# Annual Report 2007

WATERCO

Water, the liquid of life

# Notice of annual general meeting

**The Annual General Meeting of Waterco Limited A.B.N 62 02 070 733 will be held at 36 South Street, Rydalmere NSW 2116 on Thursday 8th November 2007 at 3.00pm**

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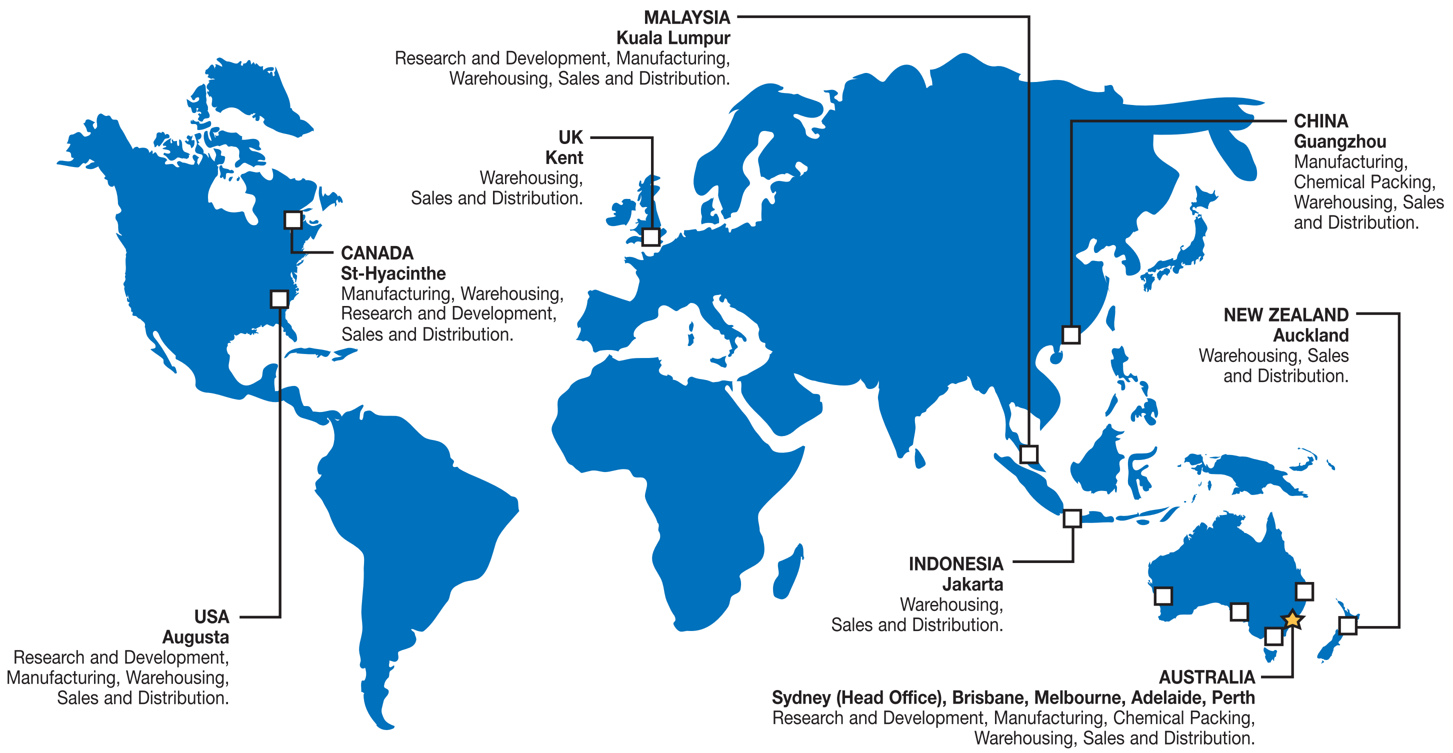


Waterco exports to over 40 countries via offices operating in Australia, New Zealand, Malaysia, China, the United Kingdom, United States of America, Canada and Indonesia as well as through international distributors.

**Waterco is an Australian public listed company involved in the manufacture and distribution of:**

- Pool and spa equipment
- Pool and spa chemicals
- Domestic water filter, softeners and purifiers
- Commercial water treatment equipment

## Distributor to Manufacturer

Waterco commenced business in 1981 as a distributor of PVC pipes for swimming pools and spas. Since then, through a series of acquisitions as well as internal growth, the company has expanded into the manufacture and distribution of a comprehensive range of swimming pool and spa products and water treatment equipment.

## Manufacturing Power House

Waterco's R&D division has led to the development of innovative products, meeting the challenges of change in the market place. The key to Waterco's success has been its pioneering fibreglass and plastic moulding techniques, as well as its efficient manufacturing processes.

SWIMART
POOL & SPA SERVICES

### Swimart

Swimart Pool and Spa Services is Australia & New Zealand's largest chain of Pool and Spa stores with 62 retail stores (58 in Australia and 4 in New Zealand) and over a hundred Swimart mobile service vans. Swimart stores are owned and operated by individual franchisees.

ZANE
Solar Pool Heating

### Zane

Zane Solar Systems consists of a 35-strong dealer network throughout Australia.

Trained dealers install solar pool heating systems for both domestic and commercial applications using Zane's award winning, solar absorber.

Watershoppe

### Watershoppe

In certain areas of Malaysia, residents experience water discolouration caused by rust from unlined galvanized pipes.

To capture this market Waterco has set up a dealer network of 11 Watershoppes selling Waterco's range of water filters and drinking water purifiers.

# Economic Entity Financial Highlights

| | 2007 $ | 2006 $ | 2005 $ | 2004 $ | 2003 $ | 2002 $ | 2001 $ |
|---|---|---|---|---|---|---|---|
| **Operating revenue ($million)** | **82.13** | **89.42** | 86.23 | 74.47 | 71.48 | 61.01 | 56.19 |
| **Sales revenue ($million)** | **81.23** | **88.24** | 80.96 | 73.77 | 69.67 | 59.48 | 55.63 |
| **Earnings Before Interest and Tax (EBIT)** | **498,013** | **7,312,972** | 7,450,933 | 8,059,763 | 6,510,696 | 2,998,279 | 4,994,100 |
| **EBIT / Sales Revenue** | **0.6%** | **8.29%** | 9.20% | 10.93% | 9.35% | 5.04% | 8.98% |
| **Profit before income tax** | **(1,858,175)** | **5,497,359** | 6,206,660 | 7,120,887 | 5,310,035 | 1,795,746 | 3,765,014 |
| **Net profit attributable to Members of the Parent Entity** | **(2,613,664)** | **4,193,722** | 4,175,881 | 5,413,954 | 3,898,964 | 1,184,937 | 2,613,216 |
| **Total assets ($million)** | **81.09** | **81.98** | 73.43 | 56.02 | 47.11 | 47.18 | 44.55 |
| **Equity** | **34,662,264** | **37,825,032** | 37,697,207 | 32,959,587 | 21,328,399 | 20,560,630 | 21,628,021 |
| **Basic Earnings per share** | **(11.5) cents** | **18.6 cents** | 19.1 cents | 26.7 cents | 20.6 cents | 6.3 cents | 14.2 cents |
| **Dividend per share** | **9.0 cents** | **17.0 cents** | 16.0 cents | 15.0 cents | 13.0 cents | 11.0 cents | 11.0 cents |
| **Net Tangible Assets per share** | **$1.40** | **$1.61** | $1.54 | $1.54 | $1.11 | $1.06 | $1.13 |

# Chief Executive Officer's Review of Operations

### Revenue and Profitability

Following a year of major restructuring activities throughout the group, Waterco reported Earnings Before Interest and Tax (EBIT) and before unrealized foreign exchange adjustments for the year of $2.6 million (FY 06 $6.0 million).

Reported Net Profit Before Tax and before unrealized foreign exchange adjustments was $276,000. Some of the entities were not tax effected, resulting in a Net Loss After Tax (but before unrealized foreign exchange adjustments) of $426,226.

The Company reported a Net Loss After Tax (and after unrealized foreign exchange adjustments) of $2.6 million, impacted mainly by an unrealized foreign exchange loss of $2.1 million.

This unrealized foreign exchange loss relates to the theoretical repayment of all loans made from the Economic Entity, Waterco Limited to all its Controlled Entities overseas, at balance sheet date. The high Australian Dollar at 30th June 2007 resulted in the group having to record a loss of $2.1 million on the basis that these loans were repaid. The loans are used to fund the Group's overseas operations. Such foreign exchange revaluation adjustments have no impact on the cash flow of the company.

Total Revenue for the period was $82 million (FY 06 $89 million) with the downturn in revenue occurring mostly in the First Half Year. During the Second Half Year, revenue was close to matching that of the previous corresponding period, reflecting some recovery.

### Divisional Performance

Detailed below is the divisional EBIT contribution summary for the FY07 period, before unrealized foreign exchange adjustments:

| EBIT (net of interest received) by division (before unrealized FX difference) | FY06 | FY07 |
|---|---|---|
| Australia | 7,495 | 5,273 |
| WCI | (3,339) | (1,367) |
| Malaysia | 1,081 | (163) |
| WUSA | 155 | (1,323) |
| WNZ | 38 | 84 |
| China | 271 | 20 |
| UK | 394 | 121 |
| Others | (220) | (92) |
| EBIT | 5,875 | 2,553 |

### Australian and New Zealand Operations

In terms of our 58-store Swimart franchise group in Australia, we are pleased to note that the full year revenues were ahead of the previous year by 9%, a significant improvement of the 3% increase experienced during the first half of this year.

The decline in our revenue, despite the improvement in Swimart performance, can be attributed to some franchisees taking advantage of select product discounts available from other suppliers in the market. This occurred mainly in the first half year and this issue has now been addressed, resulting in improvements in the second half. Sales to trade were lower, with the decline in the building of new pools, in line with the housing downturn. Sales related to pool maintenance remained steady. Overall, sales were disappointing with most of the decline occurring in sales of chemicals to the supermarkets.

Sales in New Zealand have improved, with a slight improvement in profits. The sale of one company-owned store has helped streamline operations and has resulted in improvement of efficiencies. The sale of more company-owned stores in New Zealand is planned and is likely to occur in the first half of the new financial year.

### Waterco Far East

Waterco Far East is now the group's principal manufacturing facility with the consolidation of manufacturing facilities transferred from the UK entity (commercial filters), further pump products lines from Rydalmere, Sydney and heat pump lines from Canada.

The decline in performance in the first half year was from the lack of sales volume from USA, Canada and Europe during a period of consolidation of manufacturing facilities. There were under-recoveries of overheads. In the second half year, losses were from the consolidation activities in progress, as well as a realized foreign exchange loss incurred when the local currency, the Ringgit, appreciated against the US Dollar. Almost all the Trade Receivables of Waterco Far East were in US Dollar currency.

### Waterco North America

Waterco North America represents the group's operations in USA and Canada. The EBIT loss for the year reflects a decline in America, where our main customer, Waterpik, tooled up for the pumps that we made for them under their brand. The loss of this business from this major customer could not be made up from the gains that were made from various new, but smaller trade customers in North America. There were encouraging developments in the commercial filter and pump markets, but sales growth in this sector during the year was insufficient to cover the loss suffered from the exit of Waterpik.

The US market is the largest in the world and Waterco has made a substantial investment through its acquisition of the business of Baker Hydro in March 2005. Our manufacturing operations in Augusta, Georgia produce larger filters and assemble commercial pumps. All indications are that our core products are competitively priced for the US market and will, in time, reach acceptable sales levels sufficient to cover our operating costs.

We had originally scheduled the relocation of the manufacture of the smaller heat pumps from Waterco Canada to Waterco Far East in the first half-year. This did not occur as projected and, as a result, the expected reduction in overheads did not materialize to the extent that we anticipated. This was however addressed in the second half of the year.

The global demand for heat pumps that will be manufactured by our Malaysian and Canadian operations is growing and despite the earlier production problems and quality issues, the product remains accepted by wholesalers in Europe, USA and Australia. Confidence of our customers has returned, as demonstrated by higher "early buy" orders, which were delivered in the second half.

### Cost and Production Restructuring

Headcount worldwide during the year was reduced by 80 from the number of staff at 30th June 2006. This means reduced operating expenses, at an annualized basis, conservatively estimated at $2.5m. One third of the reduction is from Australia, partly from a retrenchment program and partly from natural attrition. No loss of sales is expected from this restructuring. Canada, USA and Europe collectively accounted for most of the reduction, with manufacturing activities relocated from Canada and Europe (UK) to Malaysia. Most of this restructuring was completed towards the end of the financial year.

Included in this year's figures are non-recurring expense of retrenchment and closure of warehouses amounting to approximately $500,000.

In addition, Waterco will accelerate its program of franchising out its 4 company-owned Swimart stores, whose turnover has been increasing in the last 2 years. Conversion of the stores to franchises is expected to recoup in excess of $300,000 in goodwill expenses.

In Australia, Waterco intends to increase product sales to Swimart franchisees through improved store merchandising and ensuring that external sourcing of product by franchisees is minimized. This should lead to improved sales volumes and margins in FY08.

### Product Development & Water Treatment

We have lodged a worldwide patent on a new product known as Multicyclone. This product is capable of saving water and reducing filter maintenance. The Multicyclone works on the principle of centrifugal water filtration. There are no moving parts, hence hardly any wear and tear, and no filter media to clean or replace.

The Multicyclone is ideal as a pre-filter and will filter out up to 80% of the incoming sediment from a swimming pool. This will reduce the frequency of backwashing and filter cartridge maintenance. The product is both a water-saving device and a pre-filter for reducing labour content in the maintenance of swimming pools, both residential and commercial.

