

**WATERCO LIMITED**

**Preliminary Final Report for the  
Financial Year Ended 30 June 2010**

**FOR ANNOUNCEMENT TO THE MARKET**

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## WATERCO LTD

### Summary of results FY ended 30 June 2010

Sales Revenue	\$70.9 million, down 1%
Net Profit After Tax	\$3.70 million, up 63%
EBIT	\$6.62 million, up 29%
<hr/>	
Total dividend payout	8c per share (full year)

## CEO REVIEW OF OPERATIONS

### REVENUE AND PROFITABILITY

The Group reported a Net Profit After Tax (NPAT) of \$3.70 million. This is an improvement of 60% on previous corresponding period (PCP). It resulted from steady trading in Australia and a significant reduction of losses in North America.

Earnings Before Interest and Tax (EBIT), before unrealised foreign exchange adjustments and goodwill impairment, for the year of \$6.62 million compares favourably with PCP of \$5.11 million.

“This is a good result for a difficult trading year, with current uncertainties globally, particularly in Europe and a mild recovery in the USA. While forecasts were met, results were hampered and would have been significantly better under normal trading conditions,” says Soon Sinn Goh, chief executive officer, Waterco Ltd.

The volatile Australian Dollar experienced during the year, coupled with similar volatility experienced in the US Dollar (USD) and the Euro, were challenges during the year, resulting in some foreign exchange losses experienced in Trade Receivables and Payables.

Sales revenue for the period was \$70.9 million (FY 09 \$71.6 million).

“The 1% reduction in revenue on PCP arose largely from foreign currency translations back into a strong Australian dollar and, to a lesser extent, poor trading conditions in Europe. While revenue was generally flat, margins were retained and strengthened in some areas from the elimination of products with poor profitability,” says Goh.

“We are positive that there will be more improvement ahead, particularly in North America,” he adds.

## DIVISIONAL PERFORMANCE

EBIT (net of interest received) by Division (before unrealised FX difference), goodwill impairment and intercompany dividends	FY 10	FY 09	% Change
Australia and New Zealand	6,463	4,548	+42%
South East Asia	612	1,619	-62%
North America	(740)	(1,742)	+58%
Others	282	688	-59%
EBIT	6,617	5,113	+29%

### AUSTRALIA AND NEW ZEALAND

This year saw a period of improved profitability, despite marginal growth in sales revenue. EBIT grew by 42%, from growth in sales revenue of 1%. The pleasing improvement in profitability reflected the success of the company's efforts in restructuring to meet ever-changing challenges and better foreign exchange management.

Sales revenue was sustained through successful launches of new products including multicoloured LED lights, air scour filters for commercial pools, Zane Gulf panels, our new range of Hydrotuf domestic pool pumps and our new range of heat pumps effective down to 0° Centigrade. Our new LED lights enable several lights in a pool to be synchronised such that they can change colours in unison. The Zane Gulf panel is an advanced rigid solar system with easier installation and improved heating effectiveness. These new products are the tangible results of the Group's focus on research and development.

Improvement in Working Capital Management resulted in lower inventory and debtor levels. The year also saw the division having had to fill the vacuum left by the sad passing of our Director of Sales and Marketing, Bruce Leitch in June 2010.

There were pleasing signs that the effect of the Global Financial Crisis on new pools built might have bottomed, with a marginal increase detected. The Commercial Water Treatment market continues to provide opportunities for growth for the Australian and New Zealand businesses.

#### Swimart

During the year, the number of Swimart franchises grew to 64, with the opening of three new stores. Retail sales of the stores grew 8% for the year, on top of 8% growth in the previous year. Average store turnover exceeded \$1m and both customer numbers and average value per transaction continued to increase. This is an encouraging development both for our franchisees and the company.

The 2009/10 Summer Season saw the franchisees and the company enjoy the success of "Madam Butterfly", Susie O'Neill a Gold Medal Olympic Swimmer in her role as Swimart's Ambassador, promoting Swimart through the television and print media. This association with Susie O'Neill continues for the 2010/11 season.

A number of existing stores were purchased by new franchisees. The refreshing changes contributed significantly to overall sales growth. New store design has provided a better shopping experience for customers.

