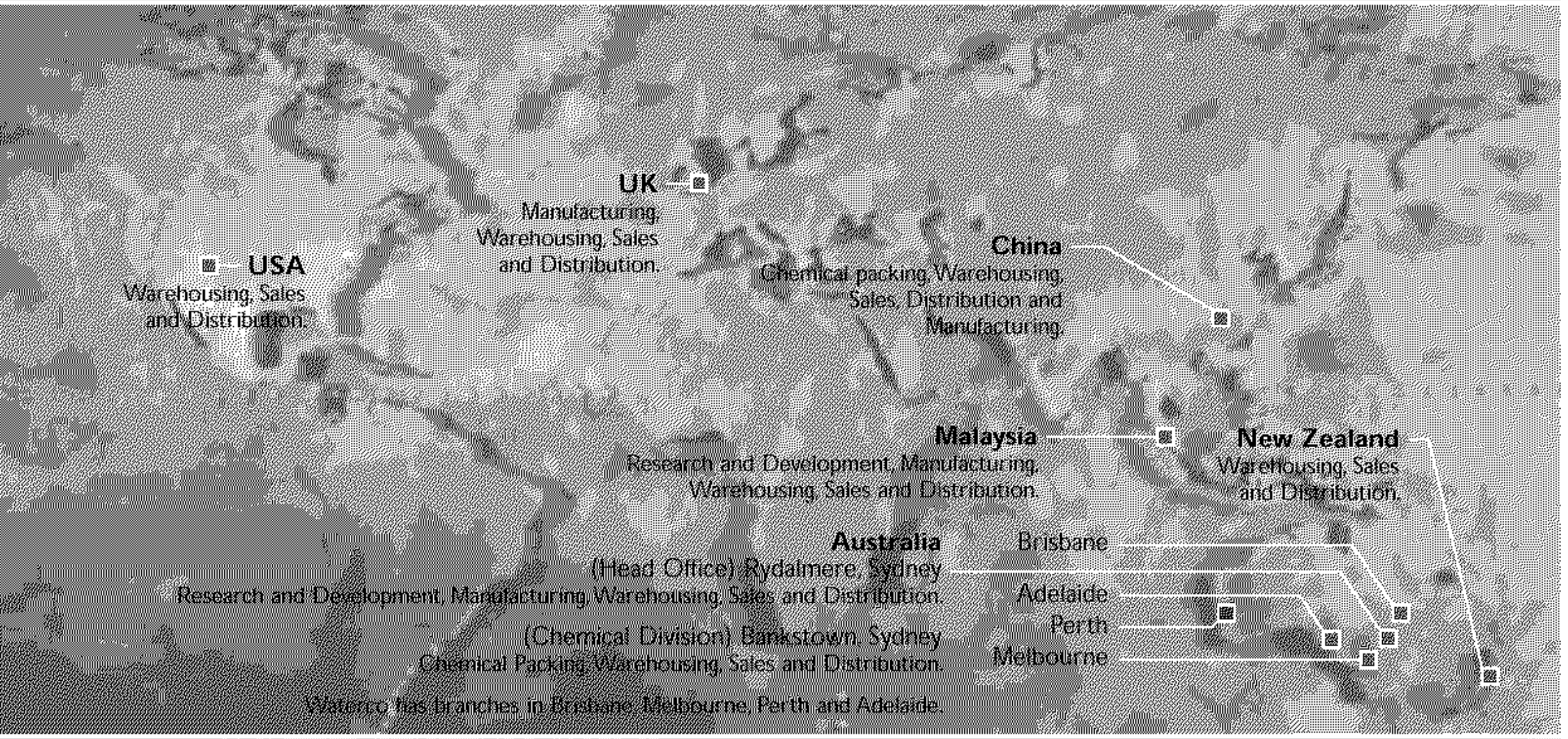
2004 Annual Report

WATERCO

Contents

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Waterco Limited A.B.N. 62 002 070 733 will be held at **Carlton Hotel, 350 Church Street, Parramatta NSW 2150 on Tuesday 9 November 2004 at 3.00pm.**



Waterco plays an integral role in the water treatment industry.

We manufacture and distribute a wide range of water treatment equipment, accessories, chemicals and chemical dispensers from our worldwide offices – Australia, New Zealand, Malaysia, The United Kingdom, USA and China.

In Australia, our offices are located in New South Wales, Queensland, Victoria, South Australia and Western Australia.

Through these and our global network of distributors, we export both products and technology to more than 40 countries.

Our retail brand, Swimart is the largest Australian pool shop chain with 52 outlets.

In Malaysia, our water treatment products are sold through another of our own retail brand, Watershoppe.

Our manufacturing locations are in Australia, Malaysia, The United Kingdom and China.

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Multiplex Contructions - Australia

Shipping containers being used as settling tanks prior to filtration through SMDD 900. The site is being dewatered during the construction of a 17 storey retail/residential development next to the Canning river. The site is being monitored by the EPA and the Water and Rivers commission to ensure that high Iron levels are not discharged into the river.

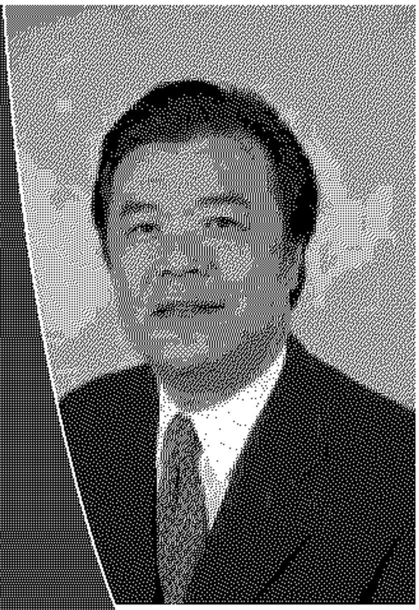
Swimart - Sydney, Australia

Swimart Ramsgate, our newest store in the buoyant Sydney market, opened in January this year. The store incorporates the latest fitout design and services the many pool owners in the Ramsgate area.

Seaworld - Queensland, Australia

Waterco equipment is being utilised to pump and filter the water flowing through various Seaworld attractions. The Quarantine area utilises 3 x Hydrostorm 250 pumps, these pumps run for 24 hours a day, the water flowing through them is salt water, treated with ozone and has a higher than normal pH level.

Managing Director's Review of Operations



RECORD SALES REVENUE AND PROFIT

Improved sales performance in Asia, Australia and Europe helped Waterco achieve record total sales in 2003/4. Sales Revenue increased six per cent over 2002/3, a pleasing result even though it was below the figure anticipated at the beginning of the year.

We are delighted to report a record profit of $5.4 million. Strong financial management helped improve margins in Australian operations and achieve economies of scale from our manufacturing facilities in Malaysia.

Excluding foreign exchange fluctuations and the sale of property in the previous year, the EBIT (earnings before interest and tax) margin improved to 10.6 per cent from 10.1 per cent in 2002/3. This was despite losses in New Zealand and Europe.

Your directors have declared a final dividend of 9.0 cents fully franked (2002/3: 7.0 cents), payable to shareholders on 8 November 2004. This brings total dividends for the year to 15.0 cents (2002/3: 13.0 cents).

BUILDING AN INTERNATIONAL GROUP

In 2003/4, Waterco strengthened its international position as a developer, manufacturer and marketer of water treatment and filtration products, for both commercial and domestic markets. We now export to 40 countries from manufacturing facilities in Australia, China, Malaysia and the United Kingdom. In addition, we have offices in New Zealand and the United States.

In Australia and New Zealand, we distribute our products through the Swimart franchise network and in Malaysia we distribute our water treatment products through our Watershoppe franchise network. In Europe, we market under the Waterco Europe and Lacron brands, having acquired Lacron, Britain's leading manufacturer of pressure sand filters, in 2003.

Key achievements during the year include development of new manufacturing facilities, a strengthened balance sheet and increased research and development.

Increased manufacturing capability

The company has taken advantage of regulatory changes in China and Malaysia to build new factory and office facilities. In China, we are building an 11,000 square metre factory and office in the Guangzhou new economic zone, on land purchased from the Chinese Government and on terms that entitle us to an extension of income tax exemption and concessions of five years. We are also building a manufacturing facility of 18,000 square metres in Malaysia to cater for growth in Europe and the United States.

Capital raising and acquisitions

During the year, we raised $2.97 million through an equity placement to professional investors to strengthen the company's balance sheet and fund organic growth and possible acquisitions. This helped to expand the shareholder base and increase share liquidity and, at the right time, we will raise additional capital to fund further growth in areas of water treatment.

Research and development

We continue to invest in research and development to ensure that our products provide exceptional value. This includes development of high-pressure filters, commercial pumps and greywater recycling systems for commercial markets. Greywater is water from wash basins, baths and showers that can be treated and re-used in the home and commercially to flush toilets, wash cars and water gardens. There is increasing interest in recycling water in this way in Australia, northern China and in other markets.

Striving for operational excellence

Our international expansion has enabled us to benefit from economies of scale, stronger supply lines and product diversification.

We have consolidated acquisitions in the key areas of chemicals and pool equipment, franchising and commercial water treatment. We are also investing in manufacturing and in new processes to support increasing demand from customers, allowing factories to operate more efficiently.

Chemicals and equipment

Our Australian operations, which generate 73 per cent of our revenue, produced a good result, although sales were below expectation. The strong Australian dollar increased the attractiveness of imports and enabled customers to demand lower prices, resulting in lower sales. Unusually cool weather also reduced quantities of chemicals sold, contributing to lower revenue, although strong growth in sales to Swimart franchisees and improved sales to pool builders indicated an increase in overall market share. An increase in production in our chemical packaging plant in China saw a reduction of output from our Bankstown plant.

Equipment sales, which have a higher margin than chemicals and did not face the same competitive pressures, were on par with the first half of the previous year and improved in the second half.

Franchising

The franchising division recorded one of its best years for revenue growth. There are now 52 Swimart stores in Australia, including two in Newcastle acquired after balance date, and four in New Zealand. Swimart continues to underpin the performance of the group and total sales to this sector exceeded 2002/3 by 17 per cent.

Sales in New Zealand were below expectation and changes during the year resulted in one-off costs which led to a small loss for the division.

COMMERCIAL WATER TREATMENT

In recent years, the Commercial Water Treatment Division has become the most significant contributor to Waterco's growth and now comprises 13 per cent of total group sales.

Our high-pressure commercial filters provide a significant entry opportunity into the general water treatment market. They are used extensively to treat drinking water in Asia, removing the rust from galvanised pipes and other sediments that cause discolouration. We are also developing a range of commercial pool pumps, which can also be used in water treatment systems.

Aquaculture has become an important market, as our swimming pool expertise has helped design mass-produced, economically priced pumps and filters to replace metal products, which corrode over time. For the same reasons, businesses are using Waterco filters in water-cooling towers for air-conditioning, treating recirculated water to reduce incidence of Legionnaires Disease.

Greywater treatment

Our improved manufacturing base has enabled us to explore mass production of greywater recycling equipment, which share common components with swimming pool water treatment systems. The treatment of swimming pool water is principally recycling or recirculation of water.

Greywater needs to be bacteria-free to prevent infection and the equipment that traditionally has been used is often expensive and uneconomic and usually is installed only at the insistence of local municipal authorities.

We are negotiating to introduce our equipment in public car washes and, while no significant financial contribution is expected in 2004/5, we anticipate a growing worldwide market.