Initial response has been encouraging, with expected availability in September. The monetary impact on Waterco's 2008 profit is not known, and has not been factored into the forecast.

The Multicyclone product also has application outside the swimming pool industry, for example, as a pre-filter in aquaculture, cooling towers in the air-conditioning industry, and for the water treatment industry.

Waterco Limited recently secured a contract to supply United Group Infrastructure Limited 25 units of commercial filters, mostly 2.5 metres in diameter. These filters are made from filament fibreglass rovings. The commercial value may not have a material impact on the 2008 results, but this represents a growing acceptance of our product into the water treatment industry. The filters are used in treating water from the Murray River for use in nine townships in South Australia.

Recent sales of similar size commercial filters to Africa further reinforced the growth of this sector into water treatment, where the filters were used in the mining industry. Our filters were used in a project where Cobalt was recovered from by products from a copper mine in the Democratic Republic of Congo. These filters form an important part of the processing of the cobalt.

Other new product initiatives include an improved version of our commercial composite pumps and the re-introduction of our electro-coagulation machine for recycling of grey water after completion of an extensive user manual.

### Dividend & Outlook

The board of Waterco recognizes that the results for the year are extremely disappointing. We believe that most of the restructuring is now complete and we look to 2008 as a year of recovery.

Sales in North America, in the months of May, June and July which are the main summer months in the Northern Hemisphere, recorded a healthy growth of 20% over previous corresponding period. With reduced overheads for 2008, we expect that performance for the new financial year ending 30th June 2008 will improve, with the group forecast EBIT of $5 million.

We are positive that the expected turnaround will be more apparent over the next few months ahead, and will resume dividend payment by declaring a dividend of 2 cents per share, fully franked, payable to shareholders on 18th December 2007.

### United Group Infrastructure

The South Australia Water Corporation has awarded United Group Infrastructure the contract for the SA Country Water Quality Improvement Program. The Quality Improvement Program includes the treatment of Murray River water for potable use in nine towns along the Murray River in South Australia. United Group Infrastructure will use a variety of technologies to do this — including membrane filtration, sanitation and Waterco's 8 Micron SMDD2200 and 17 Micron SMDD2500 filters. Waterco's filters will use granular activated carbon to remove unwanted taste and odour in the final filtration stages prior to sanitation.

Micron SMDD2500 filter

### Veolia

The Micron MD6500 filter is a deep bed filter which is being used by Veolia as part of their new and improved waste water treatment facility. Waste water is brought to the facility and goes through various treatment procedures including flocculation and bio-reactors to remove various contaminants.

In the final stages of treatment, the water will be pre-filtered using a Micron SMDD1400 filter and then fed to the MD6500 filter which contains activated granular carbon to reduce/remove hydrocarbon contaminants from the water.

Micron MD6500 filter

### MultiCyclone centrifugal filtration

The MultiCyclone works on the basis of centrifugal water filtration. It has no moving parts to wear and tear, and no filter media to clean or replace.

#### How it works

1. Incoming water enters 16 hydro cyclones tangentially, generating a strong centrifugal effect.
2. The sediment is spun out to the hydro cyclone's wall, and then spirals down to the sediment bowl.
3. The filtered water migrates towards the center of the hydro cyclone where the flow reverses and spirals upwards through the outlet.
4. Accumulation of sediment can be visibly monitored through the MultiCyclone's clear sediment bowl.
5. The MultiCyclone is easily cleaned by opening the valve.

   Only 15 litres of water is discharged to cleanse the MultiCyclone.


MultiCyclone

The MutliCyclone is currently under international patent pending status.

### Energy efficient pool heating

ElectroHeat heat pumps are the latest advancement in swimming pool heating, they are an energy efficient way to heat a swimming pool or spa as the electricity is used for moving heat from one place to another rather than for generating the heat directly.

The ElectroHeat produces up to five times more heat energy than the electrical power it consumes. This means that for every 1kW of electricity consumed, the ElectroHeat can produce up to 5 kW of heat into the pool water

ElectroHeat

An ElectroHeat heat pump offers significant operating cost savings versus fossil fuel heaters: It can save you up to 80% over propane gas, 50% over natural gas and over 500% against electrical heaters

Southwest Forestry University swimming pool

Total pool water volume of 1,900,000 litres of water is heated by 12 ElectroHeat Plus 150 heat pumps.

### Waterco 100mm Multiport Valve

Waterco has manufactured its largest Multiport valve to date and is one of a handful of companies worldwide that is capable of manufacturing a 100mm Multiport valve. The one-piece body is made from moulded glass-reinforced engineering plastic that provides incredible strength and durability. Waterco's 100mm Multiport Valve is designed for large commercial swimming pools and water treatment plants and is capable of handling flows of up to 1,800 litres per minute.

Waterco 100mm Multiport Valve

### Waterco Composite Cast Iron Pump

Waterco has developed a composite pump body to replace the pump's cast iron body. The composite pump body greatly reduces the overall weight of the pump, easing installation and reducing freight. It is 100% corrosion proof, allowing for variances in water chemistry, and its clear lid enables easy inspection of its strainer basket.

Waterco Composite Cast Iron Pump is designed for large commercial swimming pools and water treatment plants and is capable of producing flow rates of up to 2,300 litres a minute.

Composite Cast Iron Pump

### Swimart

Swimart achieved a solid sales growth of 9% over the preceding year. Two new stores opened during the last Financial. Woree in Cairns opened on the 12th of September 2006 and Nerang on the Gold Coast opened on the 18th of November 2006.

In the second half of the year Swimart undertook a major consumer research study which resulted in the company gaining an improved understanding of what 'pool' owners require from their pool shop. The study has provided the Swimart franchisees with a far better understanding of their customers needs and the services and level of information they need to provide their customers.

Results from the research have been the driving force behind a change in the Swimart Marketing program for season 07/08. The new campaign promotes the Swimart brand by addressing the issues/needs of pool shop customers and positions the Swimart franchisee network as the leading pool shop network.



Swimart Branding

# Board of Directors


SOON SINN GOH


BRUCE LEITCH


GARRY NORMAN


STUART LLOYD


BEN HUNT

### 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 seven years' experience in the pool industry, twenty 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 & 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 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. He is the Chairman of the Remuneration Committee and a member of the Audit Committee.

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
- Zeehan Zinc Limited – from 1 Nov 2006 to 31 May 2007

Mr Lloyd retires by rotation in accordance with the Company's Constitution, and though eligible has decided not to offer himself for re-election. The continuing members of the Board would like to record their gratitude for Mr Lloyd's service.

### 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 Head of the Graduate School of Business and Associate Dean of the Faculty of Business 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.

This statement sets out the corporate governance practices that the Company had in place during the financial year ended 30 June 2007.

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.

## 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.

The Board Charter is published on the Company's website www.waterco.com.

## PRINCIPLE 2

## STRUCTURE THE BOARD TO ADD VALUE

### Board Composition

The Board of Directors comprises 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 (AGM) one third of the directors (excluding the Chief Executive Officer) and any director appointed to fill a casual vacancy since the previous AGM 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 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 (retiring 8 November 2007)

• 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

A code of conduct for directors and employees that reflects the principles referred to in Recommendation 3.1 and in Recommendation 10.1 is published on the Company's website. The Code includes principles of conduct to ensure that the company complies with its legal obligations and that employees and directors act with integrity.

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 Company has a share trading policy, entitled "Staff and Officer Trading Policy", which is published on the Company's website.

## PRINCIPLE 4

### SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### CEO/CFO Signoffs

At the Board meeting at which the 2007 financial reports were approved, the Chief Executive Officer and Chief Financial Officer advised the Board in writing that they were satisfied that:

• the financial records of the Company have been properly maintained in accordance with the Corporations Act;

• 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 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 Company's continuous disclosure 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 themselves informed and up to date regarding the type of information that must be disclosed;

• notify senior management of any developments in disclosure requirements;

• promote an understanding of disclosure requirements within the company;

• monitor and note compliance with disclosure requirements;

• monitor and review the safeguarding of company information to avoid premature disclosure;

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

The Board undertakes to provide the company secretaries and senior management with the necessary resources to allow all disclosure requirements to be met in a timely and balanced fashion.

## PRINCIPLE 6

### RESPECT THE RIGHTS OF SHAREHOLDERS

A communications strategy entitled "Shareholder Communication Policy" is published on the Company's website. This policy details the mechanisms put in place to ensure that the rights of shareholders are respected and to facilitate the effective exercise of those rights.

The external auditor attends the annual general meeting (AGM) for the purpose of answering shareholder questions regarding the conduct of the audit and the preparation and content of the audit report, and to facilitate the rights of shareholders to ask certain questions of the auditor in writing in advance of the AGM.

## PRINCIPLE 7

### RECOGNISE AND MANAGE RISK

The Board monitors the Company's Risk Management Policy to ensure that it evolves to reflect the changing legal and business environment. The basic principles are summarised and published on the Company's website "Summary of Risk Management Policy.

## 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 summary of the Board Performance Evaluation Policy is published on the Company's website.

## PRINCIPLE 9

## REMUNERATE FAIRLY AND RESPONSIBLY

### Remuneration of Directors and Key Executives

The Board and Remuneration Committee continue to apply the remuneration policy approved by the Board in August 2005.

In constructing, reviewing and determining the remuneration policy for executive directors and the senior executive team, the Remuneration Committee 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 (STI), combined with the ability to apply cash bonuses towards the acquisition of shares,
- long term incentives (LTI), in the case of the CEO, via the CEO Share Plan
- benefits

Details of directors' remuneration, and remuneration of the Group's five highest paid 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 performances are rewarded; and
- integrating remuneration principles into the performance management system.

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

- ensuring that total remuneration is reasonable, taking into account the responsibilities and commitments of the executive;
- aligning executives' interests with those of shareholders, by setting benchmarks based on improved company performance;
- 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 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. 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 on 1 July 02 and continued to operate throughout the financial year just ended. All employees, including eligible executive directors were invited to participate. However, Executive Directors were not entitled to the additional contribution made by the Company where employees salary sacrifice to acquire shares.

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 has adopted a single code of conduct to address the matters covered by both principle 3 and principle 10.

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2007.

### 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 (retiring 8 November 2007)
- Ben Hunt

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

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 throughout 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 Joint Company Secretary on 22 July 1991. He joined Waterco on 5 January 1987 as the Accountant and is currently the Chief Accountant 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 bath, rural pump and water treatment industries;
- Manufacture and sale of solar heating systems for swimming pools and pre-heat industrial solar systems;
- Franchise of retail outlets for swimming pool equipment and accessories.
- Packing and distribution of swimming pool chemicals to pool shops, supermarket and hardware chains.

### Consolidated Results

The consolidated result for the year in review was a loss of $2,613,664.

### Dividends

Dividends paid or declared for payment are as follows:

- Final ordinary dividend of 9 cents per share paid on 8 December 2006 as recommended in last year's report - $2,033,968.
- Final ordinary dividend of 2 cents per share declared by the directors to be paid on 18 December 2007 - $575,066.

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 fallen by $3.2 million from $37.83 million in June 2006 to $34.63 million in June 2007.

The change has largely resulted from:

- upward movement in reserves of $0.36 million (asset revaluation $1.53 million, foreign currency translation $1.17) million and;
- movement in profits/ (losses) (less dividends) of  $4.65 million.

The group's working capital being current assets less current liabilities deteriorated from $33.513 million in 2006 to $27,538 million in 2007.

The directors believe that the Group is in a strong and stable financial position.

## Significant Changes in State of Affairs

The directors are not aware of any 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

Waterco Ltd has undertaken a Non Renounceable 1 for 4 Entitlement Issue in September 2007 to raise capital of $6.901million by issue of 5.751m shares at an issue price of $1.20 per share. The proceeds are to be used to repay existing loans and provide working capital. The gearing ratio will fall from 94.5% to 62.2% if we apply the proceeds to the balances at 30th June 2007.

On 25 August 2007, a fire occurred at our Malaysian Office resulting in extensive damage to the factory. In addition, most of the stock was destroyed and there was some damage to plant, equipment and tooling. With adequate disaster relief plans in place (including adequate insurance cover), the impact on Waterco Far East's (and the group's) business is not expected to be major.

No other 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.

## Future Developments, Prospects and Business Strategies

Information as to future developments, prospects and business strategies 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 regulations during the financial year.

## Share Options

There are no options outstanding at the date of this report. No new option was granted during or since the end of the financial year.

## Directors' Shareholdings

Details of the directors' shareholdings are contained in Note 6(c) to the Financial Statements.

## 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 website www.waterco.com

The committee is made up solely of independent non-executive directors. Its members throughout financial year 2007 and to the date of this report were:

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

The committee met twice during the year. Refer to the table included in this Directors report on meeting dates.

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 executives and directors 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 engaged the services of Blake Dawson Waldron to provide advice on the CEO Share Plan.

### 2. Compensation Practices

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, Waterco's corporate reputation, its ethical culture, business values and its ability to provide interesting and challenging career opportunities, also play a substantial role.

### 3. Key Management Personnel Compensation

The remuneration structure for the Waterco Group comprises policies and programs under two 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 (STI) plan for executives and a long term incentive (LTI) 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 are reviewed annually and are determined by reference to appropriate benchmark information of comparable companies, taking into account the executives' responsibility, performance, qualifications, experience and potential.

### 3.2 Variable Remuneration

The committee and the board believe that well designed and managed short 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 and long term for the benefit of shareholders.

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

Both the STI and the LTI outcomes are tied to company performance.

