WATERCO

water, the liquid of life

annual report 2011

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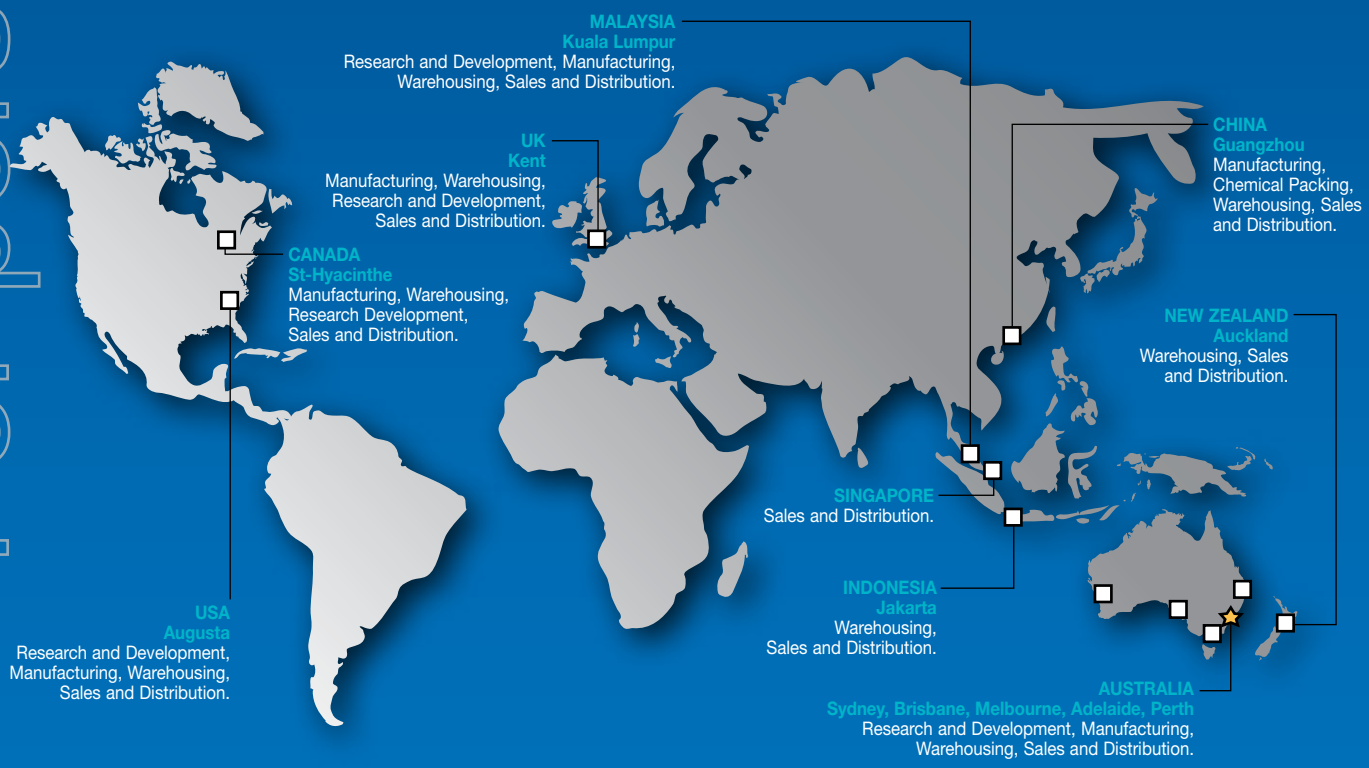

Company Profile

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

- Pool and spa equipment
- Pool and spa chemicals
- Domestic water filters, 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 research & development team has created an innovative range of award winning products. The company's advanced fibreglass winding and pioneering plastic moulding techniques have delivered premium quality products to over 40 countries.

Waterco's head office, located in Sydney, Australia.

SWIMART
POOL & SPA SERVICES

Swimart is Australia's premium pool and spa specialist group. With over 30 years' experience and 64 outlets across Australia and New Zealand, Swimart stores are owned and operated by individual franchisees. Swimart also operates a fleet of over 200 reliable mobile service vans, led by highly-trained and experienced technicians.

ZANE
Solar Pool Heating

Zane Solar Systems consists of a 34-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

In certain regions of Malaysia, residents experience water discolouration caused by rust from unlined galvanised 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

	2011	2010	2009	2008	2007
Operating revenue ($million)	68.20	71.47	72.32	77.63	81.93
Sales revenue ($million)	67.74	70.88	71.57	76.52	81.23
Earnings Before Interest and Tax (EBIT) ($million)	6.07	6.64	5.14	2.97	2.63
EBIT / Sales Revenue	9.0%	9.4%	7.2%	3.9%	3.2%
Profit/(Loss) before income tax ($million)	4.48	5.33	3.56	0.72	0.28
Net profit /(Loss) attributable to members of the Parent Entity ($million)	3.20	3.70	2.31	(0.66)	(0.48)
Total assets ($million)	72.50	78.78	73.57	71.20	81.09
Equity ($million)	40.11	46.44	40.63	37.27	34.66
Basic Earnings per share	9.8 cents	12.3 cents	8.0 cents	(2.4) cents	(2.1) cents
Dividend per share	9.0 cents	8.0 cents	5.0 cents	3.0 cents	2.0 cents
Net Tangible Assets per share	$1.21	$1.43	$1.36	$1.28	$1.40

Chief Executive Officer's Review of Operations

"The Group reported a Net Profit After Tax (NPAT) of $3.18 million..."

"...despite difficult trading conditions the performance of North America and Europe improved significantly on PCP."

REVENUE AND PROFITABILITY

The Group reported a Net Profit After Tax (NPAT) of $3.18 million, registering a decrease of 14% on the previous corresponding period (PCP). A significant contributory factor to this is the decrease in turnover, as a result of adverse weather events across Australia, including a major flood in Queensland. However, a significant improvement in North America and Europe has kept the decline in the Group's performance to a manageable level.

Earnings Before Interest and Tax (EBIT) of $6.04 million for the year (before foreign exchange adjustments on intercompany loans and goodwill impairment) compares marginally unfavourably with PCP of $6.62 million. In the wake of difficult trading conditions in Australia, caused by long periods of rain and the Queensland flood, this result is considered acceptable.

The Australian division forms a major portion of profitability for the Group. Its drop in turnover has also affected demand for supplies from the manufacturing divisions and, in turn, affected their profitability. Conversely, despite difficult trading conditions the performance of North America and Europe improved significantly on PCP.

Sales revenue for the period was $67.7 million (FY10 $70.9m). The 4% reduction arose largely from the reduction in Sales Revenue from the Australian division, as stated earlier.

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contributions (after consolidation adjustments for unrealised forex gains/losses on intercompany loans and intercompany dividends) by division is as follows:

	FY11 ($000)	FY10 ($000)	% Change
Australia and New Zealand	5,619	6,463	-13%
North America and Europe	211	(688)	+131%
Asia	214	842	-75%
Consolidated Reported EBIT	**6,044**	**6,617**	**-9%**

AUSTRALIA AND NEW ZEALAND

Australian and New Zealand operations, predominantly in the domestic swimming pool industry, form the majority of the Group's activities. As well as selling a wide range of products, including chemicals for swimming pool water treatment, Waterco, as franchisor of the Swimart chain of pool stores, has acquired an extremely good understanding of the factors driving consumer demand in the after-market. The franchise programme has been developed in-house since 1984, with the opening of our first company-owned pool shop in Sydney. Very soon thereafter, the Company converted this to the franchised Swimart Pool and Spa retail system.

In recent years, Waterco has been marketing more of the larger filters, which are suitable for public pools, aquaculture and industrial water treatment, thus strengthening its presence beyond the domestic swimming pool sector.

As previously mentioned, adverse weather conditions and widespread flooding which occurred at the peak of the trading season in Queensland, an important domestic-pool market, has been the main cause for the drop in EBIT of 13%, from a reduction in sales revenue of 8%.

Some successful new products, including a wider range of LED underwater lights, the MultiCyclone Plus (which is an integrated cartridge filter combined with Waterco's award-winning MultiCyclone system) and a robotic cleaner for domestic pools, enabled us to contain the impact on our results.

Swimart chain of pool stores
Australia's largest swimming pool and spa specialist group. With over 30 years' experience and over 64 outlets across Australia and New Zealand, Swimart is the trusted expert in pool care.

Glen Eira Aquatic Centre, Melbourne
Built by WJ Pratt Pty Ltd, the filtration system consisted of air scour filters which included Micron Air Scour Deep Bed Vertical Nozzle Plate filters (3 SPDD1200; 3 SPDD1600; and 3 SPDD2000), and Micron Air Scour Deep Bed Horizontal filters (4 MD5500, and 8 MD6500).

NORTHERN AMERICA AND EUROPE

Waterco North America and Europe comprises the Group's operations in the USA, Canada and the UK.

The US market is the largest in the world and **Waterco USA** has a 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 the United States, sales improved on PCP by 28% in local currency terms, with improvements mainly from the commercial water treatment market. The performance would have been better but for the persistent poor economic conditions. Waterco USA recorded a much lower loss this financial year compared with PCP and we expect a turnaround to profitability in the new financial year, built on continuing success in the water treatment industry.

Baker Hydro Filtrations Inc
Baker Hydro Filtrations Inc, was a United States manufacturer of filtration and water treatment products. Baker Hydro Filtrations has more than 50 years experience in filtration and water treatment, and is widely known throughout the United States and international swimming pool industries.

Waterco Canada (WCI) manufactures and distributes heat pumps mainly into the swimming pool industry. Drawing from a successful history spanning 20 years, including several years prior to WCI's acquisition in 2005, this restructured entity, with a new research and development laboratory and assistance from our research and development division in Sydney, has improved performance of its products in both quality and cost. This was instrumental in the improvement of profitability of WCI over the past two years. During the year, WCI celebrated the milestone of producing the 50,000th heat pump. The conversion to the new environmentally friendly refrigerant is now complete.

For this financial year, sales in WCI declined by 16% in local currency terms, as a result of the rationalisation of some low-margin sales. This has helped achieve an improvement in EBIT on PCP.

Waterco Europe (WEL), combining an entity set up in 2003 and the acquisition of Lacron in 2004, enjoys a continuous and successful history of almost 40 years in manufacturing fibreglass filters. The renown of the Lacron name for quality filters, coupled with progressive manufacturing techniques – which were introduced after the acquisition - has enabled WEL to bring to the market filters of quality at acceptable prices. As a result, both the Lacron and the Waterco brands are now well-recognised as quality products in Europe. This recognition continues, even after the manufacturing operations have been transferred to Malaysia and China, because the same high standards have been maintained.

Sales in WEL improved by 26% in local currency terms on PCP, with a corresponding improvement in EBIT. This record achievement by WEL is most pleasing and, given they have been achieved in extremely tough trading conditions, it provides optimism for this entity's future.

Together, the EBIT in the **Northern America and Europe Division** showed a promising profit of $211,000, a significant improvement on PCP's loss of $688,000.

Waterco Heat Pump pool heaters
Waterco continues to evolve and expand its heat pump pool heater line. The company's heat pumps have recently converted to Ozone friendly 410A refrigerant, which is not only kinder to the environment, but also improves the heat pump's performance.

