680	524,192
later than one year but not later than five years	1,677,352	2,065,160	1,567,544	1,794,815
later than five years	-	218,922	-	218,922
	2,331,857	2,882,524	2,122,224	2,537,929

Operating leases are taken out on the rental of offices, warehouses, motor vehicles and office equipment.

Note 27: Contingent Liabilities

Estimate of the maximum amount of contingent liabilities that may become payable

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
(a) Guarantees of leases of premises subleased to franchisees	6,027,054	6,238,436	2,608,021	2,435,405
	6,027,054	6,238,436	2,608,021	2,435,405

Note 28: Related Parties

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated. Related parties of Waterco Limited fall into the following categories.

(A) Transactions with director related parties

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
(i) Payments made to Goh Lai Huat and Sons Sdn Bhd for rental of warehouse and offices by Waterco (FE) Sdn Bhd. Mr SS Goh, a director, has significant influence over Goh Lai Huat & Sons Sdn Bhd.	230,086	264,440	-	-
(ii) Sales made to Asiapools(M)Sdn Bhd. Mr SS Goh, a shareholder has significant influence over Asiapools(M)Sdn Bhd.	283,809	332,485	-	-
(iii) Commission paid to Asiapools (M) Sdn Bhd. Mr SS Goh , a shareholder has signficant influence over Asiapools(M) Sdn Bhd.	26,427	23,729	-	-
(iv) Payments made to Mint Holdings Pty Ltd for rental of a warehouse and office. Mr S S Goh is a director and shareholder of Mint Holdings Pty Ltd.	309,517	290,619	309,517	290,619

NOTES TO OF THE FINANCIAL STATEMENTS
FOR THE ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Note 28: Related Parties(continued)				
(v) On 30 June 2003, Waterco Ltd a)sold its Balcatta Property to Mint Holdings Pty Ltd for a consideration of $840,000(plus GST) resulting in a profit of $479,000.				
b)signed a lease agreement with Mint Holdings Pty Ltd to lease the Balcatta Property for 5 Years commencing 30th June 2003 Mr S S Goh is a director and shareholder of Mint Holdings Pty Ltd.				
(vi)Payments made to IT Easy Pty Ltd for evaluation of Waterco Limited's IT System. Mr S G Lloyd is a director and shareholder of IT Easy Pty Ltd.	17,518	-	17,518	-
(vii)Share transactions with Directors: Directors and director-related entities hold directly, indirectly or beneficially as at reporting date the following equity interests in Waterco Ltd:				
. Ordinary shares	10,431,755	9,364,755	10,431,755	9,364,755

Directors and their related entities acquired 1,067,000 ordinary shares and sold nil ordinary shares in Waterco Ltd during the period.
(B)Loans to Directors
Loans provided to directors in relation to acquisition of shares under the Waterco Employee Share Plan. These are interest free loans and are payable within ten years of the share issue date.
On 10 January 2003, 25,000 shares were issued to Mr B I Leitch at $1.50 each (amounting to $37,500) under this plan

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Advanced				
Mr S S Goh	-	5,250	-	5,250
Mr B I Leitch	36,000	3,500	36,000	3,500
	36,000	8,750	36,000	8,750
Repaid				
Mr S S Goh	5,250	8,250	5,250	8,250
Mr B I Leitch	5,000	5,500	5,000	5,500
	10,250	13,750	10,250	13,750

NOTE 29: STATEMENT OF OPERATIONS BY SEGMENTS

(a) Industry Segments

The economic entity operates predominantly in one industry , being the manufacture and wholesale of swimming pool chemicals, accessories and equipment, manufacture and sale of solar pool heating systems and as a franchisor of swimming pool outlets retailing swimming pool accessories and equipment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

NOTE 29: STATEMENT OF OPERATIONS BY SEGMENTS (cont)

(b) Geographical Segments

2003

	AUSTRALIA 2003 $	S.E.ASIA 2003 $	NEW ZEALAND 2003 $	USA 2003 $	OTHER 2003 $	ELIMINATION 2003 $	ECONOMIC ENTITY 2003 $
REVENUE							
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	55,083,051	3,359,181	3,490,290	5,276,587	2,458,253		69,667,362
INTERSEGMENT SALES	3,055,561	11,905,853	21,550	-	1,597,520	(16,580,484)	-
UNALLOCATED REVENUE							1,807,919
TOTAL REVENUE	58,138,612	15,265,034	3,511,840	5,276,587	4,055,773	(16,580,484)	71,475,281
SEGMENT RESULT	5,380,078	1,295,706	192,791	667,439	(222,187)	(195,873)	7,117,954
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE							(1,807,919)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX							5,310,035
INCOME TAX EXPENSE							(1,497,498)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX							3,812,537
SEGMENT ASSETS	41,308,844	11,180,482	1,620,381	1,645,145	2,060,867	(10,704,220)	47,111,499
SEGMENT LIABILITIES	24,446,090	5,156,339	1,110,312	1,696,480	1,364,173	(7,990,294)	25,783,100
DEPRECIATION & AMORTISATION	831,764	191,583	30,146	21,396	140,378	23,216	1,238,483

