2005 WATERCO ANNUAL REPORT

CONTENTS

ECONOMIC ENTITY FINANCIAL HIGHLIGHTS

	2005	**2004**	2003	2002	2001	2000	1999
	$	**$**	$	$	$	$	$
Operating revenue ($Million)	**86.23**	**74.47**	71.48	61.01	56.19	46.58	41.98
Sales revenue ($Million)	**80.96**	**73.77**	69.67	59.48	55.63	45.22	40.7
Earnings Before Interest and Tax (EBIT)	**7,450,933**	**8,059,763**	6,510,696	2,998,279	4,994,100	5,458,660	4,415,766
EBIT / Sales Revenue	**9.2%**	**10.93%**	9.35%	5.04%	8.98%	12.07%	10.85%
Profit from ordinary activities before income tax	**6,206,660**	**7,120,887**	5,310,035	1,795,746	3,765,014	4,740,966	3,799,268
Net profit attributable to Members of the Parent Entity	**4,175,881**	**5,413,954**	3,898,964	1,184,937	2,613,216	3,212,667	2,628,224
Total assets ($Million)	**73.10**	**56.02**	47.11	47.18	44.55	35.61	31.30
Equity	**38,777,006**	**32,959,587**	21,328,399	20,560,630	21,628,021	19,270,279	17,466,867
Basic Earnings per share	**19.1cents**	**26.7cents**	20.6 cents	6.3 cents	14.2 cents	17.8 cents	15.4 cents
Dividend per share	**16.0cents**	**15.0 cents**	13.0 cents	11.0 cents	11.0 cents	10.0 cents	9.0 cents
Net Tangible Assets per share	**$1.54**	**$1.54**	$1.11	$1.06	$1.13	$1.04	94.4 cents

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

Sales Revenue and Profit

Improved sales performance in the USA and the addition of two newly acquired businesses in the East Coast, USA and Canada in March 2005 contributed towards Waterco achieving record total sales of $81 million, up 10 per cent, reflecting the group's stronger global operations. Overseas revenue was 32 per cent of total sales, compared with 26 per cent the previous year.

A profit after tax of $4.18 million was disappointing, affected by three factors: an unrealized foreign exchange loss, restructuring costs in the United Kingdom and non-recognition of the profit from the sale of a property.

Excluding the foreign exchange loss, the EBIT (earnings before interest and tax) margin on sales was 10.2 per cent, compares with 10.6 per cent in 2004. If we exclude and the loss in the United Kingdom as well, the EBIT margin on sales would have been 12.51 per cent.

Your directors have declared a final dividend of 9.0 cents per share fully franked payable to shareholders on 8th November, 2005. This brings total dividends for the year to 16.0 cents per share, compared with 15 cents per share in the prior year.

Increasing an International Focus

In March 2005, Waterco strengthened its North American presence and expanded its product range through the acquisitions of the business assets of Focus Temp International Inc., the Canadian market leader for swimming pool heat pumps, and Baker Hydro Filtrations Inc., a United States producer of filtration and water treatment products. The combined purchase price for both businesses was $9.7 million.

These acquisitions complemented Waterco's existing sales and distribution operations on the West Coast of the United States and increased our North American sales. As a result of the Baker Hydro purchase, Waterco acquired a factory in Augusta, Georgia, which also provided an assembly plant for pumps and commercial filters. This enhanced distribution of Waterco products on the East Coast. The purchase of Focus Temp's operations at St-Hyacinthe, Quebec provided Waterco with an operational base in Canada.

Focus Temp International was a Quebec-based designer, manufacturer and marketer of highly energy-efficient swimming pool heat pumps, complementing Waterco's existing solar heating division. The acquisition of this business came with a dominant market share in Canada, and a growing presence in both the United States and International markets, including Europe, for this product. The strong dealer network will help introduce our other products into the Canadian market and other markets that Focus Temp had a presence in.

The heat pumps are suitable for above ground and in-ground swimming pools as well as spas and have low operating costs. Heat pumps are used outside the swimming pool industry to heat water at an economical rate, lower than conventional methods using oil and gas, the prices of which are currently at record highs. Heat pumps are used where solar heating is not practical, or as back-up heating when solar energy is low.

Baker Hydro Filtrations has more than 50 years' experience in filtration and water treatment, and is well known in the United States and International swimming pool industries. Baker Hydro manufactures and markets cartridge and sand filtration systems used in agriculture, aquaculture, industrial and recreational markets, including wastewater treatment and recycling. As part of the acquisition, Waterco owns eight acres of land and a 25,200 square foot factory at Augusta, Georgia.

The acquisition of Baker Hydro Filtrations Inc was completed on 4th March 2005 and the acquisition of Focus Temp International Inc was completed on the 17th March 2005 . These acquisitions increased Waterco's global footprint and shortened supply lines and delivery times. They will help us achieve critical mass in the key North American market, with both Baker Hydro's and Focus Temp's distribution networks to increase sales of both their and Waterco products, and build brand awareness.

The acquisitions were funded by working capital, augmented by additional banking facilities. The company's gearing increased to approximately 55 per cent and was reduced back to 47 per cent with the sale of the property at Bankstown, Sydney.

Manufacturing Capability

Construction of the company's manufacturing plant in China has commenced. The building has been extended to 12,000 square metres, and will be completed in mid-2006, six months later than expected. Construction of the 18,000 square metre manufacturing facility in Malaysia is scheduled for completion by end-2005.

While these facilities are being built, Waterco has rented premises to handle increased production. When complete, these facilities will lead to lower production costs and enable Waterco to compete more effectively in the North American and European markets.

Waterco is continuing research and development to broaden and diversify the use of products for water treatment, including commercial water treatment and Greywater recycling.

On a group basis, research and development costs reached a record level of $886,093.

Australian and New Zealand Operations

Our Australian operations produced a steady result. Chemical sales were soft while equipment sales, with their higher margins, were stable, providing a satisfactory result for the year. New stores added to the franchising division during the year will underpin growth of the Australian business. There are now 56 Swimart Stores in Australia and 4 in New Zealand.

The company improved its margin in New Zealand and reduced expenses, returning the division to profit. This was an acceptable result following a difficult year of restructuring, and increased revenue and profitability are expected in 2006.

Significant Items

Profit was affected by unrealized foreign exchange losses of $841,000 resulting from the impact of the stronger Australian dollar on inter-company loans at balance date. This unrealized loss has no effect on Waterco's cash flow. If foreign exchange losses are excluded, the group's after-tax profit would be $5.02 million.

During the year, Waterco sold and leased back its Bankstown property to reduce its property portfolio as well as to reduce its gearing. We had expected that the profit on the original cost of the property would be recognised in the 2005 result. The capital gains of $1.8 million before tax would have well offset the unrealized foreign exchange losses. However, we had been recently advised that accounting standards do not allow the recognition of a profit on original cost after there had been a prior revaluation. The profit after tax is now retained in the company's asset revaluation reserve.

The United Kingdom business was restructured to focus on sales and marketing, and manufacturing operations were restricted to commercial filters and pump assembly. A decision was made to relocate to reduce further the manufacturing activity during the last quarter of the financial year; new computer facilities were put in place with an enhanced level of information systems. This led to a further loss in the second half of the year with loss for the year being $1.3 million. A new Chief Executive Officer was appointed in the last quarter of the financial year and, restructuring now complete, the business' performance is expected to improve significantly.

Capital Raising

During the year, we raised $5.488 million (before costs of the offer) 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.

Our Future

We have now completed restructuring of the United Kingdom operations and expect improved performance.

With the acquisitions of two businesses in the North American markets and animproved brand awareness, we expect sales there to reach $25 million.

All our businesses are sound, and our enlarged North American operations are exceeding our expectations. We are therefore confident of achieving a net profit in 2005/06 higher than our record $5.4 million in 2003/04, with group revenue reaching $95 million.

BOARD OF DIRECTORS

Soon Sinn Goh – FCPA
Chairman/CEO

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.

He held no other listed company directorships during the past three financial years.

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 five years' experience in the pool industry, eighteen 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.

He held no other listed company directorships during the past three financial years.

Garry Norman – B COM CA
Non-Executive Director

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.

He held no other listed company directorships during the past three financial years.

Stuart Lloyd – FCA
Non-Executive Director

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.

Listed company directorships held during the past three financial years:

- Biometrics Limited from 31 March 2005 to 3 August 2005.
- Lloyd Cooper Associates Limited from 1 June 1982 to 31 July 2005.

Ben Hunt – PHD (ANU)
Non-Executive Director

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.

He held no other listed company directorships during the past three financial years.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

This statement sets out the corporate governance practices that the Company had in place during the financial year ended 30 June 2005.

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 that have not been followed, and the reasons for not following them.

As foreshadowed in last year's Annual Report, the Board and senior management have, during the course of the financial year, taken time to review the Company's governance structures and policies in light of the ASX Best Practice Recommendations. This process has resulted in the updating of some existing policies, and the adoption and publication of new ones.

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 that 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.

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.

During the year the Board discussed and on 31 March 2005 adopted a Board Charter which reflects these principles and deals with other matters relating to the Company's Board structure. This Board Charter is published on the Company's website www.waterco.com.au.

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 Board's 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 Chief Executive Officer) 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.

A policy setting out the details of the selection and appointment process for new directors of the Company was prepared during the course of the financial year and adopted by the Board on 12 May 2005. This policy is published on the Company's website.

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** section of the Company's annual report.

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. Further details as to how the Board assesses independence can be found in the Board Charter published on the Company's website.