Aquabiome bead filters have received world wide recognition
Designed for koi ponds and water gardens, Aquabiome provides mechanical and biological filtration in a compact all in one system. Released by Waterco Europe, 4 years ago, Aquabiome filters are now distributed worldwide in USA, Australia, Europe and throughout South East Asia.

ASIA

Waterco Far East in Malaysia (WFE) was borne out of Waterco's familiarity with the Southeast Asian market. WFE was initially a sales operation designed to service Waterco Australia's Southeast Asian customer base; however in 1991 WFE added manufacturing operations to its undertakings in Kuala Lumpur, Malaysia. As well as bringing the Group closer to its markets in Southeast Asia, this also gave it cost-efficiency in its manufacturing operations. Since then, WFE has become the principal manufacturing facility for pumps and filters for the Waterco Group. This year, WFE delivered several new products, notably, the LED Underwater Lights and MultiCyclone Plus, which helped the Australian business cushion the decline of the market in general.

Britestream LED underwater lights
Britestream LED Light utilises energy efficient super bright LEDs and operates on only 15 watts of energy.

During the year, local sales in Malaysia improved, while intercompany sales, mainly to Australia and New Zealand, saw a small reduction as a result of poor weather conditions in Australia.

Waterco in China commenced operations in 2000, delivering advantages of low operational costs and a foothold into the huge local market. Today, these operations manufacture filters primarily for the European and the Australian markets. High manufacturing standards have been maintained, further enhancing the acceptance of filters made by Waterco in China, with the Waterco brand, in these markets.

In China, sales continued to improve as local customers were willing to pay a premium for Waterco's products, compared with local ones, as a result of our better designed and manufactured products.

This year saw the decline of the US dollar against the Malaysian and the Chinese currencies. This decline resulted in foreign exchange losses in the two manufacturing centres in Asia, namely Malaysia and China. The receivables in these two centres were mainly in US dollars, which yielded less local currency. Foreign exchange losses totalled $569,000 and accounted for practically the entire decline in earnings of these two entities, compared with PCP.

Waterco International in Singapore (WI) focuses on sales in Asia other than Malaysia and China, where we have our own trading entities. WI also provides technical assistance to our Indonesian entity and has been able to contribute to the growth of the latter.

National Center for the Performing Arts, Beijing
Located in the center of Beijing, National Center for the Performing Arts covers an area of 217,500 square metres. 14 Micron SM2000 fibreglass filters and 12 Micron SM1400 fibreglass filters treat 50,000 cubic meters of water daily.

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. Another series of filters was installed in a smaller desalination plant in Russia. The acceptance of our filters for desalination is encouraging and opens a new market for Waterco.

The patent for MultiCyclone has been approved by European authorities and is now awaiting formalisation. This will further reinforce our marketing of this product globally, with expectations that approval for patents in other regions will be forthcoming.

Waterco embraces the growing trend towards energy conservation. To this end, during the year Waterco introduced a power-conserving pump to the market. In addition, Waterco has made available glass

MultiCyclone European patent
Waterco's award winning MultiCyclone is a brilliant pre-filtration device that works on the basis of centrifugal water filtration and is designed with no moving parts and no filter media to clean or replace.

The patent for MultiCyclone has been approved by European authorities and is now awaiting formalisation.

beads as filtration media, which, together with progressive design of the internal components (laterals), which guide water through the filter, enables users to conserve water during the filter cleaning or backwashing process. The new MultiCyclone Plus also conserves water through reducing the need for backwashing or cleaning of filter elements.

For environmental consciousness in product design, Waterco has won several awards, the most recent one being the Best Product Award at the British water leisure expo, Spatex.

EnviroPro - environmentally friendly pool equipment
A holistic solution, the EnviroPro range consists of a select number of Waterco's high quality, energy efficient and award-winning water saving swimming pool products.

DIVIDEND AND OUTLOOK

Results for the year, though short of expectation, are satisfactory, in view of the continuing subdued trading conditions globally and the adverse weather conditions in Australia. Nevertheless, it is recognised that profitability has yet to return to normal levels. Losses in the United States have been reduced significantly and a turnaround to profitability can be expected in the new financial year, with Waterco's successes in the water treatment industry during the current year.

Waterco is 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 9 December 2011. This will bring the total dividend payout to 9 cents per share for the year, a satisfactory outcome in the environment of poor global economic conditions.

The Board will provide a profit guidance at a later stage for the financial year ended 30 June 2012, as more information becomes available during the year.

MultiCyclone Plus wins SPATEX UK 2011 Best Product Award.

Waterco's MultiCyclone Plus all-in-one centrifugal pre-filtration and filtration system impressed judges with its water saving capabilities, its energy efficiency and streamlined sizing.

SPATEX is the only show dedicated to the combined water leisure sectors, providing a forum for thousands of new products to be showcased for the European summer season.

Board of Directors

SOON SINN GOH - FCPA
Chairman/CEO

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

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

BRYAN GOH - B ECON
Group Marketing Director

Mr. Goh was appointed to the Board on 2 June 2010.

He is the Group Marketing Director of Waterco. Mr. Goh has overall responsibility for business development in Australia and oversees the marketing activities of Waterco's overseas subsidiaries.

Mr. Goh was on the board of directors of The Swimming Pool & Spa Association of New South Wales Ltd (from February 2005 to February 2009), a non-profit organisation dedicated to maintaining and improving standards within the industry for the betterment of consumers, pool builders and suppliers.

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.

BEN HUNT - PHD (ANU)
Non-Executive Director

Dr. Hunt was appointed to the Board as a Non-Executive Director in June 1998. His most recent academic appointment was as 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. Although Dr Hunt has written extensively on Australian financial markets (he is the co-author of the text Australian Institutions and Markets, 6th Ed.), his knowledge extends to the South East Asian region. He is a regular presenter of financial seminars in Hong Kong and Singapore for UK publishing and training company Euromoney. He is the Chairman of the Remuneration Committee and a member of the Audit Committee.

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

RICHARD CHENG FAH LING - B COM, CA
Non-Executive Director

Mr. Ling was appointed to the Board as a Non-Executive Director on 8 May 2009.

He holds a Bachelor of Commerce degree from the University of Newcastle, Australia. He is a member of the Institute of Chartered Accountants in Australia and the Malaysia Institute of Accountants. He worked in companies based in Australia as Financial Controller, Company Secretary and Senior Manager from 1980 to 1989. In 1992, Mr. Ling was appointed Group General Manager of Tiong Nam Logistics Holdings Berhad, a public company listed on the Main Board of Bursa Malaysia (Malaysian Stock Exchange). The company has operations in Malaysia, Singapore and Thailand. In 2001, Mr. Ling joined the Board of Tiong Nam Logistics Holdings Berhad as Executive Director, and is a member of the Audit Committee. Mr. Ling has a good understanding of corporate finance, with experience in raising funds for companies in Australia and has sought funds via the capital markets in Asia, for Tiong Nam Logistics Holdings Berhad.

Mr. Ling is a member of the Audit Committee and a member of the Remuneration Committee.

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

Statement of Corporate Governance Practices

This statement sets out the corporate governance practices that the Company had in place during the financial year ended 30 June 2011.

In compliance with ASX Listing Rule 4.10, this statement:

- discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX 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 Key Management Personnel's strategy implementation and performance;
- ensuring that the necessary resources are available to allow effective strategy implementation by Key Management Personnel;
- the appointment, evaluation and removal of the CEO and where appropriate, ratifying the appointment and removal of Key Management Personnel;
- 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;
- reviewing, ratifying and monitoring systems of internal controls, risk management and legal compliance; and
- approving and supervising significant capital expenditure, capital management and acquisitions and divestments.

Some responsibilities and authorities have been delegated to Key Management Personnel for the purposes of operating the Company's day to day activities.

In accordance with the ASX 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.

Performance of Key Management Personnel

The Board is committed to an ongoing internal process of performance evaluation of Key Management Personnel to ensure the diligent and effective discharge of their responsibilities. Key Management Personnel participate in an annual individual evaluation.

The overall performance of the Key Management Personnel's interaction with the Board is also reviewed in accordance with the Board and Key Management Personnel's Performance Evaluation Policy.

Individual performance evaluations for Key Management Personnel took place in the reporting period. An evaluation of the overall performance of the Key Management Personnel's interaction with the Board was concluded in June 2011.

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. In particular the Board has identified the importance of skills and experience in corporate finance, international trade, marketing, accounting, the water treatment and pool industries, and international business environments. Although currently all male, the Board composition represents diversity in age, ethnicity and background. 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's preferred position is that it will comprise at least five directors at any time, and will maintain a majority of Non-Executive (and, where possible, independent) Directors.

Directors

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

- Soon Sinn Goh
- Bryan Goh
- Garry Norman
- Ben Hunt
- Richard Ling

The details of the Directors' skills, experience and expertise, along with the period for which they have held office 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 Richard Ling - are independent directors, taking into account the factors relevant to "independence" under the ASX guidelines.

The Company's materiality threshold for assessing the materiality of Directors' other relationships with the Company is considered 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 reasonably likely to interfere with that Director's independent judgement.

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. S S Goh. The Board believes that Mr. Goh brings a vital level of experience in relation to the industry and the operations of the Company itself to both of these roles. Also, as the major shareholder of the Company, Mr. Goh's commitment to the success of the Company 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 the majority of the Board's 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 Recommendations acknowledge that such committees may not be required for smaller boards. 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 and the Board has processes in place which raise the issues that would otherwise be considered by the Nomination Committee.

Performance of the Board

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

A performance evaluation for the Board, its Committees and individual Directors was undertaken in June 2011 in accordance with the Board and Key Management Personnel Performance Evaluation Policy.

PRINCIPLE 3
PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

A Code of Conduct for Directors, Key Management Personnel and Employees that addresses the issues referred to in the ASX guidelines is published on the Company's website.

In addition to the Code of Conduct:

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

The Company has a policy concerning trading in Company securities by Directors, Key Management Personnel and employees, entitled "Securities Trading Policy" which was lodged with ASX in December 2010 in accordance with Listing Rule 12.10 and is published on the Company's website.

PRINCIPLE 4
SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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 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
- Ben Hunt
- Richard Ling

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 Key Management Personnel 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 Key Management Personnel 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 Key Management Personnel 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.

All disclosures made to the ASX and all information provided to analysts or the media during briefings are promptly posted on the Company's website after they have been released to the ASX.

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 Company's Risk Management Policy is summarised and published on the Company's website as "Summary of Risk Management Policy."

Management are required to design and implement the risk management and internal control system to manage the Company's material business risks. The Audit Committee is responsible for overseeing the effectiveness of the Company's risk management systems.

The Committee has appointed the Head of the Group Corporate Advisory and Assurance Department as the Risk Manager. A Risk Register is maintained. Risks identified and actions taken are reported to the Committee every quarter.

The Chief Executive Officer and Chief Financial Officer advised the Board in writing that they were satisfied that:

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

PRINCIPLE 8
REMUNERATE FAIRLY AND RESPONSIBLY

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 Key Management Personnel. The Remuneration Committee Charter is published on the Company's website.