The STI and LTI performance criteria were chosen so that each eligible employee has a clear incentive to strive for high individual performance and to contribute to high Company performance, thereby creating value to shareholders. This provides a clear alignment between the interests of shareholders and the level of reward for eligible employees. The performance hurdles of the STI Plan are based on a combination of the performance of an executive's division/branch, and the performance of the company as a whole, reflecting those executives' roles and abilities to influence Company performance. The performance hurdles of the LTI Plan, in which only the CEO participates, relate to the performance of the company as a whole, in line with the CEO's ability to influence the generation of shareholder wealth on a company-wide basis. Each of the STI and LTI performance hurdles were considered by the Committee as the most appropriate means of measuring Company performance as it incorporates capital returns.

If the Company's performance, as a whole, or by division or branch, falls below the relevant target levels then no STI or LTI are awarded. Consequently awards were made under the STI Plan to eligible employees and the amount of STI awarded has varied according to a combination of department/division and Company performance in the financial year just ended.

The Corporations Act requires this report to comment on the Company's earnings and performance, and the effect of the Company's performance on shareholder wealth in the reporting period and the previous four financial years. The table included here shows the Company's earnings in the financial year just ended, and the previous four financial years, as well as indicators of shareholder wealth over those periods:

| Year ended | June 07 | June 06 | June 05 | June 04 | June 03 |
|---|---|---|---|---|---|
| NPAT ($million) | (2.56) | 4.18 | 4.19 | 5.37 | 3.81 |
| EPS (cents) | (11.5) | 18.60 | 19.10 | 26.70 | 20.60 |
| Dividends per share (cents) | 9.0 | 17.00 | 16.00 | 15.00 | 13.00 |
| Year end share price ($) | 1.63 | 2.40 | 3.85 | 2.55 | 1.85 |
| Shares on issue (million) | 23.00 | 22.60 | 22.60 | 20.90 | 18.90 |
| Market Capitalisation ($million) | 37.49 | 54.24 | 87.01 | 53.26 | 35.03 |

### 3.2.1 STI

The STI plan is designed to directly link variable remuneration to financial performance and to drive continuous performance improvement. The performance condition underpinning the STI, which is an increase in gross margin without taking into account the impact of acquisitions, in an executive's division or branch over the previous year, was chosen to encourage participants to improve upon the performance levels reached in the prior year.

For executives to be eligible to receive an incentive their division/branch needs to achieve or exceed the minimum set percentage of gross margin. The amount of the incentive increases the greater the percentage growth over the minimum target. The gross margin is audited during the course of the audit of the annual accounts, in order to be objective.

The CEO does not participate in the STI Plan.

### 3.2.2 LTI

#### 3.2.2.1 CEO Share Plan 2006/2007 Offer

The CEO has as part of his remuneration package a performance-based component, which is governed by the CEO Share Plan.

Shareholders approved at the Company's AGM on 20 October 2006 that the 500,000 Plan Shares under the 2003/2004 Offer will not be bought back by the Company but will be applied instead to the 2006/2007 Offer of 500,000 Plan Shares to the CEO, Accordingly there still exists a loan from Waterco. These 500,000 Plan Shares were issued to the CEO on 5 December 2003 under the 2003/2004 Offer. These are the only shares that have been issued under the Plan since 17 November 2003.

The criteria and performance hurdles for the 2006/2007 Offer are the same as the criteria and performance hurdles for the 2003/2004 Offer. 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 date on which the 06/07 Offer was accepted. If this is not satisfied, the CEO will forfeit the shares.

- Performance Hurdles

The company must meet the targeted earnings per share (EPS) growth over the targeted EPS period (30 June 2006 to 30 June 2009) as follows:

• 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 Plan Shares for every 1% growth in EPS greater than 15% over the Targeted EPS Growth Period, up to a maximum of 100% of the Plan Shares; and

• growth in EPS of less than 15% per year compounded over the Targeted EPS Growth Period results in 0% of the shares being available to be withdrawn from the plan.

Interest

Interest is payable on the outstanding balance of the loan in an amount equal to any dividends paid by the Company on the shares. During the year, a total of $45,000 in interest was received on this loan

Loan Repayment

The loan is repayable on the earlier of the date the Plan Shares are removed from the Plan or 5 December 2011.

Share Withdrawal

The CEO is not entitled to withdraw any shares under the CEO Share Plan unless performance hurdles are met on 30 June 2009 or under special circumstances determined by the Board.

The Plan Shares will remain subject to applicable dealing restrictions preventing disposal of the Plan Shares by the CEO.

### 3.3 Other benefits

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

### 3.4 Employee share plans

Waterco operates two employee share plans:

• The Waterco Exempt Employee Share Plan;

• The Waterco Deferred Employee Share Plan.

All eligible Australian employees can participate in only one of the above plans at any time.

### 3.4.1 Waterco Exempt Employee Share Plan (Exempt Plan)

The Waterco Exempt Employee Share Plan, which commenced on 1 July 2002, is open to all eligible permanent employees who have completed a minimum twelve months service of employment with Waterco as at 30 June 2006.

Employees wishing to participate in this plan can salary sacrifice $500 and receive $500 worth of matching shares from Waterco. These contributions are deducted in equal fortnightly instalments and the shares are purchased on-market.

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

Shares received 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 (Deferred Plan)

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

To be eligible to participate in the Deferred Plan Australian employees need to have completed a minimum twelve months service of employment with Waterco as at 30 June 2006.

Eligible employees wishing to participate can elect to contribute an amount of between $2,000.00 per annum and 30% of their pre-tax salary to acquire shares in Waterco. The amount nominated will be deducted in equal fortnightly instalments. Waterco will also match up to a maximum of $1,000. These shares are purchased on-market.

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

Shares received 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 participates by way of salary sacrifice.

## 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.

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.

| Name | Year | Base Salary[1] | Incentives (At Risk)[2] | Director's Fees[5] | Superannuation Contributions | Incentives (Fixed)[3] | Non Cash Benefits[4] | Total |
|---|---|---|---|---|---|---|---|---|
| Mr Soon Sinn Goh Chairman & CEO | 2007 | 237,882 | 72,453 | 60,000 | 18,000 | - | - | 388,335 |
| | 2006 | 227,000 | 16,672 | 60,000 | 18,000 | - | - | 321,672 |
| Mr Bruce Leitch Executive Director | 2007 | 183,167 | - | - | 12,686 | 2,647 | 10,824 | 209,324 |
| | 2006 | 176,178 | - | - | 12,150 | 2,854 | 22,176 | 213,358 |

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

1 *Base salary includes any salary sacrifice amounts.*

2 *Incentives (At Risk) are made up the CEO Share Plan which is subject to achievement of performance hurdles (see Note 35).*

3 *Incentives (Fixed) are made up of employee share plan benefits (see Note 35) including interest that would have been charged (at arms length) on the employee share acquisition loans.*

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

5 *Director's fees of $60,000 paid to Mr Soon Sinn Goh by a subsidiary, Waterco (Far East) Sdn Bhd. All other director's fees are paid by the parent entity.*

*There were 26 pay periods during the year (2006 : 26)*

### 6. Key Management Personnel

| Name | Year | Base Salary[1] | Incentives (At Risk)[2] | Superannuation Contributions | Incentives (Fixed)[3] | Non Cash Benefits[4] | Total |
|---|---|---|---|---|---|---|---|
| Mr Anthony Fisher<br>CEO, Lacron (UK) Limited | 2007 | 162,493 | - | - | - | 37,851 | 200,344 |
| | 2006 | 150,641 | 5,555 | - | - | 18,499 | 174,695 |
| Mr Sze Tin Lim<br>Financial Controller | 2007 | 132,100 | - | 11,700 | 3,301 | 17,010 | 164,111 |
| | 2006 | 126,763 | - | 11,340 | 3,442 | 18,292 | 159,837 |
| Mrs Bee Hong Leo<br>Joint Company Secretary | 2007 | 135,417 | - | 11,970 | 2,972 | - | 150,359 |
| | 2006 | 129,550 | - | 11,520 | 3,093 | - | 144,163 |
| Mr Gerard Doumit<br>Chief Accountant /<br>Joint Company Secretary | 2007 | 116,393 | - | 10,350 | 2,472 | 15,213 | 144,428 |
| | 2006 | 111,110 | - | 9,900 | 2,593 | 12,781 | 136,384 |
| Mr Peter Drummond<br>NSW Branch Mgr /<br>GM, Chemical Division<br>Resigned: 9 August 2007 | 2007 | 108,000 | - | 9,720 | 2,972 | 20,790 | 141,482 |
| | 2006 | 104,500 | - | 9,405 | 3,093 | 18,066 | 135,064 |

The table below sets out remuneration details for the five most highly remunerated key management personnel in the Waterco Group.

[1] *Base salary includes any salary sacrifice amounts.*

[2] *Incentives(At Risk) are made up of cash bonuses which is subject to achievement of performance hurdles (see Note 35).*

[3] *Incentives (Fixed) are made up of employee share plan benefits (see Note 35) including interest that would have been charged (at arms length) on the employee share acquisition loans.*

[4] *Non cash benefits are made up of company vehicle benefits and salary continuance premiums.*

*There were 26 pay periods during the year (2005 : 26)*

### 7. Non-Executive directors

Non-executive directors are paid fees based on the nature of their work and their responsibilities. The Company also pays, in addition to those fees, a 9% superannuation contribution. The level and structure of fees is based upon the need for the company to be able to attract and retain non-executive directors of an appropriate calibre, the demands of the role and prevailing market conditions. 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.

There is no increase to the aggregate base of $130,500 paid in non-executive director fees for the new financial year. This is within the maximum aggregate amount for non-executive directors last approved at an Annual General Meeting. The remuneration of non-executive directors is fixed. They do not participate in any incentive plans available to executives.

The table below sets out fees paid to non-executive directors.

| Name | Year | Director's Fees[1] | Superannuation Contributions | Total |
|---|---|---|---|---|
| Mr Garry Norman | 2007 | 43,500 | 3,915 | 47,415 |
| | 2006 | 42,000 | 3,780 | 45,780 |
| Mr Stuart Lloyd | 2007 | 43,500 | 3,915 | 47,415 |
| | 2006 | 42,000 | 3,780 | 45,780 |
| Mr Ben Hunt | 2007 | 43,500 | 3,915 | 47,415 |
| | 2006 | 42,000 | 3,780 | 45,780 |

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

Non-executive director appointments to Board Committees are by formal resolutions of the Board.

## Meetings of Directors

During the financial year, 18 meetings of directors (including Audit and Remuneration Committees) were held. Attendances are set out below:

| 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 | 6 | 6 | -- | -- | -- | -- |
| Bruce Leitch | 6 | 6 | -- | -- | -- | -- |
| Garry Norman | 6 | 6 | 10 | 10 | 2 | 2 |
| Stuart Lloyd | 6 | 6 | 10 | 10 | 2 | 2 |
| Ben Hunt | 6 | 6 | 10 | 10 | 2 | 1 |

## 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 arising from 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 a director or an entity in which a director has a substantial financial interest other than:

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

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

(iii) Payments made for rental of warehouses and offices to Mint Holdings Pty Ltd of which Mr S S Goh is the 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.

## Non-audit Services

There were no provision of non-audit services during the year.

## Auditors Independence Declaration

The auditors independence declaration for the year ended 30 June 2007 is included below.

Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
**T** +6 2 9233 8933 **F** +61 2 9233 8521

**Waterco Limited** ABN 62 002 070 733
**and Controlled Entities**

**Auditor's Independence Declaration Under Section 307C**
**of the Corporations Act 2001**
**To The Directors of Waterco Limited**

We declare that, to the best of our knowledge and belief, during the year ended 30 June 2007 there have been:

i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

W E Beauman (1)
Registered Company Auditor

G H Cowling (1)
Registered Company Auditor

R A Catterall (1)
Registered Company Auditor

Sydney

Dated 21st September 2007

(1) Messrs Beauman, Cowling and Catterall were partners of the former Bentleys MRI Sydney Partnership ABN 68 093 412 031 which was dissolved on 17 November 2006. They joined the Australian partnership of RSM Bird Cameron Partners with effect from 20 November 2006 and the audit has been performed using the resources of RSM Bird Cameron Partners.

'Liability is limited by the Accountants'
Scheme pursuant to the NSW
Professional Standards Act 1994'

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

SOON SINN GOH
Chairman

21 September 2007

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | Note No. | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Revenues** | 2 | 82,134,285 | 89,415,422 | 55,269,527 | 58,115,730 |
| **Changes in inventories of finished goods and work in progress** | | (559,429) | (1,778,095) | (31,658) | 863,623 |
| **Raw Materials and consumables used** | | (46,041,792) | (48,229,033) | (31,369,209) | (32,286,293) |
| **Employee benefits expense** | | (13,997,334) | (13,987,265) | (8,597,334) | (8,663,568) |
| **Depreciation and impairment expense** | 3 | (1,821,461) | (1,745,474) | (871,792) | (903,457) |
| **Finance costs** | | (2,356,188) | (1,815,613) | (2,070,934) | (1,696,587) |
| **Advertising expense** | | (1,845,207) | (1,687,035) | (885,068) | (726,108) |
| **Discounts allowed** | | (1,268,893) | (1,220,299) | (1,260,353) | (1,213,348) |
| **Outward freight expense** | | (2,419,254) | (2,304,121) | (1,589,248) | (1,575,519) |
| **Rent expense** | | (2,895,726) | (2,827,465) | (1,800,021) | (1,810,843) |
| **Contracted staff expense** | | (506,884) | (709,293) | (489,860) | (703,788) |
| **Unrealised foreign exchange gains/ (losses)** | | (2,134,358) | 1,295,607 | (2,134,358) | 1,295,607 |
| **Warranty expense** | | (1,082,333) | (846,396) | (399,308) | (336,684) |
| **Commission expense** | | (647,239) | (811,252) | (173,601) | (246,826) |
| **Other expenses** | | (6,416,362) | (7,252,329) | (2,330,801) | (2,786,388) |
| **Profit /(loss) before income tax expense** | 3 | (1,858,175) | 5,497,359 | 1,265,982 | 7,325,551 |
| **Income tax expense** | 5 | 702,409 | 1,321,799 | 998,780 | 1,791,209 |
| **Profit/(loss) for the year** | | (2,560,584) | 4,175,560 | 267,202 | 5,534,342 |
| **Profit/(loss) attributable to minority equity interest** | | 53,080 | (18,162) | - | - |
| **Profit/(loss) attributable to members of the parent entity** | | (2,613,664) | 4,193,722 | 267,202 | 5,534,342 |
| **Basic earnings per share (cents per share)** | 32 | (11.5) | 18.6 | | |
| **Diluted earnings per share (cents per share)** | 32 | (11.5) | 18.6 | | |
| **Dividends Per Share (cents per share)** | 31 | 9.0 | 17.0 | | |

The accompanying notes form part of these financial statements.