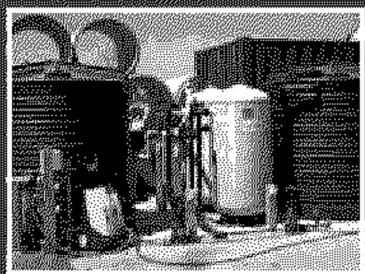
Poultry Farm - Melaka, Malaysia

6 x Micron W500 fiberglass filters filtering ground water at a poultry farm.

Good Fortune Bay Fisheries - North Queensland, Australia

A distributor of Tiger Prawns for the international hotel and restaurant trade. The farm contains 10.5 Megalitres in various ponds supported by numerous 3.5hp three phase Hydrostorm pumps and Micron S702 filters.

Mitchell Corp - Kewdale, Western Australia



2 x SMDD750 Micron Filters in series installed in a water recycling plant, removing suspended solids and hydrocarbons for a truck washing application. The first filter contains Anthracite and the second filter contains activated carbon.

REGIONAL DISTRIBUTION

In the United States, first half sales were promising but several major customers cut their orders in the second half to reduce inventory. This was offset by increased sales to the general trade.

In Europe, stronger sales to new and existing customers demonstrated that, after consolidating Lacron, we have achieved a strong beachhead for future sales growth. Changes to achieve greater synergies resulted in one-off costs, contributing to a loss for the year but we expect our European business to be profitable in 2004/5.

In China, sales of swimming pool pumps and filters were strong and most of the filters were made in the new facilities at Guangzhou. In South East Asia, particularly in Malaysia and Thailand, sales of household filtration systems contributed significantly to our results.

We have increased capacity for our Plastic Injection Moulding Division in Malaysia. Worldwide sales of pumps now allow facilities that lay idle during the Australian winter to be used year-round and the division's profit is healthy. Increased commitment to China and Malaysia enabled us to close our Hong Kong office at the end of 2003.

OUR FUTURE

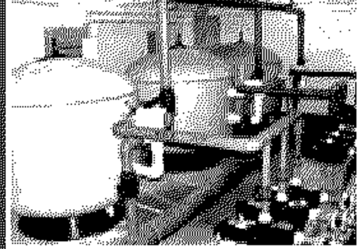
We have in place many of the building blocks necessary to establish Waterco as an international leader of water treatment products, for both commercial and domestic markets. We will continue to expand our operations through providing quality products and services and through strategic acquisitions that can contribute to the company's growth.

Waterco's success would not be possible without the commitment of its people and I would like to thank our staff for their efforts. We now employ 479 people in 6 countries, compared with 211 people in 5 countries eight years ago. This demonstrates our growth in recent years. Our continued progress attests to the expertise and dedication of our staff.

Lacron - UK

We have enhanced our position within the European market with the addition of new state-of-the-art filament winding equipment operating within our UK plant. Consolidating this further, Lacron has also set up a pump assembly line supplying direct to the European market.

Guangzhou Fiscal & Tax College Swimming Pool - Guangzhou, China



3x Micron SM1600 filters and 9 x Hydrostorm 3.0hp pumps

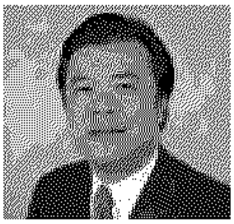
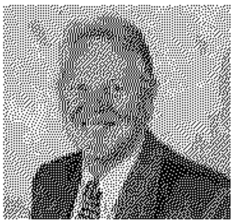
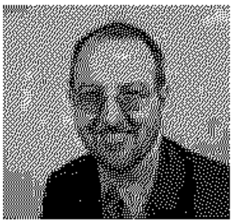
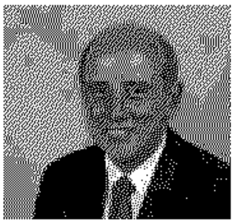
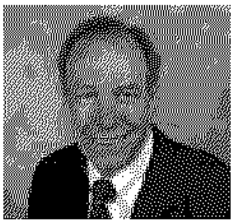
Waterco Manufacturing - Malaysia

Plastic Injection Moulding machinery

Economic Entity Financial Highlights

	2004 $	2003 $	2002 $	2001 $	2000 $	1999 $	1998 $
Operating revenue ($million)	74.47	71.48	61.01	56.19	46.58	41.98	40.5
Sales revenue ($million)	73.77	69.67	59.48	55.63	45.22	40.7	37.8
Earnings Before Interest and Tax (EBIT)	8,059,763	6,510,696	2,998,279	4,994,100	5,458,660	4,415,766	3,999,148
EBIT / Sales Revenue	10.93%	9.35%	5.04%	8.98%	12.07%	10.85%	10.57%
Profit from ordinary activities before income tax	7,120,887	5,310,035	1,795,746	3,765,014	4,740,966	3,799,268	3,294,225
Net profit attributable to Members of the Parent Entity	5,413,954	3,898,964	1,184,937	2,613,216	3,212,667	2,628,224	1,965,901
Total assets ($million)	56.02	47.11	47.18	44.55	35.61	31.3	29.5
Equity	32,959,587	21,328,399	20,560,630	21,628,021	19,270,279	17,466,867	14,509,218
Basic Earnings per share	26.7 cents	20.6 cents	6.3 cents	14.2 cents	17.8 cents	15.4 cents	12.10 cents
Dividend per share	15.0 cents	13.0 cents	11.0 cents	11.0 cents	10.0 cents	9.0 cents	7.0 cents
Net Tangible Assets per share	$1.54	$1.11	$1.06	$1.13	$1.04	94.4 cents	86.3 cents

Board of Directors

SOON SINN GOH BRUCE LEITCH GARRY NORMAN STUART LLOYD BEN HUNT

SOON SINN GOH - FCPA
Chairman/Managing Director

Mr Goh is the founder of Waterco Limited. He has been a member of the Board since the Company's incorporation in February, 1981. Prior to the inception of Waterco, he was the Managing Director of a company specialising in the construction of water and sewage treatment facilities. His extensive experience in the water treatment industry is instrumental to the success of Waterco.

BRUCE LEITCH
Marketing/Sales Director

Mr Leitch was appointed to the Board in November 1992. He has a strong background in sales and marketing in both Australia and overseas. He has twenty four years' experience in the pool industry, seventeen of them with Waterco. Mr Leitch has overall responsibility for group sales throughout Australia, New Zealand and USA and is also responsible for the growth and development of the Swimart franchising and Zane solar pool heating businesses.

GARRY NORMAN - B COM CA
Non-Executive

Mr Norman was appointed to the Board as a non executive director in October 1993. He is the principal of the chartered accountancy firm G R Norman and Co. He has a solid background in accountancy, having worked for fourteen years with Duesburys Chartered Accountants, where prior to his departure, in order to establish his own firm, he was a manager of the Business Services Division. He is the Chairman of the Audit Committee and a member of the Remuneration Committee.

STUART LLOYD - FCA
Non-Executive

Mr Lloyd was appointed to the Board as a non executive director in November 1994. He is a Fellow of the Institute of Chartered Accountants in Australia, and a member of CPA Australia. He is the Chairman of the Remuneration Committee and a member of the Audit Committee. He has practised as a professional accountant in his own firm since 1982, and is also a director of companies involved in IT Services and Specialised Security and SmartCard Technologies.

BEN HUNT - PHD (ANU)
Non-Executive

Professor Hunt was appointed to the Board as a non executive director in June 1998. He is the Associate Dean (Teaching & Learning) of the Faculty of Business and and an Associate Professor of Finance at the University of Technology, Sydney (UTS). He has a doctorate from the Australian National University. In addition to his role as a lecturer, teacher and administrator at UTS, Professor Hunt is a Director of Protango Computing, a development house that specialises in financial software. Although Professor Hunt has written extensively on Australian financial markets, his knowledge extends to the South East Asian region. He is a regular presenter of financial seminars in Hong Kong and Singapore for Euromoney. He is a member of the Audit Committee and of the Remuneration Committee.

This statement sets out the corporate governance practices that the company had in place during the financial year ended 30 June 2004.

In compliance with ASX Listing Rule 4.10, this statement:

- discloses the extent to which the company has followed the ASX Best Practice Recommendations during the financial year; and
- identifies those recommendations which have not been followed, and the reasons for not following them.

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board

The Board oversees the business and operations of the company directly or through its committees with particular focus on and responsibility for:

- developing and approving strategies designed to ensure the controlled growth and success of the entity;
- the monitoring of senior management's strategy implementation and performance;
- ensuring that the necessary resources are available to allow effective strategy implementation by senior management;
- monitoring of the company's control and accountability systems;
- reviewing and adopting annual budgets for the financial performance of the company and monitoring the results on a regular basis;
- monitoring and approving any other necessary reporting, financial or otherwise;
- ensuring the company has implemented adequate systems of internal controls and risk management strategies together with appropriate monitoring of compliance activities; and
- approving and monitoring fundamental areas of the company's financial operation, including major capital expenditure and capital management.

To date, the Board has not published a "Board Charter" but it has used the company's annual report to publish the responsibilities of the Board.

Some responsibilities and authorities have been delegated to senior management for the purposes of operating the company's day to day activities.

In accordance with the ASX Best Practice Recommendations, some further responsibilities have been delegated to the company's committees. Satisfaction of these responsibilities is monitored by the Board by way of established lines of communication between the Board and the committees.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Board Composition

The Board of Directors comprises of an Executive Chairman who is also the Chief Executive Officer, an Executive Director and three Non-Executive Directors. The Board views each of the three Non-Executive Directors as being independent.

The Boards membership is reviewed periodically as deemed necessary to ensure that it maintains an appropriate mix of skills, qualifications and experience. At each Annual General Meeting one third of the Directors (excluding the Managing Director) and any director appointed to fill a casual vacancy during the previous year must retire but may stand for re-election.

The Board has adopted the principle that it will comprise at least five directors at any time, and will maintain a majority of Non-Executive (and, where possible, independent) Directors.

Directors

The names of the directors in office during and since the end of the financial year are:

- Soon Sinn Goh
- Bruce Leitch
- Garry Norman
- Stuart Lloyd
- Ben Hunt

All Directors have been in office since the start of the financial year.

The details of the directors' qualifications and experience are included in the Board of Directors.

Independent Directors

A majority of the Board – Garry Norman, Ben Hunt, and Stuart Lloyd – are independent directors, taking into account the guidelines set out in Box 2.1 in Principle 2 of the ASX Guidelines. The company's materiality threshold for assessing the materiality of directors' other relationships with the company is conducted on a case by case basis by the Board. Where an entity associated with a Director provides services to the company, the Board uses a threshold of $100,000 in fees in a financial year as a guideline. However the Board does not follow an inflexible set of criteria, but considers whether the relationship in question is one reasonably likely to interfere with that director's independent judgement. Although the ASX Guidelines identify longevity of appointment as potentially affecting a director's independence, the Board does not believe that this is a relevant concern for any of the three Non-Executive directors.

The company's directors have the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors. This right is subject to prior approval of the Chairman. In the light of the fact that all directors are aware of this right, the Board is of the opinion that a more formal procedure for directors to seek independent legal advice need not be established at this time.

Chairperson of the Board

The roles of Chairperson and Chief Executive Officer are both held by Mr Goh. The Board believes that Mr Goh brings a vital level of experience in relation to the industry and the operations of Waterco itself to both of these roles. Also, as the major shareholder of Waterco, Mr Goh's commitment to the success of Waterco is unquestionable. Therefore it is the Board's opinion that it is appropriate in the company's circumstances that the two roles be combined. With three of the Board's five Directors being independent, and with Independent Directors chairing the Audit and the Remuneration Committees, the Board is also of the opinion that it is not necessary that the office of Chairperson be held by an independent director.