Remuneration Committee Composition

Throughout the last financial year (and to the date of this report), the Remuneration Committee consisted of three independent Non-Executive 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:

- Ben Hunt – Chairman
- Garry Norman
- Richard Ling

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

The Remuneration Report sets out:

- Information about the Remuneration Policy developed by the Remuneration Committee and adopted by the Board, and
- details of remuneration of the Directors, Key Management Personnel and the Group's five highest paid executives (including options issued to Key Management Personnel).

Remuneration of Directors -v- Non-Executive Directors

In line with the ASX Recommendations, remuneration of the Company's Non-Executive Directors operates on different principles to the remuneration of Executive Directors. No equity-based remuneration or other performance-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 receive fixed fees, and are not entitled to any retirement benefits other than statutory superannuation.

Directors' Report

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2011.

Directors

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

- Soon Sinn Goh
- Bryan Goh
- Garry Norman
- Ben Hunt
- Richard Ling

All 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 and legal divisions.

Gerard Doumit CPA
Mr Doumit was appointed Joint Company Secretary on 22 July 1991. He has been employed by Waterco since January 1987 as an Accountant and is currently Chief Accountant and Joint Company Secretary.

Principal Activities

The principal activities of the consolidated group 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 independent pool stores and stores in its Swimart franchise network.

There were no significant changes in the nature of the consolidated group's principal activities during the financial year.

Consolidated Results

The consolidated profit of the group after providing for income tax and eliminating non controlling interests amounted to $3,204,339.

Dividends

Dividends paid or declared for payment are as follows:

- Final ordinary dividend of 5 cents per share paid on 17 December 2010 as recommended in last year's report - $1,620,964
- Interim ordinary dividend of 4 cents per share paid on 3 June 2011 - $1,314,761.
- Final ordinary dividend of 5 cents per share declared by the directors to be paid on 16 December 2011 - $1,662,164.

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 consolidated group during the financial year and of the results of those operations together with likely developments in the operations of the consolidated group 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 consolidated group have decreased by $6.3 million from $46.4 million in June 2010 to $40.1 million in June 2011.

The change has largely resulted from:

- Increase in the share capital from the Waterco Dividend Reinvestment Plan of $1.0 million;
- Downward movement in foreign currency translation of $7.1 million;
- Movement in profits/(losses) (less dividends) of $0.3 million; and
- Net decrease in the asset revaluation reserve of group companies (due to changes in foreign exchange rates) $0.4 million

The group's working capital being current assets less current liabilities fell from $30.0 million in 2010 to $25.2 million in 2011.

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 consolidated group that occurred during the financial year which have not been covered elsewhere in this report.

After Balance Date Events

Since the end of the reporting period, the Board resolved to pay a final dividend of 5 cents per share fully franked.

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 consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Future Developments, Prospects and Business Strategies

Information as to future developments, prospects and business strategies in the operations of the consolidated group 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 consolidated group.

Environmental Issues

The consolidated group's operations are subject to some environmental regulations, particularly with regard to the storage of chemicals and waste management. The consolidated group 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.

Directors' Shareholdings

Details of the directors' shareholdings are contained in Note 7 to the Financial Statements.

Meetings of Directors

During the financial year, 13 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	4	4	-	-	-	-
Bryan Goh	4	4	-	-	-	-
Garry Norman	4	4	6	6	3	3
Ben Hunt	4	4	6	6	3	3
Richard Ling	4	4	6	6	3	3

Indemnifying Officers or Auditor

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 an officer or auditor of the company or any related body corporate against a liability incurred by such an officer or auditor.

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

ii. Payments made for rental of warehouses & 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 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

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid to the external auditors for non-audit services during the year ended 30 June 2011:

- Audit of the Swimart Advertising Fund - $2,750

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and is included in the directors' report.

Remuneration Report

Introduction

This report provides remuneration policy and payment details applying in the financial year for persons who were members of Key Management Personnel of the consolidated Group and for any other employees who were among the five highest-paid Group or Company Executives.

2011 Remuneration Policy

The Board Remuneration Committee governs the Company's Remuneration Policy. The Committee is comprised of independent Non-Executive Directors.

The policy has remained unchanged since 2008. It has the following objectives:

- attract, retain and motivate management of the appropriate calibre to further the success of the business;
- align management reward with shareholder value over both the short and long term;
- ensure that total remuneration is reasonable and comparable with market standards;
- ensure that remuneration should realistically reflect the responsibilities of the executives;
- ensure that incentive schemes reward superior company performance and be clearly linked to appropriate performance benchmarks based on improved company performance; and
- ensure that the remuneration costs are disclosed in accordance with the requirements of law and relevant accounting standards.

The remuneration structure for Key Management Personnel of the Waterco Group comprises:

- Fixed remuneration. This consists of base salary and the full costs of other benefits;
- Incentive pay. The level varies with performance. It consists of an annual incentive plan.

The Remuneration Committee reviews market data and the performance of the CEO. The Committee then recommends the fixed remuneration and annual incentive payment of the CEO for approval by the Board.

The CEO recommends Key Management Personnel's fixed remuneration to the Board Remuneration Committee. Fixed remuneration for Key Management Personnel is reviewed annually and determined by reference to appropriate benchmark information of comparable companies, taking into account their responsibility, performance, qualifications, experience and potential. Adjustments are made only if there is the prospect of fixed remuneration levels falling behind market levels.

The remuneration of Non-Executive Directors is fixed. They do not participate in any incentive plans available to managers. 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.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

The Board approved an increase in base Non-Executive Director fees to an aggregate of $149,305 plus 9% superannuation for the 2011/12 financial year. This is within the maximum aggregate amount for Non-Executive Directors last approved at an Annual General Meeting.

The Remuneration Committee seeks independent external advice when required.

Performance–based Remuneration policy, and its relationship with Company performance

There is an annual incentive plan in place for all Key Management Personnel. This is a payment that varies with performance measured over a 12 month period.

There have been no changes in performance based remuneration policy compared with the prior reporting period.

Maximum payments are capped.

In the case of the CEO, the Remuneration Committee sets the performance requirements; in the case of other Key Management Personnel, the CEO recommends performance requirements for consideration by the Remuneration Committee.

The annual incentive performance criteria relate to the employee's responsibilities. If requirements are achieved, there will be an improvement in shareholder value.

The key performance requirements for an incentive payment are Net Profit before Tax (NPBT), Earnings before Interest and Tax (EBIT), and sales growth.

This provides a clear alignment between the interests of shareholders and the level of reward for eligible employees.

Performance criteria are tabulated below:

Group Key Management Personnel with annual incentives	Summary of Performance Condition FY 11	Why Chosen
Soon Sinn Goh – CEO	Budgeted NPBT for the Waterco Group.	Encourage CEO to improve the performance levels of the Group as a whole and thereby to increase shareholder wealth.
David Marginson – COO (Terminated 3 March 2011)	Sales targets and EBIT targets.	Encourage COO to improve the performance levels of operations for which he is responsible (Australia and New Zealand) and thereby contribute to increased shareholder wealth.
Anthony Fisher – Managing Director, Waterco (Europe) Ltd	EBIT/Sales ratios and improvement over the previous year's sales figures.	Encourage the Managing Director to improve the performance levels of those operations for which he is responsible (Europe).
Other Key Management Personnel	Budgeted NPBT for the Waterco Group.	The performance of other key management personnel can have a global impact, so targets are based on Group performance.
Other Executives		
Chris Fitzmaurice - National Franchise Manager	Store retail sales growth and new franchised shops opened in the financial year.	Encourage National Franchise Manager to improve the performance levels of the Swimart Franchise operations for which he is responsible (Australia and New Zealand).

The satisfaction of the performance conditions of the annual incentive is based on a review of the audited financial statements of the Group.

If the Company's or Group's performance, as a whole, or by division or branch, does not reach the relevant target levels then no annual incentive payments are made.

All of the Company's Key Management Personnel, other than the Managing Director of Waterco (Europe) Ltd did not achieve their performance targets in FY 2011. Therefore they will not receive an annual incentive payment for the financial year just ended. The Managing Director of Waterco (Europe) Ltd will receive £10,000 (A$15,901) for partial satisfaction of incentive targets for FY 2011. The National Franchise Manager, who is among the five highest-paid company executives will receive $1,500 for partial satisfaction of incentive targets for FY 2011.

The following table shows the Sales Revenue, Net Profit before Tax (NPBT), Earnings per Share (EPS), dividends and year end share price in the financial year just ended and the previous four financial years for the consolidated group.

Year ended	June 11	June 10	June 09	June 08	June 07
Sales Revenue ($million)	67.74	70.88	71.57	76.52	81.23
NPBT ($million)	4.48	5.33	3.56	0.72	0.28
EPS (cents)	9.8	12.3	8.0	(2.4)	(2.1)
Dividends per share (cents)	9.0	8.0	5.0	3.0	2.0
Year end share price ($)	1.06	1.02	0.65	0.61	1.63

Employment Details of Members of Key Management Personnel and other Executives

The following table provides employment details for the financial year for persons who were members of Key Management Personnel of the consolidated Group and for any other employees who were among the five highest-paid Group or Company Executives. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

			Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
	Position held as at 30 June 2011 and any change during the year	Contract details (duration & termination)	Non-salary cash-based incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/ Fees %	Total %
Group Key Management Personnel							
S S Goh	Chairman & CEO	No fixed term; may be terminated on 6 months' notice by either party	-	-	-	100	100
B Goh	Group Marketing Director - Executive	No fixed term; may be terminated on 1 month's notice by either party	-	-	-	100	100
G Norman	Director - Non-Executive	No formal contract, but subject to member confirmation every 3 years after AGM when first appointed	-	-	-	100	100
B Hunt	Director - Non-Executive	No formal contract, but subject to member confirmation every 3 years after AGM when first appointed	-	-	-	100	100
R Ling	Director - Non-Executive	No fixed term, but subject to member confirmation every 3 years after AGM when first appointed.	-	-	-	100	100
D Marginson (terminated 3 March 2011)	Chief Operating Officer – Australia and New Zealand	No fixed term; may be terminated on 1 month's notice by either party. Where Company initiates termination, termination of 6 months' pay must be paid Terminated 3 March 2011	-	-	-	100	100

			Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
	Position held as at 30 June 2011 and any change during the year	Contract details (duration & termination)	Non-salary cash-based incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/ Fees %	Total %
Group Key Management Personnel							
A Fisher	Managing Director – Waterco (Europe) Ltd	No fixed term; may be terminated on 3 months' notice by either party	9	-	-	91	100
S T Lim	Chief Financial Officer	No fixed term; may be terminated on 1 month's notice by either party	-	-	2	98	100
B H Leo	Joint Company Secretary	No fixed term; may be terminated on 1 month's notice by either party	-	-	-	100	100
G Doumit	Chief Accountant/ Joint Company Secretary	No written contract	-	-	-	100	100
Other Executives							
C Fitzmaurice	National Franchise Manager	No fixed term; may be terminated on 1 month's notice by either party	1	-	-	99	100

Changes in Directors and Executives Subsequent to Year-end

There have been no changes in Directors and Key Management Personnel subsequent to year-end.

Remuneration Details for the Year Ended 30 June 2011

The following table provides remuneration details for the 2011 and 2010 financial years for persons who were members of Key Management Personnel of the consolidated Group and for any other employees who were among the five highest-paid Group or Company Executives.