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | Note No. | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 7 | 1,296,781 | 2,010,965 | 34,818 | 17,503 |
| Trade and other receivables | 8 | 12,873,819 | 13,172,526 | 4,205,349 | 4,211,929 |
| Inventories | 9 | 29,120,819 | 30,977,103 | 12,086,064 | 12,052,238 |
| Other current assets | 10 | 738,766 | 857,607 | 451,177 | 539,353 |
| **Total Current Assets** | | 44,030,185 | 47,018,201 | 16,777,408 | 16,821,023 |
| **Non-Current Assets** | | | | | |
| Trade and other receivables | 11 | - | - | 30,047,586 | 27,987,860 |
| Financial assets | 12 | - | - | 10,304,244 | 10,304,244 |
| Property, plant & equipment | 14 | 33,117,063 | 30,859,404 | 13,974,234 | 12,255,997 |
| Intangible assets | 15 | 2,406,097 | 2,807,886 | 258,169 | 284,311 |
| Deferred tax assets | 19 | 1,318,602 | 1,068,115 | 603,340 | 628,515 |
| Other non-current assets | 16 | 213,924 | 230,021 | - | - |
| **Total Non-Current Assets** | | 37,055,686 | 34,965,426 | 55,187,573 | 51,460,927 |
| **Total Assets** | | 81,085,871 | 81,983,627 | 71,964,981 | 68,281,950 |
| **Current Liabilities** | | | | | |
| Trade and other payables | 17 | 8,612,871 | 9,757,821 | 3,690,059 | 4,812,930 |
| Financial liabilities | 18 | 6,512,006 | 2,056,116 | 6,206,275 | 1,853,628 |
| Current tax liabilities | 19 | (295,187) | 100,520 | (93,705) | 454,011 |
| Financial liabilities | 20 | 1,662,708 | 1,590,734 | 1,612,769 | 1,541,333 |
| **Total Current Liabilities** | | 16,492,398 | 13,505,191 | 11,415,398 | 8,661,902 |
| **Non-Current Liabilities** | | | | | |
| Trade and other payables | 21 | - | - | 3,026,151 | 3,025,554 |
| Financial liabilities | 22 | 27,548,976 | 28,849,374 | 23,914,728 | 24,515,767 |
| Deferred tax liabilities | 19 | 2,087,873 | 1,520,179 | 1,953,814 | 1,286,999 |
| Long-term provisions | 23 | 294,360 | 283,851 | 294,360 | 283,851 |
| **Total Non-Current Liabilities** | | 29,931,209 | 30,653,404 | 29,189,053 | 29,112,171 |
| **Total Liabilities** | | 46,423,607 | 44,158,595 | 40,604,451 | 37,774,073 |
| Net Assets | | 34,662,264 | 37,825,032 | 31,360,530 | 30,507,877 |
| **Equity** | | | | | |
| Issued capital | 24 | 23,126,616 | 22,038,128 | 23,126,616 | 22,038,128 |
| Reserves | 25 | 3,996,856 | 3,641,115 | 5,694,728 | 4,163,797 |
| Retained earnings | 26 | 7,225,114 | 11,872,746 | 2,539,186 | 4,305,952 |
| Parent interest | | 34,348,586 | 37,551,989 | 31,360,530 | 30,507,877 |
| Minority equity interest | | 313,678 | 273,043 | - | - |
| Total Equity | | 34,662,264 | 37,825,032 | 31,360,530 | 30,507,877 |

The accompanying notes form part of these financial statements.

| Economic Entity | Note No. | Ordinary | Retained Earnings | Capital Profits Reserve | Asset Revaluation Reserve | Foreign Currency Translation Reserve | Minority Equity Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 30/6/05** | | 23,448,028 | 11,520,965 | 210,562 | 3,983,371 | (1,629,003) | 163,284 | 37,697,207 |
| Profit/(loss) attributable to members of parent entity | | | 4,193,722 | | | | | 4,193,722 |
| Profit/(loss) attributable to minority shareholders | | | | | | | (18,162) | (18,162) |
| Issue of shares to minority interest | | | | | | | 145,969 | 145,969 |
| Employee share loans | | (1,409,900) | | | | | | (1,409,900) |
| Adjustment for translation of foreign controlled entities | | | | | | 1,076,185 | | 1,076,185 |
| Sub-total | | 22,038,128 | 15,714,687 | 210,562 | 3,983,371 | (552,818) | 291,091 | 41,685,021 |
| Dividends paid | 31 | | (3,841,941) | | | | (18,048) | (3,859,989) |
| **Balance at 30/6/06** | | 22,038,128 | 11,872,746 | 210,562 | 3,983,371 | (552,818) | 273,043 | 37,825,032 |
| Profit /(loss) attributable to members of parent entity | | | (2,613,664) | | | | | (2,613,664) |
| Profit/(loss) attributable to minority shareholders | | | | | | | 53,080 | 53,080 |
| Issue of shares to under Waterco DRP | | 1,051,788 | | | | | | 1,051,788 |
| Revaluation Increment | | | | | 1,530,931 | | | 1,530,931 |
| Adjustment for translation of foreign controlled entities | | | | | | (1,175,190) | | (1,175,190) |
| Employee share loans | | 36,700 | | | | | | 36,700 |
| Sub-total | | 23,126,616 | 9,259,082 | 210,562 | 5,514,302 | (1,728,008) | 326,123 | 36,708,677 |
| Dividends paid | 31 | | (2,033,968) | | | | (12,445) | (2,046,413) |
| **Balance at 30/6/07** | | 23,126,616 | 7,225,114 | 210,562 | 5,514,302 | (1,728,008) | 313,678 | 34,662,264 |

| Parent Entity | Note No. | Ordinary | Retained Earnings | Capital Profits Reserve | Asset Revaluation Reserve | Total Equity |
|---|---|---|---|---|---|---|
| **Balance at 30/6/05** | | 23,448,028 | 2,613,551 | 180,426 | 3,983,371 | 30,225,376 |
| Profit /(loss) attributable to members of parent entity | | | 5,534,342 | | | 5,534,342 |
| Employee share loans | | (1,409,900) | | | | (1,409,900) |
| Sub-total | | 22,038,128 | 8,147,893 | 180,426 | 3,983,371 | 34,349,818 |
| Dividends paid | 31 | | (3,841,941) | | | (3,841,941) |
| **Balance at 30/6/06** | | 22,038,128 | 4,305,952 | 180,426 | 3,983,371 | 30,507,877 |
| Issue of shares under Waterco DRP | | 1,051,788 | | | | 1,051,788 |
| Employee share loans | | 36,700 | | | | 36,700 |
| Profit attributable to members of parent entity | | | 267,202 | | | 267,202 |
| Revaluation increment | | | | | 1,530,931 | 1,530,931 |
| Sub-total | | 23,126,616 | 4,573,154 | 180,426 | 5,514,302 | 33,394,498 |
| Dividends paid | 31 | | (2,033,968) | | | (2,033,968) |
| **Balance at 30/6/07** | | 23,126,616 | 2,539,186 | 180,426 | 5,514,302 | 31,360,530 |

The accompanying notes form part of these financial statements.

| | Consolidated Group | | Economic Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Cash Flows from Operating Activities** | | | | |
| Receipts from customers | 86,882,195 | 94,295,609 | 59,762,252 | 62,520,360 |
| Payments to suppliers and employees | (82,562,559) | (88,805,192) | (57,096,867) | (52,375,159) |
| Interest received | 78,804 | 142,074 | 206,802 | 251,332 |
| Other Income | 411,713 | 414,750 | 343,483 | 167,126 |
| Finance costs | (2,356,188) | (1,815,613) | (2,070,934) | (1,696,587) |
| Income tax paid | (1,437,022) | (2,526,607) | (1,510,619) | (2,142,348) |
| Net cash provided by/(used in) operating activities (note 36a) | 1,016,943 | 1,705,021 | (365,883) | 6,724,724 |
| **Cash Flows from Investing Activities** | | | | |
| Dividends received | 880 | 1,042 | 15,895 | 20,662 |
| Payment for property, plant & equipment | (2,135,520) | (11,193,999) | (271,259) | (735,002) |
| Proceeds from sale of property, plant & equipment | 206,728 | 431,717 | 80,123 | 123,059 |
| Proceeds from sale of business (net of cash) (note 36b) | - | 81,277 | - | 81,277 |
| Payment for investments | - | - | - | (2,379,294) |
| Payments for intangibles | 178,634 | (182,431) | - | - |
| Net cash provided by/(used in) investment activities | (1,749,278) | (10,862,394) | (175,241) | (2,889,298) |
| **Cash Flows from Financing Activities** | | | | |
| Proceeds from/(repayment of) borrowings | 3,318,519 | 7,303,482 | 4,017,878 | 3,250,000 |
| Proceeds from issue of shares | 1,051,788 | 145,969 | 1,051,788 | - |
| Payment of lease liabilities | (237,873) | (254,100) | (237,873) | (254,100) |
| Dividends paid | (2,046,412) | (3,859,989) | (2,033,968) | (3,841,941) |
| Employee share plan repayments | 36,700 | 99,320 | 36,700 | 99,320 |
| Loans to controlled entities | - | - | (2,059,129) | (6,925,220) |
| Net cash provided by/(used in) financing activities | 2,122,722 | 3,434,682 | 775,396 | (7,671,941) |
| Net increase/(decrease) in cash held | 1,390,387 | (5,722,691) | 234,272 | (3,836,515) |
| Cash at beginning of the year | 156,310 | 4,331,900 | (1,634,664) | 2,201,851 |
| Effects of exchange rate changes on balance of cash held in foreign currencies | (1,990,857) | 1,547,101 | - | - |
| Cash at the end of the year (Note 7) | (444,160) | 156,310 | (1,400,392) | (1,634,664) |

The accompanying notes form part of these financial statements.

**NOTE 1: Statement of Significant Accounting Policies**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, 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 of Waterco Limited and controlled entities and Waterco Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

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.

**Basis of Preparation**

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**Accounting Policies**

**a. Principles of Consolidation**

A controlled entity is any entity Waterco Ltd has the power to control the financing and operating policies of so as to obtain the benefits from its activities. A list of controlled entities is contained in note 13 to the financial statements. All controlled entities have a June financial year-end except for Waterco Guangzhou Ltd, Waterco C Ltd and PT Waterco Indonesia all of which have December financial year ends.

All intercompany balances and transactions between entities in the economic entity including any unrealised profits or losses have been eliminated on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until control ceased.

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

**b. Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for ownership interest in a controlled entity exceeds the fair value attributed to its net tangible assets at date of acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets.

Both purchased goodwill and goodwill on consolidation are tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Canadian Goodwill

On 17 March, 2005, Waterco Canada Inc entered into a Purchase and Sale Agreement whereby the company acquired the assets of Focus Temp International Inc. The acquisition was accounted for using the purchase method. The total purchase price paid was $C6,253,332 and of this amount, $C1,000,000 was held in trust by Focus Temp's solicitor to provide for a possible adjustment to the purchase price based on earnings, as defined in the Purchase and Sale Agreement for the twelve 12 month period ended 17 March 2006. During 2006, Waterco Canada Inc authorised the release of $C699,274 to Focus Temp International Inc, leaving a balance of $C300,726 in trust as at 30 June 2007.

A dispute arose between the parties to the Purchase and Sale Agreement regarding the earnings for the twelve month period ended 17 March 2006, and under the terms of the Agreement, an arbitration process has been initiated with respect to the earnings calculation. Focus Temp International Inc has served formal notice to have the balance of $C300,726 released to them. Waterco Canada Inc believes that the targeted earnings have not been achieved (verified by audit), and that the full $C1,000,000 should be returned to them pursuant to the terms of the agreement. Waterco Canada Inc has served formal notice on Focus Temp International Inc for (among other things) reimbursement of the $C699,274 released to them.

These financial statements do not include any adjustments that may be necessary to reduce the purchase price or to record any of the claims initiated by the parties as the outcomes cannot be determined at this time. Any adjustments required on settlement of these disputes will be charged to goodwill and/or earnings in the year in which the disputes are settled.

**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. Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to ownership of the asset but not the legal ownership that is transferred to entities in the economic entity, are classified as finance 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 forklifts used by the economic entity.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor are charged as expenses in the period in which they are incurred. The leases are property leases that are subject to different terms and conditions and are all subject to renewal.

Contingent liabilities are guarantees given by the head lessor (Waterco Ltd or Swimart Pty Ltd) for shops subleased by or licensed to franchisees. These are based on the rental at the beginning of the lease adjusted for estimated future inflation movements and movements in market value.