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 both 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 ASX Guidelines acknowledge that such committees are more appropriate in large companies. The Board is of the opinion that it is appropriate in a company the size of Waterco for the Board as a whole to fulfil this role.

PRINCIPLE 3 - PROMOTE ETHICAL DECISION MAKING

During the financial year the Board discussed and on 31 March 2005 adopted a code of conduct for directors and employees that addresses the issues referred to in Box 3.1 in Principle 3. The Company has published this code on its website. In addition to the code of conduct:

- 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 employees.

The Board finalised the Company's draft share trading policy, referred to in last year's report, and adopted it on 31 March 2005. This policy is entitled "Staff and Officer Trading Policy" and is published on the Company's website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

CEO/CFO Signoffs

At the Board meeting at which the 2005 financial reports were approved, the Chief Executive Officer and Chief Financial Officer advised the Board in writing that they were 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.

Audit Committee

The Audit Committee operates under the Audit Committee Charter which was revised by the Audit Committee and Board during the year. The revised version was adopted on 12 May 2005 and is published on the Company's website.

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 Board formalised the Company's continuous disclosure systems by adopting a written policy on 31 March 2005 and this policy is published on its website. This policy sets out the rules and responsibilities for Waterco's officers and employees in promoting timely and balanced disclosure of all material matters concerning the Company.

As detailed in the continuous disclosure policy, 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 themself informed and up to date regarding the type of information that must be disclosed;
- notify the 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 company secretaries and senior management with the necessary resources to allow all disclosure requirements are met in a timely and balanced fashion.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

The Board adopted a communications strategy entitled "Shareholder Communication Policy" on 31 March 2005 and this is published on its website. This policy details the mechanisms in place to ensure that the rights of shareholders are respected and to facilitate the effective exercise of those rights.

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, and will facilitate the rights of shareholders, introduced by the CLERP 9 amendments, to ask certain questions of the auditor in writing in advance of the AGM.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

The Board is continuing to work on formalising the Company's Risk Management Policy but the basic principles are summarised and published on the Company's website "Summary of Risk Management Policy". This summary was approved by the Board on 12 May 2005.

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.

A draft Induction Policy for New Executives and Directors and a draft Board Performance Evaluation Policy have been discussed by the Board during the course of the financial year.

These two policies are currently awaiting Board approval. The Board Performance Evaluation Policy will be published on the Company's website once it has been adopted.

PRINCIPLE 9 – REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration of Directors and Key Executives

The Board continued to review the draft remuneration policy during the financial year.

The company's revised remuneration policy was approved by the board on 24 August 2005.

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 a number of components:

- salary
- short term incentives, combined with the ability to apply cash bonuses towards the acquisition of shares, with the company contributing proportionately on a 1 for 2 basis towards the acquisition of additional shares
- long term incentives (in the case of the CEO, via the CEO Share Plan)
- benefits

Details of directors' remuneration, and remuneration of the Company's 5 highest paid (non-director) executives are contained in the **Remuneration Report.**

The Company's remuneration policy, the essential elements of which have been in operation throughout the 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 performances. The CEO Share Plan, approved in November 2003, contains performance hurdles based on improved Company performance. Depending on the extent to which those hurdles are met, the CEO may be entitled to access none, some, or all of the shares allocated to him under the Plan.
- 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.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board of Directors on remuneration packages and policies for the Executive Directors and the executive team. The Remuneration Committee Charter (which had existed in draft form since August 2003) was finalised by the Board on 23 June 2005 and is published on the Company's website.

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 Waterco Board itself, upon receipt of advice from external consultants. No equity-based remuneration was offered to non-executive directors in the financial year just ended, nor is there any proposal to do so this 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 or issued to executive directors and senior executives under:

- the "Exempt" and "Deferred" plans, which commenced in 1 July 02 and continued to operate throughout the financial year just ended. All employees, including executive directors are eligible to participate. However Executive Directors are not entitled to the additional contribution made by the Company where employees salary sacrifice to acquire shares; and

- 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 in the Remuneration Report.

PRINCIPLE 10 – RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The Company has published its code of conduct in relation to the Company's compliance with its legal and other obligations to its legitimate stakeholders on its website. As suggested by the ASX Best Practice Recommendations, the Board adopted a single code of conduct on 31 March 2005 to address the matters covered by both principle 3 and principle 10.

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2005.

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.

COMPANY SECRETARIES

The following persons held the position of joint company secretary at the end of the financial year:

Bee Hong Leo
Mrs Leo was appointed Company Secretary on 3 March 1983. She has been employed by Waterco since March 1981 performing management roles in the administration, payroll and legal divisions.
Gerard Doumit CPA
Mr Doumit was appointed Company Secretary on 22 July 1991. He joined Waterco on 5 January 1987 as an accountant and is currently the Chief Accountant/CFO and Joint Company Secretary.

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.

- Pack and distribute swimming pool chemicals to pool shops, supermarket and hardware chains.

CONSOLIDATED RESULTS

The consolidated result for the year in review was a profit of $4,175,881

DIVIDENDS

Dividends paid or declared for payment are as follows:

Final ordinary dividend of 9 cents per share paid on 8 November 2004 as recommended in last year's report	$1,879,618
Interim ordinary dividend of 7 cents per share paid on 9 May 2005	$1,581,976
Final ordinary dividend of 9 cents per share declared by the directors to be paid on 8 November 2005	$2,033,969

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 Chief Executive Officer's Review of Operations.

FINANCIAL POSITION

The net assets of the economic entity have increased by $4.413 million from $32.96m in June 2004 to $37.373 million in June 2005.

The change has largely resulted from:

- Shares issued in December 2004 of $5.308m less the
- Downward movement in reserves of $1.579m (asset revaluation $0.831m and foreign currency translation $0.748m) and
- Movement in profits (less dividends) of $0.714m.

The group's working capital being current assets less current liabilities improved from $21.456 million in 2004 to $32.865 million in 2005.

The economic entity's strong financial position has enabled it to purchase two businesses in North America costing $9.7million and at the same time commence construction on a new building in Malaysia to expand its manufacturing base for future growth.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- On 15 November 2004 the company issued 1,715,000 ordinary shares at $3.20 each by way of placement to fund the new manufacturing and office facilities in Guangzhou, China and in Malaysia.

- On 29 November 2004, Waterco C Ltd allotted 1 million shares at RMB 8.2763 ($A1.27) to Waterco Ltd. The purpose of the funds was to partly pay for the construction of a new building in China.

- In March 2005, Waterco USA Inc acquired the assets of Baker Hydro Filtrations Inc (a filter manufacturing business based in Georgia, USA) for $A2.97m (including a property).

- Also in March 2005, Waterco Canada Inc was set up to acquire the assets of Focus Temp International (a heat pump manufacturing business based in Quebec, Canada) for $A6.74m. On 16 March 2005, Waterco Canada Inc allotted 1.25 million shares at $CAD1.00 ($A1.05) to Waterco Ltd. On 30 June 2005 Waterco Canada Inc allotted another 1.25 million shares at $CAD 1.00 ($A1.0717) to Waterco Ltd.

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 Chief Executive Officer'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, 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.

MEETINGS OF DIRECTORS

During the financial year, 22 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
Soon Sinn Goh	5	5	--	--	--	--
Bruce Leitch	5	5	--	--	--	--
Garry Norman	5	4	8	8	9	8
Stuart Lloyd	5	5	8	8	9	9
Ben Hunt	5	5	8	8	9	9

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.

REMUNERATION REPORT

1. Remuneration Committee

The remuneration committee operates under the delegated authority of Waterco's board of directors. The committee's charter is available on Waterco's internet site at www.waterco.com

The committee is comprised solely of independent non-executive directors. Its members throughout financial year 2005 were:

- Stuart Lloyd (Chair)
- Garry Norman
- Ben Hunt

The committee met nine times during the year, with Stuart Lloyd and Ben Hunt attending each meeting. Garry Norman attended eight meetings during the year.

The committee's primary responsibility is to assist the board in fulfilling its corporate governance responsibilities with respect to:

- Waterco being able to attract and retain executives and directors who will create value for shareholders and who will support the Waterco mission.

- Waterco fairly and responsibly rewarding executives and directors having regard to the interests of shareholders, the performance of the company, the performance of the executive and director and the employment market conditions.

The committee has the resources and authority appropriate to discharge its duties and responsibilities, including the authority to engage external professionals, on terms it determines appropriate, with the approval of the Chairman of the Board.

Waterco has a number of external remuneration advisors who are independent and engaged on the basis of their competency in the relevant field. During the financial year, Waterco nor the committee engaged any external advisors on matters relating to remuneration.

2. Remuneration Principles

The Committee recognises that Waterco operates in a global environment and that its performance depends on the quality of its people. To successfully achieve its financial and operating objectives, Waterco must be able to attract, retain and motivate highly skilled executives dedicated to the interests of its shareholders.

Waterco's remuneration principles

- Competitive remuneration arrangements are provided to attract, retain and motivate executive talent.

- Rewards to executives are linked to the creation of value to shareholders.

- Full legal compliance and disclosure of executive remuneration.

The board and the committee also recognise that although remuneration is a major factor in recruiting and retaining highly talented and effective people, other factors play a substantial role including Waterco's corporate reputation, its ethical culture, business values and its ability to provide interesting and challenging career opportunities.

3. Remuneration structure

Waterco's remuneration structure comprises policies and programs under 2 general elements:

- A fixed remuneration component consisting of base salary which executives may "salary sacrifice" and other benefits;

- A variable or "at risk" component consisting of an annual short term incentive plan for executives and a long term incentive plan for the CEO, which is tied to performance and is at risk, depending upon performance.