### SOUTHEAST ASIA

The status of Waterco Far East as the principal manufacturing facility for pumps and filters for the Waterco Group has been further enhanced. Overall revenue improved by 11%. The rationalisation of global supply initiatives has contributed to the improved utilisation of available manufacturing capacity via the relocation of the manufacture of two major pump ranges and key high value products from Australia. Expansion in sub-assembly supplies to Waterco Canada has not only contributed to revenue growth but also overall production and cost efficiencies of the Group.

Sales in the local Malaysian market continued to expand, with a growth of 12.8% in revenue. The introduction of new and innovative products has allowed local sales to expand into new application sectors in industrial water treatment, pool heating and pond filtration. The recruitment of new Application Engineers to the team has provided customers with added technical support and allowed the sales team

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to confidently explore new application areas. We are confident that continued effort put into these potential sectors will provide the necessary revenue growth for local Malaysian sales.

While operating profitability improved as a result from the efficient utilisation of production capacities, net profitability declined. Waterco Far East was adversely affected by the weakening of the USD against the Ringgit ('RM') by 7% over the course of the financial year. Intercompany Waterco Group sales, which are denominated in USD, contributed a majority portion of Waterco Far East revenue. Intercompany trade receivables declined in RM value, corresponding with a foreign exchange loss of RM1.3 million.

Sales were steady in Singapore and Indonesia, but with a stronger Australian Dollar (AUD), this translated into a lower contribution from these entities.

## **NORTH AMERICA**

Waterco North America comprises the group's operations in USA and Canada.

The US market is the largest in the world and Waterco has made a substantial investment through its acquisition of Baker Hydro in March 2005. Our operations in Augusta, Georgia, manufacture larger filters and assemble commercial pumps. In Montreal, Canada, our entity manufactures and distributes heat pumps mainly into the swimming pool industry.

The EBIT loss of \$0.740m is a substantial improvement on PCP loss of \$1.74m. Our Canada operations made its first profit after 4 years of losses and our USA had substantially reduced their losses.

In the USA, Sales improved by 6%, with improved margins across much of the company's core product range. This was positive progress given the continuing recessionary state of the USA economy, particularly in the housing market. The National Sanitation Foundation (NSF) accreditation of our commercial filters was a contributing factor in improving sales into the water treatment and commercial pool industry in USA. Margins in this sector are more favourable than the depressed housing industry. During the year emphasis was placed on exploiting opportunities in the Water Treatment markets utilizing the many competitive technical advantages the company has identified. The results of this focus are expected to provide further growth in both sales and profitability for the following year.

Waterco Canada has concentrated during this year on converting our heat pump pool heaters line to the R-410A new refrigerant, as the R-22 refrigerant has been disallowed since 1 January 2010. We took this as an opportunity to improve products in terms of capacity and efficiency. In parallel, efforts have been made into product cost reduction and this has enabled us to pass on some of the savings to our customers. This was a timely edge, as the Canada market has become more competitive, with many new entrants from all around the world. Our manufacturing processes have improved by exploiting the synergy within the Waterco group, with Waterco Far East now manufacturing sub-assemblies. This has shortened the production cycle, as well as given us more flexibility in the features of our products. Quality control has also been improved, with more extensive testing with dedicated and innovative equipment, as well as pool and ambient conditions simulation. The synergy of Waterco Canada with the rest of the Group is evident through the wide range of heat pumps, which are in demand throughout the Group's entities, hence generating healthy revenues for the group.

## **OTHERS**

### **Waterco Europe**

Profitability dropped along with a decline in sales revenue as a result of tough market conditions in Europe. Pleasantly, our European operations managed to stay in profit. Market share continued to improve with new customers coming on board. The whole industry was reported to be in decline at an average of 30%. Sales revenue of Waterco Europe declined 11%, reflecting a significantly better outcome than the market in general.

Waterco Europe is responsible for the promotion and distribution of Waterco products throughout Europe and the Middle East. Waterco Europe have concentrated on forming strong, long-term business relationships with many of the leading swimming pool distributors within Europe by providing a high quality and diverse range of swimming pool product lines, along with high levels of customer service. In order to provide the extra levels of customer service and support, various internal product training sessions to all staff members were implemented and the sales team strengthened by the introduction of both internal and external multi-lingual sales staff.