**e. 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.

**f. Taxation**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity. Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Waterco Limited and its wholly-owned Australian Subsidiaries have formed a consolidated group for the purposes of the tax consolidation provisions of the Income Tax Assessment Act 1997. All of the deferred tax assets and liabilities of the subsidiary members have become part of the deferred assets and liabilities of Waterco Ltd. Each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the consolidated group. The group notified the ATO on 20 January 2005 that it had formed an income tax consolidated group to apply from 1 July 2003.

**g. 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.

**h. 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 on-costs. (see note 20)

Employee benefits (long service leave) payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. (see note 23)

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.

**i. Deferred Expenditure**

Research and Development costs are charged to profit 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.

**j. 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.

**k. 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 | 14 December 2006 | 11,200,000 |

Valuations were made on the basis of open value. The revaluation surplus net of applicable deferred capital gains taxes was credited to an asset revaluation reserve in shareholders' equity.

**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.

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% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**l. 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).

**m. 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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST Component of investing and financing activities, which are disclosed as operating cash flows.

**n. Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

**o. Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**p. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, bank overdrafts and current portion of bank loans. Bank overdraft and current bank loans are shown within short-term borrowings in current liabilities in the balance sheet.

**q. Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**r. Comparative Figures**

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

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 2: Revenue** | | | | |
| Operating activities | | | | |
| * sales of goods | 81,231,287 | 88,239,340 | 54,443,431 | 57,386,741 |
| * dividend received | 880 | 1,042 | 15,895 | 20,662 |
| * interest received | 78,804 | 142,074 | 206,802 | 251,332 |
| * rent | 204,156 | 133,039 | 179,793 | 112,560 |
| * bad debts recovered | 716 | 712 | - | - |
| * other | 411,713 | 414,750 | 343,483 | 167,126 |
| | 81,927,556 | 88,930,957 | 55,189,404 | 57,938,421 |
| Non-operating activities | | | | |
| * proceeds on disposal of property, plant and equipment | 206,729 | 484,465 | 80,123 | 177,309 |
| | 206,729 | 484,465 | 80,123 | 177,309 |
| Total Revenue | 82,134,285 | 89,415,422 | 55,269,527 | 58,115,730 |
| a) Dividends received or receivable from | | | | |
| * Partly-owned subsidiaries | - | - | 15,015 | 19,620 |
| * other persons | 880 | 1,042 | 880 | 1,042 |
| Total dividend revenue | 880 | 1,042 | 15,895 | 20,662 |
| b) Interest received or receivable from | | | | |
| * wholly owned controlled entities | - | - | 148,499 | 135,129 |
| * other persons | 78,804 | 142,074 | 58,303 | 116,203 |
| Total interest revenue | 78,804 | 142,074 | 206,802 | 251,332 |
| **Note 3: Profit/(Loss) the Year** | | | | |
| Profit/(loss) for the year has been determined after: | | | | |
| (a) Expenses: | | | | |
| Cost of Sales | 47,350,157 | 50,775,684 | 31,667,048 | 31,956,807 |
| Finance costs: | | | | |
| * other persons | 2,321,090 | 1,778,220 | 2,035,836 | 1,659,194 |
| * finance charges on finance leases | 35,098 | 37,393 | 35,098 | 37,393 |
| | 2,356,188 | 1,815,613 | 2,070,934 | 1,696,587 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 3: Profit/(Loss) for the Year** | | | | |
| (a) Expenses: | | | | |
| Depreciation of non current assets: | | | | |
| * buildings | 164,668 | 161,146 | 164,668 | 161,146 |
| * plant & equipment | 1,140,949 | 1,225,786 | 506,473 | 530,308 |
| * capitalised leased assets | 163,604 | 174,957 | 163,604 | 174,957 |
| | 1,469,221 | 1,561,889 | 834,745 | 866,411 |
| Impairment of non current assets: | | | | |
| * leasehold land | 10,905 | 10,905 | 10,905 | 10,905 |
| * goodwill on acquisition | 39,154 | 39,368 | 26,142 | 26,141 |
| * goodwill on consolidation | 132,900 | 132,900 | - | - |
| * expenditure carried forward | 169,281 | 412 | - | - |
| | 352,240 | 183,585 | 37,047 | 37,046 |
| Bad and doubtful debts | | | | |
| * trade debtors | 24,443 | 43,953 | 19,187 | 18,736 |
| Rental expense on operating leases | | | | |
| - Minimum lease payments | 2,895,726 | 2,827,465 | 1,800,021 | 1,810,843 |
| Research & development | 1,139,859 | 1,019,300 | 597,731 | 524,552 |
| Foreign currency translation losses/(gains) | 45,092 | 82,785 | 13,968 | 6,724 |
| Net Loss on disposal of non-current assets | | | | |
| * Property, plant and equipment | 45,092 | 82,785 | 13,968 | 6,724 |
| (b) Revenue and Net Gains | | | | |
| Net gain on disposal of | | | | |
| * Property, plant and equipment | 28,140 | 128,708 | 11,115 | 50,983 |
| | 28,140 | 128,708 | 11,115 | 50,983 |
| **Note 4: Auditors' Remuneration** Remuneration of the auditor of the parent entity for: | | | | |
| * audit or reviewing the financial report | 112,937 | 92,231 | 111,437 | 90,731 |
| Remuneration of other auditors of subsidiaries for: | | | | |
| * auditing or reviewing the financial report of subsidiaries | 71,453 | 95,305 | - | - |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **NOTE 5: Income Tax Expense** | | | | |
| (a) The components of tax expense comprise: | | | | |
| Current tax | 979,418 | 1,604,144 | 962,903 | 1,779,540 |
| Deferred tax | (72,706) | (579,172) | 10,702 | 45,020 |
| Recoupment of prior year tax losses | (177,685) | 409,205 | - | - |
| Under provision in respect of prior years | (26,618) | (112,378) | 25,175 | (33,351) |
| | 702,409 | 1,321,799 | 998,780 | 1,791,209 |
| (b) The prima facie tax on profit/(loss) before income tax is reconciled to the income tax as follows: | | | | |
| Profit/(loss) before income tax | (1,858,175) | 5,497,359 | 1,265,982 | 7,325,551 |
| Prima facie tax payable on profit/(loss) before income tax at 30% (2006 30%) | (557,453) | 1,649,208 | 379,795 | 2,197,665 |
| Add | | | | |
| Tax effect of: | | | | |
| * Depreciation of buildings | 25,063 | 29,137 | 25,063 | 26,831 |
| * Entertainment | 2,996 | 2,505 | 860 | 1,466 |
| * Amortisation - Goodwill | 51,615 | 52,018 | 7,843 | 7,842 |
| * Amortisation - Leasehold Land | 3,271 | 3,272 | 3,271 | 3,272 |
| * Foreign controlled entities not tax effected | 609,202 | 427,875 | - | - |
| * Unrealised foreign exchange losses/(gains) | 640,307 | (388,682) | 640,307 | (388,682) |
| Less Tax effect of: | | | | |
| * Special building write off | (1,888) | (1,889) | (1,888) | (1,889) |
| * Reinvestment allowance | - | (60,760) | - | - |
| * Lease premium deduction | (28,180) | - | - | - |
| * Effects of lower rates in overseas countries | 1,992 | (218,384) | - | - |
| * Rebateable dividends | (694) | (294) | (4,580) | (5,929) |
| * (Over)/under provision for tax in prior year | (26,618) | (112,378) | (36,111) | (33,351) |
| * Other | (17,204) | (59,829) | (15,780) | (16,016) |
| Income tax expense attributable to entity | 702,409 | 1,321,799 | 998,780 | 1,791,209 |
| The applicable weighted average effective tax rates are as follows: | (38%) | 24% | 79% | 24% |

**NOTE 6: Key Management Personnel Compensation**

**(a)** Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

| Key Management Person | Position |
|---|---|
| Mr S S Goh | Chairman & CEO |
| Mr B Leitch | Director – Executive |
| Mr G Norman | Director - Non Executive |
| Mr S Lloyd | Director - Non Executive (resigned 8th November 2007) |
| Mr B Hunt | Director - Non Executive |
| Mr A Fisher | Managing Director – Waterco (Europe) Ltd, Lacron (UK) Ltd |
| 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 (resigned 9th August 2007) |

**b) Key Management Personnel Compensation**

**2007**

| Key Management Personnel | Base Salary* | Incentives (At Risk)** | Director's Fees **** | Superannuation Contributions | Incentives (Fixed)** | Non Cash Benefits *** | Total | Performance Related % |
|---|---|---|---|---|---|---|---|---|
| Mr S S Goh | 237,882 | 72,453 | 60,000 | 18,000 | - | - | 388,335 | 18.7 |
| Mr B Leitch | 183,167 | - | - | 12,686 | 2,647 | 10,824 | 209,324 | - |
| Mr G Norman | - | - | 43,500 | 3,915 | - | - | 47,415 | - |
| Mr S Lloyd | - | - | 43,500 | 3,915 | - | - | 47,415 | - |
| Mr B Hunt | - | - | 43,500 | 3,915 | - | - | 47,415 | - |
| Mr A Fisher | 162,493 | - | - | - | - | 37,851 | 200,344 | - |
| Mr S T Lim | 132,100 | - | - | 11,700 | 3,301 | 17,010 | 164,111 | - |
| Mrs B H Leo | 135,417 | - | - | 11,970 | 2,972 | - | 150,359 | - |
| Mr G Doumit | 116,393 | - | - | 10,350 | 2,472 | 15,213 | 144,428 | - |
| Mr P Drummond | 108,000 | - | - | 9,720 | 2,972 | 20,790 | 141,482 | - |

**2006**

| Key Management Personnel | Base Salary* | Incentives (At Risk)** | Director's Fees **** | Superannuation Contributions | Incentives (Fixed)** | Non Cash Benefits *** | Total | Performance Related % |
|---|---|---|---|---|---|---|---|---|
| Mr S S Goh | 227,000 | 16,672 | 60,000 | 18,000 | - | - | 321,672 | 5.2 |
| Mr B Leitch | 176,178 | - | - | 12,150 | 2,854 | 22,176 | 213,358 | - |
| Mr G Norman | - | - | 42,000 | 3,780 | - | - | 45,780 | - |
| Mr S Lloyd | - | - | 42,000 | 3,780 | - | - | 45,780 | - |
| Mr B Hunt | - | - | 42,000 | 3,780 | - | - | 45,780 | - |
| Mr A Fisher | 150,641 | 5,555 | - | - | - | 18,499 | 174,695 | 3.2 |
| Mr S T Lim | 126,763 | - | - | 11,340 | 3,442 | 18,292 | 159,837 | - |
| Mrs B H Leo | 129,550 | - | - | 11,520 | 3,093 | - | 144,163 | - |
| Mr G Doumit | 111,110 | - | - | 9,900 | 2,593 | 12,781 | 136,384 | - |
| Mr P Drummond | 104,500 | - | - | 9,405 | 3,093 | 18,066 | 135,064 | - |

*Base salary includes any salary sacrifice amounts
** Incentives
i) at risk - made up of cash bonuses and the CEO Share Plan which is subject to achievement of performance hurdles (see note 35)
ii) fixed - made up of employee share plan benefits (see note 35) including interest that would have been charged (at arms length) on the employee share acquisition loans.
***Non cash benefits are made up of company vehicle benefits, life insurance premiums 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 (2006: 26)

**c) Shareholdings**

**Number of Shares held by key Management Personnel**

**2007**

| **Key Management Personnel** | Balance 1.7.06 | Received as Remuneration | Net Change Other | Balance 30.6.07 |
|---|---|---|---|---|
| Mr S S Goh* | 11,086,551 | - | 527,956 | 11,614,507 |
| Mr B Leitch | 418,900 | - | - | 418,900 |
| Mr G Norman | 100,000 | - | 1,725 | 101,725 |
| Mr S Lloyd | 86,000 | - | 2,828 | 88,828 |
| Mr B Hunt | 146,848 | - | 47,897 | 194,745 |
| Mr A Fisher | 35,445 | - | - | 35,445 |
| Mr S T Lim | 119,757 | 1,422 | - | 121,979 |
| Mrs B H Leo | 88,827 | 1,411 | (1,876) | 88,362 |
| Mr G Doumit | 83,103 | 475 | 1,673 | 85,251 |
| Mr P Drummond | 29,764 | 2,923 | - | 32,687 |

**2006**

| **Key Management Personnel** | Balance 1.7.05 | Received as Remuneration | Net Change Other | Balance 30.6.06 |
|---|---|---|---|---|
| Mr S S Goh* | 11,085,933 | - | 618 | 11,086,551 |
| Mr B Leitch | 416,200 | - | 2,700 | 418,900 |
| Mr G Norman | 100,000 | - | - | 100,000 |
| Mr S Lloyd | 86,000 | - | - | 86,000 |
| Mr B Hunt | 126,800 | - | 20,048 | 146,848 |
| Mr A Fisher | 35,445 | - | - | 35,445 |
| Mr S T Lim | 118,831 | 926 | - | 119,757 |
| Mrs B H Leo | 95,361 | 926 | (7,460) | 88,827 |
| Mr G Doumit | 88,795 | 308 | (6,000) | 83,103 |
| Mr P Drummond | 28,068 | 1,696 | - | 29,764 |

*S S Goh and associates hold 9,953,345 shares.