2002

	AUSTRALIA 2002 $	S.E.ASIA 2002 $	NEW ZEALAND 2002 $	USA 2002 $	OTHER 2002 $	ELIMINATION 2002 $	ECONOMIC ENTITY 2002 $
REVENUE							
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	50,184,474	4,243,855	3,549,050	32,385	1,465,240		59,475,004
INTERSEGMENT SALES	2,486,129	11,464,208	43,575	-	988,605	(14,982,517)	-
UNALLOCATED REVENUE							1,539,423
TOTAL REVENUE	52,670,603	15,708,063	3,592,625	32,385	2,453,845	(14,982,517)	61,014,427
SEGMENT RESULT	2,529,023	1,834,367	27,690	(731,857)	382,735	(706,789)	3,335,169
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE							(1,539,423)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX							1,795,746
INCOME TAX EXPENSE							(595,115)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX							1,200,631
SEGMENT ASSETS	43,356,769	10,131,009	1,536,678	1,595,809	674,669	(10,114,950)	47,179,984
SEGMENT LIABILITIES	26,766,441	4,176,496	1,150,480	2,383,698	292,756	(8,150,517)	26,619,354
DEPRECIATION & AMORTISATION	994,101	248,059	34,521	18,481	19,760	23,216	1,338,138

(c) The pricing of intersegment transactions is at rates comparative with amounts charged to parties outside the economic entity after taking into account the value and terms of these transactions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
NOTE 30: DIVIDENDS PAID OR PROPOSED				
Final fully franked ordinary dividend franked at the tax rate of 30% paid	945,483	934,000	945,483	934,000
Interim fully franked ordinary dividend franked at the tax rate of 30% paid	1,136,079	1,134,579	1,136,079	1,134,579
	2,081,562	2,068,579	2,081,562	2,068,579
Proposed final fully franked ordinary dividend franked at the tax rate of 30%	1,325,426	945,483	1,325,426	945,483
Balance of franking account at year end adjusted for franking credits arising from payment of income tax payable, payment of proposed dividends and franking credits not available for distribution.	2,001,384	1,638,650	968,756	585,744
NOTE 31: EARNINGS PER SHARE				
a)Reconciliation of Earnings to Net Profit				
Net Profit	3,812,537	1,200,631		
Net Profit/(Loss) attributable to outside equity interest	(86,427)	15,694		
Earnings used in the calculation of basic EPS	3,898,964	1,184,937		
Earnings used in the calculation of diluted EPS	3,898,964	1,187,353		
a)Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	18,921,362	18,780,668		
b)Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	18,921,362	18,830,257		

c)130,000 options are not dilutive and have not been used in the calculation of Earnings per share. Please refer to Note 36 for details.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
NOTE 32: Outside Equity Interests in controlled entities				
Outside equity interest comprises:				
Share Capital	15,657	15,657	-	-
Accumulated Profits/(Losses)	(69,513)	16,914	-	-
	(53,856)	32,571	-	-
a) Outside equity interests in share capital of controlled entities:				
Issued ordinary shares of .55 cents (RM 1.00) each fully paid in Global Leisure Products Sdn Bhd	4,879	4,879	-	-
Issued ordinary shares of $2.65 (GBP1.00) each fully paid in Waterco (Europe) Ltd	10,778	10,778		
	15,657	15,657	-	-
b) Accumulated Profits/(Losses)				
Opening balance	16,914	1,220	-	-
Share of profit from ordinary activities after income tax	(86,427)	15,694	-	-
	(69,513)	16,914	-	-
NOTE 33: CAPITAL EXPENDITURE COMMITMENTS				
Capital expenditure commitments contracted for:				
Purchase of pool shops	617,576	-	-	-
Payable not later than one year	617,576	-	-	-
Inventory	232,110	-	-	-
Plant, equipment and intangibles	385,466	-	-	-
	617,576	-	-	-

NOTE 34: EVENTS SUBSEQUENT TO REPORTING DATE

After balance date:

a)On 25 July 2003,Waterco (NZ) Ltd (a subsidiary)completed the acquisition of the assets of four pool retail shops from Poolcare FPI Services Limited. This acquisition was funded by existing working capital.

b)On 12 September 2003, Waterco Limited raised $2,970,000 (before costs of issue) through a placement of 1,350,000 fully paid ordinary shares at $2.20 each to a group of professional investors. The placement of the shares was to strengthen the Statement of Financial Position for overseas expansion and future acquisition opportunities.
The financial effect of these transactions have not been brought to account in the 2003 financial report.
There were no other events subsequent to balance date.