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The European market in general was heavily affected by the global economic downturn which resulted in very difficult trading conditions within the European market, especially in the countries of Spain, Portugal and France which are some of the largest swimming pool markets in Europe. Despite this we saw a healthy increase in sales of the bobbin-wound commercial range of filters and associated product lines. That was the direct result of diversification into other water-related industries, such as water treatment, aquaculture and water recycling. This helped to compensate for the down-turn in the domestic pools market.

Various product enhancements and innovations were introduced to accommodate these new markets and have been very well accepted. A number of new products will also be introduced at the coming Lyon Pool show in November 2010. These include energy-efficient and water-saving products such as the MultiCyclone Plus range of filtration systems, the Gulf panel solar, glass media and heat pumps. This ensures a positive outlook for Waterco Europe heading into the new season.

Waterco Europe are looking at growth being generated not only through the existing swimming pool market but also in the water treatment and aquaculture markets where our products are becoming more familiar and are becoming recognized as high quality and efficient. We are also looking at new opportunities in France, one of the largest swimming pool markets in Europe, with the establishment of a sales outlet in order to have direct and daily contact with our customers that will no doubt help our European business grow.

### **Waterco China**

Waterco China has manufacturing facilities primarily focussed on manufacturing of filters for the European and the Australian markets. Manufacturing standards adopted were based on meeting customers' demand for quality in these markets. As a result, filters made by Waterco China, with the Waterco brand, have now been well accepted by the markets.

Our sales in China have grown noticeably with projects that were temporarily held back as a result of the global financial crisis coming back on stream. A limited range of commercial filters, made in Waterco China, were supplied into the local market. The short lead time was a major factor in securing these sales in the commercial sector.

## **PRODUCT DEVELOPMENT AND WATER TREATMENT**

The company continued to put resources into research and development, expanding further into high pressure filters suitable for water treatment. During the year, multiple large composite filters installed for pre-filtration of seawater for a desalination plant in Iraq were successfully commissioned with satisfactory results.

The MultiCyclone (MC) was well accepted in the water treatment sector in addition to those sold in the swimming pool industry. Combined MC with compact cartridge filters were developed during the year and will be launched in the new financial year. A smaller MC more suited for smaller pools and lower flow rates requirement for the water treatment industry are in the process of being launched.

Underwater lights with Light Emitting Diodes (LED) were introduced during the year successfully resulting in good increase in level of sales. A new version of solar heaters for swimming pool will be launched, cementing a strong commitment of the company to develop energy efficient products for worldwide use.

For the year, Waterco spent \$810,000 on research and development.

## **WORKING CAPITAL**

	JUNE 10 \$000	JUNE 09 \$000
Inventory	26,369	25,571
Debtors	9,115	11,122
Creditors	6,497	7,666
Working Capital	28,987	29,027

The group's working capital position as at June 2009 showed no material variance over the PCP.

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## **DIVIDEND AND OUTLOOK**

Results for the year are satisfactory in view of the continuing subdued trading conditions globally. The Board acknowledges that profitability has yet to return to normal. While losses in the USA have been reduced significantly, further improvements are needed to bring that division back to profitability. With our entry into the Water Treatment industry in the USA, we expect this improvement to take effect in the new financial year.

Net Profit After Tax was short of expectation, a result of continuing difficult trading conditions globally. Results however, were ahead of a guidance upgrade announced after the First Half Year results.

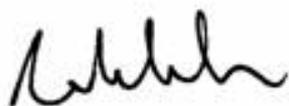
We are positive that there will be more improvement ahead, particularly in North America, and will declare a final dividend payment of 5 cents per share, payable to shareholders on 17 December 2010. This will bring a total dividend payout of 8 cents per share for the year, a satisfactory outcome in view of current difficult trading conditions globally.

The Board will provide a profit guidance at a later stage for the financial year ended 30 June 2011, as more information become available during the year.