**d) Compensation 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.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **CURRENT ASSETS** | | | | |
| **Note 7 : Cash and Cash Equivalents** | | | | |
| Cash at bank and in hand | 1,296,781 | 2,010,965 | 34,818 | 17,503 |
| **Reconciliation of cash** | | | | |
| Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows: | | | | |
| Cash and cash equivalents | 1,296,781 | 2,010,965 | 34,818 | 17,503 |
| Bank overdraft | (699,023) | (854,655) | (435,210) | (652,167) |
| Bank loans | (1,041,918) | (1,000,000) | (1,000,000) | (1,000,000) |
| | (444,160) | 156,310 | (1,400,392) | (1,634,664) |
| **Note 8: Trade and Other Receivables** | | | | |
| Trade debtors | 11,035,669 | 11,032,434 | 4,198,522 | 4,358,234 |
| Less: provision for impairment of receivables | 246,034 | 346,041 | - | 150,000 |
| | 10,789,635 | 10,686,393 | 4,198,522 | 4,208,234 |
| Other debtors | 2,084,184 | 2,486,133 | 6,827 | 3,695 |
| | 12,873,819 | 13,172,526 | 4,205,349 | 4,211,929 |
| **Note 9: Inventories** | | | | |
| Raw materials and stores at cost | 9,202,527 | 11,618,240 | 666,967 | 664,799 |
| Work in progress at cost | 150,493 | 298,476 | 33,999 | 29,677 |
| Finished goods at cost | 19,280,874 | 18,527,202 | 11,385,098 | 11,348,086 |
| Goods in transit at cost | 486,925 | 533,185 | - | 9,676 |
| | 29,120,819 | 30,977,103 | 12,086,064 | 12,052,238 |
| **Note 10: Other Current Assets** | | | | |
| Prepayments | 738,766 | 857,607 | 451,177 | 539,353 |
| | 738,766 | 857,607 | 451,177 | 539,353 |
| **NON CURRENT ASSETS** | | | | |
| **Note 11: Trade and Other Receivables** | | | | |
| Amount owing by controlled entities | - | - | 30,047,586 | 27,987,860 |
| | - | - | 30,047,586 | 29,987,860 |
| (a) Foreign currency Receivables | | | | |
| Non current assets not effectively hedged to a date at least 12 months after balance date | | | | |
| - Malaysian ringgit | - | - | 8,833,338 | 6,805,296 |
| - United States dollars | - | - | 6,710,736 | 4,609,614 |
| - New Zealand dollars | - | - | 2,011,709 | 2,419,226 |
| - British pounds | - | - | 4,341,466 | 4,945,498 |
| - Chinese renminbi | - | - | 77,347 | 101,596 |
| - Canadian dollars | - | - | 7,376,769 | 8,410,409 |
| | | | 29,351,365 | 27,291,639 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 12: Other Financial Assets** | | | | |
| **a)** Shares in controlled entities at cost | - | - | 10,304,244 | 10,304,244 |
| | - | - | 10,304,244 | 10,304,244 |

**Note 13: Controlled Entities**

| | Country of incorporation | % owned | |
|---|---|---|---|
| | | 2007 | 2006 |
| Parent Entity<br>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 Engineering 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 (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 | 100 |
| Waterco Canada Inc | Canada | 100 | 100 |
| Global Leisure Products Sdn Bhd | Malaysia | 51 | 51 |
| PT Waterco Indonesia | Indonesia | 51 | 51 |

Waterco USA Inc carries on business in the United States. Waterco (Far East) Sdn Bhd, Waterco Engineering Sdn Bhd, Global Leisure Products Sdn Bhd, Watershoppe (M) Sdn Bhd and Lacron Filters (Far East) Sdn Bhd carry on business in Malaysia. 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. PT Waterco Indonesia carries on business in Indonesia.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 14: Property, Plant & Equipment** | | | | |
| Freehold land at | | | | |
| - Independent valuation 2007 | 3,419,829 | - | 3,419,829 | - |
| - Independent valuation 2005 | - | 2,752,033 | - | 2,752,033 |
| - cost | 763,762 | 854,442 | - | - |
| | 4,183,591 | 3,606,475 | 3,419,829 | 2,752,033 |
| Freehold buildings at | | | | |
| - Independent valuation 2007 | 7,780,171 | - | 7,780,171 | - |
| - Directors valuation 2006 | - | 6,586,737 | - | 6,586,737 |
| - cost | 10,762,646 | 10,495,593 | - | - |
| Less: accumulated depreciation | - | 161,146 | - | 161,146 |
| | 18,542,817 | 16,921,184 | 7,780,171 | 6,425,591 |
| Leasehold land at cost | 268,318 | 268,318 | 268,318 | 268,318 |
| Less: accumulated amortisation | 146,755 | 135,850 | 146,755 | 135,850 |
| | 121,563 | 132,468 | 121,563 | 132,468 |
| Plant & equipment at cost | 22,752,591 | 21,342,092 | 5,941,780 | 6,014,011 |
| Less: accumulated depreciation | 13,005,995 | 11,713,627 | 3,811,605 | 3,638,918 |
| | 9,746,596 | 9,628,465 | 2,130,175 | 2,375,093 |
| Leased plant & equipment at cost | 694,313 | 727,022 | 694,313 | 727,022 |
| Less: accumulated depreciation | 171,817 | 156,210 | 171,817 | 156,210 |
| | 522,496 | 570,812 | 522,496 | 570,812 |
| Total written down value | 33,117,063 | 30,859,404 | 13,974,234 | 12,255,997 |

**a) Movements in Carrying Amounts**

| | Freehold Land | Buildings | Leasehold Land | Plant & Equipment | Leased Plant & Equipment | Total |
|---|---|---|---|---|---|---|
| **Economic Entity:** | | | | | | |
| Balance at the beginning of year | 3,606,475 | 16,921,184 | 132,468 | 9,628,465 | 570,812 | 30,859,404 |
| Additions | (90,680) | 267,053 | - | 3,104,790 | 188,560 | 3,469,723 |
| Revaluation increments | 667,796 | 1,519,248 | - | - | - | 2,187,044 |
| Disposals | - | - | - | (409,284) | (73,272) | (482,556) |
| Depreciation expense | - | (164,668) | (10,905) | (2,577,375) | (163,604) | (2,916,552) |
| Carrying amount at the end of year | 4,183,591 | 18,542,817 | 121,563 | 9,746,596 | 522,496 | 33,117,063 |
| **Parent Entity** | | | | | | |
| Balance at the beginning of year | 2,752,033 | 6,425,591 | 132,468 | 2,375,093 | 570,812 | 12,255,997 |
| Additions | - | - | - | 344,531 | 188,560 | 533,091 |
| Revaluation increments | 667,796 | 1,519,248 | - | - | - | 2,187,044 |
| Disposals | - | - | - | (82,976) | (73,272) | (156,248) |
| Depreciation expense | - | (164,668) | (10,905) | (506,473) | (163,604) | (845,650) |
| Carrying amount at the end of year | 3,419,829 | 7,780,171 | 121,563 | 2,130,175 | 522,496 | 13,974,234 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 14: Property, Plant & Equipment (continued)** | | | | |
| If Land & Buildings were stated at historic cost, amounts would be as follows: | | | | |
| Cost | 17,810,165 | 17,633,792 | 6,283,757 | 6,283,757 |
| Less: Accumulated depreciation | 973,160 | 917,142 | 973,160 | 917,142 |
| Net book value | 16,837,005 | 16,716,650 | 5,310,597 | 5,366,615 |
| **Note 15: Intangibles** | | | | |
| Goodwill (note 1b) | 2,605,673 | 2,840,364 | 522,850 | 522,850 |
| Less: accumulated impaired losses | 311,589 | 277,391 | 265,061 | 238,919 |
| | 2,294,084 | 2,562,973 | 257,789 | 283,931 |
| Preliminary expenses | 2,241 | 2,241 | 380 | 380 |
| Goodwill on consolidation | 778,189 | 778,189 | - | - |
| Less: accumulated impaired losses | 668,417 | 535,517 | - | - |
| | 109,772 | 242,672 | - | - |
| | 2,406,097 | 2,807,886 | 258,169 | 284,311 |

**Impairment Disclosures**
Goodwill is allocated to cash-generating units which are based on the groups reporting segments

| | 2007 $ | 2006 $ |
|---|---|---|
| Manufacturing Segment | 1,392,392 | 1,555,594 |
| Distribution Segment | 901,692 | 1,007,379 |
| Total | 2,294,084 | 2,562,973 |

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is based on the present value of cash flow projections over a 10 year period with the period extending beyond five years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of 10 year government bonds at the beginning of the budget period

The following assumptions were used in the value-in-use calculations:

| | Growth Rate | Discount Rate |
|---|---|---|
| Manufacturing Segment | 2.5% | 6.0% |
| Distribution Segment | 1.5% | 6.25% |

Management have based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates by project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the periods which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

| | Consolidated 2007 $ | Consolidated 2006 $ | Parent 2007 $ | Parent 2006 $ |
|---|---|---|---|---|
| **Note 16: Other** | | | | |
| Deferred expenditure carried forward | 213,924 | 230,021 | - | - |
| | 213,924 | 230,021 | - | - |
| **CURRENT LIABILITIES** | | | | |
| **Note 17: Trade and other Payables** | | | | |
| Trade creditors | 5,737,375 | 7,491,357 | 3,211,287 | 4,263,540 |
| Sundry creditors and accrued expenses | 2,875,496 | 2,266,464 | 478,772 | 549,390 |
| | 8,612,871 | 9,757,821 | 3,690,059 | 4,812,930 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 18: Financial Liabilities** | | | | |
| Bank loans – secured | 1,041,918 | 1,000,000 | 1,000,000 | 1,000,000 |
| Bank overdraft – secured | 699,023 | 854,655 | 435,210 | 652,167 |
| Other loans-unsecured | 4,580,378 | - | 4,580,378 | - |
| Lease liability | 190,687 | 201,461 | 190,687 | 201,461 |
| | 6,512,006 | 2,056,116 | 6,206,275 | 1,853,628 |
| 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. | | | | |
| **Note 19: Taxes** | | | | |
| **a) Liabilities** | | | | |
| **Current** | | | | |
| **Income Tax** | (295,187) | 100,520 | (93,705) | 454,011 |
| Non Current Deferred tax liability comprises: | | | | |
| Tax allowances relating to property, plant & equipment | 259,657 | 351,405 | 125,598 | 118,225 |
| Revaluation adjustments taken direct to equity | 1,824,765 | 1,168,652 | 1,824,765 | 1,168,652 |
| Other | 3,451 | 122 | 3,451 | 122 |
| | 2,087,873 | 1,520,179 | 1,953,814 | 1,286,999 |
| **b) Assets** | | | | |
| Deferred tax assets comprises: | | | | |
| Provisions | 659,604 | 691,649 | 633,654 | 658,624 |
| Future income tax benefits attributable to tax losses | 1,600,792 | 1,019,395 | - | - |
| Tax allowances relating to property, plant & equipment | (1,013,461) | (714,802) | - | - |
| Other | 71,667 | 71,873 | (30,314) | (30,109) |
| | 1,318,602 | 1,068,115 | 603,340 | 628,515 |
| **c) Reconciliations** | | | | |
| 1) Gross Movements | | | | |
| The overall movement in the deferred tax account is as follows: | | | | |
| Opening balance | (452,064) | (701,956) | (658,484) | (646,815) |
| (Charge)/Credit to income statement | 338,906 | 266,437 | (36,603) | (11,669) |
| Transfer to parent entity | - | - | 726 | - |
| (Charge)/credit to equity | (656,113) | (16,545) | (656,113) | - |
| Closing Balance | (769,271) | (452,064) | (1,350,474) | (658,484) |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | **2007 $** | **2006 $** | **2007 $** | **2006 $** |
| **Note 19 : Taxes (cont)** | | | | |
| **c) Reconciliations (cont)** | | | | |
| 11) Deferred Tax Liability | | | | |
| The movement in deferred tax liability for each temporary difference during the year is as follows: | | | | |
| Tax allowances relating to property, plant & equipment | | | | |
| Opening balance | 351,405 | 345,516 | 118,225 | 113,529 |
| Charged to income statement | (91,748) | (10,656) | 7,373 | 4,696 |
| (Charge)/credit to equity | - | 16,545 | - | - |
| Closing balance | 259,657 | 351,405 | 125,598 | 118,225 |
| Property revaluation adjustments taken direct to equity | | | | |
| Opening balance | 1,168,652 | 1,168,652 | 1,168,652 | 1,168,652 |
| Net revaluations during current period | 656,113 | - | 656,113 | - |
| Closing balance | 1,824,765 | 1,168,652 | 1,824,765 | 1,168,652 |
| Other | | | | |
| Opening balance | 122 | 22 | 122 | 22 |
| Charged to income statement | 3,329 | 100 | 3,329 | 100 |
| Closing balance | 3,451 | 122 | 3,451 | 122 |
| 111) Deferred Tax Assets | | | | |
| The movement in deferred tax asset for each temporary difference during the year is as follows: | | | | |
| Provisions | | | | |
| Opening balance | 691,649 | 697,926 | 658,624 | 664,605 |
| Charged to income statement | (32,045) | (6,277) | (24,970) | (5,981) |
| Closing balance | 659,604 | 691,649 | 633,654 | 658,624 |
| Income tax losses | | | | |
| Opening balance | 1,019,395 | 53,260 | - | - |
| Charged to income statement | 581,397 | 966,135 | - | - |
| Closing balance | 1,600,792 | 1,019,395 | - | - |
| Tax allowances relating to | | | | |
| Property plant & equipment | | | | |
| Opening balance | (714,802) | (11,717) | - | - |
| Charged to income statement | (298,659) | (703,085) | - | - |
| Closing balance | (1,013,461) | (714,802) | - | - |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 19 : Taxes (cont)** | | | | |
| **c) Reconciliations (cont)** | | | | |
| Other | | | | |
| Opening balance | (30,127) | (29,230) | (30,109) | (29,217) |
| Charged to income statement | (206) | (897) | (205) | (892) |
| Closing balance | (30,333) | (30,127) | (30,314) | (30,109) |
| d) Deferred tax assets not brought to account the benefits of which can only be realised in if the conditions for deductibility set out in note 1f) occur -tax losses | | | | |
| - Operating losses | 1,163,460 | 623,886 | - | - |
| | 1,163,460 | 623,886 | - | - |
| **Note 20: Short-term provisions** | | | | |
| Employee Benefits (see note 1h)) | | | | |
| Opening Balance 1 July 2006 | 1,590,734 | 1,512,728 | 1,541,333 | 1,470,790 |
| Additional provisions | 848,968 | 836,313 | 749,682 | 730,102 |
| Amounts used | (776,994) | (758,307) | (678,246) | (659,559) |
| Balance at 30 June 2007 | 1,662,708 | 1,590,734 | 1,612,769 | 1,541,333 |
| **NON-CURRENT LIABILITIES** | | | | |
| **Note 21: Trade and Other Payables** | | | | |
| Amounts payable to controlled entities | - | - | 3,026,151 | 3,025,554 |
| | - | - | 3,026,151 | 3,025,554 |
| **Note 22: Financial Liabilities** | | | | |
| Bank loans – secured | 27,321,748 | 28,583,607 | 23,687,500 | 24,250,000 |
| Lease liability | 227,228 | 265,767 | 227,228 | 265,767 |
| | 27,548,976 | 28,849,374 | 23,914,728 | 24,515,767 |
| **Note 23: Long-term provisions** | | | | |
| **Employee Benefits (see note 1h)** | | | | |
| Opening balance 1 July 2006 | 283,851 | 301,740 | 283,851 | 301,740 |
| Additional provisions | 10,509 | 51,469 | 10,509 | 51,469 |
| Amounts used | - | (69,358) | - | (69,358) |
| Balance at 30 June 2007 | 294,360 | 283,851 | 294,360 | 283,851 |
| a) Aggregate employee entitlement liability | 1,957,068 | 1,874,585 | 1,907,129 | 1,825,184 |
| b) Number of employees at year end | 526 | 591 | 133 | 165 |