Nomination Committee

The company has not established a Nomination Committee. The Board notes that ASX Guidelines acknowledges that such committees are more appropriate in large companies and is of the opinion that it is appropriate in a public company the size of Waterco for the Board as a whole to fulfil this role.

PRINCIPLE 3 – PROMOTE ETHICAL DECISION MAKING

The company has not yet published a code of conduct for directors and key executives that specifically addresses all the issues referred to in Box 3.1 in Principle 3. However, the Board does seek to discharge its responsibilities in line with the highest of ethical standards, and through the company's senior management, the Board promotes ethical behaviour throughout the organisation. For example:

- there is a published policy within the organisation on accepting gifts,
- employees' letters of appointment emphasise their obligations to protect the company's confidential information, not to misuse company property, to act responsibly in matters of health and safety and to conduct themselves ethically and lawfully;
- the company's Audit Committee has responsibility for encouraging the reporting by employees of matters of concern; and
- these matters are reinforced in the company's induction processes for new employees.

The Board intends to formalise a code of conduct during the coming financial year.

Previous employee share plans operated by the company have included trading restrictions on employees. Since May 2004 a draft share trading policy regarding the trading of securities by employees, officers and directors of the company has been circulated within the company. The share trading policy is still being finalised, and the policy or a summary of key provisions will be made publicly available on the company's website after the final version has been ratified by the Board.

PRINCIPLE 4 - SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

CEO/CFO signoffs

At the Board meeting at which the 2004 financial reports were approved, the Managing Director advised the Board that he was satisfied that:

- the company's financial reports presented a true and fair view, in all material respects, of the company's financial condition and the operational results and that they had been prepared in accordance with the relevant accounting standards; and
- the company's financial reports were founded on a system of risk management and internal compliance and control which implements the policies adopted by the Board, and that this system is operating efficiently and effectively in all material respects.

The company's Chief Accountant did not provide such a confirmation, as his responsibilities as Chief Accountant relate to the company and its Australian subsidiaries, whereas the CEO has oversight of the company's overseas subsidiaries as well as the Australian operations. For the purposes of Principles 4.1 and 7.2, the Board regards the Managing Director as fulfilling the roles of CEO and CFO.

Audit Committee

The Audit Committee operates under a charter approved by the Board of Directors. This has not previously been published on the company's website due to technical limitations. The company's website has recently been upgraded so the Board anticipates publishing more corporate governance material in future, including the Audit Committee charter.

The role of the Audit Committee is to oversee the existence and maintenance of internal controls, accounting systems, and the financial reporting process. The Committee also nominates external auditors, reviews existing audit arrangements and co-ordinates external and internal auditing functions. In addition, the Audit Committee examines any other matters referred to it by the Board.

Throughout the last financial year (and to the date of this report) the Audit Committee consisted of three independent directors, and was headed by an independent chairperson not holding the position of chairperson of the Board.

The members of the Audit Committee during the last financial year were:

- Garry Norman – Chairman
- Stuart Lloyd
- Ben Hunt

The number of Audit Committee meetings and details of Committee members' attendance are included in the **Directors' Report.**

PRINCIPLE 5 - MAKE TIMELY AND BALANCED DISCLOSURE

The company has not prepared a written policy for compliance with ASX Listing Rule disclosure requirements.

The Board has delegated responsibility for compliance with disclosure requirements to the company secretaries, who work in conjunction with the company's senior management to ensure ASX Listing Rule disclosure requirements are satisfied.

The company secretaries are required to:

- keep themselves informed and up to date regarding the type of information that must be disclosed;
- notify senior management of any developments in disclosure requirements;
- promote an understanding of disclosure requirements within the company;
- monitor and note compliance with disclosure requirements;
- monitor and review the safeguarding of company information to avoid premature disclosure;

monitor and/or manage external communication lines such as media releases and shareholder queries.

The Board undertakes to provide the secretaries and senior management with the necessary resources to ensure that all disclosure requirements are met in a timely and balanced fashion.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

The company has not yet published a communications strategy. However the Board is reviewing its methods of communication with shareholders, with a view to formalising this process in writing in the current financial year.

The Board requests that the external auditor attend the annual general meeting for the purpose of answering shareholder questions regarding the conduct of the audit and the preparation and content of the audit report.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Until now, the Board has not considered it necessary to draft a formal policy regarding risk oversight and management. The Board believes that, in conjunction with the work done by the Audit Committee, and the company's internal review function, the Board and senior executives of the company are in a good position to review and assess the company's business risk levels.

However the Board intends to revisit the issue of expanding on its existing policies by publishing a risk management policy in the current financial year.

PRINCIPLE 8 – ENCOURAGE ENHANCED PERFORMANCE

The Board is committed to an ongoing internal process of performance evaluation of the Board, its committees, individual directors and key executives to ensure the diligent and effective discharge of responsibilities and a consistent mindset of improving corporate governance practices.

PRINCIPLE 9 – REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration of Directors and Key Executives

The company operated under a draft remuneration policy during the financial year. The policy was under review, as the Board was exploring alternative forms of short-term and long-term incentives due to the company's previous share plans, the Waterco Performance Share Plan, the Waterco Employee Share Plan (non recourse loan), and the Directors' Option Plan reaching the end of their respective terms. The company's revised remuneration policy is currently being settled by the Board, and will be in place during the coming financial year.

In constructing, reviewing and determining the remuneration policy for executive directors and the senior executive team, the Remuneration Committee has considered a number of factors including:

- the importance of attracting, retaining and motivating management of the appropriate calibre to further the success of the business;
- linking pay to performance by rewarding effective individual achievement as well as business performance; and
- the mix within the package which is designed to align personal reward with shareholder value over both the short and long term.

The executive directors' and the senior executive team's packages consist of four components:

- salary
- short-term incentives
- long-term incentives
- benefits

Details of directors' remuneration, and remuneration of the company's five highest paid (non-director) executives are contained in Note 5 to the Financial Statements.

The company's draft remuneration policy, the essential elements of which have been in operation throughout the financial year and which is intended to be finalised and ratified by the Board for the coming financial year, is founded upon the following objectives:

- ensuring a direct link between remuneration and corporate performance. Key performance indicators will apply to deliver results to the company;
- making remuneration decisions that are appropriately balanced between market factors, organisational factors and individual factors;
- ensuring that remuneration is linked to the creation of value to shareholders;
- ensuring that both financial and non-financial performance are rewarded; and
- integrating remuneration principles into the performance management system

This remuneration structure is intended to deliver the following outcomes, identified in the IFSA Executive Share and Option Scheme Guidelines:

- ensuring that total remuneration is reasonable, taking into account the responsibilities and commitments of the executive;
- aligning executives' interests with those of shareholders, by setting benchmarks based on improved company performance. The CEO Share Plan, approved in November 2003, and the Executive Performance Share Plan approved in December 1998 contains performance hurdles based on improved company performance. Depending on the extent to which those hurdles are met, participants may be entitled to access none, some, or all of the shares allocated to them under the Plans;
- ensuring that the number of shares or options issued under incentive schemes are a reasonable proportion of total issued capital; and
- ensuring that shareholders understand the costs and benefits of the remuneration.

An amount not exceeding $200,000 has been set aside for discretionary bonuses for executives relating to the company's improved financial performance in the financial year ending 30 June 2004. This amount has not yet been allocated among the employees in question. The allocation will be based on a recommendation by the Managing Director in consultation with the Remuneration Committee, and subject to approval by the Board.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on remuneration packages and policies for the Executive Directors and the senior executive team. The Remuneration Committee which was in operation before and during the whole of the financial year ended 30 June 2004 has had a draft charter since August 2003.

Throughout the last financial year (and to the date of this report), the Remuneration Committee consisted of three independent directors, and was headed by an independent chairperson not holding the position of chairperson of the Board.

The members of the Remuneration Committee during the year were:

- Stuart Lloyd – Chairman
- Garry Norman
- Ben Hunt

The number of Remuneration Committee meetings and details of Committee members' attendance are included in the Directors' Report.

Remuneration of non-executive directors

Remuneration of the company's non-executive directors is determined by the Board, upon receipt of advice from external consultants. Non-executive directors were allocated options in the financial year just ended, comprising the last of five tranches originally granted in 1998. There is no proposal to offer options to non-executive directors in the current financial year. Non-executive directors are not entitled to any retirement benefits other than statutory superannuation.

Equity-Based Remuneration

During the last financial year, shares were offered, bought for or issued to executive directors and senior executives under:

1. the "Exempt" and "Deferred" plans, which commenced in 1 July 2002 and continued to operate throughout the financial year just ended. All employees, including executives are eligible to participate;
2. the Directors Option Plan, which ceased to operate on 31 March 2004;
3. the Performance Share Plan, which ceased to operate on 20 March 2004; and
4. the CEO Share Plan.

All awards and issues of shares were within the thresholds set out in the relevant shareholder approvals. Details of the value of shares offered, bought or issued are included under "Incentives" in Note 5 to the Financial Statements.

PRINCIPLE 10 – RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

At this time, the company has not published a code of conduct in relation to the company's compliance with its legal and other obligations to its legitimate stakeholders. The Board believes that the Board and senior executives of the company are in a good position to ensure legal compliance and protect stakeholder interests. Many of the matters outlined in Box 10.1 are addressed in specific policies of the company (such as its occupational health and safety and environmental policies, letters of appointment, share trading policies and gift policies). However the Board intends to revisit the issue of publishing a code of conduct in the current financial year

Directors' Report

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2004.

Directors

The names of directors in office during or since the end of the financial year are:
Soon Sinn Goh
Bruce Leitch
Garry Norman
Stuart Lloyd
Ben Hunt

Directors have been in office since the start of the financial year unless otherwise stated. For details of the directors' qualifications and experience, refer to the Board of Directors which is to be read as part of this report.

Principal Activities

The principal activities of the economic entity during the financial year were:

- Wholesale, export and manufacture of equipment and accessories in the swimming pool, spa pool, spa baths, rural pumps and water treatment industries;
- Manufacture and sale of solar heating systems for swimming pools and pre-heat industrial solar systems;
- Franchise of retail outlets for swimming pool equipment and accessories.
- Packing and distribution of swimming pool chemicals to pool shops, supermarkets and hardware chains.

Operating Results

The consolidated result for the year in review was a profit of $5,413,954.

Dividends Paid or Declared

Dividends paid or declared for payment are as follows:

Final ordinary dividend of 7 cents per share paid on 6 November 2003 as recommended in last year's report $1,419,926

Interim ordinary dividend of 6 cents per share paid on 30 April 2004 $1,253,079

Final ordinary dividend of 9 cents per share declared by the directors to be paid on 8 November 2004 $1,879,619

All dividends paid or declared since the end of the previous financial year were fully franked.

Review of Operations

A review of operations of the economic entity during the financial year and of the results of those operations together with likely developments in the operations of the economic entity and the expected results of those operations are set out in the Managing Director's Review of Operations.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

(i) On 24 September 2003 the company issued 1,350,000 ordinary shares at $2.20 each by way of placement to fund possible acquisition opportunities and overseas expansion plans

(ii) On 5 December 2003 the company issued 500,000 ordinary shares at $2.35 each to Mr Soon Sinn Goh under the Waterco CEO Share Plan.

(iii) On 20 February 2004 the company issued 100,000 ordinary shares at $2.7403 each to Mr Soon Sinn Goh under the Waterco Directors Option Plan.