## **TRIBUTE TO BRUCE LEITCH**

The Board would like to acknowledge the contribution of former Executive Director, Bruce Leitch, who passed away on 24 June 2010, after a twelve-month period of illness. Bruce had been associated with Waterco for 23 years. He was appointed to the Board in 1992. He contributed significantly to the growth of Waterco during this time and was instrumental in the growth of Swimart to its present position. He was also involved in international operations.

Bryan Goh has been appointed to fill this position.



**SOON SINN GOH**  
Chief Executive Officer  
Waterco Ltd

### **About Waterco Ltd – [www.waterco.com.au](http://www.waterco.com.au)**

Waterco (ASX: WAT) is an international manufacturer, marketer and distributor of water treatment products. Products include pumps and filtration systems, solar water heating, chemicals and swimming pool accessories for both domestic and commercial/industrial water treatment needs.

Waterco is the franchisor of the Swimart chain of retail swimming pool supply stores in Australia and New Zealand. Manufacturing/assembly plants are located in Malaysia, China, Canada, USA, UK and Australia.

### **For further information, please contact:**

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# WATERCO LIMITED

## Preliminary Final Report for the Financial Year Ended 30 June 2010

### SUMMARY OF RESULTS

\$A'000

<b>Revenues</b>	Down	1.2% to	71,473
<b>Profit (loss) after tax attributable to members</b>	Up	60.0% to	3,699
<b>Dividends</b>	Amount per security	Franked amount per security	
Final dividend	5¢	5¢	
Previous corresponding period	3¢	3¢	
Date for determining entitlements to the dividend	12 <sup>th</sup> November 2010		

### Statement of Comprehensive Income

	Current period - \$A'000	Previous corresponding period - \$A'000
Revenues	71,473	72,329
Expenses		
Goodwill (on acquisition) Impairment Losses	(5)	(18)
Finance costs	(1,308)	(1,584)
Other Expenses	(64,826)	(67,172)
<b>Profit (loss) before tax</b>	<b>5,334</b>	<b>3,555</b>
Income tax	1,623	1,277
<b>Profit (loss) after tax</b>	<b>3,711</b>	<b>2,278</b>
Net profit (loss) attributable to minority equity interests	12	(35)
<b>Net profit (loss) for the period attributable to members</b>	<b>3,699</b>	<b>2,313</b>
<b>Non-owner transaction changes in equity</b>		
Net exchange differences recognised in equity		
Other revenue, expense and initial adjustments recognised directly in equity	1,085	1,786
Total transactions and adjustments recognised directly in equity	1,085	1,786
<b>Total changes in equity not resulting from transactions with owners as owners</b>	<b>4,784</b>	<b>4,099</b>

<b>Earnings per security (EPS)</b>	Current period	Previous corresponding Period
Basic EPS	12.3c	8.0c
Diluted EPS	12.3c	8.0c

### Calculation of Earnings per security (EPS)

<b>Dividends</b>	Amount per security	Franked amount per security
Net Profit (\$000)	3,711	2,278
Net Profit/(Loss) attributable to minority equity interests (\$000)	12	(35)
Earnings used in calculation of basic EPS (\$000)	3,699	2,313
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	30,032,956	28,927,370

### Notes to the statement of comprehensive income

#### Profit (loss) attributable to members

	Current period - \$A'000	Previous corresponding period - \$A'000
Profit (loss) after tax	3,711	2,278
Less (plus) outside equity interests	12	(35)
<b>Profit (loss) after tax, attributable to members</b>	<b>3,699</b>	<b>2,313</b>

#### Revenue and Expenses - SEE ANNEXURE A

<b>Capitalised outlays</b>		
Interest costs capitalised in asset values	-	-
Outlays capitalised in intangibles (excluding those arising from acquisition of a business)	-	-

#### Operating Segments – SEE ANNEXURE A

## Movement in Retained Profits

	Current period - \$A'000	Previous corresponding period - \$A'000
Retained profits (accumulated losses) at the beginning of the financial period	9,008	8,125
Net profit (loss) attributable to members	3,699	2,313
Elimination of pre-acquisition profits/(losses) on deregistration of subsidiary	(11)	9
Adjustment relating to AASB 121	-	-
Dividends paid	1,797	1,439
<b>Retained profits (accumulated losses) at end of financial period</b>	<b>10,899</b>	<b>9,008</b>