The total reward produces an appropriate mix of fixed remuneration with short and long term incentive opportunities

3.1 Fixed remuneration

The committee reviews the fixed remuneration levels of the CEO and executive directors. The CEO determines the executives fixed remuneration which is then reviewed by the committee. Fixed remuneration for the CEO, executive directors and executives is reviewed annually and is determined by reference to appropriate benchmark information of comparable companies, taking into account the executive's responsibility, performance, qualifications, experience and potential.

3.2 Variable Remuneration

The committee and the board believe that well designed and managed short term and long term incentive plans are important elements of employee remuneration, providing tangible incentives for employees to strive to improve Waterco's performance both in the short term and long term for the benefit of shareholders.

The proportions of total remuneration which may be received in variable form varies between senior Waterco managers and takes into account individuals' responsibilities, performance and experience. All variable remuneration is tied to performance.

3.2.1 Short term incentive plan (STI)

The STI plan is designed to directly link variable remuneration to financial performance and to drive continuous performance improvement. The STI encourages participants to both sustain and improve upon performance levels reached in the prior year. Since profit is measured at the state/division level, each manager in Waterco has an incentive to maximise the profit of their unit. The CEO does not participate in the STI plan.

Key components of the STI plan include:

- Performance measured through the generation of at least a 5% increase in gross profit in sales over the prior year excluding any Australian acquisitions.

- The table sets out the structure of the incentive when a particular increase in gross profit in sales is achieved:

		Incentive Points[1]
Minimum Achievement	5%	1
Achievable Gain	10%	6
Good Achievement	15%	11
A Super Year	20%	16

[1] *Each incentive point is equal to $1,000. For example: if the company was to achieve a gross profit in sales of 8% - this would be equivalent to $4,000.*

- Any achievement exceeding 20% may be carried forward to the following year.

- Payment of the incentive is made in December each year to eligible executives who are employed as at the date of payment.

3.2.2 Long term incentive plan (LTI)

The CEO has as part of his remuneration package a performance-based component, which is governed by the CEO Share Plan which was approved at the Annual General Meeting on 17 November 2003.

On 5 December 2003 the CEO was issued 500,000 shares at $2.35 each under the delayed loan repayment terms of this plan. Under this plan the CEO is entitled to withdraw and deal with these shares if the following criteria have been satisfied:

- Minimum Employment Period
  The CEO must continue to be employed as CEO of the company for 36 months following the issue of the shares. If this is not satisfied, the CEO will forfeit the shares.

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

  - growth in EPS of 15% 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; and
  - growth in EPS of less than 15% per year compounded over the Targeted EPS Period, which is 30 June 2003 to 30 June 2006, results in 0% of the shares being available to be withdrawn from the plan.

To achieve the LTI the EPS at 30 June 2006 must be 35.60 cents.

This loan is an interest chargeable loan and the amount of interest payable is equivalent to the dividends paid on these shares. During the year a total of $80,000 in interest was received on this loan.

The loan is repayable on the earlier of the date the Plan Shares are removed from the Plan and 5 years from the date the shares are issued (4 December 2008).

3.3 Other benefits

Waterco provides senior executives with other benefits commonly provided at their peer management levels. These benefits may include salary continuance and life cover and company motor vehicles.

3.4 Employee share plans

Waterco operates 2 employee share plans.

- The Waterco Exempt Employee Share Plan;
- The Waterco Deferred Employee Share Plan.

All Australian employees are eligible to participate in only 1 plan simultaneously.

3.4.1 Waterco Exempt Employee Share Plan

The Waterco Exempt Employee Share Plan, which commenced on 1 July 2002 is open to all Australian employees who have been employed for at least one year.

Employees wishing to participate in this plan can salary sacrifice up to $500 and receive up to $500 worth of matching shares from Waterco. These shares are purchased on-market.

Shares allotted under the Exempt Plan are ordinary shares, equivalent in all respects to, and ranking equally with, existing fully paid ordinary shares.

Shares allotted under the Exempt Plan may not be disposed of before the earlier of the end of three years after the time of acquisition of the shares, or when the participant ceases to be employed by any Waterco group company.

The CEO is not eligible to participate in this Plan and the executive director is not eligible to receive the $500 worth of matching shares if he participates in this plan by salary sacrifice.

3.4.2 Waterco Deferred Employee Share Plan

The Waterco Deferred Employee Share Plan, which commenced on 1 July 2002 enables directors and employees of Waterco in Australia to purchase Waterco shares with pre-tax remuneration or bonuses.

To be eligible to participate in the Waterco Deferred Plan Australian employees need to have been employed for at least one year.

Eligible employees wishing to participate in this plan may annually acquire a parcel of shares with a minimum of $2,000 pre-tax remuneration and Waterco will provide matching shares up to a maximum of $1,000.00. These shares are purchased on-market.

Employees cannot salary sacrifice below 30% of their fixed remuneration to acquire shares.

Shares allotted under the Deferred Plan are ordinary shares, equivalent in all respects to, and ranking equally with, existing fully paid ordinary shares.

Shares allotted under the Deferred Plan may not be disposed of before the earlier of the end of two years after the time of acquisition of the shares, or when the participant ceases to be employed by any Waterco group company.

The CEO is not eligible to participate in this Plan and the executive director is not eligible to receive the $1,000 worth of matching shares if he participate by way of salary sacrifice.

The tables below shows the movement during the reporting period in the number of ordinary shares in Waterco Ltd held directly, indirectly or beneficially by each Director and relevant Executive, including their personally-related entities:

Parent entity directors' ordinary shareholdings

Directors' shareholdings	Balance 1 July 2004	Received as remuneration	Options exercised	Net change other	Balance 30 June 2005
Mr Soon Sinn Goh	10,585,377	-	-	500,556	11,085,933
Mr Bruce Leitch	354,610	-	-	61,590	416,200
Mr Garry Norman	85,000	-	-	15,000	100,000
Mr Stuart Lloyd	86,000	-	-	-	86,000
Mr Ben Hunt	126,800	-	-	-	126,800

Parent entity senior executives' ordinary shareholdings

Senior executives' shareholdings	Balance 1 July 2004	Received as remuneration	Options exercised	Net change other	Balance 30 June 2005
Mr Sze Tin Lim Financial Controller	117,997	834	-	-	118,831
Mrs Bee Hong Leo Joint Company Secretary	101,065	836	-	(6,540)	95,361
Mr Gerard Doumit Chief Accountant / Joint Company Secretary	88,516	279	-	-	88,795
Mr Peter Drummond NSW Branch Mgr / GM, Chemicals	28,068	1,696	-	-	29,764
Mr Michael Lonton National Franchise Mgr	24,000	-	-	-	24,000

4. Executive Service Contracts

All persons who are invited and agree to act as a Director of the Company, do so by a formal letter of consent.

Director appointments to Board Committees are by formal resolutions of the Board. In the past they have not received formal letters of appointment to Committees, however such letters will be issued to new appointees in the future.

Waterco has service contracts with each of the executives. These contracts are for an undefined term and as such are capable of termination on reasonable notice. No termination payments are provided for under these contracts.

5. Executive directors'

At the date of this report there are 2 executive directors':

- Soon Sinn Goh – Chairman and CEO;
- Bruce Leitch – Sales & Marketing Director.

The remuneration paid to the executive directors' is set out in the following table.

Name	Year	Base Salary[1]	Cash Bonus	Director's Fees[4]	Super Contributions	Incentives[2]	Non Cash Benefits[3]	Options	Total
Mr Soon Sinn Goh	2005	221,185	-	60,000	18,000	16,672	-	-	315,857
Chairman & CEO	2004	218,525	-	60,000	17,862	10,369	10,149	4,670	321,575
Mr Bruce Leitch	2005	170,714	15,000	-	12,150	3,140	24,048	-	225,052
Executive Director	2004	170,224	-	-	12,150	6,158	27,329	-	215,861

1 *Base salary includes any salary sacrifice amounts*

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

3 *Non cash benefits are made up of company vehicle benefits and salary continuance premiums*

4 *Director's fees of $60,000 paid to Mr Soon Sinn Goh by a subsidiary, Waterco (Far East) Sdn Bhd.*

There were 26 pay periods during the year (2004 : 27)

6. Senior executives

The table below sets out remuneration details for the five most highly remunerated executives in the parent entity.

Name	Year	Base Salary[1]	Cash Bonus	Superannuation Contributions	Incentives[2]	Non Cash Benefits[3]	Total
Mr Sze Tin Lim	2005	123,643	10,000	11,880	3,642	8,841	158,006
Financial Controller	2004	124,020	-	11,028	5,649	10,275	150,972
Mrs Bee Hong Leo	2005	125,092	10,000	11,970	3,264	-	150,326
Joint Company Secretary	2004	123,650	-	11,028	5,069	-	139,747
Mr Gerard Doumit	2005	106,272	10,000	10,350	2,764	14,720	144,106
Chief Accountant / Joint Company Secretary	2004	105,529	-	9,346	4,569	14,969	134,413
Mr Peter Drummond	2005	101,000	7,500	9,765	3,264	18,297	139,826
NSW Branch Mgr / GM, Chemicals	2004	101,769	-	9,159	6,871	23,214	141,013
Mr Michael Lonton	2005	115,358	10,000	11,070	2,264	-	138,692
National Franchise Mgr	2004	110,790	-	9,907	5,871	-	126,568

1 *Base salary includes any salary sacrifice amounts.*

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

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

There were 26 pay periods during the year (2004 : 27).