The directors are not aware of any other significant changes in the state of affairs of the economic entity that occurred during the financial year which have not been covered elsewhere in this report.

After Balance Date Events

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

Likely Developments

Information as to likely developments in the operations of the economic entity are included in the Managing Director's Review of Operations. Other possible developments have not been included in this report as such inclusions would, in the opinion of the directors, prejudice the interests of the economic entity.

Environmental Issues

The entity's operations are subject to some environmental regulations under the law of the Commonwealth and State, particularly with regard to the storage of chemicals and waste management. The consolidated entity has adequate systems in place for the management of its environmental requirements. The directors are not aware of any breaches of the environmental regulation during the financial year.

Share Options

There are no options outstanding at the date of this report. No new option was granted during or since the end of the financial year. During the year ended 30 June 2004, 130,000 shares have been allocated by virtue of the exercise of options granted under the Directors Option Plan.

Directors' Shareholding

Directors	Fully Paid Ord Shares	Share Options
Mr S S Goh	9,453,345	0
Mr B Leitch	348,110	0
Mr G Norman	85,000	0
Mr S Lloyd	82,000	0
Prof B Hunt	126,800	0

Directors' and Executive Officers' Remuneration

Disclosure relating to directors of the parent entity and each of the five executive officers receiving the highest emoluments for the parent and economic entity has been included in Note 5 to the Financial Statements.

Meetings Of Directors

During the financial year, 19 meetings of directors (including Audit and Remuneration Committees) were held. Attendees were:

Director	Directors' Meeting		Audit Committee Meeting		Remuneration Committee Meeting	
	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended
Mr S S Goh	7	7	--	--	--	--
Mr B Leitch	7	6	--	--	--	--
Mr G Norman	7	7	8	8	4	4
Mr S Lloyd	7	7	8	8	4	4
Prof B Hunt	7	7	8	7	4	4

Directors' and Officers' Indemnification

During or since the financial year, the company has paid premiums to insure all directors and officers 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 or officer of the company, other than conduct involving a wilful breach of duty in relation to the company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify a director or officer of the company or any related body corporate against a liability incurred as an officer.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the parent entity, controlled entity, or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest other than;

(i) Payments made by a controlled entity to Goh Lai Huat & Sons Sdn Bhd, of which Mr S S Goh is a director and shareholder, for rental of warehouse and offices by Waterco (Far East) Sdn Bhd.
(ii) Sales made and commissions paid by a controlled entity to Asiapools (M) Sdn Bhd, of which Mr S S Goh is a shareholder.
(iii) Payments made to Mint Holdings Pty Ltd, of which Mr S S Goh is a director and shareholder, for rental of warehouses and offices.
(iv) Payments made to IT Easy Pty Ltd, of which Mr S Lloyd is a director and shareholder, for consulting and project management in relation to Waterco's IT system.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the company's accounts or the fixed salary of a full-time employee of the parent entity, controlled entity or related body corporate.

Proceedings on Behalf of 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.

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

SOON SINN GOH

Managing Director

26 August 2004

Statement of Financial Performance
FOR THE YEAR ENDED 30 JUNE 2004
WATERCO LIMITED AND CONTROLLED ENTITIES

	Note No.	Economic Entity 2004 $	Economic Entity 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Revenues from ordinary activities	2	**74,473,597**	71,475,281	**57,224,537**	59,626,538
Changes in inventories of finished goods and work in progress		**(3,125,091)**	2,525,986	**(1,936,244)**	3,289,989
Raw materials and consumables used		**(36,697,810)**	(41,949,570)	**(30,551,369)**	(38,556,000)
Employee benefits expense		**(11,519,838)**	(10,615,560)	**(3,562,102)**	(3,740,446)
Depreciation and amortisation expense	3	**(1,172,569)**	(1,238,483)	**(822,169)**	(818,908)
Borrowing costs expense		**(938,876)**	(1,200,661)	**(923,805)**	(1,186,643)
Advertising expense		**(1,416,396)**	(1,199,394)	**(744,268)**	(764,322)
Discounts allowed		**(1,588,311)**	(1,963,106)	**(1,579,199)**	(1,916,059)
Outward freight expense		**(2,273,661)**	(2,055,195)	**(1,832,993)**	(1,780,321)
Rent expense		**(1,995,550)**	(1,352,173)	**(1,093,800)**	(867,752)
Contracted staff expense		**(1,024,068)**	(803,886)	**(1,023,846)**	(793,727)
Intercompany labour cost		-	-	**(4,696,992)**	(4,855,165)
Warranty expense		**(583,305)**	(522,059)	**(270,481)**	(231,983)
Commission expense		**(391,152)**	(282,754)	**(340,980)**	(415,908)
Other expenses from ordinary activities		**(4,626,083)**	(5,508,391)	**(1,736,950)**	(3,136,181)
Profit from ordinary activities before income tax expense	3	**7,120,887**	5,310,035	**6,109,339**	3,853,112
Income tax expense relating to ordinary activities	4	**1,752,541**	1,497,498	**1,740,198**	1,388,538
Profit from ordinary activities after related income tax expense		**5,368,346**	3,812,537	**4,369,141**	2,464,574
Net Profit		**5,368,346**	3,812,537	**4,369,141**	2,464,574
Net loss attributable to outside equity interests	33	**45,608**	86,427	-	-
Net profit attributable to members of the parent entity		**5,413,954**	3,898,964	**4,369,141**	2,464,574
Increase in asset revaluation reserve	25(c)	**4,814,454**	-	**4,814,454**	-
Net exchange difference on translation of financial reports of self-sustaining foreign operations	25(b)	**(163,953)**	(1,000,706)	-	-
Total revenue, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity		**4,650,501**	(1,000,706)	**4,814,454**	-
Total changes in equity other than those resulting from transactions with owners as owners		**10,064,455**	2,898,258	**9,183,595**	2,464,574
Basic earnings per share (cents per share)	32	**26.7**	20.6		
Diluted earnings per share (cents per share)	32	**26.7**	20.6		

The accompanying notes form part of these financial statements.

Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2004
WATERCO LIMITED AND CONTROLLED ENTITIES

		Economic Entity		Parent Entity	
	Note No.	2004 $	2003 $	2004 $	2003 $
Current Assets					
Cash assets		**1,423,607**	2,807,906	**761,326**	2,081,892
Receivables	6	**9,009,506**	10,319,713	**4,315,673**	4,813,041
Inventories	7	**20,039,806**	16,711,293	**11,272,461**	9,239,261
Other	8	**690,304**	535,045	**448,043**	432,508
Total Current Assets		**31,163,223**	30,373,957	**16,797,503**	16,566,702
Non-Current Assets					
Receivables	9	**1,595,800**	494,558	**13,532,853**	7,365,989
Other financial assets	10	-	-	**4,000,230**	3,167,989
Property, plant & equipment	12	**21,136,480**	14,746,753	**15,530,612**	10,608,348
Intangible assets	13	**790,152**	395,833	**437,850**	256,415
Deferred tax assets	14	**1,329,678**	1,100,398	**833,606**	691,862
Other	15	**3,067**	-	-	-
Total Non-Current Assets		**24,855,177**	16,737,542	**34,335,151**	22,090,603
Total Assets		**56,018,400**	47,111,499	**51,132,654**	38,657,305
Current Liabilities					
Payables	16	**5,724,294**	7,899,993	**5,753,937**	3,995,518
Interest bearing liabilities	17	**1,221,881**	1,156,278	**1,220,379**	1,156,278
Current tax liabilities	18	**1,181,525**	783,082	**1,139,627**	861,598
Provisions	19	**1,579,991**	1,762,137	**1,546,247**	1,184,568
Total Current Liabilities		**9,707,691**	11,601,490	**9,660,190**	7,197,962
Non-Current Liabilities					
Payables	20	-	-	**3,005,758**	3,020,208
Interest bearing liabilities	21	**12,655,356**	13,395,466	**12,279,916**	13,273,450
Deferred tax liabilities	22	**370,327**	457,278	**116,428**	133,672
Provisions	23	**325,439**	328,866	**325,439**	114,010
Total Non-Current Liabilities		**13,351,122**	14,181,610	**15,727,541**	16,541,340
Total Liabilities		**23,058,813**	25,783,100	**25,387,731**	23,739,302
Net Assets		**32,959,587**	21,328,399	**25,744,923**	14,918,003
Equity					
Contributed equity	24	**18,139,668**	13,823,338	**18,139,668**	13,823,338
Reserves	25	**4,143,689**	(506,812)	**4,994,880**	180,426
Retained profits	26	**10,806,678**	8,065,729	**2,610,375**	914,239
Parent entity interest		**33,090,035**	21,382,255	**25,744,923**	14,918,003
Outside equity interest	33	**(130,448)**	(53,856)	-	-
Total Equity		**32,959,587**	21,328,399	**25,744,923**	14,918,003

The accompanying notes form part of these financial statements.

Statement of Cash Flows
FOR THE YEAR ENDED 30 JUNE 2004
WATERCO LIMITED AND CONTROLLED ENTITIES

	Note No.	Economic Entity 2004 $	Economic Entity 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Cash Flows from Operating Activities					
Receipts from customers		**80,885,404**	68,561,658	**62,602,221**	59,149,384
Payments to suppliers and employees		**(75,266,583)**	(57,516,032)	**(54,189,438)**	(49,079,282)
Interest received		**63,156**	18,079	**57,952**	15,600
Other Income		**487,467**	570,090	**383,813**	463,064
Borrowing costs		**(938,876)**	(1,200,660)	**(923,805)**	(1,186,642)
Income tax paid		**(1,670,329)**	(791,931)	**(1,621,157)**	(490,682)
Net cash provided by/(used in) operating activities	(38b)	**3,560,239**	9,641,204	**6,309,586**	8,871,442
Cash Flows from Investing Activities					
Dividends received		-	72	**39,003**	72
Payment for property, plant & equipment		**(3,307,830)**	(1,137,859)	**(649,158)**	(664,679)
Proceeds from sale of property, plant & equipment		**154,248**	1,097,397	**66,745**	1,022,229
Payment for business	(38d)	**(1,085,942)**	-	**(536,122)**	-
Proceeds from sale of business (net of cash)	(38c)	-	378,467	-	378,467
Proceeds from sale of investment		-	-	-	16,000
Payment for investment		-	-	**(832,241)**	(642,012)
Payment for intangibles		-	(6)	-	-
Net cash provided by/(used in) investment activities		**(4,239,524)**	338,071	**(1,911,773)**	110,077
Cash Flows from Financing Activities					
Proceeds from/(repayment of) borrowings		**(746,576)**	(4,065,558)	**(1,000,000)**	(4,000,000)
Proceeds from issue of shares		**3,141,330**	-	**3,141,330**	-
Short term loans		-	6,503	-	6,503
Payment of lease liabilities		**(180,390)**	(135,137)	**(180,390)**	(135,137)
Dividends paid		**(2,703,989)**	(2,081,562)	**(2,673,005)**	(2,081,562)
Employee share plan repayments		**73,758**	84,147	**73,758**	84,147
Loans to controlled entities		-	-	**(5,080,072)**	(755,185)
Net cash provided by/(used in) financing activities		**(415,867)**	(6,191,607)	**(5,718,379)**	(6,881,234)
Net increase/(decrease) in cash held		**(1,095,152)**	3,787,668	**(1,320,566)**	2,100,285
Cash at beginning of the year		**1,807,906**	(336,473)	**1,081,892**	(1,018,393)
Effects of exchange rate changes on balance of cash held in foreign currencies at the beginning of the year		**(290,649)**	(1,643,289)	-	-
Cash at the end of the year	(38a)	**422,105**	1,807,906	**(238,674)**	1,081,892

The accompanying notes form part of these financial statements.