| | Note No. | Consolidated Group 2007 $ | Consolidated Group 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| **Note 24: Issued Capital** | | | | | |
| 22,599,650 ordinary shares fully paid at beginning of the year (2006 22,599,650) | | 23,448,028 | 23,448,028 | 23,448,028 | 23,448,028 |
| On 8 December 2006 402,984 ordinary shares were issued at $2.61 each under the Waterco Limited Dividend Reinvestment Plan (DRP) | | 1,051,788 | - | 1,051,788 | - |
| Employee Share Plans | | (1,373,200) | (1,409,900) | (1,373,200) | (1,409,900) |
| 23,002,634 ordinary shares fully paid at the end of the year (2006 22,599,650) | | 23,126,616 | 22,038,128 | 23,126,616 | 22,038,128 |
| The company has authorised share capital amounting to 200,000,000 ordinary shares of 50 cents each. Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands. | | | | | |
| **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 | | (1,728,008) | (552,818) | | |
| The foreign currency translation reserve records exchange differences on translation of foreign controlled subsidiaries | | | | | |
| c) Asset revaluation reserve | | | | | |
| Balance at the beginning of the year | | 3,983,371 | 3,983,371 | 3,983,371 | 3,983,371 |
| Net revaluation increment/(decrement) on revaluation of land and buildings | | 1,530,931 | - | 1,530,931 | - |
| Balance at end of year | | 5,514,302 | 3,983,371 | 5,514,302 | 3,983,371 |
| The asset revaluation reserve records the revaluation of non current assets. | | | | | |
| | | 3,996,856 | 3,641,115 | 5,694,728 | 4,163,797 |
| **Note 26 : Retained Earnings** | | | | | |
| Opening retained earnings | | 11,872,746 | 11,520,965 | 4,305,952 | 2,613,551 |
| Net profit attributable to the members of the parent entity | | (2,613,664) | 4,193,722 | 267,202 | 5,534,342 |
| Dividends paid | 31 | 2,033,968 | 3,841,941 | 2,033,968 | 3,841,941 |
| Closing retained earnings | | 7,225,114 | 11,872,746 | 2,539,186 | 4,305,952 |

| | | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|---|
| | Note No. | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 27: Lease Commitments** | | | | | |
| **Finance leases** | | | | | |
| Lease expenditure contracted and provided for: | | | | | |
| not later than one year | | 214,891 | 229,376 | 214,891 | 229,376 |
| later than one year but not later than five years | | 243,943 | 284,770 | 243,943 | 284,770 |
| Total minimum lease commitments | | 458,834 | 514,146 | 458,834 | 514,146 |
| Future finance charges | | 40,919 | 46,918 | 40,919 | 46,918 |
| Lease liability | | 417,915 | 467,228 | 417,915 | 467,228 |
| Current portion | 18 | 190,687 | 201,461 | 190,687 | 201,461 |
| Non-current portion | 22 | 227,228 | 265,767 | 227,228 | 265,767 |
| | | 417,915 | 467,228 | 417,915 | 467,228 |
| Finance leases of 3 or 4 years are taken out on motor vehicles and forklifts, with an option to purchase the asset at the end of the lease term at a residual of 30% to 45% depending on the asset. | | | | | |
| **Operating lease payable:** | | | | | |
| Non-cancellable operating leases contracted but not capitalised in the financial statements | | | | | |
| not later than one year | | 2,123,145 | 1,859,520 | 1,736,697 | 1,486,907 |
| later than one year but not later than five years | | 4,050,919 | 5,244,477 | 3,262,985 | 4,070,096 |
| | | 6,174,064 | 7,103,997 | 4,999,682 | 5,557,003 |
| Operating leases ranging from 4 to 10 years (with options and an annual CPI increase and market appraisal at the end of the lease terms in the case of property leased) are taken out on the rental of offices, warehouses, motor vehicles and office equipment. | | | | | |
| **Note 28: Contingent Liabilities** | | | | | |
| Estimate of the maximum amount of contingent liabilities that may become payable | | | | | |
| (a) Guarantees of leases of premises subleased to franchisees | | 7,120,516 | 6,066,683 | 3,374,084 | 3,128,508 |
| | | 7,120,516 | 6,066,683 | 3,374,084 | 3,128,508 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **Note 29: Related Parties** | | | | |
| Transactions between related parties are on normal commercial terms and conditions unless otherwise stated. Related parties of Waterco Limited fall into the following categories. | | | | |
| (A) Transactions with director related parties | | | | |
| (i) Payments made to Goh Lai Huat and Sons Sdn Bhd for rental of warehouse and offices by Waterco (Far East) Sdn Bhd. Mr SS Goh, a director, has significant influence over Goh Lai Huat & Sons Sdn Bhd. | 217,148 | 378,699 | - | - |
| (ii) Sales made to Asiapools (M) Sdn Bhd. Mr S S Goh, a shareholder has significant influence over Asiapools (M) Sdn Bhd. | 255,489 | 281,334 | - | - |
| (iii) Commission paid to Asiapools (M) Sdn Bhd. Mr SS Goh, a shareholder has significant influence over Asiapools (M) Sdn Bhd. | - | 33,673 | - | - |
| (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. | 790,653 | 503,505 | 790,653 | 503,505 |
| (B) Loans to Directors<br>Loans provided to directors in relation to acquisition of shares under : | | | | |
| 1) Waterco Employee Share Plan.<br>This is an interest free loan and is payable within ten years of the share issue date. | | | | |
| 11) CEO Share Plan<br>This is an interest chargeable loan and is payable within five years of the share issue date (See Note 35) | | | | |
| Advanced | | | | |
| Mr S S Goh | 1,175,000 | 1,175,000 | 1,175,000 | 1,175,000 |
| Mr B I Leitch | 22,250 | 24,500 | 22,250 | 24,500 |
| | 1,197,250 | 1,199,500 | 1,197,250 | 1,199,500 |
| Opening Balance | 1,199,500 | 1,203,750 | 1,199,500 | 1,203,750 |
| Repaid | | | | |
| Mr S S Goh | - | - | - | - |
| Mr B I Leitch | 2,250 | 4,250 | 2,250 | 4,250 |
| | 2,250 | 4,250 | 2,250 | 4,250 |
| Closing Balance | 1,197,250 | 1,199,500 | 1,197,250 | 1,199,500 |

**NOTE 30:Segment Reporting**

**a) Business 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**

2007

| | AUSTRALIA | S.E.ASIA | NEW ZEALAND | NORTH AMERICA | OTHER | ELIMINATION | ECONOMIC ENTITY |
|---|---|---|---|---|---|---|---|
| | 2007 $ | 2007 $ | 2007 $ | 2007 $ | 2007 $ | 2007 $ | 2007 $ |
| REVENUE | | | | | | | |
| SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY | 52,813,353 | 4,030,884 | 5,533,261 | 10,929,202 | 7,924,587 | | 81,231,287 |
| INTERSEGMENT SALES | 1,762,045 | 10,078,821 | 35,098 | 3,474,870 | 3,153,613 | (18,504,447) | - |
| UNALLOCATED REVENUE | | | | | | | 902,998 |
| TOTAL REVENUE | 54,575,398 | 14,109,705 | 5,568,359 | 14,404,072 | 11,078,200 | (18,504,447) | 82,134,285 |
| SEGMENT RESULT | 2,100,661 | (427,541) | 82,818 | (2,618,660) | 445,755 | (538,210) | (955,177) |
| UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE | | | | | | | (902,998) |
| PROFIT/(LOSS) BEFORE INCOME TAX | | | | | | | (1,858,175) |
| INCOME TAX EXPENSE | | | | | | | (702,409) |
| PROFIT/(LOSS) AFTER INCOME TAX | | | | | | | (2,560,584) |
| SEGMENT ASSETS | 73,665,609 | 23,169,468 | 2,699,344 | 2,625,934 | 7,947,455 | (29,021,939) | 81,085,871 |
| SEGMENT LIABILITIES | 40,520,083 | 15,727,331 | 2,227,677 | 3,849,903 | 3,288,014 | (19,189,401) | 46,423,607 |
| DEPRECIATION & IMPAIRMENT | 873,748 | 130,041 | 121,947 | 311,799 | 251,026 | 132,900 | 1,821,461 |
| ACQUISITION OF NON CURRENT SEGMENT ASSETS | 533,091 | 3,113,263 | 122,248 | (75,465) | (223,414) | - | 3,469,723 |

2006

| | AUSTRALIA | S.E.ASIA | NEW ZEALAND | NORTH AMERICA | OTHER | ELIMINATION | ECONOMIC ENTITY |
|---|---|---|---|---|---|---|---|
| | 2006 $ | 2006 $ | 2006 $ | 2006 $ | 2006 $ | 2006 $ | 2006 $ |
| REVENUE | | | | | | | |
| SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY | 55,053,008 | 3,841,541 | 5,305,987 | 17,478,491 | 6,560,313 | | 88,239,340 |
| INTERSEGMENT SALES | 2,504,621 | 12,810,092 | 28,015 | 2,598,412 | 3,053,984 | (20,995,124) | - |
| UNALLOCATED REVENUE | | | | | | | 1,176,082 |
| TOTAL REVENUE | 57,557,629 | 16,651,633 | 5,334,002 | 20,076,903 | 9,614,297 | (20,995,124) | 89,415,422 |
| SEGMENT RESULT | 8,074,894 | 1,192,320 | (55,802) | (3,159,105) | 1,135,063 | (513,929) | 6,673,441 |
| UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE | | | | | | | (1,176,082) |
| PROFIT BEFORE INCOME TAX | | | | | | | 5,497,359 |
| INCOME TAX EXPENSE | | | | | | | (1,321,799) |
| PROFIT AFTER INCOME TAX | | | | | | | 4,175,560 |
| SEGMENT ASSETS | 69,985,260 | 23,594,488 | 3,295,207 | 6,486,309 | 7,870,608 | (29,248,245) | 81,983,627 |
| SEGMENT LIABILITIES | 37,697,808 | 15,085,143 | 2,856,768 | 5,235,731 | 2,831,752 | (19,548,607) | 44,158.595 |
| DEPRECIATION & IMPAIRMENT | 905,413 | 132,343 | 117,040 | 386,069 | 71,709 | 132,900 | 1,745,474 |
| ACQUISITION OF NON CURRENT SEGMENT ASSETS | 1,042,309 | 5,545,182 | 157,765 | 531,635 | 3,668,092 | - | 10,944,983 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **NOTE 30: Segment Reporting (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.

**Business Segments and Geographical Segments**

**Business Segments**
The economic entity has two business segments:
- Manufacturing division manufactures pool and spa equipment and chemicals as well as water treatment equipment.
- Distribution division wholesales a wide range of pool and spa equipment, chemicals and water treatment equipment and is a franchisor of pools shops.

**Geographical Segments**

The economic entity's business segments are located in Australia with the manufacturing and distribution divisions also having operations in Malaysia, China, United Kingdom, USA and Canada. The economic entity also has distribution divisions in New Zealand and Indonesia.