7. Non-Executive Directors

Fees for non-executive directors are based on the nature of their work and their responsibilities and the board's policy is to remunerate non-executive directors at market rates for comparable companies. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

The board approved an increase in base non-executive director fees to $42,000.00 from 29 June 2005. The remuneration of non-executive directors is fixed. They do not participate in any incentive plans available to executives.

Details of all fees paid to non-executive directors during year ended June 2005 is set out in the following table.

Name	Year	Director's Fees[1]	Superannuation Contributions	Options	Total
Mr Garry Norman	2005	39,000	3,510	-	42,510
	2004	36,000	3,240	467	39,707
Mr Stuart Lloyd	2005	39,000	3,510	-	42,510
	2004	36,000	3,240	467	39,707
Mr Ben Hunt	2005	39,000	3,510	-	42,510
	2004	36,000	3,240	467	39,707

[1] *Director's fees are paid by the parent entity.*

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;

- Payments made by a controlled entity to Goh Lai Huat & Sons Sdn Bhd for rental of warehouse and offices by Waterco (Far East) Sdn Bhd of which Mr S S Goh is a director and shareholder.

- Sales made and commissions paid by a controlled entity to Asiapools (M) Sdn Bhd of which Mr S S Goh is a shareholder.

- Payments made to Mint Holdings Pty Ltd for rental of warehouses and offices of which Mr S S Goh is a director and shareholder.

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.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration made under section 307C of the Corporations Act 2001 is included below.

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

A MEMBER OF MOORES ROWLAND INTERNATIONAL

Bentleys mri

Bentleys MRI Sydney Partnership

Auditor's Independence Declaration under Section 307c of the Corporations Act 2001 to the directors of Waterco Limited ABN 62 002 070 733

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Bentleys MRI

BENTLEYS MRI
Sydney Partnership

Robert Ryan
Partner

Dated at Sydney this 24th day of August 2005

Chartered Accountants

Details of the amounts paid to the auditor of the company, Bentleys MRI for audit services provided during the year are set out in Note 3 to the financial statements.

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

SOON SINN GOH
Chairman

24 August 2005

WATERCO LIMITED AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note No.	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Revenues from ordinary activities	2	86,231,417	74,473,597	62,946,620	57,224,537
Changes in inventories of finished goods and work in progress		(2,037,900)	(3,125,091)	(1,597,743)	(1,926,244)
Raw Materials and consumables used		(43,352,922)	(36,697,810)	(31,100,119)	(30,551,369)
Employee benefits expense		(12,328,883)	(11,519,838)	(8,681,534)	(2,562,102)
Depreciation and amortisation expense	3	(1,263,678)	(1,172,569)	(928,628)	(822,169)
Borrowing costs expense		(1,244,273)	(938,876)	(1,216,194)	(923,805)
Advertising expense		(1,645,585)	(1,416,396)	(820,081)	(744,268)
Discounts allowed		(1,171,389)	(1,588,311)	(1,159,456)	(1,579,199)
Outward freight expense		(2,347,119)	(2,273,661)	(1,841,545)	(1,822,993)
Rent expense		(2,330,076)	(1,995,550)	(1,578,361)	(1,093,800)
Contracted staff expense		(813,463)	(1,024,068)	(803,041)	(1,023,846)
Intercompany labour cost		-	-	-	(4,696,992)
Warranty expense		(429,065)	(583,305)	(250,477)	(270,481)
Commission expense		(606,111)	(391,152)	(283,866)	(340,980)
Other expenses from ordinary activities		(10,454,293)	(4,626,083)	(7,515,368)	(1,726,950)
Profit from ordinary activities before income tax expense	4	6,206,660	7,120,887	5,170,207	6,109,339
Income tax expense relating to ordinary activities	4	2,017,503	1,752,541	1,705,437	1,740,198
Profit from ordinary activities after related income tax expense		4,189,157	5,368,346	3,464,770	4,369,141
Net Profit		4,189,157	5,368,346	3,464,770	4,369,141
Net profit/(loss) attributable to outside equity interests	32	13,276	(45,608)	-	-
Net profit attributable to members of the parent entity		4,175,881	5,413,954	3,464,770	4,369,141
Increase/(Decrease) in asset revaluation reserve	25c)	(831,083)	4,814,454	(831,083)	4,814,454
Net exchange difference on translation of financial reports of self-sustaining foreign operations	25b)	(747,676)	(163,953)	-	-
Total revenue, expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity		(1,578,759)	4,650,501	(831,083)	4,814,454
Total changes in equity other than those resulting from transactions with owners as owners		2,597,122	10,064,455	2,623,687	9,183,595 -
Basic earnings per share (cents per share)	32	19.1	26.7		
Diluted earnings per share (cents per share)	32	19.1	26.7		

The accompanying notes form part of these financial statements.

WATERCO LIMITED AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note No.	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Current Assets					
Cash assets		5,331,900	1,423,607	3,201,851	761,326
Receivables	6	12,950,626	9,009,506	4,265,310	4,315,673
Inventories	7	26,117,714	20,039,806	12,950,888	11,272,461
Other	8	842,297	690,304	465,999	448,043
Total Current Assets		45,242,537	31,163,223	20,884,048	16,797,503
Non-Current Assets					
Receivables	9	1,509,220	1,595,800	22,569,638	13,532,853
Other financial assets	10	-	-	7,924,950	4,000,230
Property, plant & equipment	12	23,029,374	21,136,480	12,289,891	15,530,612
Intangible assets	13	2,796,870	790,152	310,452	437,850
Deferred tax assets	14	812,234	1,329,678	635,388	833,606
Other	15	38,187	3,067	-	-
Total Non-Current Assets		28,185,885	24,855,177	43,730,319	34,335,151
Total Assets		73,428,422	56,018,400	64,614,367	51,132,654
Current Liabilities					
Payables	16	8,587,138	5,724,294	5,014,249	5,753,937
Interest bearing liabilities	17	1,221,951	1,221,881	1,221,951	1,220,379
Current tax liabilities	18	1,055,436	1,181,525	816,819	1,139,627
Provisions	19	1,512,728	1,579,991	1,470,790	1,546,247
Total Current Liabilities		12,377,253	9,707,691	8,523,809	9,660,190
Non-Current Liabilities					
Payables	20	-	-	3,023,332	3,005,758
Interest bearing liabilities	21	21,538,032	12,655,356	21,257,907	12,279,916
Deferred tax liabilities	22	1,514,190	370,327	1,282,203	116,428
Provisions	23	301,740	325,439	301,740	325,439
Total Non-Current Liabilities		23,353,962	13,351,122	25,865,182	15,727,541
Total Liabilities		35,731,215	23,058,813	34,388,991	25,387,731
Net Assets		37,697,207	32,959,587	30,225,376	25,744,923
Equity					
Contributed equity	24	23,448,028	18,139,668	23,448,028	18,139,668
Reserves	25	2,564,930	4,143,689	4,163,797	4,994,880
Retained profits	26	11,520,965	10,806,678	2,613,551	2,610,375
Parent entity interest		37,533,923	33,090,035	30,225,376	25,744,923
Outside equity interest	33	163,284	(130,448)	-	-
Total Equity		37,697,207	32,959,587	30,225,376	25,744,923

The accompanying notes form part of these financial statements.

WATERCO LIMITED AND CONTROLLED ENTITIES

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
Cash Flows from Operating Activities				
Receipts from customers	85,433,334	80,885,404	63,295,689	62,602,221
Payments to suppliers and employees	(78,794,087)	(75,266,583)	(59,292,977)	(54,189,438)
Interest received	116,995	63,156	103,711	57,952
Other Income	239,186	487,467	144,619	383,813
Borrowing costs	(1,244,273)	(938,876)	(1,216,194)	(923,805)
Income tax paid	(2,189,442)	(1,670,329)	(2,371,409)	(1,621,157)
Net cash provided by/(used in) operating activities(note 38b)	3,561,713	3,560,239	663,439	6,309,586
Cash Flows from Investing Activities				
Dividends received	108	-	34,891	39,003
Payment for property, plant & equipment	(3,948,960)	(3,307,830)	(1,035,964)	(649,158)
Proceeds from sale of property, Plant & equipment	4,885,340	154,248	4,892,170	66,745
Payment for business (note 38d)	(9,816,219)	(1,085,942)	(107,583)	(536,122)
Proceeds from sale of business (net of cash) (note 38c)	345,769	-	345,769	-
Proceeds from sale of investments	14,264	-	-	
Payment for investments	-	-	(3,924,720)	(832,241)
Payments for intangibles	(213,187)	-	-	-
Net cash provided by/(used in) investment activities	(8,732,885)	(4,239,524)	204,563	(1,911,773)
Cash Flows from Financing Activities				
Proceeds from/(repayment of) borrowings	8,904,685	(746,576)	9,000,000	(1,000,000)
Proceeds from issue of shares	5,308,360	3,141,330	5,308,360	3,141,330
Payment of lease liabilities	(255,033)	(180,390)	(255,032)	(180,390)
Dividends paid	(3,495,013)	(2,703,989)	(3,461,594)	(2,673,005)
Employee share plan repayments	86,580	73,758	86,580	73,758
Loans to controlled entities	-	-	(9,105,791)	(5,080,072)
Net cash provided by/(used in) financing activities	10,549,579	(415,867)	1,572,523	(5,718,379)
Net increase/(decrease) in cash held	5,378,407	(1,095,152)	2,440,525	(1,320,566)
Cash at beginning of the year	422,105	1,807,906	(238,674)	1,081,892
Effects of exchange rate changes on balance of cash held in foreign currencies at the beginning of the year	(1,468,612)	(290,649)	-	-
Cash at the end of the year(Note 38a)	4,331,900	422,105	2,201,851	(238,674)

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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 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 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.

i. Employee Benefits (continued)

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 value of the freehold land and building owned by the economic entity is based on the following independent valuation:

Land & Buildings	Date of Valuation	Amount
Rydalmere , NSW	23 June 2005	9,200,000

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.