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 financial statements.

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. Both purchased 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 - 2.50%
Plant and equipment	6.0 - 33.33%
Leased plant and equipment	13.0 - 20.00%

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 telephone systems 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 or licensed to 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 measured 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. Overheads are applied on the basis of normal operating capacity. 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 is 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.

Waterco Limited and its wholly-owned Australian Subsidiary Companies are a consolidatable group for the purposes of the tax consolidation provisions of the Income Tax Assessment Act 1997. It is probable that the group will choose to consolidate for tax purposes, however as at 30 June 2004, no decision has been made as to the effective date of tax consolidation. In the event that a decision is made to consolidate, all or part of the deferred tax assets and liabilities of consolidatable subsidiary members as at the reporting date will become the deferred assets and liabilities of Waterco Ltd, except for deferred tax assets reflecting certain carry forward losses which will be lost to the group.

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 a fair value basis being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction. It is the policy of the economic entity to have an independent valuation every three years, with annual appraisals being made by the directors.

The values of the freehold land and building owned by the economic entity are based on the following independent valuations:

Land & Buildings	Date of Valuation	Amount
Rydalmere, NSW	28 May 2002	7,600,000
Bankstown, NSW	4 June 2004	4,850,000

The revaluation of freehold land and buildings has not taken into account of the potential capital gains tax on assets acquired after the introduction of the capital gains tax.

Plant and equipment
Plant and equipment are measured on 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 constructed within the economic entity includes the cost of materials, direct labour, and an appropriate proportion of fixed and variable overheads.

Depreciation
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. 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 of 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.

p. Adoption of Australian Equivalents to International Financial Reporting Standards
Australia is currently preparing for the introduction of International Financial Reporting Standards(IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The economic entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. An IFRS Committee has been established to oversee and manage the economic entity's transition to IFRS. We will seek to keep stakeholders informed as to any material impact of these standards as they are finalised.

The directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of IFRS are:

Impairment of Assets
The economic entity currently determines 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. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of the fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

Goodwill on Consolidation
Under the proposed changes to IAS22: Business Combinations, goodwill is to be capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is to be prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over the period of 20 years.

Income Tax
Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS 12, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

	Economic Entity		Parent Entity	
	2004 $	2003 $	**2004** $	2003 $
Note 2: Revenue				
Operating activities				
• sales of goods	**73,768,726**	69,667,362	**56,677,024**	57,941,775
• dividends received	**-**	72	**39,003**	72
• interest received	**63,156**	18,241	**57,952**	15,600
• rent	**165,092**	194,996	**165,092**	194,996
• bad debts recovered	**5,027**	85,791	**2,277**	76,633
• other	**317,348**	298,461	**216,444**	191,435
	74,319,349	70,264,923	**57,157,792**	58,420,511
Non-operating activities				
• proceeds on disposal of property, plant and equipment	**154,248**	1,210,358	**66,745**	1,206,027
	154,248	1,210,358	**66,745**	1,206,027
Total Revenue	**74,473,597**	71,475,281	**57,224,537**	59,626,538
(a) Dividends received or receivable from				
• partly-owned subsidiaries	**-**	-	**39,003**	-
• other persons	**-**	72	**-**	72
Total dividend revenue	**-**	72	**39,003**	72
(b) Interest received or receivable from				
• other persons	**63,156**	18,241	**57,952**	15,600
Total interest revenue	**63,156**	18,241	**57,952**	15,600

	Economic Entity		Parent Entity	
	2004 $	2003 $	2004 $	2003 $
Note 3: Profit from Ordinary Activities				
Profit from ordinary activities has been determined after:				
(a) Expenses:				
Cost of Sales	**40,205,158**	39,423,584	**32,808,561**	35,766,363
Borrowing costs:				
- other persons	**908,329**	1,174,937	**893,258**	1,160,919
- finance charges on finance leases	**30,547**	25,724	**30,547**	25,724
	938,876	1,200,661	**923,805**	1,186,643
Depreciation of non current assets:				
- buildings	**115,778**	120,248	**115,778**	120,248
- plant & equipment	**875,686**	859,976	**552,122**	568,333
- capitalised leased assets	**122,286**	94,506	**122,286**	94,506
	1,113,750	1,074,730	**790,186**	783,087
Amortisation of non current assets:				
- leasehold land	**10,905**	10,905	**10,905**	10,905
- goodwill on acquisition	**23,033**	26,871	**21,078**	24,916
- goodwill on consolidation	**23,216**	23,216	-	-
- formation costs	**1,665**	102,761	-	-
	58,819	163,753	**31,983**	35,821
Bad and doubtful debts				
- trade debtors	**32,050**	81,097	**21,673**	80,374
Rental expense on operating leases	**1,995,550**	1,352,173	**1,093,800**	867,752
Research & development	**516,130**	178,080	**228,249**	64,335
Net Loss on disposal of non-current assets				
- property, plant and equipment	**55,919**	61,831	**9,978**	30,250
Auditors' Remuneration				
Remuneration of the auditor of the parent entity for:				
- audit or reviewing the financial report	**102,492**	76,352	**97,792**	67,452
- other services	-	-	-	-
Remuneration of other auditors of subsidiaries for:				
- auditing or reviewing the financial report of subsidiaries	**64,614**	55,497	-	-
- other services	**379**	-	-	-
No other benefits were received by auditors				
(b) Revenue and Net Gains				
Net gain on disposal of				
- property, plant and equipment	**44,940**	520,855	**10,022**	517,941
- investments	-	-	-	14,264
- intangibles	-	86,394	-	86,394
Foreign currency translation gains/(losses)	**219,434**	(1,012,621)	**219,434**	(1,012,621)
	264,374	(405,372)	**229,456**	(394,022)

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
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	**7,120,887**	5,310,035	**6,109,339**	3,853,112
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2003 30%)	**2,136,267**	1,593,010	**1,832,802**	1,155,934
Tax effect of permanent differences				
- Depreciation of buildings	**9,616**	10,984	**9,616**	10,984
- Entertainment	**3,123**	5,141	**1,059**	846
- Amortisation - Goodwill	**13,875**	15,026	**6,323**	7,475
- 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	**(268,737)**	(181,955)	-	-
- Effects of lower rates in overseas countries	**(112,489)**	(46,970)	-	-
- Unrealised foreign exchange (gains)/losses	**(65,830)**	317,479	**(65,830)**	303,786
- Foreign controlled entities not tax effected	**125,112**	(102,696)	-	-
- Expenses not allowable	**12,897**	17,255	**1,661**	1,285
- (Profit)/Loss on sale of building	-	(70,004)	-	(70,004)
- (Profit)/Loss on sale of investments	-	4,202	-	(78)
- (Profit)/Loss on sale of goodwill	-	(1,151)	-	(1,151)
- Rebateable dividends	**9,674**	-	-	-
- Other	**(11,628)**	(17,944)	**(6,658)**	(11)
- (Over)/under provision for tax in prior year	**(100,723)**	(46,263)	**(40,159)**	(21,912)
Income tax expense attributable to profit from ordinary activities before income tax	**1,752,541**	1,497,498	**1,740,198**	1,388,538

Note 5: Remuneration of Directors & Executives

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

Parent Entity Directors
Mr S S Goh Chairman & Managing Director
Mr B Leitch Director - Executive
Mr G Norman Director - Non-Executive
Mr S Lloyd Director - Non-Executive
Mr B Hunt Director - Non-Executive

Specified Executives
Mr S T Lim Financial Controller
Mrs B H Leo Company Secretary
Mr G Doumit Chief Accountant/Company Secretary
Mr P Drummond General Manager - Chemical Division
Mr M Lonton National Franchise Manager

b) Parent Entity Directors' Remuneration

2004

	Base Salary*	Director's Fees**	Superannuation Contributions	Incentives***	Non Cash Benefits****	Options	TOTAL
Mr S S Goh	218,525	60,000	17,862	10,369	10,149	4,670	321,575
Mr B Leitch	170,224	-	12,150	6,158	27,329	-	215,861
Mr G Norman	-	36,000	3,240	-	-	467	39,707
Mr S Lloyd	-	36,000	3,240	-	-	467	39,707
Mr B Hunt	-	36,000	3,240	-	-	467	39,707

2003

	Base Salary*	Director's Fees**	Superannuation Contributions	Incentives***	Non Cash Benefits****	Options	TOTAL
Mr S S Goh	200,081	60,000	17,792	180	-	4,670	282,723
Mr B Leitch	139,651	-	12,446	1,613	30,383	-	184,093
Mr G Norman	-	30,000	2,700	-	-	467	33,167
Mr S Lloyd	-	30,000	2,700	-	-	467	33,167
Mr B Hunt	-	30,000	2,700	-	-	467	33,167

* Base salary includes any salary sacrifice amount.

** Directors fees of 60,000 paid to Mr S S Goh by a subsidiary (Waterco (Far East) Sdn Bhd). All other directors fees paid by the parent entity.

*** Incentives are made up of employee share plan benefits

**** Non cash benefits are made up of company vehicle benefits, life insurance premiums and salary continuance premiums.

There were 27 pay periods during the year (2003: 26)

Note 5: Remuneration of Directors & Executives (continued)

c) Specified Executives Remuneration

2004

	Base Salary*	Superannuation Contributions	Incentives**	Non Cash Benefits***	TOTAL
Mr S T Lim	124,020	11,028	5,649	10,275	150,972
Mr P Drummond	101,769	9,159	6,871	23,214	141,013
Mrs B H Leo	123,650	11,028	5,069	-	139,747
Mr G Doumit	105,529	9,346	4,569	14,969	134,413
Mr M Lonton	110,790	9,907	5,871	-	126,568

2003

	Base Salary*	Superannuation Contributions	Incentives**	Non Cash Benefits***	TOTAL
Mr S T Lim	115,995	10,260	3,775	12,112	142,142
Mrs B H Leo	101,911	9,006	3,306	16,857	131,080
Mr G Doumit	98,132	8,607	2,878	19,101	128,718
Mr P Drummond	95,000	8,550	3,306	18,469	125,325
Mr M Lonton	92,670	7,980	2,306	10,936	113,892

* Base salary includes any salary sacrifice amount

** Incentives are made up of employee share plan benefits

*** Non cash benefits are made up of company vehicle benefits, life insurance premiums and salary continuance premiums.

There were 27 pay periods during the year (2003: 26)

The above figures for 2004 do not include any discretionary bonuses payable from the maximum bonus pool of $200,000 that has been set aside (and which will be paid in 2004/5) for executives.

d) Shares Issued on Exercise of Remuneration Options

Options granted as remuneration

During the year, the following shares were issued on exercise of the final tranche of options granted as remuneration under the Waterco Director's Option Plan in 1998.