NOTE 35: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The economic entity'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 rates on classes of financial assets and liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Within 1 Year		1 to 5 Years		Non-interest Bearing		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	$	$	$	$	$	$	$	$	$	$	$	$
Financial Assets												
Cash	3.65	3.75	2,807,906	951,238							2,807,906	951,238
Receivables									10,319,713	8,718,553	10,319,713	8,718,553
Total Financial Assets			2,807,906	951,238					10,319,713	8,718,553	13,127,619	9,669,791
Financial Liabilities												
Bank overdraft	9.5	9.17	-	287,711							-	287,711
Bank loans	6.33	6.06	14,122,016	18,187,576							14,122,016	18,187,576
Trade and sundry creditors									7,899,993	6,237,027	7,899,993	6,237,027
Lease liabilities	6.93	7.33			156,278	111,550	273,450	207,116			429,728	318,666
Total Financial Liabilities			14,122,016	18,475,287	156,278	111,550	273,450	207,116	7,899,993	6,237,027	22,451,737	25,030,980

(b) Credit Risk

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

Credit risk for derivative financial instruments arises from the potential failure by counter parties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts and interest rate swaps is the net fair value of these contracts as disclosed in (c).

Except for the following concentrations of credit risks, the economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

(c) Net Fair Values

The net fair value of bank overdrafts, bank loans and lease liabilities is determined by discounting the cash flows, at market interest rates of similar borrowings ,to their present value. Their net fair value is adjusted for any costs involved in settling the instrument.

	2003		2002	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	$	$	$	$
Financial Liabilities				
Bank Overdraft	-	-	287,711	290,588
Bank Loans	14,122,016	14,263,236	18,187,576	18,369,452
Lease Liabilities	429,728	451,214	318,666	334,599
	14,551,744	14,714,450	18,793,953	18,994,639

For financial assets and other liabilities, the net fair value approximates their carrying value. Financial assets where the carrying amount exceeds the net fair values have not been written down as the economic entity intends to hold these assets to maturity.

NOTE 36 : EMPLOYEE BENEFITS

Employee Share Plans

The following is a summary of the existing employee share plans.

1)Waterco Employee Share Plan

The plan was approved by shareholders at the 1996 Annual General Meeting.
Its' object is to encourage full-time and part-time employees of the Waterco Group to acquire ordinary shares in the company in order to promote the long term success of the company as a goal shared by the employees.
All full-time and part-time employees are invited by the board to subscribe for ordinary shares in the company at the market price at the time of invitation (being the weighted average price over the 3 preceding trading days on ASX subject to adjustment by the board if it believes the price is distorted) but not less than twenty cents.
The company may extend an interest free loan to acquire the shares which is repayable within ten years or immediately if the employee leaves the company. The security given for the loan is the pledge of the shares and a charge over any benefits generated by those shares including dividends , bonus shares etc. The proceeds of these benefits are used to reduce the borrower's indebtedness to the company.
The loans are limited recourse loans meaning that if the shares are sold and the proceeds are not sufficient to meet the loan balance outstanding , the company cannot recover the difference from the borrower.

Any ordinary shares issued during the year under this plan are shown in the statement of financial position as contributed equity with the resulting debt to the company shown as non current receivables. Any residual loan amounts written off are expensed during the year. During the year 25,000 shares amounting to $37,500 were issued (at $1.50 each) and debts of $84,148 were repaid. The total number of shares issued under the plan in the current year are shown in Note 23 to the accounts.

2)Executive Performance Share Plan

This plan was set up in 1998 and approved at the Extraordinary General Meeting held on 18 December 1998.
Its objective is to motivate and retain an exceptional and dedicated management team, and to attract new , high quality executives who are able by the virtue of their position , experience and skill, to influence the generation of shareholder wealth.
The plan is open to employees declared by the board to be eligible.
These employees are invited to apply for an award of a specified number of ordinary shares in the company. The board will prescribe a date or dates on which an award becomes exercisable. The award is only exercisable subject to the performance hurdle prescribed by the board being achieved.
Each award of ordinary shares is divided into five tranches with each tranche exercisable on each of the five consecutive anniversaries of the date the award is granted subject to the performance hurdle being attained on each occasion and to the extent attained.
The performance hurdle is based on the real growth in the economic entity's Earnings Per Share in the financial year of the company immediately preceding the relevant financial year.