		Short-term benefits			Post-employment benefits	Long-term benefits		Equity-settled share-based payments			
		Salary, fees and leave $	Profit share and bonus $	Non-monetary $	Pension and super-annuation $	Incentive plans (4) $	LSL $	Share/ Units $	Option/ Rights $	Termina-tion benefits $	Total $
Group Key Management Personnel											
S S Goh(1)	2011	332,587	-	-	13,913	-	-	-	-	-	346,500
	2010	398,478	50,000	-	9,083	-	-	-	-	-	457,561
B Leitch	2011	-	-	-	-	-	-	-	-	-	-
	2010	164,352	-	1,150	13,905	2,020	86,182	-		74,722	342,331
B Goh	2011	169,175	-	-	15,025	-	-	-	-	-	184,200
	2010	131,664	6,932	-	11,707	-	-	-	-	-	150,303
G Norman	2011	47,739	-	-	4,297	-	-	-	-	-	52,036
	2010	45,822	-	-	4,124	-	-	-	-	-	49,946
B Hunt	2011	47,739	-	-	4,297	-	-	-	-	-	52,036
	2010	45,822	-	-	4,124	-	-	-	-	-	49,946
R Ling	2011	47,739	-	-	4,297	-	-	-	-	-	52,036
	2010	45,822	-	-	4,124	-	-	-	-	-	49,946
D Marginson (2)	2011	212,311	-	-	11,399	-	-	-	-	214,235	437,945
	2010	291,213	28,000	-	14,461	-	-	-	17,844	-	351,518
S T Lim	2011	185,602	-	-	15,199	1,992	-	-	4,036	-	206,829
	2010	177,212	8,902	-	14,461	1,942	-	-	4,036	-	206,553
B H Leo	2011	154,478	-	-	14,110	1,707	-	-	-	-	170,295
	2010	148,102	5,779	-	13,053	1,664	-	-	-	-	168,598
A Fisher	2011	130,117	15,901	25,665	5,424	-	-	-	-	-	177,107
	2010	134,275	11,925	40,487		-	-	-	-	-	186,687
G Doumit	2011	137,966	-	14,336	12,396	1,707	-	-	-	-	166,405
	2010	129,120	5,732	17,013	11,405	1,664	-	-	-	-	164,934
M Soucy(3)	2011	-	-	-	-	-	-	-	-	-	-
	2010	19,480	-	14,445	-	-	-	-	-	-	33,925
Other Executives											
C Fitztmaurice	2011	165,900	1,500	-	13,536	-	-	-	-	-	180,756
	2010	153,962	1,500	-	12,899	-	-	-	-	-	168,361

(1) S S Goh's Base Salary of $332,587 is made up of $104,587 paid by Waterco Ltd, $78,000 paid by Waterco (Far East) Sdn Bhd (a subsidiary) and $150,000 paid by Waterco International Pte Ltd (a subsidiary).

(2) D Marginson was terminated on 3 March 2011 – his benefits have been calculated up to this date

(3) M Soucy resigned as CEO of Waterco USA Inc on 15 July 2009 – his benefits have been calculated up to this date.

(4) These represent the benefits from the Legacy Non-recourse Loan Employee Share Plan.

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

Bonuses relating to the 2010 financial year performance (and paid in 2011 year) have now been shown in the 2010 year while those bonuses related to the 2011 financial year performance (and payable in 2012 year) have been shown in the 2011 year. This represents a change from previous practice to comply with AASB119. Previously, the bonus was recognised in the year it was paid.

Securities Received that are not Performance Related

No members of Key Management Personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

Cash incentives, Performance-related Bonus and Share-based Payments

No options or other share based payments were granted in the 2011 financial year.

Maximum cash incentives expressed as a percentage of fixed remuneration and the maximum value that could have been earned in 2010/2011 if stretch performance targets were achieved are tabulated below:

Position	Maximum possible incentive as a percentage of fixed pay	Maximum possible incentive $
Key Management Personnel		
CEO, Waterco Limited	28%	$100,000
Group Marketing Director, Waterco Limited	16%	$30,000
CFO, Waterco Limited	15%	$30,000
Company Secretary, Waterco Limited	11%	$18,000
Chief Accountant/Joint Company Secretary, Waterco Limited	11%	$18,000
Managing Director, Waterco (Europe) Ltd	44%	$71,555
Other Executives		
National Franchise Manager, Waterco Limited	17%	$30,000

The percentage of cash incentives paid and forfeited during the year to persons who were members of key management personnel of the consolidated Group and for any other employees who were among the five highest-paid Group or Company Executives:

Group Key Management Personnel	Short term incentive in respect of 2011 financial year	
	Paid %	Forfeited %
Mr S S Goh	0	100
Mr B Goh	0	100
Mr D Marginson (terminated 3 March 2011)	0	100
Mr S T Lim	0	100
Mrs B H Leo	0	100
Mr A Fisher	22	78
Mr G Doumit	0	100
Other Executives		
Mr C Fitzmaurice	5	95

Options and Rights Granted or Vested during the Year Ended 30 June 2011

Group Key Management Personnel	Grant details			For the financial year ended 30 June 2011					Overall		
	Date	no.	Value $	Exercised no.	Exercised $	Lapsed no	Lapsed $	Vested no	Vested %	Unvested %	Lapsed %
Mr D Marginson - COO (terminated 3 March 2011)	7 May 2008	300,000	0.28045	0	0	300,000	84,135	100,000	33⅓	0	100
Mr S T Lim - CFO	29 July 2008	90,000	0.22079	0	0	0		30,000	33⅓	66⅔	0

Description of Legacy Options/Rights

Details of the options granted as remuneration to those Key Management Personnel and Executives listed in the previous table are as follows:

Grant date	Issuer	Entitlement on exercise	Dates exercisable	Exercise Price $	Value per option at grant date $	Amount paid/ payable by recipient $
7 May 2008	Waterco Ltd	1 Waterco share for each option	Note 1	1.35	0.28045	0
29 July 2008	Waterco Ltd	1 Waterco share for each option	Note 2	1.35	0.22079	0

Note 1:
The Options will vest in three equal tranches of 100,000 Options in accordance with the Exercise Periods set out below, provided the COO remains employed by the company at the commencement of the relevant exercise period:

Tranche 1 *the period beginning on 22 January 2010 and ending on 22 January 2013.*
Tranche 2 *the period beginning on 22 January 2011 and ending on 22 January 2013.*
Tranche 3 *the period beginning on 22 January 2012 and ending on 22 January 2013.*

Note 2:
The Options will vest in three equal tranches of 30,000 Options in accordance with the Exercise Periods set out below, provided the CFO remains employed by the company at the commencement of the relevant exercise period:

Tranche 1 *the period beginning on 1 July 2010 and ending on 1 July 2013.*
Tranche 2 *the period beginning on 1 July 2011 and ending on 1 July 2013.*
Tranche 3 *the period beginning on 1 July 2012 and ending on 1 July 2013.*

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors:

Soon Sinn Goh
Chairman

23 September 2011

Auditor's Independence Declaration

RSM Bird Cameron Partners
Chartered Accountants

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

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Waterco Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants

G N SHERWOOD
Partner

Sydney, NSW
Dated: 23 September 2011

Financial Statements
for the year ended 30 June 2011

WATERCO LIMITED ABN 62 002 070 733
AND CONTROLLED ENTITIES

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

	Note No.	Consolidated Group 2011 $	2010 $
Revenues	3	68,203,500	71,473,293
Changes in inventories of finished goods and work in progress		(1,040,701)	664,823
Raw materials and consumables used		(33,843,892)	(38,533,317)
Employee benefits expense		(12,578,413)	(11,678,129)
Depreciation, impairment and amortisation expense	4	(1,379,709)	(1,577,197)
Finance costs	4	(1,587,878)	(1,307,933)
Advertising expense		(1,435,333)	(1,063,303)
Discounts allowed		(106,694)	(67,744)
Outward freight expense		(1,598,852)	(1,744,619)
Rent expense		(2,209,001)	(2,276,024)
Contracted staff expense		(399,522)	(348,341)
Warranty expense		(469,778)	(598,973)
Commission expense		(362,924)	(438,597)
Other expenses		(6,708,212)	(7,169,660)
Profit before income tax expense	4	4,482,591	5,334,279
Income tax expense	6	1,302,486	1,623,474
Profit for the year		3,180,105	3,710,805
Other comprehensive income			
Property revaluation increment/(decrement)		(415,720)	1,160,458
Exchange translation differences		(7,133,962)	(75,577)
Other comprehensive income for the year		(7,549,682)	1,084,881
Total comprehensive income/(loss) for the year		(4,369,577)	4,795,686
Profit /(loss) attributable to :			
Members of the parent entity		3,204,339	3,698,808
Non-controlling interest		(24,234)	11,997
		3,180,105	3,710,805
Total comprehensive income/(loss) for the year attributable to:			
Members of the parent entity		(4,345,343)	4,783,689
Non-controlling interest		(24,234)	11,997
Total comprehensive income/(loss) for the year		(4,369,577)	4,795,686
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share (cents per share)	30	9.8	12.3
Diluted earnings per share (cents per share)	30	9.8	12.3
From continuing operations:			
Basic earnings per share (cents per share)	30	9.8	12.3
Diluted earnings per share (cents per share)	30	9.8	12.3
Dividends per share (cents per share)	29	9.0	8.0

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 30 June 2011

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

	Note No.	Consolidated Group 2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	2,794,522	3,877,778
Trade and other receivables	9	8,259,945	9,114,352
Inventories	10	25,837,291	26,369,287
Other current assets	11	570,334	591,041
Total Current Assets		37,462,092	39,952,458
Non-Current Assets			
Property, plant & equipment	13	34,691,511	37,849,985
Intangible assets	14	30,528	36,395
Deferred tax assets	18	(37,009)	646,513
Other non-current assets	15	354,622	298,486
Total Non-Current Assets		35,039,652	38,831,379
Total Assets		72,501,744	78,783,837
LIABILITIES			
Current Liabilities			
Trade and other payables	16	6,954,991	6,496,731
Other borrowings	17	3,410,206	1,592,586
Current tax liabilities	18	377,817	287,103
Short term provisions	19	1,505,842	1,534,149
Total Current Liabilities		12,248,856	9,910,569
Non-Current Liabilities			
Other borrowings	20	19,802,478	21,173,747
Deferred tax liabilities	18	234,724	1,010,689
Long-term provisions	21	110,048	252,937
Total Non-Current Liabilities		20,147,250	22,437,373
Total Liabilities		32,396,106	32,347,942
Net Assets		40,105,638	46,435,895
EQUITY			
Issued capital	22	34,737,298	33,750,036
Reserves	23	(6,018,697)	1,530,985
Retained earnings	24	11,167,197	10,898,583
Parent interest		39,885,798	46,179,604
Non-controlling interest		219,840	256,291
Total Equity		40,105,638	46,435,895