Directors

	No of Ordinary Shares Issued	Amount Paid Per Share $	Amount Unpaid Per Share
Mr S S Goh	100,000	2.74	-
Mr B Leitch	-	-	-
Mr G Norman	-	-	-
Mr S Lloyd	-	-	-
Mr B Hunt	-	-	-

Note 5: Remuneration of Directors & Executives (continued)

e) Options and Rights Holdings

Number of Options held by Specified Directors and Executives

Directors

Parent Entity Directors	Balance 1.7.03	Granted as Remuneration	Options Exercised	Balance 30.6.04
Mr S S Goh	100,000	-	100,000	-
Mr B Leitch	-	-	-	-
Mr G Norman	10,000	-	10,000	-
Mr S Lloyd	10,000	-	10,000	-
Mr B Hunt	10,000	-	10,000	-

No options are held by specified executives

Details of these options are contained in note 37

f) Shareholdings

Number of Shares held by Parent Entity Directors and Specified Executives

Directors

Parent Entity Directors	Balance 1.7.03	Received as Remuneration	Options Exercised	Net Change Other	Balance 30.6.04
Mr S S Goh	9,972,345	-	100,000	513,032*	10,585,377
Mr B Leitch	241,610	30,000	-	83,000	354,610
Mr G Norman	75,000	-	10,000	-	85,000
Mr S Lloyd	76,000	-	10,000	-	86,000
Mr B Hunt	66,800	-	10,000	50,000	126,800

*500,000 of these shares were issued under the Waterco CEO Share Plan

Executives

Specified Executives	Balance 1.7.03	Received as Remuneration	Options Exercised	Net Change Other	Balance 30.6.04
Mr S T Lim	96,770	21,227	-	-	117,997
Mrs B H Leo	81,837	19,228	-	-	101,065
Mr G Doumit	70,110	18,406	-	-	88,516
Mr P Drummond	17,431	10,637	-	-	28,068
Mr M Lonton	15,000	9,000	-	-	24,000

g) Remuneration Practices

In constructing, reviewing and determining the remuneration policy for Executive Directors and the senior executive team, the Remuneration Committee has considered a number of factors including:

- the importance of attracting, retaining and motivating management of the appropriate calibre to further the success of the business;
- linking pay to performance by rewarding effective individual achievement as well as business performance; and
- the mix within the package which is designed to align personal reward with enhanced shareholder value over both the short and long-term.

The Executive Directors' and the senior executive team's package consists of four components:

- Salary
- Short-term incentives
- Long-term incentives
- Benefits

Remuneration of the company's Non-Executive Directors is determined by the Waterco Board itself, upon receipt of advice from external consultants.

	Economic Entity		Parent Entity	
	2004 **$**	2003 $	**2004** **$**	2003 $
CURRENT ASSETS				
Note 6: Receivables				
Trade debtors	**7,910,634**	9,190,363	**4,516,384**	5,068,151
Less: provision for doubtful debts	**258,159**	284,619	**200,000**	250,000
	7,652,475	8,905,744	**4,316,384**	4,818,151
Other debtors	**1,357,031**	1,413,969	**(711)**	(5,110)
	9,009,506	10,319,713	**4,315,673**	4,813,041
Note 7: Inventories				
Raw materials and stores at cost	**4,496,938**	4,393,516	**619,142**	522,186
Work in progress at cost	**221,497**	152,346	**84,607**	21,735
Finished goods at cost	**14,976,001**	11,843,721	**10,568,712**	8,695,340
Goods in transit at cost	**345,370**	321,710	**-**	-
	20,039,806	16,711,293	**11,272,461**	9,239,261
Note 8: Other Current Assets				
Prepayments	**690,304**	410,677	**448,043**	308,140
Waterco Share Plan	**-**	124,368	**-**	124,368
	690,304	535,045	**448,043**	432,508
NON CURRENT ASSETS				
Note 9: Receivables				
Employee Share Plans	**1,595,800**	494,558	**1,595,800**	494,558
Amount owing by controlled entities	**-**	-	**11,937,053**	6,871,431
	1,595,800	494,558	**13,532,853**	7,365,989
(a) Foreign currency Receivables				
Non current assets not effectively hedged to				
a date at least 12 months after balance date				
- Malaysian ringgit	**-**	-	**5,686,687**	2,757,374
- United States dollars	**-**	-	**333,525**	1,491,740
- New Zealand dollars	**-**	-	**1,497,304**	839,729
- Hong Kong dollars	**-**	-	**-**	56,864
- British pounds	**-**	-	**3,251,041**	1,498,997
- Chinese renminbi	**-**	-	**143,665**	226,820
	-	-	**10,912,222**	6,871,524

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
Note 10: Other Financial Assets				
(a) Shares in controlled entities at cost	-	-	**4,000,230**	3,167,989
	-	-	**4,000,230**	3,167,989

Note 11: Controlled Entities

	Country of incorporation	% owned	
		2004	2003
Parent Entity:			
Waterco Limited	Australia	-	-
Controlled Entities of Waterco Limited:			
Swimart Pty Ltd	Australia	**100**	100
Waterco Sales & Manufacturing Pty Ltd	Australia	**100**	100
Zane Solar Systems Australia Pty Ltd	Australia	**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**	100
Waterco (C) Ltd*	China	**100**	-
Waterco (Europe) Ltd**	United Kingdom	**95.94**	59.4
Global Leisure Products Sdn Bhd	Malaysia	**51**	51

* On 2 February 2004, Waterco (C) Limited allotted 468,750 RMB8.2747 ($A1.31) shares to Waterco Limited.
** On 4 February 2004, Waterco (Europe) Ltd allotted 90,000 GBP1.00 ($A2.409) shares to Waterco Limited under a Rights Issue.
*** Waterco (HK) Ltd ceased trading as of 31 December 2003

Waterco USA Inc carries on business in the United States. Waterco (Far East) 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 carry on business in the United Kingdom. Waterco (Guangzhou) Ltd and Waterco (C) Ltd carry on business in China.

	Economic Entity		Parent Entity	
	2004 **$**	2003 $	**2004** **$**	2003 $
Note 12: Property, Plant & Equipment				
Freehold land at				
* Directors valuation 2004	**5,955,536**	-	**5,955,536**	-
* Cost	**594,472**	3,763,152	**-**	3,763,152
	6,550,008	3,763,152	**5,955,536**	3,763,152
Freehold buildings at				
* Directors valuation 2004	**6,494,464**	-	**6,494,464**	-
* Cost	**435,914**	4,627,477	**-**	4,627,477
Less: accumulation depreciation	**125,926**	655,464	**-**	655,464
	6,804,452	3,972,013	**6,494,464**	3,972,013
Leasehold land at cost	**268,318**	268,318	**268,318**	268,318
Less: accumulation amortisation	**114,040**	103,135	**114,040**	103,135
	154,278	165,183	**154,278**	165,183
Plant & equipment at cost	**16,422,571**	14,372,274	**6,371,911**	5,813,912
Less: accumulated depreciation	**9,379,918**	8,022,730	**4,030,666**	3,602,773
	7,042,653	6,349,544	**2,341,245**	2,211,139
Leased plant & equipment at cost	**727,690**	612,523	**727,690**	612,523
Less: accumulated depreciation	**142,601**	115,662	**142,601**	115,662
	585,089	496,861	**585,089**	496,861
Total written down value	**21,136,480**	14,746,753	**15,530,612**	10,608,348

(a) Movements in Carrying Amounts

	Freehold Land	Buildings	Leasehold Land	Plant & Equipment	Leased Plant & Equipment	Total
Economic Entity:						
Balance at beginning of year	3,763,152	3,972,013	165,183	6,349,544	496,861	14,746,753
Additions	594,472	452,041	-	2,594,098	250,957	3,891,568
Additions through acquisitions of a business	-	-	-	75,487	-	75,487
Revaluation increments	2,192,384	2,622,070	-	-	-	4,814,454
Disposals	-	-	-	(165,688)	(40,443)	(206,131)
Depreciation expense	-	(241,672)	(10,905)	(1,810,788)	(122,286)	(2,185,651)
Carrying amount at end of year	6,550,008	6,804,452	154,278	7,042,653	585,089	21,136,480
Parent Entity:						
Balance at beginning of year	3,763,152	3,972,013	165,183	2,211,139	496,861	10,608,348
Additions	-	16,159	-	673,442	250,957	940,558
Additions through acquisitions of a business	-	-	-	75,487	-	75,487
Revaluation increments	2,192,384	2,622,070	-	-	-	4,814,454
Disposals	-	-	-	(66,701)	(40,443)	(107,144)
Depreciation expense	-	(115,778)	(10,905)	(552,122)	(122,286)	(801,091)
Carrying amount at end of year	5,955,536	6,494,464	154,278	2,341,245	585,089	15,530,612

	Economic Entity		Parent Entity	
	2004 $	2003 $	2004 $	2003 $
Note 13: Intangibles				
Goodwill (note 1b)	901,365	460,797	624,107	421,594
Less: accumulated amortisation	198,367	175,334	186,637	165,559
	702,998	285,463	437,470	256,035
Preliminary expenses	2,241	2,241	380	380
Goodwill on consolidation	464,314	464,314	-	-
Less: accumulated amortisation	379,401	356,185	-	-
	84,913	108,129	-	-
	790,152	395,833	437,850	256,415
Note 14: Deferred Tax Assets				
Future income tax benefits	1,329,678	1,100,398	833,606	691,862
The future income tax benefits is made up of the following estimated tax benefits:				
- tax losses	438,555	135,912	77,016	77,062
- timing differences	891,123	964,486	756,590	614,800
	1,329,678	1,100,398	833,606	691,862
Note 15: Other				
Deferred expenditure carried forward	3,067	-	-	-
CURRENT LIABILITIES				
Note 16: Payables				
Trade creditors	4,170,283	6,347,586	4,899,232	2,868,319
Sundry creditors and accrued expenses	1,554,011	1,552,407	854,705	1,127,199
	5,724,294	7,899,993	5,753,937	3,995,518
Note 17: Interest Bearing Liabilities				
Bank loans – secured	1,000,000	1,000,000	1,000,000	1,000,000
Bank overdraft – secured	1,502	-	-	-
Lease liability	220,379	156,278	220,379	156,278
	1,221,881	1,156,278	1,220,379	1,156,278

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.

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
Note 18 : Current Tax Liabilities				
Income Tax	**1,181,525**	783,082	**1,139,627**	861,598
Note 19: Provisions				
Employee benefits 23(a)	**1,579,991**	1,762,137	**1,546,247**	1,184,568
Non-Current Liabilities				
Note 20: Payables				
Amounts payable to controlled entities	**-**	-	**3,005,758**	3,020,208
	-	-	**3,005,758**	3,020,208
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: Interest Bearing Liabilities				
Bank loans - secured	**12,375,440**	13,122,016	**12,000,000**	13,000,000
Lease liability	**279,916**	273,450	**279,916**	273,450
	12,655,356	13,395,466	**12,279,916**	13,273,450
Note 22: Deferred Tax Liabilities				
Provision for deferred income tax	**370,327**	457,278	**116,428**	133,672
	370,327	457,278	**116,428**	133,672
Note 23: Provisions				
Employee benefits 23(a)	**325,439**	328,866	**325,439**	114,010
a) Aggregate employee entitlement liability	**1,905,430**	2,091,003	**1,871,686**	1,298,578
b) Number of employees at year end	**479**	419	**162**	54
Note 24: Contributed Equity				
18,934,650 ordinary shares fully paid at beginning of the year (2003 18,909,650)	**13,823,338**	13,785,838	**13,823,338**	13,785,838
On 24 September 2003 1,350,000 ordinary shares were issued at $2.20 each to a group of institutional and professional investors	**2,970,000**	-	**2,970,000**	-
Less expenses of share issue	**99,100**	-	**99,100**	-
On 5 December 2003 500,000 ordinary shares were issued at $2.35 to Mr S S Goh under the Waterco CEO Share Plan	**1,175,000**	-	**1,175,000**	-
On 20 February 2004 100,000 ordinary shares were issued at $2.7403 each to Mr S S Goh under the Waterco Directors Option Plan	**270,430**	-	**270,430**	-
On 10 January 2003 25,000 ordinary shares were issued at $1.50 each under the Waterco Employee Share Plan	**-**	37,500	**-**	37,500
20,884,650 ordinary shares fully paid at the end of the year (2003 18,934,650)	**18,139,668**	13,823,338	**18,139,668**	13,823,338