## Intangibles – Impairment/Amortisation

	<i>Consolidated - current period</i>			
	Before tax \$A'000	Related tax \$A'000	Related outside +equity interests \$A'000	Amount (after tax) attributable to members \$A'000
	(a)	(b)	(c)	(d)
Impairment of goodwill	5	-	-	5
Amortisation of other intangibles	227	-	-	227
<b>Total Impairment/ amortisation of intangibles</b>	<b>232</b>	<b>-</b>	<b>-</b>	<b>232</b>

## Comparison of half year profits

	Current year - \$A'000	Previous year - \$A'000
Consolidated profit (loss) after tax attributable to members reported for the 1st half year	2,095	1,370
Consolidated profit (loss) after tax attributable to members for the 2nd half year	1,604	943

## Statement of Financial Position

	At end of current period \$A'000	As shown in last annual report \$A'000	As in last half yearly report \$A'000
<b>Current assets</b>			
Cash and cash equivalents	3,878	2,050	4,124
Trade and other receivables	9,115	11,122	13,945
Inventories	26,369	25,571	25,013
Other	591	665	734
<b>Total current assets</b>	<b>39,953</b>	<b>39,408</b>	<b>43,816</b>
<b>Non-current assets</b>			
Other property, plant and equipment (net)	37,850	33,187	29,289
Intangibles (net)	36	41	32
Deferred tax assets	647	594	586
Other	298	341	280
<b>Total non-current assets</b>	<b>38,831</b>	<b>34,163</b>	<b>30,187</b>
<b>Total assets</b>	<b>78,784</b>	<b>73,571</b>	<b>74,003</b>
<b>Current liabilities</b>			
Trade and other payables	6,497	7,666	12,022
Interest bearing liabilities	1,593	10,393	1,200
Current tax liabilities	287	288	793
Provisions exc. tax liabilities	1,534	1,701	1,738
<b>Total current liabilities</b>	<b>9,911</b>	<b>20,048</b>	<b>15,753</b>
<b>Non-current liabilities</b>			
Trade and other payables	-	-	-
Interest bearing liabilities	21,174	11,242	19,227
Deferred tax liabilities	1,010	1,439	741
Provisions exc. tax liabilities	253	211	205
<b>Total non-current liabilities</b>	<b>22,437</b>	<b>12,892</b>	<b>20,173</b>
<b>Total liabilities</b>	<b>32,348</b>	<b>32,940</b>	<b>35,926</b>
<b>Net assets</b>	<b>46,436</b>	<b>40,631</b>	<b>38,077</b>
<b>Equity</b>			
Issued Capital	33,867	30,986	31,324
Employee share loans	(117)	(149)	(141)
Reserves	1,531	446	(3,657)
Retained Earnings	10,899	9,008	10,199
<b>Parent entity Interest</b>	<b>46,180</b>	<b>40,291</b>	<b>37,725</b>
Minority equity interests in controlled entities	256	340	352
<b>Total equity</b>	<b>46,436</b>	<b>40,631</b>	<b>38,077</b>

## Statement of Cashflows

	Current period \$A'000	Previous corresponding period - \$A'000
<b>Cash flows related to operating activities</b>		
Receipts from customers	77,758	76,704
Payments to suppliers and employees	(69,209)	(69,949)
Interest and other items of similar nature received	30	44
Interest and other costs of finance paid	(1,308)	(1,584)
Income taxes paid	(1,504)	(1,198)
Other	561	583
<b>Net operating cash flows</b>	<b>6,328</b>	<b>4,600</b>
<b>Cash flows related to investing activities</b>		
Payment for purchases of property, plant and equipment	(6,571)	(6,214)
Proceeds from sale of property, plant and equipment	136	308
Proceeds from sale of business	-	205
Investments	(11)	9
Payment for intangibles	-	-
<b>Net investing cash flows</b>	<b>(6,446)</b>	<b>(5,692)</b>
<b>Cash flows related to financing activities</b>		
Proceeds from issues of shares	2,875	714
Proceeds from borrowings	674	-
Repayment of borrowings	-	(940)
Dividends paid	(1,888)	(1,439)
<b>Net financing cash flows</b>	<b>1,661</b>	<b>(1,665)</b>
<b>Net increase (decrease) in cash held</b>	<b>1,543</b>	<b>(2,757)</b>
Cash at beginning of period (see Reconciliation of cash)	1,881	1,984
Exchange rate adjustments.	81	2,654
<b>Cash at end of period</b> (see Reconciliation of cash)	<b>3,505</b>	<b>1,881</b>