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

for the year ended 30 June 2011

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

Consolidated Group	Note No.	Ordinary Shares	Retained Earnings	Capital Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Non-Controlling Interests	Total
Balance at 30/6/09		30,837,429	9,007,948	210,562	5,514,302	(5,278,760)	340,051	40,631,532
Comprehensive income								
Profit for the year		-	3,698,808	-	-	-	11,997	3,710,805
Other comprehensive income for the year		-	-	-	1,160,458	(75,577)	-	1,084,881
Total comprehensive income for the year		-	3,698,808	-	1,160,458	(75,577)	11,997	4,795,686
Transactions with owners, in their capacity as owners and other transfers								
Issue of shares for land acquisition		2,197,889	-	-	-	-	-	2,197,889
Issue of shares under Waterco DRP		681,978	-	-	-	-	-	681,978
Employee share loans		32,740	-	-	-	-	-	32,740
Dividends paid	29	-	(1,797,395)	-	-	-	(90,878)	(1,888,273)
Total transactions with owners and other transfers		2,912,607	(1,797,395)				(90,878)	1,024,334
Other								
Adjustment to retained profits on deregistration of controlled entity		-	(10,778)	-	-	-	-	(10,778)
Return of capital on deregistration of controlled entity		-	-	-	-	-	(4,879)	(4,879)
Total other		-	(10,778)				(4,879)	(15,657)
Balance at 30/6/10		33,750,036	10,898,583	210,562	6,674,760	(5,354,337)	256,291	46,435,895
Comprehensive income								
Profit for the year		-	3,204,339	-	-	-	(24,234)	3,180,105
Other comprehensive income for the year		-	-	-	(415,720)	(7,133,962)	-	(7,549,682)
Total comprehensive income for the year		-	3,204,339	-	(415,720)	(7,133,962)	(24,234)	(4,369,577)
Transactions with owners, in their capacity as owners and other transfers								
Issue of shares under Waterco DRP		973,087	-	-	-	-	-	973,087
Employee share loans		14,175	-	-	-	-	-	14,175
Dividends paid	29	-	(2,935,725)	-	-	-	(12,217)	(2,947,942)
Total transactions with owners and other transfers		987,262	(2,935,725)	-	-	-	(12,217)	(1,960,680)
Balance at 30/6/11		34,737,298	11,167,197	210,562	6,259,040	(12,488,299)	219,840	40,105,638

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2011

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

	Consolidated Group 2011 $	2010 $
Cash Flows from Operating Activities		
Receipts from customers	73,235,980	77,758,462
Payments to suppliers and employees	(63,699,237)	(69,208,733)
Interest received	32,393	30,098
Other Income	521,231	560,701
Finance costs	(1,587,878)	(1,307,933)
Income tax paid	(1,304,215)	(1,504,346)
Net cash provided by operating activities (Note 34a)	7,198,274	6,328,249
Cash Flows from Investing Activities		
Dividends received	259	268
Payment for property, plant & equipment	2,462,165	(6,571,305)
Proceeds from sale of property, plant & equipment	72,570	135,710
Investments	-	(10,778)
Net cash provided by/(used in) investment activities	2,534,994	(6,446,105)
Cash Flows from Financing Activities		
Proceeds from borrowings	426,187	918,980
Proceeds from issue of shares	973,087	2,874,988
Payment of hire purchase creditors	(77,076)	(56,881)
Payment of lease liabilities	(180,376)	(221,059)
Dividends paid	(2,947,939)	(1,888,273)
Employee share plan repayments	14,175	32,740
Net cash provided by/(used in) financing activities	(1,791,942)	1,660,495
Net increase in cash held	7,941,326	1,542,639
Cash at beginning of the year	3,505,426	1,881,356
Effects of exchange rate changes on balance of cash held in foreign currencies	(9,065,752)	81,431
Cash at the end of the year (Note 8)	2,381,000	3,505,426

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 consolidated group of Waterco Limited and controlled entities, ("Group"). Waterco Limited is a listed public company, incorporated and domiciled in Australia.

The separate financial statements of the parent entity, Waterco Limited have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 23 September 2011.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the group comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Waterco Limited at the end of the reporting period. A controlled entity is any entity over which Waterco Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities. 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 a December financial year end.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 12 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

b) Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;

(ii) any non-controlling interest; and

(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Refer to Note 14 for information on the goodwill policy adopted by the Group for acquisitions.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

c. Investments

Investments in controlled entities are measured at cost less impairment losses.

d. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

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. Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

f. Income Tax (continued)

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

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. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the "stand-alone taxpayer" approach to allocation. 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 Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

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 19)

h. Employee Benefits (continued)

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 21)

Contributions are made by the consolidated group to an employee superannuation fund and are charged as expenses when incurred. The consolidated group has no legal obligation to cover any shortfall in the funds obligations to provide benefits to employees on retirement.

Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

i. Deferred Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

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 consolidated group 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 consolidated group is based on the following independent valuations:

Land & Buildings	Date of Valuation	Amount
Rydalmere, NSW	11 November 2009	AUD 8,850,000
Malaysia	14 August 2008	MYR 27,000,000
China	27 April 2009	CNY 30,289,054
USA	24 May 2010	USD 850,000

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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(n) for details of impairment).

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 that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

k. Property, Plant and Equipment (continued)

Plant and equipment (continued)
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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 consolidated group 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 straight line method, as considered appropriate, is used. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate		
Buildings	1.50%	-	2.50%
Plant and equipment	6.00%	-	33.33%
Leased plant and equipment	13.00%	-	20.00%

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

An asset's 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 statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

l. Revenue
Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

Dividend revenue is recognised when the right to receive a dividend has been established.

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 statement of financial position are shown inclusive of GST.

Cashflows 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 the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

o. Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

p. 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.

q. 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, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

r. 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.

s. Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

s. Financial Instruments (continued)

(iii) *Financial liabilities*
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment
At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

t. Critical Accounting Estimates and Judgements
The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates
(i) *Impairment*
The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

(ii) *Controlled Entities*
With respect to cash flow projections for amounts owing by controlled entities to the parent, growth rates of an average of 13% have been factored into valuation models for the next five years on the basis of management's expectations and strategic plans. Cash flow growth rates of 2.5% subsequent to this period have been used as this reflects historical industry averages. The rates used incorporate allowance for inflation. Pre-tax discount rates of 10.6% have been used in all models.

(iii) *Inventory Classification*
Included in inventory are certain inventory items held to service existing products and various components used in the manufacturing process. The nature of these items may require them to be included in inventory for more than one year. Management have evaluated these inventory items and do not consider the carrying value of these items as material. All inventory items have therefore been classified as current.

(iv) *Inventory Obsolescence*
Management review inventory reports on a regular basis to determine slow-moving or obsolescence.

Appropriate provisions are carried for impairment of slow-moving items. Obsolete items are disposed of as and when encountered.

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

v. New Accounting Standards for Application in Future Periods
The AASB has issued new and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:
- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and

v. New Accounting Standards for Application in Future Periods (continued)

- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:
- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurementand presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):
- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific "RDR" disclosures.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

AASB 2009–14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

v. New Accounting Standards for Application in Future Periods (continued)

AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

AASB 2010–9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011).

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2010–7] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to have a material effect on the Group.

NOTE 2: Parent Information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with accounting standards

STATEMENT OF FINANCIAL POSITION

	2011 $	2010 $
ASSETS		
Current Assets	14,472,652	13,749,401
TOTAL ASSETS	65,605,930	71,056,532
LIABILITIES		
Current Liabilities	9,207,889	9,641,033
TOTAL LIABILITIES	25,707,457	25,642,521
EQUITY		
Issued capital	34,737,298	33,750,036
Capital profits reserve	180,426	180,426
Asset revaluation reserve	4,113,835	4,113,835
Retained earnings	866,914	7,369,714
TOTAL EQUITY	39,898,473	45,414,011

STATEMENT OF COMPREHENSIVE INCOME

	2011 $	2010 $
Total profit/(loss)	(3,567,075)	8,127,957
Total comprehensive income	(3,567,075)	6,727,490

NOTE 3: Revenue and Other Income

	Consolidated Group 2011 $	2010 $
Revenue from Continuing Operations		
Sales revenue		
• Sales of goods	67,739,337	70,882,227
Other revenue		
• Dividend received 3(a)	364	267
• Interest received 3(b)	32,393	30,098
• Rent	59,450	107,613
• Bad debts recovered	3,503	6,343
• Other	368,453	446,745
Total Revenue	68,203,500	71,473,293
a) Dividends received or receivable from		
• Other persons	364	267
Total dividend revenue	364	267
b) Interest received or receivable from		
• Other persons	32,393	30,098
Total interest revenue	32,393	30,098

	Consolidated Group 2011 $	2010 $
NOTE 4: Profit/(Loss) for the Year		
Expenses:		
Cost of Sales	34,939,241	38,364,181
Finance costs:		
• Other persons	1,542,011	1,260,902
• Hire purchase expense	16,798	15,547
• Finance charges on finance leases	29,069	31,484
	1,587,878	1,307,933
Depreciation of non-current assets :		
• Buildings	181,372	184,571
• Plant & equipment	930,616	973,635
• Hire purchase assets	18,324	14,773
• Capitalised leased assets	130,011	171,977
	1,260,323	1,344,956
Amortisation of non-current assets:		
• Leasehold land	10,905	10,905
• Goodwill on acquisition	5,867	4,624
• Expenditure carried forward	102,614	216,712
	119,386	232,241
Total depreciation, amortisation and impairment	1,379,709	1,577,197
Bad and doubtful debts		
• Trade debtors	319,855	459,646
Rental expense on Operating leases		
• Minimum lease payments	2,209,001	2,276,024
Research & development	822,042	809,773
Net(Gain)/ Loss on disposal of non-current assets		
• Property, plant and equipment	27,694	(18,294)
• Goodwill	89,925	-
	117,619	(18,294)

NOTE 5: Auditors' Remuneration

Remuneration of the auditor of the parent entity for:		
• Audit or reviewing the financial report	128,507	102,309
• Non audit fees for agreed upon procedures	2,750	4,500
Remuneration of other auditors of subsidiaries for:		
• Auditing or reviewing the financial report of subsidiaries	53,154	89,305

NOTE 6: Income Tax Expense

	Consolidated Group 2011 $	2010 $
(a) The components of tax expense comprise:		
• Current tax	1,416,312	1,492,002
• Deferred tax	(74,793)	72,188
• Recoupment of prior year tax losses	(39,033)	59,284
	1,302,486	1,623,474

(b) The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax	4,482,591	5,334,279
Prima facie tax payable on profit before income tax at 30% (2010 30%)	1,344,777	1,600,284
Add		
Tax effect of:		
• Depreciation of buildings	21,743	25,294
• Entertainment	2,575	2,096
• Amortisation – Goodwill	1,760	1,387
• Amortisation - Leasehold Land	3,272	3,272
• Foreign controlled entities not tax effected	78,861	218,031
• Unrealised foreign exchange losses/(gains)	12,841	(37,820)
• Expenses not allowable	5,549	-
Less		
Tax effect of:		
• Reinvestment allowance	2,086	-
• Special building write off	1,888	1,889
• Capital gain on sale of goodwill	26,978	-
• Effects of lower rates in overseas countries	39,286	69,569
• Overprovision for tax in prior year	25,642	66,980
• Other	73,012	50,632
Income tax expense attributable to entity	1,302,486	1,623,474
The applicable weighted average effective tax rates are as follows:	29%	30%