Growth in Earnings Per Share	Percentage of Award Exercisable
Greater than 25%	100%
Greater than 20%	50%
Greater than 15%	25%

The exercise price (if any) will be an amount determined by the board from time to time, and fixed at the date of the grant.

On 1 February 1999 , a number of senior employees were invited to apply for a total award of 1,045,000 ordinary shares in the company. Each award has been divided into five tranches with the first tranche exercisable on 1 February 2000 and subsequent tranches being exercised on each anniversary following. The exercise price shall be nil
During the year, no executives were allotted shares pursuant to this plan.

Note 36 : EMPLOYEE BENEFITS (continued)

3) Executive Share Acquisition Plan

This plan was set up in 1998 and approved at the Extraordinary General Meeting held on 18 December 1998.
The objective of this plan is to enable members of management to acquire ordinary shares in the company in lieu of other remuneration thus leading to an alignment of the financial interests of the participants with those of the shareholders.
The company may issue ordinary shares at market value (weighted average price of the company's ordinary shares traded on the ASX one week prior to issue) or purchase shares on the market at cost.
There will be restrictions on disposal of these ordinary shares of not earlier than ten years from the date of acquisition unless an employee ceases to be employed by the Waterco Group or the board exercises its discretion on a case by case basis.
During the year , no ordinary shares were acquired under this plan.

4) Directors Option Plan

The plan was set up in 1998 and approved at the Extraordinary General Meeting held on 18 December 1998.
The objective of this plan is to encourage the alignment of the directors' financial interests more closely with those of shareholders.
These options may only be exercised subject to the achievement of a performance hurdle namely the market value of the share at the time the options were granted , increased by a premium of 15% of market value.
In total ,650,000 options were granted to directors and their associates on 31 December 1998 at an exercise price of $1.16 in accordance with the rules of the plan. During the year, 230,000 options were exercised at a price of $1.16 each and an aggregate sum of $266,800 was received.

Director	Associate	Balance of Options at 30 June 2003
Soon Sinn Goh	GSS Holdings Pty Ltd	100,000*
Garry Norman	Straitswind Pty Ltd	10,000*
Stuart Lloyd	Mailun Investments Pty Ltd	10,000*
Ben Hunt	Glenhuntly Pty Ltd	10,000*
		130,000

* Options are over issued ordinary shares of the company and held by Waterco Share Plan Pty Ltd.

The closing share market price of an ordinary share of Waterco Limited on the Australian Stock Exchange at 30 June 2003 was $1.85 (30 June 2002 $1.58)

5) Contributions

During the year, Waterco Limited made contributions to Waterco Share Plan Pty Limited, being the trustee company established to administer the above share plans. The charge in the statement of financial performance in respect of shares allocated during the year is reconciled to the contribution as follows:

	2003 $	2002 $
Unexpended contribution brought forward from previous year	271,209	179,157
Add: Contributions during the year	(49,271)	97,011
Less: Deferred contribution carried forward to subsequent year	(124,368)	(271,209)
Amount charged in the statement of financial performance for shares allocated during the year	97,570	4,959

NOTE 36 EMPLOYEE BENEFITS (continued)

Waterco Limited expenses the contributions at the time the shares are allocated to participants of the various plans, being the point in time that employees acquire their beneficial right to shares. Waterco Limited has also made a provision of $558,000 for shares to be awarded in the next financial year based on the achievement of performance hurdles during this financial year.

Waterco Share Plan Pty Ltd had 154,766 Waterco Limited shares on hand at the beginning of the year and purchased 149,096 shares during the year (of which 330,000 were allocated during the year) and a balance of 73,862 are held as at 30 June 2003,until allocation of shares is made to participants of the employee share plans. These shares carry the same voting and dividend rights as any other ordinary share.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

NOTE 37 CASHFLOW INFORMATION

a) Reconciliation of Cash
For the purposes of the statement of cash flows, cash includes cash on hand and in banks net of outstanding bank overdraft and current commercial bills. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Cash at bank	2,807,906	951,238	2,081,892	186,117
Bank overdraft	-	(287,711)		(204,510)
Commercial Bills	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
	1,807,906	(336,473)	1,081,892	(1,018,393)

b) Reconciliation of cash flows from operations with profit from ordinary activities after income tax.