### Non-cash financing and investing activities

During the year, the economic entity acquired plant and equipment with an aggregate fair value of \$286,345 (2009 - \$nil) by means of hire purchase. This financing activity is not reflected in the statement of cash flows.

### Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current period \$A'000	Previous corresponding period - \$A'000
Cash on hand and at bank	3,877	2,050
Bank overdraft	(372)	(169)
Other (provide details)	-	-
<b>Total cash at end of period</b>	<b>3,505</b>	<b>1,881</b>

## Other notes to the condensed financial statements

Ratios	Current period	Previous corresponding period
<b>Profit before tax / revenue</b> Consolidated profit (loss) before tax as a percentage of revenue	7.5%	4.9%
<b>Profit after tax /equity interests</b> Consolidated net profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	8.0%	5.7%

### NTA PER SHARE

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$1.43	\$1.36

### Final Dividend Declared

Date the dividend is payable

17 <sup>th</sup> December 2010
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Record date to determine entitlements to the dividend

12 <sup>th</sup> November 2010
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### Dividend per share

	Amount per security	Franked amount per security at % tax	Amount per security of foreign source dividend
<b>Final dividend:</b> Current year	5¢	5¢	¢
Previous year	3¢	3¢	¢

### Total dividend per share (interim *plus* final)

	Current year	Previous year
+Ordinary securities	8¢	5¢

### Dividend Plans in operation

#### Waterco Dividend Reinvestment Plan

- Shares to be issued at 7.5% discount to average market price of the dividend record date and the four prior trading days.

The last date for receipt of election notices for the dividend

12 <sup>th</sup> November 2010
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## Issued and quoted securities at end of current period

Category of securities	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
<b>Ordinary securities</b>	32,419,273	32,419,273		
Changes during current period				
(a) Increases through issues	392,108	392,108	\$0.86	\$0.86
	355,428	355,428	\$0.97	\$0.97
	1,911,208	1,911,208	\$1.15	\$1.15
(b) Decreases through returns of capital, buybacks				
<b>Options</b>			<i>Exercise price</i>	<i>Expiry date</i>
Directors and Senior Executives option plan	390,000	-		
Issued during current period	-	-		
Exercised during current period	-	-		
Expired during current period	108,000			

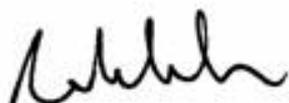
## Annual meeting

The annual meeting will be held as follows:

Place	36 SOUTH ST RYDALMERE NSW 2116
Date	12 <sup>th</sup> NOVEMBER 2010
Time	3PM
Approximate date the annual report will be available	5 <sup>th</sup> OCTOBER 2010

## Compliance statement

1. This report has been prepared in accordance with the Corporations Act 2001 including complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001
2. This report and the accounts upon which the report is based use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts which are in the process of being audited.
5. The entity has a formally constituted audit committee.



Soon Sinn Goh  
Chief Executive Officer

25<sup>th</sup> August 2010

Notes:

1. **Reconciliation of income tax *prima facie* payable on the profit before tax to income tax expense where prima facie tax payable differs by more than 15% from income tax expense.**
  2. **Rounding of figures:** Some of the information in this report have been rounded to the nearest \$1,000 (where stated).
  3. **Comparative figures:** When required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.
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## WATERCO LIMITED AND CONTROLLED ENTITIES