NOTE 7: Key Management Personnel Compensation

(a) Key Management Personnel ("KMP") Compensation

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	Consolidated Group 2011 $	2010 $
Short-term employee benefits	1,902,990	2,238,093
Post-employment benefits	113,713	113,346
Share-based payments	9,442	29,170
	2,026,145	2,380,609

Refer to the remuneration report contained in the directors' report for remuneration paid or payable to each member of the groups KMP for the year ended 30 June 2011

(b) Shareholdings

Number of Shares held by Key Management Personnel

2011

Key Management Personnel	Balance 1.7.10	Received as Remuneration	Net Change Other	Balance 30.6.11
Mr S S Goh	17,468,817	-	533,353	18,002,170
Mr B Goh	492,866	-	15,539	508,405
Mr G Norman	135,581	-	3,810	139,391
Mr B Hunt	252,181	-	-	252,181
Mr R Ling	-	-	-	-
Mr A Fisher	35,445	-	-	35,445
Mr S T Lim	124,317	-	-	124,317
Mrs B H Leo	91,499	-	-	91,499
Mr G Doumit	86,300	-	-	86,300

2010

Key Management Personnel	Balance 1.7.09	Received as Remuneration	Net Change Other	Balance 30.6.10
Mr S S Goh	14,396,927	-	3,071,890	17,468,817
Mr B Goh	480,317	-	12,549	492,866
Mr G Norman	132,289	-	3,292	135,581
Mr B Hunt	252,181	-	-	252,181
Mr R Ling	-	-	-	-
Mr A Fisher	35,445	-	-	35,445
Mr S T Lim	124,317	-	-	124,317
Mrs B H Leo	91,499	-	-	91,499
Mr G Doumit	86,300	-	-	86,300

(c) Options

2011

Key Management Personnel	Balance 1.7.10	Received as Remuneration	Net Change Other	Balance 30.6.11
Mr D Marginson##	300,000	-	(300,000)	-
Mr S T Lim	90,000	-	-	90,000

2010

Key Management Personnel	Balance 1.7.09	Received as Remuneration	Net Change Other	Balance 30.6.10
Mr B Leitch#	108,000	-	(108,000)	-
Mr D Marginson	300,000	-	-	300,000
Mr S T Lim	90,000	-	-	90,000

Mr B Leitch resigned as director on 2 June 2010

Mr D Marginson was terminated on 3 March 2011.

CURRENT ASSETS

NOTE 8: Cash and cash equivalents

	Consolidated Group 2011 $	2010 $
Cash at bank and in hand	2,794,522	3,877,778
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	2,794,522	3,877,778
Bank overdraft (note 17)	(413,522)	(372,352)
	2,381,000	3,505,426

NOTE 9: Trade and other receivables

	Consolidated Group 2011 $	2010 $
Trade receivables	7,481,819	8,299,374
Less: provision for impairment of receivables	418,113	616,739
	7,063,706	7,682,635
Other receivables	1,196,239	1,431,717
	8,259,945	9,114,352

Provision For Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

NOTE 9: Trade and other receivables (continued)

Movement in the provision for impairment of receivables is as follows:

	Opening Balance 1.7.2009 $	Charge for the Year $	Closing Amounts Written Off $	Balance 30.6.2010 $
Consolidated Group				
Current trade receivables	621,717	185,934	(190,912)	616,739

	Opening Balance 1.7.2010 $	Charge for the Year $	Amounts Written Off $	Closing Balance 30.6.2011 $
Consolidated Group				
Current trade receivables	616,739	121,229	(319,855)	418,113

There are $1,084,440 (2010:$1,688,865) within trade and other receivables that are not impaired and are past due. It is expected these balances will be received in full. Impaired assets are provided for in full.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			< 30	31–60	61–90	> 90	
	$	$	$	$	$	$	$
Consolidated Group							
2011							
Trade and term receivables	7,481,819	418,113	567,882	196,072	320,486	-	5,979,266
Other receivables	1,196,239	-	-	-	-	-	1,196,239
Total	8,678,058	418,113	567,882	196,072	320,486	-	7,175,505
2010							
Trade and term receivables	8,299,374	616,739	1,100,536	561,584	26,745	-	5,993,770
Other receivables	1,431,717	-	-	-	-	-	1,431,717
Total	9,731,091	616,739	1,100,536	561,584	26,745	-	7,425,487

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

	Consolidated Group 2011 $	2010 $
NOTE 10: Inventories		
Raw materials and stores at cost	9,200,187	10,772,884
Work in progress at cost	370,130	412,766
Finished goods at cost	16,274,832	15,421,688
Goods in transit at cost	662,640	431,040
Provision for inventory write-down	(670,498)	(669,091)
	25,837,291	26,369,287

	Consolidated Group 2011 $	2010 $
NOTE 11: Other current assets		
Prepayments	570,334	591,041
	570,334	591,041

NON CURRENT ASSETS
NOTE 12: Controlled Entities

	Country of incorporation	% owned 2011	2010
Parent Entity			
Waterco Limited	Australia	-	-
Controlled Entities of Waterco Limited:			
Swimart Pty Ltd	Australia	100	100
Zane Solar Systems Australia Pty Ltd	Australia	100	100
Aquaswim Australia 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 Engineering Services Sdn Bhd*	Malaysia	100	100
Waterco (NZ) Ltd	New Zealand	100	100
Swimart (NZ) Ltd	New Zealand	100	100
Waterco (Guangzhou) Ltd	China	100	100
Waterco (C) Ltd	China	100	100
Waterco (Europe) Ltd	United Kingdom	100	100
Waterco Canada Inc	Canada	100	100
PT Waterco Indonesia	Indonesia	51	51
Waterco International Pte Ltd	Singapore	100	100

Waterco USA Inc carries on business in the United States. Waterco (Far East) Sdn Bhd, Waterco Engineering Sdn Bhd, Watershoppe (M) Sdn Bhd ,Lacron Filters (Far East) Sdn Bhd and Waterco Engineering Services Sdn Bhd carry on business in Malaysia. Waterco (NZ) Ltd and Swimart (NZ) Ltd carry on business in New Zealand. Waterco (Europe) Ltd carries 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. Waterco International Pte Ltd carries on business in Singapore.

* On 18 October 2010, Waterco Composites Sdn Bhd changed its name to Waterco Engineering Services Sdn Bhd.

	Consolidated Group 2011 $	2010 $
NOTE 13: Property, plant & equipment		
Freehold land at independent valuation	8,203,088	9,025,306
Freehold buildings at independent valuation	21,371,247	22,087,182
Less: accumulated depreciation	1,552,075	1,241,775
	19,819,172	20,845,407
Leasehold land at cost	268,318	268,318
Less: accumulated amortisation	190,375	179,470
	77,943	88,848
Plant & equipment at cost	20,309,232	21,860,523
Less: accumulated depreciation	14,325,106	14,514,300
	5,984,126	7,346,223
Hire purchase plant & equipment at cost	260,568	260,568
Less :accumulated depreciation	33,097	14,773
	227,471	245,795
Leased plant & equipment at cost	621,690	468,666
Less: accumulated depreciation	241,979	170,260
	379,711	298,406
Total written down value	34,691,511	37,849,985

Movements in Carrying Amounts

	Freehold Land	Buildings	Leasehold Land	Plant & Equipment	Leased Plant & Equipment	Hire Purchase Plant & Equipment	Total
Consolidated Group:							
Balance at the beginning of year	9,025,306	20,845,407	88,848	7,346,223	298,406	245,795	37,849,985
Additions	(822,218)	(507,484)	-	427,088	236,445	-	(666,169)
Disposals	-	-	-	(64,574)	(25,026)	-	(89,600)
Depreciation expense*	-	(518,751)	(10,905)	(1,724,611)	(130,114)	(18,324)	(2,402,705)
Carrying amount at the end of year	8,203,088	19,819,172	77,943	5,984,126	379,711	227,471	34,691,511

*Included in the depreciation expense above is $1,142,382 that has been capitalised into the cost of inventory and is reflected in raw materials cost.

	Consolidated Group 2011 $	2010 $
If Land & Buildings were stated at historic cost, amounts would be as follows:		
Cost	24,972,104	26,094,636
Less: Accumulated depreciation	2,645,229	2,460,477
Net book value	22,326,875	23,634,159

The groups land and buildings were revalued as per the disclosures in note 1(k). The directors consider the carrying value of the land and buildings to be a fair reflection of the market value.

	Consolidated Group	
	2011 $	2010 $
NOTE 14: Intangible assets		
Goodwill (note 1b)	280,104	280,104
Less: accumulated amortisation	250,776	244,909
	29,328	35,195
Preliminary expenses	1,200	1,200
	30,528	36,395

Movements in Carrying Amounts

	Preliminary Expense	Goodwill	Total
Consolidated Group:			
Balance at the beginning of year	1,200	35,195	36,395
Additions	-	-	-
Disposals	-	-	-
Amortisation expense	-	5,867	5,867
Carrying amount at the end of year	1,200	29,328	30,528

Impairment Disclosures

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

	2011 $	2010 $
Asia Segment	17,308	20,771
Australia/New Zealand Segment	12,020	14,424
Total	29,328	35,195

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
Asia Segment	2.5%	10.3%
Australia/New Zealand Segment	1.5%	10.3%

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 period, 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 Group 2011 $	2010 $
NOTE 15: Other non-current assets		
Deferred expenditure carried forward at cost	561,188	437,099
less: accumulated amortisation	206,566	138,613
	354,622	298,486

CURRENT LIABILITIES

NOTE 16: Trade and other payables - unsecured		
Trade creditors	5,245,479	4,633,839
Sundry creditors and accrued expenses	1,709,512	1,862,892
	6,954,991	6,496,731
NOTE 17: Other borrowings		
Bank loans	2,750,000	1,000,000
Bank overdraft	413,522	372,352
Hire purchase creditors	93,874	93,874
Less: unexpired interest	(9,000)	(16,798)
Lease liability	161,810	143,158
	3,410,206	1,592,586

Bank facilities of the group 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 18: Taxes

a) Liabilities		
Current		
Income Tax	377,817	287,103
Non Current Deferred tax liability comprises:		
Tax allowances relating to property, plant & equipment	275,553	197,472
Revaluation adjustments taken direct to equity	1,224,565	1,224,565
Other	(3,730)	194,016
	1,496,388	1,616,053
Parent entity DTA netted off against DTL	(1,261,664)	(605,364)
Consolidated DTL	234,724	1,010,689
b) Assets		
Deferred tax assets comprises:		
Provisions	613,679	686,133
Attributable to tax losses	516,441	461,701
Tax allowances relating to property, plant & equipment	13,302	15,222
Other	81,233	88,821
Parent entity DTA netted off against DTL	1,224,655	1,251,877
Consolidated DTA	(1,261,664)	(605,364)
Net Deferred Tax Asset/(Liability)	(37,009)	646,513

