WATERCO
Water, the Liquid of Life

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ASX Release

SHAREHOLDER UPDATE AND EARNINGS REVISION

In March 2006, Waterco advised shareholders that the Company's year end result would be impacted by an estimated loss of $955k after tax with respect to its Canadian operations (Waterco Canada Inc) caused by pre tax adjustments to its accounts following acquisition and a late start to the summer season.

Waterco wishes to advise shareholders that following a further review of the business for the 9-month period to March 2006, by its internal auditors (and confirmed by external auditors) Waterco Canada is expected to suffer an estimated $2.5million loss by year end 30th June 2006.

This further increase in the Waterco Canada losses will have the effect of reducing the expected group Net Profit After Tax to $2.5 million for the year ending June 2006. The expected group profit before tax is $4.1 million, but as the company accounting policy has always been to conservatively treat the losses as irrecoverable, the Waterco Canada losses have affected the after tax profit disproportionately.

Following the discovery of unsatisfactory management of the Waterco Canada business, based in Montreal, the Company has announced the departure of Daniel Guilbault, CEO/President of Waterco Canada and Johanne Jolicoeur, Vice President, both former owners of the Canadian business. Waterco Directors have strong reason to believe that the deterioration in the previously estimated losses from Waterco Canada were caused by the deviation from accounting standards, including bringing forward profits from future period to enhance profitability. Waterco directors believe that this was connected to the release of funds held in escrow to which the former owners of the business may have been entitled.

The Waterco Canada loss includes a one-off expense associated with some profit writebacks and writedowns in inventory deemed overvalued. This one-off expense is approximately $850,000 after tax. With part of the restructuring undertaken, and further restructuring that will take place over the next three months, Waterco Canada will likely see a loss of $200,000 after tax for the year ending 30th June 2007.

Whilst the situation with respect to Waterco Canada is disappointing, the performance of the Company's other divisions remain healthy and unaffected by the events in Canada. The business in the UK has shown a significant turnaround and will show a maiden profit of $200,000 for the year ending 30th June 2006. With continued high growth of sales revenue in Europe, the UK entities will return to full profitability estimated to be $1 million in the year ended 30th June 2007.

The group's profitability for the FY2007 period assisted with improved performance from UK entities and NZ entity will be expected to show a group result of $6.5 million net profit after tax, after taking into account the estimated Canadian losses of $0.2 million. Figures stated are before unrealized foreign exchange gains or losses.

The directors are pleased to advise that both new factories in Malaysia and China have been completed at approximately the same time, and at the time of this announcement, both factories are back to normal production. The cost of production is expected to be lower and will impact positively on gross margins in the new financial year 2007.

The Company estimates that the production capacity of these two manufacturing facilities, subject to the addition of new machinery, will be able to be increased three fold if so desired. This will enable Waterco to meet demands expected from the new businesses in USA and Europe.

The Australian business remains stable with a 14% year to date growth in sales revenue from the franchised business, Swimart. Chlorine Sales in the supermarket have continued to decline and overall sales in Australia remain flat but consistently profitable.

A new range of commercial multiport valves, commercial cast iron and stainless steel pumps coupled with existing commercial filters allow Waterco to enter the commercial pool equipment market with a full and complete range. This will assist in improving sales globally and can be expected to contribute towards Waterco achieving their target for 2007.

Soon Sinn Goh
Managing Director