On 24th June 2005, Waterco Ltd disposed of the Bankstown Property. This property had been revalued up to its market valuation amount on 30th June 2004 and then subsequently revalued down to its realisable value amount on 24th June 2005

Original Cost (wdv) at 30th June 2004	2,589,333	
Revalued Amount at 30th June 2004	4,821,071	
Revalued Amount at 24th June 2005	4,384,355	
Net Consideration of Sales	4,384,355	
Profit on sale (on original cost) of Property		1,795,022

However, AASB1046 does not allow the recognition of a profit on sale (on original cost) of this property. AASB1041 does not allow the reversal of any revaluations and reinstatement of the written down value of the property so as to correctly and fairly record the profit on the sale of the property. Instead, AASB1046 requires that the profit on sale of this property be measured as the difference between the revalued amount and the net sales proceeds and requires the balance in the Asset revaluation reserve be retained even though the property has been sold and removed from the books.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

L. Property, Plant & Equipment (continued)

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 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

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

The economic entity's management with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation . An AIFRS committee is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

P. Adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of the differences where known are as follows. Users of the financial statements should note, however , the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's AIFRS Committee.

1)Impairment of Assets
Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher value of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the "cash generating unit" level. A "cash generating unit" is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows for other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.
The economic entity has reassessed its impairment testing policy and tested all material assets for impairment as at 1 July 2005. The impact of the change is estimated to be $100,000 (parent nil) , being a reduction in property, plant and equipment , partly offset by a $30,000 (parent nil) reduction in deferred tax liabilities . The resulting net adjustment to retained earnings at 30 June 2005 is $70,000 (parent nil). The resulting adjustment to property, plant and equipment is due to lower expected growth in the market for certain product lines, change of products being produced, restructuring of operations.

11)Goodwill on Consolidation
Under AASB3: Business Combinations, goodwill is capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight-line basis over a period of 20 years.

Impairment testing as at 1 July 2005 confirmed no impairment of the $2,580,573 less accumulated amortisation of $238,876 except for an amount of $13,819 less $6,913 related to a product line that has now been deleted (Pozzani).
The entity has decided to utilise the exemption under AASB1 for all past business combinations and therefore the previously amortised goodwill will not be reversed.

111)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 benefits. Under AASB112 Income Taxes, the 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 and income and accounting profit.

Reconciliation of Net Profit under AGAAP to that Under AIFRS

	Economic Entity 2005 $	Parent Entity 2005 $
Net Profit reported under Australian Accounting Standards	4,175,881	3,464,770
Key transitional adjustments		
- Recognition of impairment Loss	(100,000)	-
- Reversal of amortisation of goodwill (current year)	81,746	37,046
- Income tax expense-deferred tax movement	30,000	-
Total transitional adjustments	11,746	37,046
Net profit under AIFRS	4,187,627	3,501,816

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2003 $
Note 2: Revenue				
Operating activities				
* sales of goods	80,963,607	73,768,726	57,766,035	56,677,024
* dividend received	108	-	34,891	39,003
* interest received	116,995	63,156	103,711	57,952
* rent	174,026	165,092	156,383	165,092
* bad debts recovered	3,319	5,027	21	2,277
* other	239,186	317,348	144,619	216,444
	81,497,241	74,319,349	58,205,660	57,157,792
Non-operating activities				
* proceeds on disposal of property, plant and equipment				
	4,734,176	154,248	4,740,970	66,745
	4,734,176	154,248	4,740,970	66,745
Total Revenue	86,231,417	74,473,597	62,946,630	57,224,537
a) Dividends received or receivable from				
* Partly-owned subsidiaries	-	-	34,783	39,003
* other persons	108	-	108	-
Total dividend revenue	108	-	34,891	39,003
b) Interest received or receivable from				
* other persons	116,995	63,156	103,711	57,952
Total interest revenue	116,995	63,156	103,711	57,952
Note 3: Profit from Ordinary Activities				
Profit from ordinary activities has been determined after:				
(a) Expenses:				
Cost of Sales	46,357,505	40,205,158	33,583,068	32,808,561
Borrowing costs:				
* other persons	1,205,714	908,329	1,177,635	893,258
* finance charges on finance leases	38,559	30,547	38,559	30,547
	1,244,273	938,876	1,216,194	923,805

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Note 3: Profit from Ordinary Activities (continued)				
Profit from ordinary activities has been determined after:				
(a) Expenses:				
Depreciation of non current assets:				
* buildings	163,098	115,778	163,098	115,778
* plant & equipment	847,807	875,686	557,467	552,122
* capitalised leased assets	171,027	122,286	171,027	122,286
	1,181,932	1,113,750	891,592	790,186
Amortisation of non current assets:				
* leasehold land	10,905	10,905	10,905	10,905
* goodwill on acquisition	40,124	23,033	26,141	21,078
* goodwill on consolidation	23,216	23,216	-	-
* expenditure carried forward	7,501	1,665	-	-
	81,746	58,819	37,046	31,983
Foreign currency translation Losses/(gains)	840,602	(219,434)	840,602	(219,434)
Bad and doubtful debts				
* trade debtors	40,896	32,050	27,056	21,673
Rental expense on operating leases	2,330,076	1,995,550	1,578,361	1,093,800
Research & development	886,093	516,130	351,315	228,249
Net Loss on disposal of non-current assets				
* property ,plant and equipment	34,053	55,919	12,505	9,978
Auditors' Remuneration				
Remuneration of the auditor of the parent entity for:				
* audit or reviewing the financial report	99,100	102,492	97,600	97,792
* other services	-	-	-	-
Remuneration of other auditors of subsidiaries for:				
* auditing or reviewing the financial report of subsidiaries	105,955	64,614	-	-
* other services	-	379	-	-
No other benefits were received by auditors				
(b) Revenue and Net Gains				
Net gain on disposal of				
* Property, plant and equipment	54,206	44,940	34,403	10,022
	54,206	44,940	34,403	10,022

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
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	6,206,660	7,120,887	5,170,207	6,109,339
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2004 30%)	1,861,998	2,136,267	1,551,062	1,832,802
Tax effect of permanent differences				
* Depreciation of buildings	25,219	9,616	25,219	9,616
* Entertainment	3,125	3,123	2,309	1,059
* Amortisation - Goodwill	19,363	13,875	7,843	6,323
* Amortisation - Leasehold Land	3,272	3,272	3,272	3,272
* Special building write off	(1,889)	(1,888)	(1,889)	(1,888)
* Reinvestment allowance	(139,889)	(268,737)	-	-
* Effects of lower rates in overseas countries	(124,670)	(112,489)	-	-
* Unrealised foreign exchange Losses/(gains)	241,381	(65,830)	241,381	(65,830)
* Foreign controlled entities not tax effected	396,615	125,112	-	-
* Expenses not allowable	-	12,897	-	1,661
* (Profit)/Loss on sale of building	(28,154)	-	(28,154)	-
* Rebateable dividends	(32)	9,674	(10,467)	-
* Other	(6,967)	(11,628)	(16,472)	(6,658)
* (Over)/under provision for tax in prior year	(231,869)	(100,723)	(68,667)	(40,159)
Income tax expense attributable to profit from ordinary activities before income tax	2,017,503	1,752,541	1,705,437	1,740,198

NOTE 5: Remuneration of Directors and 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 & CEO
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

2005

	Base Salary*	Cash Bonus	Director's Fees ****	Superannuation Contributions	Incentives**	Non Cash Benefits ***	Options	Total
Mr S S Goh	221,185	-	60,000	18,000	16,672	-	-	315,857
Mr B Leitch	170,714	15,000	-	12,150	3,140	24,048	-	225,052
Mr G Norman	-	-	39,000	3,510	-	-	-	42,510
Mr S Lloyd	-	-	39,000	3,510	-	-	-	42,510
Mr B Hunt	-	-	39,000	3,510	-	-	-	42,510

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

*Base salary includes any salary sacrifice amounts
** Incentives are made up of employee share plan benefits
***Non cash benefits are made up of company vehicle benefits and salary continuance premiums
**** Director's fees of $60,000 paid to Mr S S Goh by a subsidiary (Waterco (Far East) Sdn Bhd). All other directors fees are paid by the parent entity
There were 26 pay periods during the year (2004 : 27)

c) Specified Executives Remuneration

2005

	Base Salary*	Cash bonus	Superannuation Contributions	Incentives **	Non Cash Benefits ***	Total
Mr S T Lim	123,643	10,000	11,880	3,642	8,841	158,006
Mrs B H Leo	125,092	10,000	11,970	3,264	-	150,326
Mr G Doumit	106,272	10,000	10,350	2,764	14,720	144,106
Mr P Drummond	101,000	7,500	9,765	3,264	18,297	139,826
Mr M Lonton	115,358	10,000	11,070	2,264	-	138,692

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 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

*Base salary includes any salary sacrifice amounts
** 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 26 pay periods during the year (2004 : 27).