		Economic Entity		Parent Entity	
	Note No.	2004 $	2003 $	2004 $	2003 $
Note 25: 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		**(717,374)**	283,332	**-**	-
Net exchange differences on translation of foreign controlled entities		**(163,953)**	(1,000,706)	**-**	-
Balance at end of year		**(881,327)**	(717,374)	**-**	-
(c) Asset revaluation reserve					
Balance at the beginning of the year		**-**	-	**-**	-
Net revaluation increment/(decrement) on revaluation of land and buildings		**4,814,454**	-	**4,814,454**	-
Balance at end of year		**4,814,454**	-	**4,814,454**	-
		4,143,689	(506,812)	**4,994,880**	180,426
The asset revaluation reserve records the revaluation of non current assets.					
Note 26: Retained Profits					
Opening retained profits		**8,065,729**	6,248,327	**914,239**	531,227
Net profit attributable to the members of the parent entity		**5,413,954**	3,898,964	**4,369,141**	2,464,574
Dividends paid	31	**2,673,005**	2,081,562	**2,673,005**	2,081,562
Closing retained profits		**10,806,678**	8,065,729	**2,610,375**	914,239
Note 27: Lease Commitments					
Finance leases					
Lease expenditure contracted and provided for:					
- not later than one year		**249,965**	180,957	**249,965**	180,957
- later than one year but not later than five years		**299,834**	292,517	**299,834**	292,517
Total minimum lease commitments		**549,799**	473,474	**549,799**	473,474
Future finance charges		**49,504**	43,746	**49,504**	43,746
Lease liability		**500,295**	429,728	**500,295**	429,728
Current portion	17	**220,379**	156,278	**220,379**	156,278
Non-current portion	21	**279,916**	273,450	**279,916**	273,450
		500,295	429,728	**500,295**	429,728

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
Note 27: Lease Commitments (continued)				
Finance leases are taken out on motor vehicles and telephone systems, with an option to purchase the asset at the end of the lease term.				
Operating lease payable:				
- not later than one year	**1,311,553**	654,505	**997,765**	554,680
- later than one year but not later than five years	**2,895,040**	1,677,352	**2,515,505**	1,567,544
	4,206,593	2,331,857	**3,513,270**	2,122,224
Operating leases are taken out on the rental of offices, warehouses, motor vehicles and office equipment.				
Note 28: Contingent Liabilities				
Estimate of the maximum amount of contingent liabilities that may become payable:				
(a) Guarantees of leases of premises subleased or licensed to franchisees	**5,709,421**	6,027,054	**2,576,258**	2,608,021
	5,709,421	6,027,054	**2,576,258**	2,608,021
Note 29: 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				
(i) Payments made to Goh Lai Huat and Sons Sdn Bhd for rental of warehouse and offices by Waterco (Far East) Sdn Bhd. Mr S S Goh, a director, has significant influence over Goh Lai Huat & Sons Sdn Bhd.	**197,596**	230,086	-	-
(ii) Sales made to Asiapools (M) Sdn Bhd. Mr S S Goh, a shareholder, has significant influence over Asiapools (M) Sdn Bhd.	**243,880**	283,809	-	-
(iii) Commission paid to Asiapools (M) Sdn Bhd. Mr S S Goh, a shareholder, has significant influence over Asiapools (M) Sdn Bhd.	**33,580**	26,427	-	-
(iv) Payments made to Mint Holdings Pty Ltd for rental of warehouses and offices. Mr S S Goh is a director and shareholder of Mint Holdings Pty Ltd.	**354,257**	309,517	**354,257**	309,517

	Economic Entity		Parent Entity	
	2004 **$**	2003 $	**2004** **$**	2003 $
Note 29: Related Parties (continued)				
(v) Payments made to IT Easy Pty Ltd for consulting and project management in relation to Waterco Ltd's IT System. Mr S G Lloyd is a director and shareholder of IT Easy Pty Ltd.	**31,866**	17,518	**31,866**	17,518
(vi) 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	**11,237,787**	10,431,755	**11,237,787**	10,431,755

Directors and their related entities acquired 806,032 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:

i) Waterco Employee Share Plan.

This is an interest free loan and is payable within ten years of the share issue date.

ii) CEO Share Plan

This is an interest chargeable loan and is payable within five years of the share issue date.

	Economic Entity 2004 $	Economic Entity 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Advanced				
Mr S S Goh	**1,175,000**	-	**1,175,000**	-
Mr B I Leitch	**32,750**	36,000	**32,750**	36,000
	1,207,750	36,000	**1,207,750**	36,000
Repaid				
Mr S S Goh	-	5,250	-	5,250
Mr B I Leitch	**3,250**	5,000	**3,250**	5,000
	3,250	10,250	**3,250**	10,250

Note 30: 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.

(b) Geographical Segments

2004

	AUSTRALIA	S.E.ASIA	NEW ZEALAND	UK	OTHER	ELIMINATION	ECONOMIC ENTITY
	2004 $	2004 $	2004 $	2004 $	2004 $	2004 $	2004 $
REVENUE							
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	54,445,817	5,381,921	5,089,119	3,989,505	4,862,364		73,768,726
INTERSEGMENT SALES	2,231,207	10,470,591	14,756	107,690	1,640,111	(14,464,355)	-
UNALLOCATED REVENUE							704,871
TOTAL REVENUE	56,677,024	15,852,512	5,103,875	4,097,195	6,502,475	(14,464,355)	74,473,597
SEGMENT RESULT	6,393,127	1,564,002	(6,637)	(499,475)	469,208	(94,467)	7,825,758
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE							(704,871)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX							7,120,887
INCOME TAX EXPENSE							(1,752,541)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX							5,368,346
SEGMENT ASSETS	52,839,200	15,350,147	2,271,450	1,592,136	3,138,415	(19,172,948)	56,018,400
SEGMENT LIABILITIES	25,334,720	8,284,126	1,779,030	1,744,681	1,519,821	(15,603,565)	23,058,813
DEPRECIATION & AMORTISATION	824,124	157,092	56,119	74,428	37,590	23,216	1,172,569
ACQUISITION OF NON CURRENT SEGMENT ASSETS	1,016,045	1,659,654	303,658	389,079	598,619	-	3,967,055

2003

	AUSTRALIA	S.E.ASIA	NEW ZEALAND	UK	OTHER	ELIMINATION	ECONOMIC ENTITY
	2003 $	2003 $	2003 $	2003 $	2003 $	2003 $	2003 $
REVENUE							
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	55,083,051	3,359,181	3,490,290	1,249,565	6,485,275		69,667,362
INTERSEGMENT SALES	3,055,561	11,905,853	21,550	385,605	1,211,915	(16,580,484)	-
UNALLOCATED REVENUE							1,807,919
TOTAL REVENUE	58,138,612	15,265,034	3,511,840	1,635,170	7,697,190	(16,580,484)	71,475,281
SEGMENT RESULT	5,380,078	1,295,706	192,791	(344,626)	789,878	(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	1,270,199	2,435,813	(10,704,220)	47,111,499
SEGMENT LIABILITIES	24,446,090	5,156,339	1,110,312	1,163,698	1,896,955	(7,990,294)	25,783,100
DEPRECIATION & AMORTISATION	831,764	191,583	30,146	72,474	89,300	23,216	1,238,483
ACQUISITION OF NON CURRENT SEGMENT ASSETS	931,276	661,789	8,858	452,447	34,041	-	2,088,411

(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.

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
Note 31: Dividends Paid or Proposed				
Final fully franked ordinary dividend franked at the tax rate of 30% paid	**1,419,926**	945,483	**1,419,926**	945,483
Interim fully franked ordinary dividend franked at the tax rate of 30% paid	**1,253,079**	1,136,079	**1,253,079**	1,136,079
	2,673,005	2,081,562	**2,673,005**	2,081,562
Proposed final fully franked ordinary dividend franked at the tax rate of 30%	**1,879,619**	1,325,426	**1,879,619**	1,325,426
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.	**2,818,419**	2,001,384	**779,756**	968,756
Note 32: Earnings Per Share				
Reconciliation of Earnings to Net Profit				
Net Profit	**5,368,346**	3,812,537		
Net Loss attributable to outside equity interest	**45,608**	86,427		
Earnings used in the calculation of basic EPS	**5,413,954**	3,898,964		
Earnings used in the calculation of diluted EPS	**5,413,954**	3,898,964		
(a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**20,298,038**	18,921,362		
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	**20,298,038**	18,921,362		

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$
Note 33: Outside Equity Interests In Controlled Entities				
Outside equity interest comprises:				
Share Capital	**15,657**	15,657	-	-
Accumulated Profits/(Losses)	**(146,105)**	(69,513)	-	-
	(130,448)	(53,856)	-	-
(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	**(69,513)**	16,914	-	-
Share of profit from ordinary activities after income tax	**(45,608)**	(86,427)	-	-
Dividend paid	**(30,984)**	-	-	-
	(146,105)	(69,513)	-	-
Note 34: 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 & intangibles	-	385,466	-	-
	-	617,576	-	-

Note 35: Events Subsequent To Reporting Date

There were no reportable events subsequent to balance date.

Note 36: 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	
	2004 $	2003 $	2004 $	2003 $	2004 $	2003 $	2004 $	2003 $	2004 $	2003 $	2004 $	2003 $
Financial Assets												
Cash	3.87	3.65	1,423,607	2,807,906							1,423,607	2,807,906
Receivables									9,009,506	10,319,713	9,009,506	10,319,713
Total Financial Assets			1,423,607	2,807,906					9,009,506	10,319,713	10,433,113	13,127,619
Financial Liabilities												
Bank overdraft	9.63	9.5	1,502	-							1,502	-
Bank loans	6.56	6.33	13,375,440	14,122,016							13,375,440	14,122,016
Trade and sundry creditors									5,724,294	7,899,993	5,724,294	7,899,993
Lease liabilities	6.22	6.93			220,379	156,278	279,916	273,450			500,295	429,728
Total Financial Liabilities			13,376,942	14,122,016	220,379	156,278	279,916	273,450	5,724,294	7,899,993	19,601,531	22,451,737

(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).

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.

	2004		2003	
	Carrying Amount $	**Net Fair Value $**	Carrying Amount $	Net Fair Value $
Financial Liabilities				
Bank Overdraft	**1,502**	**1,517**	-	-
Bank Loans	**13,375,440**	**13,509,194**	14,122,016	14,263,236
Lease Liabilities	**500,295**	**525,310**	429,728	451,214
	13,877,237	**14,036,021**	14,551,744	14,714,450

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 37: 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 objective 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 one week period before the invitation date 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 the term may be extended by the discretion of the Board 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 and bonus shares. 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 no shares were issued under this plan while debts of $73,758 were repaid.

(2) Deferred Employee Share Plan and Exempt Employee Share Plan

The objective of these plans is to provide incentive to employees to acquire ordinary shares in the company in lieu of other remuneration thus leading to an alignment of the interests of the participants with those of other shareholders.

These plans which are offered to all employees, replace the Waterco Executive Share Acquisition Plan.

a) Deferred Employee Share Plan

Under this plan, employees are invited to contribute a minimum of $2000 (and up to a maximum of 30% of their salary) per annum to purchase shares under a salary sacrifice arrangement. Waterco contributes a maximum of $1000 per annum towards the purchase of shares on behalf of each employee who takes up the offer. Shares acquired under this plan must be held for at least two years unless the employee leaves and is therefore entitled to withdraw the shares from the plan.