	Consolidated Group 2011 $	2010 $
Note 18: Taxes (continued)		
c) Reconciliations		
i) Gross Movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	(364,176)	535,498
(Charge)/Credit to statement of comprehensive income	155,439	(1,534,450)
(Charge)/credit to equity	(62,996)	634,776
Closing Balance	(271,733)	(364,176)
ii) 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	197,472	294,737
Charged to statement of comprehensive income	78,081	(97,265)
Closing balance	275,553	197,472
Property revaluation adjustments taken direct to equity		
Opening balance	1,224,565	1,824,765
Net revaluations during current period	-	(600,200)
Closing balance	1,224,565	1,224,565
Other		
Opening balance	194,016	24,421
Charged to statement of comprehensive income	(197,746)	169,595
Closing balance	(3,730)	194,016
iii) Deferred Tax Assets		
The movement in deferred tax liability for each temporary difference during the year is as follows:		
Provisions		
Opening balance	686,133	723,045
Charged to statement of comprehensive income	(72,454)	(36,912)
Closing balance	613,679	686,133
Income tax losses		
Opening balance	443,262	470,852
Charged to statement of comprehensive income	117,736	(51,237)
(Charge)/credit to equity	(62,996)	23,647
Closing balance	498,002	443,262
Capital tax losses		
Opening balance	18,439	18,439
Charged to statement of comprehensive income	-	-
Closing balance	18,439	18,439
Tax allowances relating to		
Property plant & equipment		
Opening balance	15,222	9,681
Charged to statement of comprehensive income	(1,920)	5,541
Closing balance	13,302	15,222
Other		
Opening balance	88,821	77,404
Charged to statement of comprehensive income	(7,588)	11,417
Closing balance	81,233	88,821

	Consolidated Group 2011 $	2010 $
NOTE 18: Taxes (continued)		
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	3,991,908	3,999,685
	3,991,908	3,999,685

NOTE 19: Short-term provisions		
Employee Benefits (see note 1h)		
Opening Balance	1,534,149	1,700,926
Additional provisions	405,305	649,085
Amounts used	(433,612)	(815,862)
Closing Balance	1,505,842	1,534,149

NON-CURRENT LIABILITIES

NOTE 20: Other borrowings		
Bank loans	19,589,035	20,912,848
Hire purchase creditors	69,738	163,612
Less: unexpired interest	(2,224)	(11,224)
Lease liability	145,929	108,511
	19,802,478	21,173,747

NOTE 21: Long-term provisions		
Employee Benefits (see note 1h)		
Opening balance	252,937	211,089
Additional provisions	(142,889)	41,848
Amounts used	-	-
Closing balance	110,048	252,937
a) Aggregate employee entitlement liability	1,615,890	1,787,086
b) Number of employees at year end	**467**	**457**

	Consolidated Group 2011 $	2010 $
Note 22: Issued capital		
32,419,273 ordinary shares fully paid at beginning of the year (2010 29,760,529)	33,750,036	30,837,429
On 17 December 2010, 449,758 shares were issued at $1.19 each under the Waterco Ltd DRP	535,212	-
On 3 June 2011,374,252 shares were issued at $1.17 each under the Waterco Ltd DRP	437,875	-
On 18 December 2009, 392,108 shares were issued at $0.86c each under the Waterco Ltd DRP	-	337,213
On 4 June 2010, 355,428 shares were issued at $0.97c each under the Waterco Ltd DRP	-	344,765
On 24 June 2010, Waterco Ltd issued 1,911,208 shares at $1.15 each for partial consideration for the purchase of land by its subsidiary Waterco (Far East) Sdn Bhd	-	2,197,889
Non-recourse Loan Share Plan repayments [see Note 33 (1)]	14,175	32,740
33,243,283 ordinary shares fully paid at the end of the year (2010 32,419,273)	34,737,298	33,750,036

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.

Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

Apart from those disclosed in Note 22, there have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains between 30% and 70%. The gearing ratio's for the year ended 30 June 2011 and 30 June 2010 are as follows:

	Consolidated Group 2011 $	2010 $
Total borrowings	23,212,684	22,766,333
Less cash and cash equivalents	(2,794,552)	(3,877,778)
Net debt	20,418,132	18,888,555
Total equity	40,105,638	46,435,895
Total capital	60,523,770	65,324,450
Gearing ratio	51%	41%

	Note No.	Consolidated Group 2011 $	2010 $
NOTE 23: Reserves			
a) Capital profits		210,562	210,562
The capital profits reserve relates to non taxable profits on sale of property			
b) Foreign currency translation		(12,488,299)	(5,354,337)
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		6,674,760	5,514,302
Net revaluation increment/(decrement) on revaluation of land and buildings		(415,720)	1,160,458
Balance at the end of the year		6,259,040	6,674,760
		(6,018,697)	1,530,985
The asset revaluation reserve records the revaluation of non current assets			
NOTE 24: Retained earnings			
Opening retained earnings		10,898,583	9,007,948
Net profit/(loss) attributable to the members of the parent entity		3,204,339	3,698,808
Dividends paid	29	(2,935,725)	(1,797,395)
Elimination of preacquisition (gains) losses on deregistration of subsidiary		-	(10,778)
Closing retained earnings		11,167,197	10,898,583
NOTE 25: Lease and hire purchase commitments			
Finance leases			
Lease expenditure contracted and provided for:			
not later than one year		179,494	160,705
later than one year but not later than five years		159,159	110,897
Total minimum lease commitments		338,653	271,602
Less: future finance charges		30,914	19,933
Lease liability		307,739	251,669
Current portion	17	161,810	143,158
Non-current portion	20	145,929	108,511
		307,739	251,669
Hire Purchase commitments			
HP expenditure contracted and provided for:			
not later than one year		93,874	93,874
later than one year but not later than five years		69,738	163,612
Total minimum HP commitments		163,612	257,486
Future interest charges		11,224	28,022
		152,388	229,464
Hire purchase creditors			
Current portion	17	84,874	77,076
Non-current portion	20	67,514	152,388
		152,388	229,464

Finance leases and hire purchase commitments of 3 or 4 years are taken out on motor vehicles, forklifts and IT equipment 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.

	Note No.	Consolidated Group 2011 $	2010 $
NOTE 25: Lease and hire purchase commitments (continued)			
Operating lease payable:			
Non-cancellable operating leases contracted but not capitalised in the financial statements			
not later than one year		1,713,780	2,099,409
later than one year but not later than five years		3,550,127	2,526,343
		5,263,907	4,625,752

NOTE 26: Contingent Liabilities			
Estimate of the maximum amount of contingent liabilities that may become payable:			
Guarantees of leases of premises subleased to franchisees		5,280,378	6,233,669
		5,280,378	6,233,669

NOTE 27: Related Parties			
(A) Transactions with director related parties			
(i) Payments made to Goh Lai Huat and Sons Sdn Bhd for rental of land by Waterco (Far East) Sdn Bhd		-	200,550
(ii) Purchase of land for RM13,748,625 ($A4,884,197) from Goh Lai Huat and Sons Sdn Bhd by Waterco (Far East) Sdn Bhd. This was approved by shareholders at the general meeting held on 21 June 2010		-	4,884,197
Mr SS Goh, a director and shareholder, has significant influence over Goh Lai Huat & Sons Sdn Bhd			
(iii) Sales made to Asiapools (M) Sdn Bhd. Mr S S Goh, a shareholder, has significant influence over Asiapools (M) Sdn Bhd.		262,271	232,379
(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.		660,883	638,234

NOTE 28: Operating Segments

Segment Information

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 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.

Basis of accounting for the purposes of reporting by operating segments
Accounting Policies Adopted
Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions
An internally determined transfer price is set for all inter-entity sales. The price is reviewed annually (unless special circumstances arise) and is based on what would be realised in the event the sale was made to an external party at arm's length under the same terms and conditions. All such transactions are eliminated on consolidation for the Group's financial statements.

Corporate charges are allocated to reporting segments based on the services provided to those reporting segments

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair valued based on market interest rates.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of the economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities
Liabilities are allocated to segments where is a direct nexus between the incurrence of the liability and the operations of the segment.

Unallocated items
The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:
– other revenues

Comparative information
This is the first reporting period in which AASB8: Operating Segments has been adopted. Comparative information has been stated to confirm to the requirements of the Standard.

NOTE 28: Operating Segments (continued)

Geographical Segments

	2011			
	AUSTRALIA & NEW ZEALAND $	**ASIA $**	**NORTH AMERICA & EUROPE $**	**CONSOLIDATED GROUP $**
REVENUE				
Sales to customers outside the consolidated group	47,067,148	6,265,669	14,406,520	67,739,337
Intersegment sales	1,899,483	16,014,630	1,164,735	19,078,848
Total segment revenue	48,966,631	22,280,299	15,571,255	86,818,185
Reconciliation of segment revenue to group revenue				
Other revenue				464,163
Intersegment elimination				(19,078,848)
Total group revenue				68,203,500
Segment net profit/(loss) from continuing operations before tax	4,798,965	(65,268)	213,057	4,946,754
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items				
- other				(464,163)
Net profit/(loss) before tax from continuing operations				4,482,591
Segment assets	69,945,505	32,557,702	(3,078,852)	99,424,355
Segment asset increases for the period				
Capital expenditure	1,404,768	(2,411,700)	649,595	(357,337)
Reconciliation of segment assets to group assets				
Intersegment eliminations				(26,922,611)
Total group assets				72,501,744
Segment liabilities	28,880,595	21,520,058	3,658,300	54,058,953
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(21,662,847)
Total group liabilities				32,396,106

NOTE 28: Operating Segments (continued)

Geographical Segments

	2010			
	AUSTRALIA & NEW ZEALAND $	**ASIA $**	**NORTH AMERICA & EUROPE $**	**CONSOLIDATED GROUP $**
REVENUE				
Sales to customers outside the consolidated group	49,704,764	6,071,733	15,105,730	70,882,227
Intersegment sales	2,886,487	16,458,427	1,269,596	20,614,510
Total segment revenue	52,591,251	22,530,160	16,375,326	91,496,737
Reconciliation of segment revenue to group revenue				
Other revenue				591,066
Intersegment elimination				(20,614,510)
Total group revenue				71,473,293
Segment net profit/(loss) from continuing operations before tax	5,864,837	695,533	(635,025)	5,925,345
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items				
- other				(591,066)
Net profit/(loss) before tax from continuing operations				5,334,279
Segment assets	75,911,112	41,976,494	(3,734,837)	114,152,769
Segment asset increases for the period				
Capital expenditure	566,706	6,261,934	(66,520)	6,762,120
Reconciliation of segment assets to group assets				
Intersegment eliminations				(35,368,932)
Total group assets				78,783,837
Segment liabilities	29,282,825	29,423,940	4,763,684	63,470,449
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(31,122,507)
Total group liabilities				32,347,942

	Consolidated Group 2011 $	2010 $
NOTE 29: Dividends Paid or Proposed		
Final fully franked ordinary dividend of 5c per share (2010: 3c) franked at the tax rate of 30% paid	1,620,964	892,816
Interim fully franked ordinary dividend of 4c per share (2010:3c) franked at the tax rate of 30% paid	1,314,761	904,579
	2,935,725	1,797,395
Proposed final fully franked ordinary dividend of 5c per share (2010 5c) franked at the tax rate of 30%	1,662,164	1,620,964
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.	154,558	5,748,750
NOTE 30: Earnings Per Share		
Reconciliation of Earnings to Net Profit/(Loss)		
Net Profit	3,180,105	3,710,805
Net profit/(Loss) attributable to outside equity interest	(24,234)	11,997
Earnings used in the calculation of basic EPS	3,204,339	3,698,808
Earnings used in the calculation of diluted EPS	3,204,339	3,698,808
a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	32,683,116	30,032,956
b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	32,683,116	30,032,956

NOTE 31: Events Subsequent to Reporting Date

There were no reportable events subsequent to balance date.