NOTE 5: Remuneration of Directors and Executives (cont'd)

d) Shareholdings

Number of Shares held by Parent Entity Directors and Specified Executives

Parent Entity Directors

	Balance 1.7.04	Received as Remuneration	Options Exercised	Net Change Other	Balance 30.6.05
Mr S S Goh	10,585,377	-	-	500,556	11,085,933
Mr B Leitch	354,610	-	-	61,590	416,200
Mr G Norman	85,000	-	-	15,000	100,000
Mr S Lloyd	86,000	-	-	-	86,000
Mr B Hunt	126,800	-	-	-	126,800

Number of Shares held by Parent Entity Directors and Specified Executives

Specified Executives

	Balance 1.7.04	Received as Remuneration	Options Exercised	Net Change Other	Balance 30.6.05
Mr S T Lim	117,997	834	-	-	118,831
Mrs B H Leo	101,065	836	-	(6,540)	95,361
Mr G Doumit	88,516	279	-	-	88,795
Mr P Drummond	28,068	1,696	-	-	29,764
Mr M Lonton	24,000	-	-	-	24,000

e) Remuneration Practices

In constructing, reviewing and determining the remuneration policy for Executive Directors and the senior executive team, the Board and Remuneration Committee have 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 two general components:

- fixed remuneration component consisting of base salary which executives may "salary sacrifice" and other benefits; and
- variable or "at risk" component consisting of an annual short term incentive plan for executives and a long term incentive plan for the CEO.

Remuneration of the company's Non-Executive Directors is determined by the Board , based on the nature of their work , responsibilities and market comparisons and approved by shareholders at the AGM.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
CURRENT ASSETS				
Note 6: Receivables				
Trade debtors	11,607,628	7,910,634	4,495,193	4,516,384
Less: provision for doubtful debts	248,211	258,159	200,000	200,000
	11,359,417	7,652,475	4,295,193	4,316,384
Other debtors	1,591,209	1,357,031	(29,883)	(711)
	12,950,626	9,009,506	4,265,310	4,315,673
Note 7: Inventories				
Raw materials and stores at cost	8,536,946	4,496,938	699,826	619,142
Work in progress at cost	463,855	221,497	43,018	84,607
Finished goods at cost	16,401,940	14,976,001	11,945,990	10,568,712
Goods in transit at cost	714,973	345,370	262,054	-
	26,117,714	20,039,806	12,950,888	11,272,461
Note 8: Other Current Assets				
Prepayments	842,297	690,304	465,999	448,043
	842,297	690,304	465,999	448,043
NON CURRENT ASSETS				
Note 9: Receivables				
Employee Share Plans	1,509,220	1,595,800	1,509,220	1,595,800
Amount owing by controlled entities	-	-	21,060,418	11,937,053
	1,509,220	1,595,800	22,569,638	13,532,853
(a) Foreign currency Receivables Non current assets not effectively hedged to a date at least 12 months after balance date				
- Malaysian ringgit	-	-	7,014,486	5,686,687
- United States dollars 333,525		-	-	3,017,869
- New Zealand dollars	-	-	1,462,055	1,497,304
- British pounds	-	-	4,611,535	3,251,041
- Chinese renminbi	-	-	157,351	143,665
- Canadian dollars	-	-	4,100,901	-
	-	-	20,364,197	10,912,222

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
Note 10: Other Financial Assets				
a) Shares in controlled entities at cost	-	-	7,924,950	4,000,230
	-	-	7,924,950	4,000,230

Note 11: Controlled Entities

	Country of incorporation	% owned 2005	% owned 2004
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
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	100
Waterco (Europe) Ltd****	United Kingdom	100	95.94
Waterco Canada Inc*****	Canada	100	-
Global Leisure Products Sdn Bhd	Malaysia	51	51

* on 8 August 2005, Waterco (M) Sdn Bhd changed its name to Waterco Engineering Sdn Bhd.
**Waterco (HK) Ltd ceased trading on 31 December 2003 and was finally deregistered on 28 January 2005.
*** On 29 November 2004, Waterco(C)Ltd allotted 1,000,000 RMB8.2763($A1.27)shares to Waterco Limited.
**** On 1 September 2004,Waterco Ltd acquired 4,060 shares from minority shareholders of Waterco(Europe)Ltd for a consideration of nil
***** Waterco Canada Ltd allotted 1,250,000 $CAD1.00 ($A1.05) shares to Waterco Ltd on 16 March 2005 and allotted another 1,250,000 $CAD1.00 ($A1.0717) shares to Waterco Ltd on 30 June 2005.

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. Waterco Canada Inc carries on business in Canada.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Note 12: Property, Plant & Equipment				
Freehold land at				
- Independent valuation 2005	2,752,033	-	2,752,033	-
- Directors valuation 2004	-	5,955,536	-	5,955,536
- cost	803,441	594,472	-	-
	3,555,474	6,550,008	2,752,033	5,955,536
Freehold buildings at				
- Independent valuation 2005	6,447,967	-	6,447,967	-
- Directors valuation 2004	-	6,494,464	-	6,494,464
- cost	3,589,960	435,914	-	-
Less: accumulated depreciation	165,117	125,926	-	-
	9,872,810	6,804,452	6,447,967	6,494,464
Leasehold land at cost	268,318	268,318	268,318	268,318
Less: accumulated amortisation	124,945	114,040	124,945	114,040
	143,373	154,278	143,373	154,278
Plant & equipment at cost	19,327,267	16,422,571	6,730,071	6,371,911
Less: accumulated depreciation	10,449,125	9,379,918	4,363,128	4,030,666
	8,878,142	7,042,653	2,366,943	2,341,245
Leased plant & equipment at cost	731,752	727,690	731,752	727,690
Less: accumulated depreciation	152,177	142,601	152,177	142,601
	579,575	585,089	579,575	585,089
Total written down value	23,029,374	21,136,480	12,289,891	15,530,612

a) Movements in Carrying Amounts

	Freehold Land	Buildings	Leasehold Land	Plant & Equipment	Leased Plant & Equipment	Total
Economic Entity:						
Balance at the beginning of year	6,550,008	6,804,452	154,278	7,042,653	585,089	21,136,480
Additions	-	2,728,917	-	1,994,689	234,595	4,958,201
Additions through acquisition of a business	265,301	859,483	-	1,941,464	-	3,066,248
Revaluation increments	405,518	907,272	-	-	-	1,312,790
Disposals	(3,665,353)	(1,210,550)	-	(147,825)	(69,082)	(5,092,810)
Depreciation expense	-	(216,764)	(10,905)	(1,952,839)	(171,027)	(2,351,535)
Carrying amount at the end of year	3,555,474	9,872,810	143,373	8,878,142	579,575	23,029,374
Parent Entity						
Balance at the beginning of year	5,955,536	6,494,464	154,278	2,341,245	585,089	15,530,612
Additions	-	419,879	-	700,980	234,595	1,355,454
Additions through acquisition of a business	-	-	-	-	-	-
Revaluation increments	405,518	907,272	-	-	-	1,312,790
Disposals	(3,609,021)	(1,210,550)	-	(117,815)	(69,082)	(5,006,468)
Depreciation expense	-	(163,098)	(10,905)	(557,467)	(171,027)	(902,497)
Carrying amount at the end of year	2,752,033	6,447,967	143,373	2,366,943	579,575	12,289,891

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Note 13: Intangibles				
Goodwill (note 1b)	2,657,933	901,365	522,850	624,107
Less: accumulated amortisation	238,876	198,367	212,778	186,637
	2,419,057	702,998	310,072	437,470
Preliminary expenses	2,241	2,241	380	380
Goodwill on consolidation	778,189	464,314	-	-
Less: accumulated amortisation	402,617	379,401	-	-
	375,572	84,913	-	-
	2,796,870	790,152	310,452	437,850
Note 14: Deferred Tax Assets				
Future income tax benefits	812,234	1,329,678	635,388	833,606
The future income tax benefits is made up of the following estimated tax benefits:				
- tax losses	-	438,555	-	77,016
- timing differences	812,234	891,123	635,388	756,590
	812,234	1,329,678	635,388	833,606
Note 15: Other				
Deferred expenditure carried forward	38,187	3,067	-	-
CURRENT LIABILITIES				
Note 16: Payables				
Trade creditors	6,096,372	4,170,283	3,964,754	4,899,232
Sundry creditors and accrued expenses	2,490,766	1,554,011	1,049,495	854,705
	8,587,138	5,724,294	5,014,249	5,753,937
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	221,951	220,379	221,951	220,379
	1,221,951	1,221,881	1,221,951	1,220,379

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Note 18 : Current Tax Liabilities				
Income Tax	1,055,436	1,181,525	816,819	1,139,627
Note 19: Provisions				
Employee benefits 23a)	1,512,728	1,579,991	1,470,790	1,546,247
NON-CURRENT LIABILITIES				
Note 20: Payables				
Amounts payable to controlled entities	-	-	3,023,332	3,005,758
	-	-	3,023,332	3,005,758
Note 21: Interest Bearing Liabilities				
Bank loans - secured	21,280,125	12,375,440	21,000,000	12,000,000
Lease liability	257,907	279,916	257,907	279,916
	21,538,032	12,655,356	21,257,907	12,279,916
Note 22: Deferred Tax Liabilities				
Provision for deferred income tax	1,514,190	370,327	1,282,203	116,428
	1,514,190	370,327	1,282,203	116,428
Note 23: Provisions				
Employee benefits 23a)	301,740	325,439	301,740	325,439
a)Aggregate employee entitlement liability	1,814,468	1,905,430	1,772,530	1,871,686
b)Number of employees at year end	546	479	160	162
Note 24: Contributed Equity				
20,884,650 ordinary shares fully paid at beginning of the year (2004 18,934,650)	18,139,668	13,823,338	18,139,668	13,823,338
On 1 December 2004 1,715,000 ordinary shares were issued at \$3.20 each to a group of institutional and professional investors	5,488,000	-	5,488,000	-
less expenses of share issue	179,640	-	179,640	-
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 each 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Note No	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Note 24 : Contributed Equity (continued)					
22,599,650 ordinary shares fully paid at the end of the year (2004 20,884,650)		23,448,028	18,139,668	23,448,028	18,139,668
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		(881,327)	(717,374)	-	-
Net exchange differences on translation of foreign controlled entities		(747,676)	(163,953)	-	-
Balance at end of year		(1,629,003)	(881,327)	-	-
c)Asset revaluation reserve Balance at beginning of year		4,814,454	-	4,814,454	-
Net revaluation increment/ (decrement) on revaluation of land and buildings		(831,083)	4,814,454	(831,083)	4,814,454
Balance at end of year		3,983,371	4,814,454	3,983,371	4,814,454
		2,564,930	4,143,689	4,163,797	4,994,880
The asset revaluation reserve records the revaluation of non current assets.					
Note 26 : Retained Profits					
Opening retained profits		10,806,678	8,065,729	2,610,375	914,239
Net profit attributable to the members of the parent entity		4,175,881	5,413,954	3,464,770	4,369,141
Dividends paid	31	3,461,594	2,673,005	3,461,594	2,673,005
Closing retained profits		11,520,965	10,806,678	2,613,551	2,610,375