### PRELIMINARY FINAL REPORT 30 JUNE 2010

#### ANNEXURE A

#### REVENUE AND EXPENSES

	Consolidated Group	
	2010	2009
	\$	\$
Revenues	71,473,293	72,329,427
Changes in inventories of finished goods and work in progress	664,823	(1,740,463)
Raw materials and consumables used	(38,533,317)	(39,649,054)
Employee benefits expense	(11,678,129)	(12,204,725)
Depreciation and impairment expense	(1,577,197)	(1,436,628)
Finance costs	(1,307,933)	(1,583,798)
Advertising expense	(1,063,303)	(1,407,941)
Discounts allowed	(67,744)	(154,517)
Outward freight expense	(1,744,619)	(1,656,759)
Rent expense	(2,276,024)	(2,394,657)
Contracted staff expense	(348,341)	(528,343)
Unrealised foreign exchange gains/(losses)	-	-
Warranty expense	(598,973)	(685,910)
Commission expense	(438,597)	(476,571)
Other expenses	(7,169,660)	(4,854,834)
Profit /(loss) before income tax expense /(benefit)	5,334,279	3,555,227
Income tax expense/(benefit)	1,623,474	1,277,119
Profit/(loss) for the year	3,710,805	2,278,108
Profit/(loss) attributable to minority equity interest	11,997	(34,570)
Profit /(loss) attributable to members of the parent entity	3,698,808	2,312,678

## WATERCO LIMITED AND CONTROLLED ENTITIES

### PRELIMINARY FINAL REPORT 30 JUNE 2010 ANNEXURE A

#### Operating Segments

##### Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The group is managed primarily on the basis of location since the group's operations have similar different risk profiles and performance criteria. Operating segments are therefore determined on the same basis.

The group 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.

#### Geographical segments

##### 2010

	AUSTRALIA & NEW ZEALAND	S.E.ASIA	NORTH AMERICA	OTHER	ELIMINA- TION	CONSOLIDA- TED GROUP
	2010 \$	2010 \$	2010 \$	2010 \$	2010 \$	2010 \$
Revenue						
Sales to customers outside the economic entity	49,704,764	4,117,579	10,583,009	6,476,875	-	70,882,227
Intersegment sales	2,886,487	13,896,484	1,249,701	2,581,838	(20,614,510)	-
Unallocated revenue						591,066
Total revenue	52,591,251	18,014,063	11,832,710	9,058,713		71,473,293
Segment result	14,668,452	450,282	(687,424)	297,650	(8,803,615)	5,925,345
Unallocated expenses net of unallocated revenue						(591,066)
Profit/(loss) before tax						5,334,279
Income tax expense						(1,623,474)
Profit/(loss) after tax						3,710,805
Segment assets	75,911,112	34,126,895	(5,173,031)	9,287,793	(35,368,932)	78,783,837
Segment liabilities	29,282,825	28,113,239	2,958,184	3,116,201	(31,122,507)	32,347,942
Depreciation & impairment	1,412,636	248,423	528,198	91,940	(704,000)	1,577,197
Acquisition of non current segment assets	566,706	6,376,458	(19,255)	(161,789)	-	6,762,120

##### 2009

	AUSTRALIA & NEW ZEALAND	S.E.ASIA	NORTH AMERICA	OTHER	ELIMINA- TION	CONSOLIDA- TED GROUP
	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$	2009 \$
Revenue						
Sales to customers outside the economic entity	49,174,407	4,014,391	10,731,605	7,646,336	-	71,566,739
Intersegment sales	2,092,302	11,731,088	1,095,109	3,295,431	(18,213,930)	-
Unallocated revenue						762,688
Total revenue	51,266,709	15,745,479	11,826,714	10,941,767	(18,213,930)	72,329,427
Segment result	1,981,083	1,687,079	(1,709,261)	703,266	1,655,748	4,317,915
Unallocated expenses net of unallocated revenue						(762,688)
Profit/(loss) before tax						3,555,227
Income tax expense						(1,277,119)
Profit/(loss) after tax						2,278,108
Segment assets	69,598,639	24,412,188	(3,847,919)	10,509,514	(27,100,991)	73,571,431
Segment liabilities	29,179,988	15,463,880	3,665,939	4,193,245	(19,563,153)	32,939,899
Depreciation & impairment	5,394,204	226,791	312,724	102,909	(4,600,000)	1,436,628
Acquisition of non current segment assets	617,829	3,501,392	780,638	862,391	-	5,762,250