**Impairment Losses {See Note 4{a)}**

**NOTE 31: Dividends Paid or Proposed**

| | Consolidated Group 2007 $ | Consolidated Group 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| Final fully franked ordinary dividend of 9c per share (2006: 9c) franked at the tax rate of 30% paid | 2,033,968 | 2,033,969 | 2,033,968 | 2,033,969 |
| Interim fully franked ordinary dividend of nil cents per share (2006 8c) franked at the tax rate of 30% paid | - | 1,807,972 | - | 1,807,972 |
| | 2,033,968 | 3,841,941 | 2,033,968 | 3,841,941 |
| Proposed final fully franked ordinary dividend franked at the tax rate of 30% | 575,065 | 2,033,969 | 575,065 | 2,033,969 |
| 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. | 1,964,121 | 2,271,983 | 1,964,121 | 2,271,983 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **NOTE 32: Earnings Per Share** | | | | |
| a) Reconciliation of Earnings to Net Profit/(Loss) | | | | |
| Net Profit/(Loss) | (2,560,584) | 4,175,560 | | |
| Net profit/(Loss) attributable to outside equity interest | 53,080 | (18,162) | | |
| Earnings used in the calculation of basic EPS | (2,613,664) | 4,193,722 | | |
| Earnings used in the calculation of diluted EPS | (2,613,664) | 4,193,722 | | |
| a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | 22,825,983 | 22,599,650 | | |
| b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS | 22,825,983 | 22,599,650 | | |

**NOTE 33: Events Subsequent to Reporting Date**
Waterco Ltd has undertaken a Non Renounceable 1 for 4 Entitlement Issue in September 2007 to raise capital of $6.901m by issue of 5.751m shares at an issue price of $1.20 per share. The proceeds are to be used to repay existing loans and provide working capital. The gearing ratio will fall from 94.5% to 62.2% if we apply the proceeds to the balances at 30th June 2007.

On 25th August 2007, a fire occurred at our Malaysian Office resulting in extensive damage to the factory. In addition, most of the stock was destroyed and some damage to plant and equipment and tooling. With adequate disaster relief plans in place (including adequate insurance cover), the impact on Waterco Far East's (and the groups business) is not expected to be major.

There were no other reportable events subsequent to balance date.

**NOTE 34: 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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 % | 2006 % | 2007 $ | 2006 $ | 2007 $ | 2006 $ | 2007 $ | 2006 $ | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Financial Assets | | | | | | | | | | | | |
| Cash | 4.15 | 3.9 | 1,296,781 | 2,010,965 | | | | | | | 1,296,781 | 2,010,965 |
| Receivables | | | | | | | | | 12,873,819 | 13,172,526 | 12,873,819 | 13,172,526 |
| Total Financial Assets | | | 1,296,781 | 2,010,965 | | | | | 12,873,819 | 13,172,526 | 14,170,600 | 15,183,491 |
| Financial Liabilities | | | | | | | | | | | | |
| Bank overdraft | 9.61 | 9.0 | 699,023 | 854,655 | | | | | | | 699,023 | 854,655 |
| Bank loans | 7.36 | 6.58 | 28,363,666 | 29,583,607 | | | | | | | 28,363,666 | 29,583,607 |
| Other loans | 8.5 | - | 4,580,378 | - | | | | | | | 4,580,378 | - |
| Trade & sundry creditors | | | | | | | | | 8,612,871 | 9,757,821 | 8,612,871 | 9,757,821 |
| Lease Liabilities | 7.42 | 7.16 | | | 190,687 | 201,461 | 227,228 | 265,767 | | | 417,915 | 467,228 |
| Total Financial Liabilities | | | 33,643,067 | 30,438,262 | 190,687 | 201,461 | 227,228 | 265,767 | 8,612,871 | 9,757,821 | 42,673,853 | 40,663,311 |

**(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.

| | **2007** | | **2006** | |
|---|---|---|---|---|
| | **Carrying Amount $** | **Net Fair Value $** | **Carrying Amount $** | **Net Fair Value** $ |
| Financial Liabilities | | | | |
| Bank Overdraft | 699,023 | 706,013 | 854,655 | 863,202 |
| Bank Loans | 28,363,666 | 28,647,303 | 29,583,607 | 29,879,443 |
| Other Loans | 4,580,378 | 4,580,378 | - | - |
| Lease Liabilities | 417,915 | 438,811 | 467,228 | 490,589 |
| | 34,060,982 | 34,372,505 | 30,905,490 | 31,233,234 |

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 35 : 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 balance sheet as issued capital 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 $36,700 (2006: $99,320) 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 by way of salary sacrifice 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. Waterco contributes a matching $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 $37,453 (2006 $36,473) for the purchase of 17,558 (2006:11,019) shares under this plan

b) Exempt Employee Share Plan
Under this plan, employees are invited to salary sacrifice a minimum of $500 per annum to purchase shares. 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 $20,380(2006 $20,220) for the purchase of 9,515 (2006: 5,991) 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 29 June 2007 was $1.63 (30 June 2006 $2.40)

**4) CEO Share Plan**

Shareholder approval was given at the Annual General Meeting of the Company held on 20 October 2006 to offer 500,000 Plan Shares (see below) to the CEO as part of the LTI component of the CEO's total remuneration for the 2006/07 financial year using the criteria and performance hurdles as was used for the 2003/04 CEO Plan (see below).

This plan, originally set up in 2003 (and approved at the Annual General Meeting held on 17 November 2003) resulted in the issue of 500,000 shares at $2.35 to Mr S S Goh on 5 December 2003 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 have been satisfied:

1) Minimum Employment Period
Mr S S Goh 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.

11) 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 $45,000 (2006:$85,000) in interest was received on this loan.

The minimum EPS to be achieved at 30 June 2009 is 28.29 cents.

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **NOTE 36 Cash Flow Information** | | | | |
| a) Reconciliation of cash flows from operations with profit after income tax. | | | | |
| Profit after income tax | (2,560,584) | 4,175,560 | 267,202 | 5,534,342 |
| Non-cash flows in profit | | | | |
| Depreciation | 2,885,647 | 2,682,721 | 834,745 | 866,411 |
| Impairment/Amortisation | 182,959 | 183,173 | 37,047 | 37,046 |
| (Profit)/Loss on sale of non current assets | 16,952 | (45,923) | 2,853 | (44,259) |
| Changes in Assets and Liabilities:- | | | | |
| Trade debtors | (3,235) | 575,194 | 159,712 | 136,959 |
| Provision for doubtful debts | (100,007) | 97,830 | (150,000) | (50,000) |
| Other debtors | 401,949 | (894,924) | (3,132) | (33,578) |
| Inventories | 1,856,284 | (4,885,416) | (33,826) | 872,623 |
| Prepayments | 118,841 | (15,310) | 88,176 | (73,354) |
| Deferred tax assets | (250,487) | (255,881) | 25,175 | 6,873 |
| Expenditure carried forward | 16,097 | (191,834) | - | - |
| Trade creditors | (1,753,982) | 1,394,985 | (1,052,253) | 298,786 |
| Other creditors | 609,032 | (225,302) | (70,618) | (501,105) |
| Provision for employee benefits | 82,483 | 60,117 | 81,945 | 52,654 |
| Provision for tax | (395,707) | (954,916) | (547,716) | (362,808) |
| Provision for deferred tax | (88,419) | 5,989 | 10,702 | 4,796 |
| Cashflow – Non Operating Activities : | | | | |
| Dividends Received | (880) | (1,042) | (15,895) | (20,662) |
| Cash Flows provided by/ (used in) operations | 1,016,943 | 1,705,021 | (365,883) | 6,724,724 |
| b) During the financial year, nil (2006:one) parent entity owned and operated store was franchised: | | | | |
| Disposal price | - | 81,277 | - | 81,277 |
| Cash portion of that price | - | 81,277 | - | 81,277 |
| Net assets and liabilities disposed: | | | | |
| Inventory | - | 26,027 | - | 26,027 |
| Plant, equipment & intangibles | - | 55,250 | - | 55,250 |
| | - | 81,277 | - | 81,277 |

| | Consolidated Group | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **NOTE 36 Cash Flow Information (cont)** | | | | |
| c) Non Cash Financial and Investment activities | | | | |
| Property, Plant and Equipment During the year, the economic entity acquired plant and equipment with an aggregate fair value of $188,560 (2006:$241,470) by means of finance leases. This acquisition is not reflected in the statement of cash flows. | | | | |
| d) Financing Facilities | | | | |
| The following lines of credit were available at balance date: | | | | |
| Multiple Advance/Fully Drawn | | | | |
| Advance Facilities | 29,518,334 | 30,800,000 | 25,687,500 | 26,250,000 |
| Master lease facilities | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 |
| | 30,868,334 | 32,150,000 | 27,037,500 | 27,600,000 |
| Amount utilised | (28,002,482) | (28,894,241) | (25,505,520) | (26,351,608) |
| Amount unutilised | 2,865,852 | 3,255,759 | 1,531,980 | 1,248,392 |

The Multiple Advance Facility is due to expire on 31 July 2008. 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 37 Company Details**
The registered office of the company is:
Waterco Limited
36 South Street
Rydalmere NSW 2116

# Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 3 to 49, 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 2007 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
Chief Executive Officer

Dated at Sydney this 21st day of September 2007

Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +6 2 9233 8933 F +61 2 9233 8521

# Independent Auditor's Report

## To The Members of Waterco Limited

### Scope

*The financial report and directors' responsibility*

We have audited the accompanying financial report of Waterco Limited ('the company'), and Waterco Limited and Controlled Entities ('the consolidated entity'), which comprises the balance sheet at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(1) Messrs Beauman, Cowling and Catterall were partners of the former Bentleys MRI Sydney Partnership ABN 68 093 412 031 which was dissolved on 17 November 2006. They joined the Australian partnership of RSM Bird Cameron Partners with effect from 20 November 2006 and the audit has been performed using the resources of RSM Bird Cameron Partners.

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GPO Box 5138 Sydney NSW 2001
T +6 2 9233 8933 F +61 2 9233 8521

**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

**Audit opinion**

In our opinion, the financial report of Waterco Limited and Waterco Limited and Controlled Entities 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 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

| | | |
|---|---|---|
| W E Beauman (1) | G H Cowling (1) | R A Catterall (1) |
| Registered Company Auditor | Registered Company Auditor | Registered Company Auditor |

Sydney

Dated 21st September 2007

(1) Messrs Beauman, Cowling and Catterall were partners of the former Bentleys MRI Sydney Partnership ABN 68 093 412 031 which was dissolved on 17 November 2006. They joined the Australian partnership of RSM Bird Cameron Partners with effect from 20 November 2006 and the audit has been performed using the resources of RSM Bird Cameron Partners.

**(a) Distribution of Shareholders**

| Range | | | Ordinary Shares | Options |
|---|---|---|---|---|
| 1 | - | 1,000 | 363 | - |
| 1,001 | - | 5,000 | 374 | - |
| 5,001 | - | 10,000 | 130 | - |
| 10,001 | - | 100,000 | 151 | - |
| 100,001 | - | and over | 27 | - |
| | | | **1045** | - |

**(b) Marketable Parcel**

58 shareholders hold less than a marketable parcel.

**(c) Substantial Shareholders**

The following information is extracted from the company's register as at 19 September 2007

| Name | Number of Shares |
|---|---|
| S S Goh Group | 10,372,427 |
| Adam Smith Asset Management Pty Ltd | 1,262,073 |

**(d) Voting Rights**

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

**(e) Twenty Largest Shareholders**

The twenty largest shareholders hold 65.15% of the total shares issued.

| Name | Number of Shares | Percentage |
|---|---|---|
| GSS Holdings Pty Ltd | 8,348,681 | 36.29 |
| Mr Soon Sinn Goh | 1,592,704 | 6.92 |
| ANZ Nominees Limited (Cash Income A/C) | 933,686 | 4.06 |
| Mister Rain Pty Ltd | 517,242 | 2.25 |
| ANZ Nominees Limited (Income Reinvest Plan A/C) | 499,228 | 2.17 |
| Goh Lai Huat & Sons Sdn Bhd | 300,000 | 1.30 |
| Brazil Enterprises Pty Ltd | 295,173 | 1.28 |
| Mr Swee Kheong Goon | 290,000 | 1.26 |
| Mr Loke Weng Foo | 280,000 | 1.22 |
| Mint Holdings Pty Ltd | 206,897 | 0.90 |
| SG Corporation Pty Limited | 206,897 | 0.90 |
| Mr Bruce Leitch (Leitch Super A/C) | 201,290 | 0.88 |
| Jasforce Pty Ltd | 200,000 | 0.87 |
| CPU Share Plans Pty Limited (WAT DEF Control A/C) | 194,886 | 0.85 |
| Mr Khoon Ping Kuok | 173,000 | 0.75 |
| Miss Penelope Pringle | 163,000 | 0.71 |
| Drill Investments Pty Ltd (The Drill Family A/C) | 150,000 | 0.65 |
| Intrapac Distributors Pty Ltd (P & R Weinman Family A/C) | 150,000 | 0.65 |
| Deasil Trading Pty Ltd | 149,050 | 0.65 |
| GWK Corporation Pty Ltd | 134,483 | 0.58 |
| TOTAL | 14,986,217 | 65.15 |

**(f) Stock Exchange Listing**

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

# Corporate Directory

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

## SECRETARIES
Bee Hong Leo
Gerard Doumit

## REGISTERED OFFICE
36 South Street, Rydalmere NSW 2116
Tel: + 61 2 9898 8600
Fax: + 61 2 9898 1877
Website: www.waterco.com
E-mail: administration@waterco.com.au

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## SHARE REGISTRY
Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney, NSW 2000
Tel: 1300 85 05 05

## AUDITORS
Messrs WE Beauman, G H Cowling and R A Catterall
Level 12
60 Castlereagh st
Sydney, NSW 2000

## BANKER
HSBC Bank Australia Limited
HSBC Centre
580 George St
Sydney, NSW 2000

## OFFICES – OVERSEAS
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WATERCO

REGISTERED OFFICE

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