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Note 27: Lease Commitments					
Finance leases					
Lease expenditure contracted and provided for:					
not later than one year		249,990	249,965	249,990	249,965
later than one year but not later than five years		274,400	299,834	274,400	299,834
Total minimum lease commitments		524,390	549,799	524,390	549,799
Future finance charges		44,532	49,504	44,532	49,504
Lease liability		479,858	500,295	479,858	500,295
Current portion	17	221,951	220,379	221,951	220,379
Non-current portion	21	257,907	279,916	257,907	279,916
		479,858	500,295	479,858	500,295

Finance leases are taken out on motor vehicles and forklifts, with an option to purchase the asset at the end of the lease term.

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Operating lease payable:				
not later than one year	1,740,613	1,311,553	1,401,241	997,765
later than one year but not later than five years	4,717,485	2,895,040	3,296,404	2,515,505
	6,458,098	4,206,593	4,697,645	3,513,270

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

Note 28: Contingent Liabilities

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Estimate of the maximum amount of contingent liabilities that may become payable				
(a) Guarantees of leases of premises subleased to franchisees	6,913,600	5,709,421	3,572,205	2,576,258
	6,913,600	5,709,421	3,572,205	2,576,258

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

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
(i) Payments made to Goh Lai Huat and Sons Sdn Bhd for rental of warehouse and offices by Waterco (Far East) Sdn Bhd. Mr SS Goh, a director, has significant influence over Goh Lai Huat & Sons Sdn Bhd.	338,467	197,596	-	-

NOTES TO OF THE FINANCIAL STATEMENTS
FOR THE ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
Note 29: Related Parties (continued)				
(ii) Sales made to Asiapools(M)Sdn Bhd. Mr S S Goh, a shareholder has significant influence over Asiapools(M)Sdn Bhd.	212,635	243,880	-	-
(iii) Commission paid to Asiapools (M) Sdn Bhd. Mr SS Goh, a shareholder has significantinfluence over Asiapools(M) Sdn Bhd.	35,447	33,580	-	-
(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.	468,594	354,257	468,594	354,257
(v) 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	11,814,933	11,237,787	11,814,933	11,237,787

Directors and their related entities acquired 587,146 ordinary shares and sold 10,000 ordinary shares in Waterco Ltd during the period.

(B) Loans to Directors

Loans provided to directors in relation to acquisition of shares under :

1) Waterco Employee Share Plan. This is an interest free loan and is payable within ten years of the share issue date.

11) CEO Share Plan This is an interest chargeable loan and is payable within five years of the share issue date

	Economic Entity 2005	Economic Entity 2004	Parent Entity 2005	Parent Entity 2004
Advanced				
Mr S S Goh	1,175,000	1,175,000	1,175,000	1,175,000
Mr B I Leitch	28,750	32,750	28,750	32,750
	1,203,750	1,207,750	1,203,750	1,207,750
Repaid				
Mr S S Goh	-	-	-	-
Mr B I Leitch	4,000	3,250	4,000	3,250
	4,000	3,250	4,000	3,250

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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

2005

	AUSTRALIA 2005 $	S.E.ASIA 2005 $	NEW ZEALAND 2005 $	NORTH AMERICA 2005 $	OTHER 2005 $	ELIMINATION 2005 $	ECONOMIC ENTITY 2005 $
REVENUE							
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	55,299,425	3,860,663	4,830,299	12,147,493	4,825,727		80,963,607
INTERSEGMENT SALES	2,634,567	11,174,723	14,917	91,815	1,995,468	(15,911,490)	-
UNALLOCATED REVENUE							5,267,810
TOTAL REVENUE	57,933,992	15,035,386	4,845,216	12,239,308	6,821,195	(15,911,490)	86,231,417
SEGMENT RESULT	10,359,686	918,692	107,946	1,197,149	(922,585)	(186,418)	11,474,470
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE							(5,267,810)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX							6,206,660
INCOME TAX EXPENSE							(2,017,503)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX							4,189,157
SEGMENT ASSETS	66,319,633	16,093,297	2,882,943	7,300,070	3,664,286	(22,831,807)	73,428,422
SEGMENT LIABILITIES	34,328,343	9,060,743	2,326,789	3,647,014	2,012,689	(15,644,363)	35,731,215
DEPRECIATION & AMORTISATION	930,594	141,628	71,336	38,743	58,161	23,216	1,263,678
ACQUISITION OF NON CURRENT SEGMENT ASSETS	1,355,454	2,971,665	278,251	3,066,248	296,499	-	7,968,117

2004

	AUSTRALIA 2004 $	S.E.ASIA 2004 $	NEW ZEALAND 2004 $	NORTH AMERICA 2004 $	OTHER 2004 $	ELIMINATION 2004 $	ECONOMIC ENTITY 2004 $
REVENUE							
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	54,445,817	5,381,921	5,089,119	3,801,207	5,050,662		73,768,726
INTERSEGMENT SALES	2,231,207	10,470,591	14,756	-	1,747,801	(14,464,355)	-
UNALLOCATED REVENUE							704,871
TOTAL REVENUE	56,677,024	15,852,512	5,103,875	3,801,207	6,798,463	(14,464,355)	74,473,597
SEGMENT RESULT	6,393,127	1,564,002	(6,637)	97,512	(127,779)	(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	1,455,129	3,275,422	(19,172,948)	56,018,400
SEGMENT LIABILITIES	25,334,720	8,284,126	1,779,030	1,415,458	1,849,044	(15,603,565)	23,058,813
DEPRECIATION & AMORTISATION	824,124	157,092	56,119	19,252	92,766	23,216	1,172,569
ACQUISITION OF NON CURRENT SEGMENT ASSETS	1,016,045	1,659,654	303,658	630	987,068	-	3,967,055

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
NOTE 30: Statement of Operations by Segments (continued)				
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.				
NOTE 31: Dividends Paid or Proposed				
Final fully franked ordinary dividend franked at the tax rate of 30% paid	1,879,618	1,419,926	1,879,618	1,419,926
Interim fully franked ordinary dividend franked at the tax rate of 30% paid	1,581,976	1,253,079	1,581,976	1,253,079
	3,461,594	2,673,005	3,461,594	2,673,005
Proposed final fully franked ordinary dividend franked at the tax rate of 30%	2,033,969	1,879,619	2,033,969	1,879,619
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.	2,525,440	2,818,419	479,582	779,756
NOTE 32: Earnings Per Share				
a) Reconciliation of Earnings to Net Profit				
Net Profit	4,189,157	5,368,346		
Net Profit/(Loss) attributable to outside equity interest	13,276	(45,608)		
Earnings used in the calculation of basic EPS	4,175,881	5,413,954		
Earnings used in the calculation of diluted EPS	4,175,881	5,413,954		
a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	21,876,061	20,298,038		
b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	21,876,061	20,298,038		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
NOTE 33: Outside Equity Interests in controlled entities				
Outside equity interest comprises:				
Share Capital	4,879	15,657	-	-
Accumulated Profits/(Losses)	158,405	(146,105)	-	-
	163,284	(130,448)	-	-
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		
	4,879	15,657	-	-
b) Accumulated Profits/(Losses)				
Opening balance	(146,105)	(69,513)	-	-
Share of profit from ordinary activities after income tax	13,276	(45,608)	-	-
Acquisition of minority interests in Waterco Europe (goodwill on consolidation)	324,653	-	-	-
Dividend paid	(33,419)	(30,984)	-	-
	158,405	(146,105)	-	-

NOTE 34: Capital Expenditure Commitments

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Capital expenditure commitments contracted for:				
Construction of buildings	5,192,328	-	-	-
Payable not later than one year	5,192,328	-	-	-

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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	%	%	$	$	$	$	$	$	$	$	$	$
Financial Assets												
Cash	3.93	3.87	5,331,900	1,422,607							5,331,900	1,422,607
Receivables									12,950,626	9,008,506	12,950,626	9,009,506
Total Financial Assets			5,331,900	1,422,607					12,950,626	9,008,506	18,282,526	10,433,113
Financial Liabilities												
Bank overdraft	10.25	9.63	-	1,502							-	1,502
Bank loans	6.84	6.56	22,280,125	13,375,440							22,280,125	13,375,440
Trade& sundry creditors									8,587,138	5,724,294	8,587,138	5,724,294
Lease Liabilities	6.90	6.93			221,851	220,379	257,807	279,916			479,858	500,295
Total Financial Liabilities			22,280,125	13,376,942	221,851	220,379	257,807	279,916	8,587,138	5,724,294	31,347,121	19,601,533

(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.