NOTE 32: Financial Risk Management

The Audit Committee (AC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The AC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The AC meets on a bi-monthly basis and minutes of the AC are reviewed by the Board.

The AC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

The main risks the group is exposed to through its financial instruments are interest rate risk, credit risk, foreign currency risk, liquidity risk and price risk.

(a) Interest Rate Risk

The consolidated group'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.

(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 is managed through maintenance of procedures in relation to approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers. Such monitoring is used in assessing receivables for impairment. Depending on the subsidiary, credit terms are generally 30 days from invoice month.

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 Group has no single concentration of credit risk with any single debtor or group of debtors. However, on a geographical basis, the group has significant credit exposure to Australia/New Zealand and Canada given the substantial operations in those regions.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 9.

c) Foreign Currency Risk

The parent entity is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods in currencies other than the group's measurement currency.

The parent entity has forward contracts in place at balance date relating to highly probable forecast transactions. There are no forward contracts taken out by any other member in the group These contracts commit the group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates.

Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimised.

The following table summarises the notional amounts of the Group commitments in relation to forward exchange contracts.

Consolidated Group	Notional Amounts		Average Exchange Rate	
	2011 $	2010 $	2011 $	2010 $
Buy USD/Sell AUD				
- Less than 6 months	3,300,000	148,342	0.991	0.92

NOTE 32: Financial Risk Management (continued)

d) Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Consolidated Group	$	$	$	$	$	$	$	$
Financial Assets								
Cash	2,794,522	3,877,778	-	-	-	-	2,794,522	3,877,778
Receivables	8,259,945	9,114,352	-	-	-	-	8,259,945	9,114,352
Total anticipated inflows	11,054,467	12,992,130	-	-	-	-	11,054,467	12,992,130
Financial Liabilities								
Bank overdraft			413,522	372,352	-	-	413,522	372,352
Bank loans	2,750,000	1,000,000	19,589,035	20,912,848	-	-	22,339,035	21,912,848
Trade and other payable	6,954,991	6,496,731	-	-	-	-	6,954,991	6,496,731
Hire purchase creditors	93,874	93,874	69,738	163,612	-	-	163,612	257,486
Unexpired interest	(9,000)	(16,798)	(2,224)	(11,224)	-	-	(11,224)	(28,022)
Lease Liabilities	161,810	143,158	145,929	108,511	-	-	307,739	251,669
Total contractual outflows	9,951,675	7,716,965	20,216,000	21,546,099	-	-	30,167,675	29,263,064
Less bank overdrafts	-	-	(413,522)	(372,352)	-	-	(413,522)	(372,352)
Total expected outflows	9,951,675	7,716,965	19,802,478	21,173,747	-	-	29,754,153	28,890,712
Net inflow/(outflow) on financial instruments	1,102,792	5,275,165	(19,802,478)	(21,173,747)	-	-	(18,699,686)	(15,898,582)

NOTE 32: Financial Risk Management (continued)

e) Price Risk

Price risk relates to the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

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.

	2011		2010	
	Carrying Amount $	Net Fair Value $	Carrying Amount $	Net Fair Value $
Financial Liabilities				
Bank Overdraft	413,522	417,657	372,352	376,076
Bank Loans	22,339,035	22,562,455	21,912,848	22,131,976
Lease Liabilities	307,739	323,126	251,669	264,252
Hire purchase creditors	163,612	171,793	257,486	270,360
Unexpired interest	(11,224)	(11,785)	(28,022)	(29,423)
	23,212,684	23,463,246	22,766,333	23,013,241

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 consolidated group intends to hold these assets to maturity.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. The sensitivity assumes the movement in a particular variable is independent to other variables.

	Consolidated Group	
	Profit $	Equity $
Year ended 30 June 2011		
+/- 2% in interest rates	+/-441,000	+/-441,000
+/- 5% in $A/$US	+/-382,000	+/-382,000
Year ended 30 June 2010		
+/- 2% in interest rates	-/+407,000	-/+407,000
+/- 5% in $A/$US	+/-476,000	+/-476,000

NOTE 33: Employee Benefits

Legacy Employee Share Plans

1) Non-recourse Loan Share Plan

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. During the year, $nil (2010: $649) in loan balances were written off.

Any ordinary shares issued during the year under this plan are shown in the statement of financial position as issued capital. Any residual loan amounts written off are expensed during the year. During the year no shares were issued under this plan while debts of $14,175 (2010: $32,740) were repaid. At reporting date, the balance of the debt receivable is $102,620 (2010:$116,795)

2) Waterco Limited Directors and Key Management Personnel Option Plan

This plan was approved by an Extraordinary General Meeting held on 18 December 1998 and amended by the Board on 7 May 2008.

Its objective is to encourage Directors and Senior Executives of the Waterco Group to acquire ordinary shares in the company in order to promote the long term success of the company.

During a previous period, 90,000 options were granted at no cost to Mr Sze Tin Lim (Chief Financial Officer). These options are split into three equal tranches of 30,000 each and may be exercised at a price of $1.35 each over the following periods:

Tranche	Exercise Period
Tranche 1	the period beginning on 1 July 2010 and ending on 1 July 2013.
Tranche 2	the period beginning on 1 July 2011 and ending on 1 July 2013.
Tranche 3	the period beginning on 1 July 2012 and ending on 1 July 2013.

During the exercise period some or all of the options can be exercised but only in multiples of 100.Nil options have been exercised during the financial year.

During a previous period, 300,000 options were granted at no cost to Mr David Marginson (Chief Operating Officer). These options are split into three equal tranches of 100,000 each and may be exercised at a price of $1.35 each over the following periods:

Tranche	Exercise Period
Tranche 1	the period beginning on 22 January 2010 and ending on 22 January 2013.
Tranche 2	the period beginning on 22 January 2011 and ending on 22 January 2013.
Tranche 3	the period beginning on 22 January 2012 and ending on 22 January 2013.

These options have expired on 3 March 2011 with the termination of Mr David Marginson.

During the exercise period some or all of the options can be exercised but only in multiples of 100.Nil options have been exercised during the period from 1 July 2010 to 3rd March 2011 (date of his termination).

	Consolidated Group 2011 $	2010 $
NOTE 34: Cash Flow Information		
a) Reconciliation of cash flows from operations with profit after income tax.		
Profit after income tax	3,180,105	3,710,805
Non-cash flows in profit		
Depreciation	2,373,343	2,443,854
Impairment/Amortisation	16,772	15,529
(Profit)/Loss on sale of non current assets	(7,996)	(18,294)
Changes in Assets and Liabilities:-		
Trade debtors	817,555	1,840,803
Provision for doubtful debts	(198,626)	(4,978)
Other debtors	235,478	172,189
Inventories	531,996	(798,720)
Prepayments	20,707	73,969
Deferred tax assets	27,222	47,544
Expenditure carried forward	(56,136)	42,478
Trade creditors	611,640	602,793
Other creditors	(153,380)	(1,746,110)
Provision for employee benefits	(171,196)	(124,929)
Provision for tax	90,714	(746)
Provision for deferred tax	(119,665)	72,330
Cashflow – Non Operating Activities :		
Dividends Received	(259)	(268)
Cash Flows provided by/operations	7,198,274	6,328,249

b) Non Cash Financial and investment activities

1) Property, Plant and Equipment

During the year, the consolidated group acquired plant and equipment with an aggregate fair value of $nil (2010:$286,345) by hire purchase and $236,446 (2010:$nil) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

c) Financing Facilities

The following lines of credit were available at balance date:

Fully Drawn Advance Facilities	29,490,925	29,407,096
Master lease facilities	1,807,201	1,724,573
	31,298,126	31,131,669
Amount utilised	(21,546,765)	(18,948,513)
Amount unutilised	9,751,361	12,183,156

The Fully Drawn Advance Facilities are due to expire on 31 July 2013. The parent entity expects to renew these facilities on expiry date.

NOTE 35: Company Details

The registered office of the company is:

Waterco Limited
36 South Street
Rydalmere NSW 2116

Directors' Declaration

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 32 to 68, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and

   b. give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company and consolidated group;

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 s 286 of the Corporations Act 2001;

   b. the financial statements and notes for the financial year comply with Accounting Standards; and

   c. the financial statements and notes for the financial year give a true and fair view; and

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

This declaration made in accordance with a resolution of the Board of Directors.

Soon Sinn Goh
Chief Executive Officer

Dated at Sydney this 23 September 2011

Independent Auditor's Report
to the members of Waterco Ltd

RSM Bird Cameron Partners
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

WATERCO LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Waterco Limited, which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 about whether the financial report is free from material misstatement.

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.

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

RSM Bird Cameron Partners
Chartered Accountants

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Waterco Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Waterco Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 29 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Waterco Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants

G N SHERWOOD
Partner

Sydney, NSW
Dated: 28 September 2011

Shareholder Information
as at 6 September 2011

(a) **Distribution of Shareholders**

Range			Ordinary Shares	Options
1	-	1,000	304	-
1,001	-	5,000	326	-
5,001	-	10,000	104	-
10,001	-	100,000	124	-
100,001	-	and over	31	-
			889	

(b) **Marketable Parcel**
48 shareholders hold less than a marketable parcel.

(c) **Substantial Shareholders**
The following information is extracted from the company's register as at 6 September 2011:

Name	Number of Shares
SS Goh Group	18,002,170
Redbrook Nominees Pty Ltd	1,502,115

(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 81.75% of the total shares issued.

	Name	Number of Shares	Percentage
1	Mr Soon Sinn Goh	15,202,170	45.73
2	Goh Lai Huat & Sons Sdn Bhd	2,500,000	7.52
3	Redbrook Nominees Pty Ltd	2,096,750	6.31
4	Acres Holdings Pty Ltd	1,498,839	4.51
5	HSBC Custody Nominees (Australia) Limited	1,167,190	3.51
6	Mr Swee Kheong Goon	562,717	1.69
7	Mrs Judith Louise Leitch <Leitch Super Fund A/C>	493,001	1.48
8	Jok Pty Limited <Hempton Super Fund A/C>	464,905	1.40
9	Mr Chu Shien Chang	340,281	1.02
10	Mrs Janet Swee Nyet Goh	329,782	0.99
11	GWK Corporation Pty Ltd	302,671	0.91
12	GSS Holdings Pty Limited	300,000	0.90
13	Brazil Enterprises Pty Ltd	295,173	0.89
14	S G Corporation Pty Limited	281,739	0.85
15	Mr Benjamin Francis Hunt <B F Hunt Super Fund A/C>	271,758	0.82
16	Mr Tiow Lip Lee	245,386	0.74
17	Ms May-Yin Goh	225,267	0.68
18	Mr Bryan Weng Keong Goh	205,734	0.62
19	Deuteronomy Pty Ltd <Dennis Hambleton SF A/C>	203,619	0.61
20	Mr Shane Goh	188,607	0.57
	TOTAL	**27,175,589**	**81.75**

(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

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Bryan Goh
Garry Norman
Ben Hunt
Richard Ling

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Bee Hong Leo
Gerard Doumit

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WATERCO

water, the liquid of life

30 years Since 1981

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