	Economic Entity 2003 $	Economic Entity 2002 $	Parent Entity 2003 $	Parent Entity 2002 $
Profit from ordinary activities after income tax	3,812,537	1,200,631	2,464,574	584,822
Non-cash flows in profit from ordinary activities				
Depreciation	2,069,380	2,225,949	783,087	935,792
Amortisation	60,992	57,155	35,821	31,984
(Profit)/Loss on sale of non current assets	(545,418)	195,310	(588,349)	189,681
Changes in Assets and Liabilities:-				
Trade debtors	(1,056,339)	(303,941)	1,256,974	(1,166,565)
Provision for doubtful debts	(87,777)	1,888	(30,000)	(40,000)
Other debtors	(463,546)	335,319	5,660	316,712
Inventories	2,626,128	(3,242,604)	3,336,016	(1,798,370)
Prepayments	57,573	(73,913)	111,211	(113,591)
Future income tax benefits	(208,712)	(235,652)	(117,960)	(221,312)
Expenditure carried forward	53,488	-	-	-
Trade creditors	1,312,546	1,833,251	(234,645)	598,133
Other creditors	266,413	630,549	125,862	614,766
Provision for employee Benefits	829,732	89,341	707,447	86,628
Provision for tax	1,010,648	(670,937)	1,044,706	(82,213)
Provision for deferred tax	(96,369)	(36,302)	(28,890)	(132,935)
Cashflow - Non Operating Activities :				
Dividends Received	(72)	(305)	(72)	(305)
Cash Flows used in/ (provided by) operations	9,641,204	2,005,739	8,871,442	(196,773)

	Economic Entity		Parent Entity	
	2003	2002	2003	2002
	$	$	$	$
NOTE 37 CASHFLOW INFORMATION (cont)				
c) During the financial year, two parent entity owned and operated stores were franchised: (2002 one)				
Disposal price	378,467	149,840	378,467	149,840
Cash portion of that price	378,467	149,840	378,467	149,840
Net assets and liabilities disposed				
Inventory	126,669	46,178	126,669	46,178
Plant, equipment & intangibles	251,798	103,662	251,798	103,662
	378,467	149,840	378,467	149,840
d) On 30 April 2003, Lacron UK Ltd (a subsidiary) acquired the business of Lacron Ltd				
Purchase Price	900,778	-	-	-
Cash consideration	900,778	-	-	
Assets and liabilities held at acquisition date:				
Inventories	462,250	-	-	-
Property, plant & equipment, & intangibles	462,250	-	-	
Employee liabilities	(23,722)	-	-	-
	900,778	-	-	-

e) Non Cash Financial and Investment activities

i) Property, Plant and Equipment
During the year, the economic entity acquired plant and equipment with an aggregate fair value of $246,199 by means of finance leases. This acquisition is not reflected in the statement of cash flows.

ii) Issue of Shares
During the year, the economic entity issued 25,000 shares at $1.50 each (amounting to $37,500) to an employee under the delayed loan repayment terms of the Waterco Employee Share Plan. This financing activity is not reflected in the statement of cash flows.

f) Financing Facilities
The following lines of credit were available at balance date:

	Economic Entity 2003	Economic Entity 2002	Parent Entity 2003	Parent Entity 2002
Commercial bills/bank overdraft facility	19,800,000	20,200,000	19,800,000	20,200,000
Master lease facilities	1,300,000	750,000	1,300,000	750,000
Amount utilised	12,461,400	18,004,912	12,461,400	18,004,912
Amount unutilised	8,638,600	2,945,088	8,638,600	2,945,088

The commercial bill/bank overdraft facility is due to expire on 30 November 2003. The parent entity expects to renew this facility for another three years.

WATERCO LIMITED ABN 62002070733
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 2 to 29 , 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 2003 and of the performance for the year ended on that date of the company and economic entity;

2. in the director's 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 made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Soon Sinn Goh
Managing Director

Dated at Sydney this 29th day of August 2003

Bentleys mri Sydney Partnership

Chartered
Accountants &
Business Advisors

ABN 27 526 269 695

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31 Market Street Sydney NSW 2000

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INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF
WATERCO 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 both Waterco Limited and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

We conducted an independent audit 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 judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects that 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 and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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

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Independence

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

Audit opinion

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

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

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

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Sydney Partnership

ROBERT RYAN
Partner

Dated at Sydney this 29th day of August 2003