	2005		2004	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	$	$	$	$
Financial Liabilities				
Bank Overdraft	-	-	1,502	1,517
Bank Loans	22,280,125	22,502,926	13,375,440	13,509,194
Lease Liabilities	479,858	503,851	500,295	525,310
	22,759,983	23,006,777	13,877,237	14,036,021

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 3 preceding trading days on ASX subject to adjustment by the board if it believes the price is distorted) but not less than twenty cents The company may extend an interest free loan to acquire the shares which is repayable within ten years or immediately if the employee leaves the company. The security given for the loan is the pledge of the shares and a charge over any benefits generated by those shares including dividends and bonus shares etc. The proceeds of these benefits are used to reduce the borrower's indebtedness to the company.
The loans are limited recourse loans meaning that if the shares are sold and the proceeds are not sufficient to meet the loan balance outstanding, the company cannot recover the difference from the borrower.

Any ordinary shares issued during the year under this plan are shown in the statement of financial position as contributed equity with the resulting debt to the company shown as non current receivables. Any residual loan amounts written off are expensed during the year. During the year no shares were issued under this plan while debts of $86,580 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 Share Acquisition Plan.

a)Deferred Employee Share Plan
Under this plan, employees are invited to contribute a minimum of $2,000 (and up to a maximum of 30% of their salary) per annum to purchase shares under a salary sacrifice arrangement. Waterco contributes $1,000 per annum toward the purchase of shares on behalf of each employee who takes up the offer. Share 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 $30,920 (2004 $29,999) for the purchase of 8,449 (2004 :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 $21,280(2004 $17,307) for the purchase of 5,930 (2004: 7,035) shares under this plan.

All costs associated with purchasing the shares under both Plans are borne by the company. However, a fee of $55.00 is payable (by the employee) for the transfer of the shares to the employee either at the end of the restriction period or early withdrawal (on resignation).

The closing share market price of an ordinary share of Waterco Limited on the Australian Stock Exchange at 30 June 2005 was $3.85 (30 June 2004 $2.55)

NOTE 37 Employee Benefits (continued)
3)Contributions

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

	2005 $	2004 $
Unexpended contribution brought forward from previous year	-	124,368
Add: Contributions during the year	-	449,127
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
	=======	=======

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.

6)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 paid on these shares. During the year, a total of $80,000 in interest was received on this loan.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$

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 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Cash at bank	5,331,900	1,423,607	3,201,851	761,326
Bank overdraft		(1,502)		
Commercial Bills	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
	4,331,900	422,105	2,201,851	(238,674)

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

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Profit from ordinary activities after income tax	4,189,157	5,368,346	3,464,770	4,369,141
Non-cash flows in profit from ordinary activities				
Depreciation	2,342,546	2,174,449	891,592	790,186
Amortisation	74,245	57,154	37,046	31,983
(Profit)/Loss on sale of non current assets	(20,153)	10,979	(21,898)	(44)
Changes in Assets and Liabilities:-				
Trade debtors	(1,549,654)	1,279,729	21,191	551,767
Provision for doubtful debts	(9,948)	(26,460)	-	(50,000)
Other debtors	(234,178)	181,306	29,172	(4,399)
Inventories	(3,199,916)	(2,923,510)	(1,757,663)	(1,775,078)
Prepayments	(151,993)	(279,627)	(17,956)	(15,535)
Future income tax benefits	517,444	(229,280)	198,218	(141,744)
Expenditure carried forward	(35,120)	(3,067)	-	-
Trade creditors	1,926,089	(2,177,303)	(934,478)	2,030,913
Other creditors	486,755	1,604	(255,210)	(272,494)
Provision for employee benefits	(84,070)	(185,573)	(92,264)	573,108
Provision for tax	(126,089)	398,443	(322,808)	278,029
Provision for deferred tax	(563,294)	(86,951)	(541,382)	(17,244)
Cashflow - Non Operating Activities :				
Dividends Received	(108)	-	(34,891)	(39,003)
Cash Flows provided by/ (used in) operations	3,561,713	3,560,239	663,439	6,309,586

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$	$	$	$
NOTE 38 Cash Flow Information (cont)				
c) During the financial year two parent entity owned and operated stores were franchised:				
Disposal price	345,769	-	345,769	-
Cash portion of that price	345,769	-	345,769	-
Net assets and liabilities disposed:				
Inventory	101,819	-	101,819	-
Plant ,equipment & intangibles	250,842	-	250,842	-
Provision for employee benefits	(6,892)	-	(6,892)	-
	345,769	-	345,769	-
d) During the financial year, Waterco USA Inc and Waterco Canada Inc (two subsidiaries) acquired the businesses of Baker Hydro Filtrations Inc (based in Georgia,USA) and Focus Temp Inc (based in Quebec, Canada)				
Purchase Price	9,708,636	-	-	-
Cash consideration	9,708,636	-	-	-
Assets and liabilities held at Acquisition date:				
Trade debtors	2,147,340	-	-	-
Inventories	2,957,228	-	-	-
Property, plant & equipment, & intangibles	4,604,068	-	-	-
	9,708,636	-	-	-
During the year, Waterco Ltd acquired the business of one pool shop (2004: two)				
Cash consideration	107,983	536,122	107,983	536,122
Assets and liabilities held at acquisition date:				
Inventories	22,583	258,122	22,583	258,122
Plant & equipment, & intangibles	85,000	278,000	85,000	278,000
	107,583	536,122	107,583	536,122
On 25 July 2003, Waterco(NZ) Ltd (a subsidiary) acquired the business of four retail pool shops from Poolcare FPI Services Ltd				
Purchase Price	-	549,820	-	-
Cash consideration	-	549,820	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 38 Cash Flow Information (cont)

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Assets and liabilities held at acquisition date:				
Inventories	-	146,881	-	-
Plant & equipment, & intangibles	-	402,939	-	-
	-	549,820	-	-
	9,816,219	1,085,942	107,583	536,122

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 $234,595 (2004:$250,907) by means of finance leases. This acquisition is not reflected in the statement of cash flows.

ii)Issue of Shares
During the previous year, 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 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Multiple Advance/Fully Drawn Advance Facilities	27,912,000	19,908,000	27,000,000	18,900,000
Master lease facilities	1,350,000	1,300,000	1,350,000	1,300,000
	29,262,000	21,208,000	28,350,000	20,200,000
Amount utilised	(19,458,253)	(13,341,365)	19,392,549	(12,964,423)
Amount unutilised	9,803,747	7,866,635	8,957,451	7,235,577

The Multiple Advance Facility is is due to expire on 31 July 2006
The Fully Drawn Advance Facility is due to expire on 27 June 2010
The parent entity expects to renew these facilities on expiry date.

NOTE 39 Company Details

The registered office of the company is:
Waterco Limited
36 South Street
Rydalmere NSW 2116

WATERCO LIMITED ABN 62002070733
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 2 to 32 , are in accordance with the Corporations Act 2001:
   (a) comply with Accounting Standards and the Corporations Regulations 2001 and
   (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and economic entity;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.

3 in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Soon Sinn Goh
Managing Director

Dated at Sydney this 24th day of August 2005

CHARTERED
ACCOUNTANTS
& BUSINESS
ADVISORS

A MEMBER OF
MOORES ROWLAND
INTERNATIONAL

Bentleys mri
Thinking ahead

Bentleys MRI Sydney Partnership
ABN 68 093 412 031

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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 2005. 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
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Independence

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

Audit opinion

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

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

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 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. Ryn
Partner

Dated at Sydney this 24th day of August 2005

SHAREHOLDER INFORMATION

(as at 30 August 2005)

Distribution of Shareholders

Range			Ordinary Shares	Options
1	-	500	156	-
501	-	1,001	253	
1,001	-	5,000	398	-
5,001	-	10,000	124	-
10,001	-	100,000	142	-
100,001	-	and over	20	-
			1093	-

(a) Marketable Parcel

Ten shareholders hold less than a marketable parcel

(b) Substantial Shareholders

The following information is extracted from the company's register as at 30 August 2005

Name	Number of Shares
S S Goh Group	9,353,345
Loftus Capital Partners Ltd ACN 067 185 899	1,772,886

(c) 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 70.17% of the total shares issued.

Name	Number of Shares	Percentage
GSS Holdings Pty Ltd	7,997,065	35.39
Invia Custodian Pty Limited	1,909,308	8.45
Mr Soon Sinn Goh	1,456,280	6.44
Citicorp Nominees Pty Limited	786,477	3.48
ANZ Nominees Limited	596,733	2.64
Mister Rain Pty Ltd	500,000	2.21
Goh Lai Huat & Sons Sdn Bhd	300,000	1.33
Mr Loke Weng Foo	280,000	1.24
BJ Services	228,500	1.01
Brazil Farming Pty Ltd	220,000	0.97
S G Corporation Pty Limited	202,500	0.90
GWK Corporation Pty Limited	201,500	0.89
Mint Holdings Pty Ltd	200,000	0.88
Mr Khoon Ping Kuok	173,000	0.77
Miss Penelope Pringle	163,000	0.72
Drill Investments Pty Ltd	150,000	0.66
Mr Charles Hepenstall & Mrs Julie Hepenstall	130,000	0.58
Key Pin Holdings	127,000	0.56
Mr Tiow Lip Lee	121,500	0.54
Barbree Pty Ltd	115,000	0.51
TOTAL	15,857,863	70.17

(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.