During the year, the company contributed $29,999 for the purchase of 12,194 shares under this plan

b) Exempt Employee Share Plan

Under this plan, employees are invited to contribute a minimum of $500 per annum to purchase shares under a salary sacrifice arrangement. Waterco contributes a matching $500 towards the purchase of shares for employees who take up this offer. Shares acquired under this plan must be held for at least three years unless the employee leaves and is therefore entitled to withdraw the shares from the plan.

During the year, the company contributed $17,307 for the purchase of 7,035 shares under this plan.

All costs associated with purchasing the shares under both plans are borne by the company.

(3) CEO Share Plan

This plan was set up in 2003 and approved at the Annual General Meeting held on 17 November 2003. On 5 December 2003, Mr S S Goh was issued 500,000 shares at $2.35 each under the delayed loan repayment terms of this plan. Under this plan, Mr S S Goh is entitled to withdraw and deal with these shares if the following criteria has been satisfied:

i) Minimum Employment Period

Mr S S Goh must continue to be employed as Managing Director of the company for 36 months following the issue of the shares. If this is not satisfied, the Managing Director will forfeit the shares.

ii) Performance Hurdles

The company must meet the targeted earnings per share (EPS) growth as follows:

a) Growth in EPS of less than 15% per year compounded over the Targeted EPS Period results in 0% of the shares being available to be withdrawn from the Plan; and
b) Growth in EPS of 15% or greater each year compounded over the Targeted EPS Period results in 50% of the shares being available to be withdrawn from the Plan plus 10% of the shares for every 1% growth in EPS greater than 15% over the targeted EPS Growth Period, up to a maximum of 100% of the shares.

This loan is an interest chargeable loan and the amount of interest payable is equivalent to the dividends payable on these shares.

(4) 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 determined 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 performance hurdles being achieved.

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 21 December 1998, a number of executives 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 21 December 1999 and subsequent tranches exercisable on each anniversary of grant date. The exercise price was nil.

During the year, 35 executives were allocated 239,750 shares pursuant to the final tranche (tranche 5) of this plan.

The Executive Performance Plan ceased to operate on 20 March 2004.

Note 37: Employee Benefits (continued)

(5) 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%.

In total, 650,000 options were granted to directors and/or their associates on 31 December 1998 at an exercise price of $1.16 in accordance with the rules of the plan. During the year, 130,000 options were exercised at a price of $1.16 each and an aggregate sum of $150,800 was received.

Director	Associate	Balance of Options at 30 June 2004
Soon Sinn Goh	GSS Holdings Pty Ltd	-
Garry Norman	Straitswind Pty Ltd	-
Stuart Lloyd	Mailun Investments Pty Ltd	-
Ben Hunt	Glenhuntly Pty Ltd	-
		-

The closing share market price of an ordinary share of Waterco Limited on the Australian Stock Exchange at 30 June 2004 was $2.55 (30 June 2003 $1.85)

The Directors Option Plan ceased to operate on 31 March 2004.

Contributions

During the year, Waterco Limited made contributions to Waterco Share Plan Pty Limited, being the trustee company established to administer the Executive Performance and Directors Option 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:

	2004 $	2003 $
Unexpended contribution brought forward from previous year	**124,368**	271,209
Add: Contributions during the year	**449,127**	(49,271)
Less: Deferred contribution carried forward to subsequent year	-	(124,368)
Less: Amount provided for in previous year	**(558,000)**	-
Amount charged in the statement of financial performance for shares allocated during the year	**15,495**	97,570

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 Share Plan Pty Ltd had 73,862 Waterco Limited shares on hand at the beginning of the year and purchased 195,888 shares during the year (of which 269,750 were allocated during the year). There are no shares held by Waterco Share Plan Pty Ltd as at 30 June 2004. These shares carry the same voting and dividend rights as any other ordinary share.

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$

Note 38: Cash Flow 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 2004 $	Economic Entity 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Cash at bank	**1,423,607**	2,807,906	**761,326**	2,081,892
Bank overdraft	**(1,502)**	-	-	-
Commercial Bills	**(1,000,000)**	(1,000,000)	**(1,000,000)**	(1,000,000)
	422,105	1,807,906	**(238,674)**	1,081,892

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

	Economic Entity 2004 $	Economic Entity 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Profit from ordinary activities after income tax	**5,368,346**	3,812,537	**4,369,141**	2,464,574
Non-cash flows in profit from ordinary activities				
Depreciation	**2,174,449**	2,069,380	**790,186**	783,087
Amortisation	**57,154**	60,992	**31,983**	35,821
(Profit)/Loss on sale of non current assets	**10,979**	(545,418)	**(44)**	(588,349)
Changes in Assets and Liabilities:				
Trade debtors	**1,279,729**	(1,056,339)	**551,767**	1,256,974
Provision for doubtful debts	**(26,460)**	(87,777)	**(50,000)**	(30,000)
Other debtors	**181,306**	(463,546)	**(4,399)**	5,660
Inventories	**(2,923,510)**	2,626,128	**(1,775,078)**	3,336,016
Prepayments	**(279,627)**	57,573	**(15,535)**	111,211
Future income tax benefits	**(229,280)**	(208,712)	**(141,744)**	(117,960)
Expenditure carried forward	**(3,067)**	53,488	-	-
Trade creditors	**(2,177,303)**	1,312,546	**2,030,913**	(234,645)
Other creditors	**1,604**	266,413	**(272,494)**	125,862
Provision for employee benefits	**(185,573)**	829,732	**573,108**	707,447
Provision for tax	**398,443**	1,010,648	**278,029**	1,044,706
Provision for deferred tax	**(86,951)**	(96,369)	**(17,244)**	(28,890)
Cash Flows – Non Operating Activities:				
Dividends Received	-	(72)	**(39,003)**	(72)
Cash Flows provided by/(used in) operations	**3,560,239**	9,641,204	**6,309,586**	8,871,442

	Economic Entity		Parent Entity	
	2004 $	2003 $	2004 $	2003 $
Note 38: Cash Flow Information (continued)				
(c) During the previous financial year two parent entity owned and operated stores were franchised:				
Disposal price	-	378,467	-	378,467
Cash portion of that price	-	378,467	-	378,467
Net assets and liabilities disposed:				
Inventory	-	126,669	-	126,669
Plant, equipment & intangibles	-	251,798	-	251,798
	-	378,467	-	378,467
(d) On 25 July 2003, Waterco (NZ) Ltd (a subsidary) acquired the business of four retail pool shops from Poolcare FPI Services Ltd				
Purchase Price	**549,820**	-	-	-
Cash consideration	**549,820**	-	-	-
Assets and liabilities held at acquisition date:				
Inventories	**146,881**	-	-	-
Property, plant & equipment, & intangibles	**402,939**	-	-	-
	549,820	-	-	-
On 30 June 2004, Waterco Ltd acquired two pools shops from F & K Kelly				
Purchase Price	**536,122**	-	**536,122**	-
Cash consideration	**536,122**	-	**536,122**	-
Assets and liabilities held at acquisition date:				
Inventories	**258,122**	-	**258,122**	-
Property, plant & equipment, & intangibles	**278,000**	-	**278,000**	-
	536,122	-	**536,122**	-
	1,085,942	-	**536,122**	-

	Economic Entity		Parent Entity	
	2004	2003	**2004**	2003
	$	$	**$**	$

Note 38: Cash Flow Information (continued)

(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 $250,907 (2003:$246,199) by means of finance leases. This acquisition is not reflected in the statement of cash flows.

(ii) Issue of Shares

On 5 December 2003, the economic entity issued 500,000 shares at $2.35 each (amounting to $1,175,000) to Mr S S Goh under the delayed repayment terms of the Waterco CEO 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 2004 $	Economic Entity 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Commercial bills/bank overdraft facility	**19,908,000**	19,800,000	**18,900,000**	19,800,000
Master lease facilities	**1,300,000**	1,300,000	**1,300,000**	1,300,000
	21,208,000	21,100,000	**20,200,000**	21,100,000
Amount utilised	**(13,341,365)**	(12,461,400)	**(12,964,423)**	(12,461,400)
Amount unutilised	**7,866,635**	8,638,600	**7,235,577**	8,638,600

The commercial bill/bank overdraft facility is due to expire on 30 November 2004. The parent entity expects to renew this facility for another three years.

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 19 to 47, 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 2004 and of the performance for the year ended 30 June 2004 of the company and economic entity;

2. 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 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 26th day of August 2004

Bentleys MRI Sydney Partnership

Chartered
Accountants &
Business Advisors

ABN 27 526 269 695

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31 Market Street Sydney NSW 2000

(Correspondence to
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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 Waterco Limited (the company) and Waterco Limited (the consolidated entity), for the year ended 30 June 2004. 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.

Bentleys mri

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 2004 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.

Bentleys MRI

Bentleys MRI
Sydney Partnership

Robert B. Byn
Partner

Dated at Sydney this 26th day of August 2004

Shareholder Information
(AS AT 31 AUGUST 2004)

(a) Distribution of Shareholders

Range			Ordinary Shares	Options
1	-	1,000	392	-
1,001	-	5,000	405	-
5,001	-	10,000	128	-
10,001	-	100,000	129	-
100,001	-	and over	23	-
			1077	-

(b) Marketable Parcel
Four shareholders hold less than a marketable parcel

(c) Substantial Shareholders
The following information is extracted from the company's register as at 31 August 2004

Name	Number of Shares
S S Goh Group	9,353,345
Loftus Capital Partners Ltd ACN 067 185 899	1,117,980

(d) Voting Rights
For all shares, voting rights are one vote per member on a show of hands and one vote per share on a poll.

(e) Twenty Largest Shareholders
The twenty largest shareholders hold 68.09% of the total shares issued.

Name	Number of Shares	Percentage
GSS Holdings Pty Ltd	7,497,065	35.90
Mr Soon Sinn Goh	1,456,280	6.97
Invia Custodian Pty Limited	1,252,310	6.00
ANZ Nominees Limited	610,000	2.92
Mister Rain Pty Ltd	500,000	2.39
Goh Lai Huat & Sons Sdn Bhd	300,000	1.44
Mr Loke Weng Foo	280,000	1.34
HSBC Custody Nominees (Australia) Limited	234,400	1.12
SG Corporation Pty Limited	202,500	0.97
GWK Corporation Pty Limited	201,500	0.96
Mint Holdings Pty Ltd	200,000	0.96
Brazil Farming Pty Ltd	195,000	0.93
Citicorp Nominees Pty Limited	192,979	0.92
BJ Services Pty Ltd	178,500	0.85
Mr Khoon Ping Kuok	173,000	0.83
Miss Penelope Pringle	163,000	0.78
Drill Investments Pty Ltd	150,000	0.72
Moreverk Pty Ltd	150,000	0.72
Pollywebb Pty Ltd	150,000	0.72
Mr Charles Hepenstall & Mrs Julie Hepenstall	136,000	0.65
TOTAL	**14,222,534**	**68.09**

(f) Stock Exchange Listing
The shares of Waterco Limited are listed on the Australian Stock Exchange under the trade symbol WAT, with Sydney being the home exchange.

Corporate Directory

DIRECTORS
Soon Sinn Goh
Bruce Leitch
Garry Norman
Stuart Lloyd
Ben Hunt

SECRETARIES
Bee Hong Leo
Gerard Doumit

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