Water, the liquid of life
WATERCO LTD A.B.N. 62 002 070 733
36 South Street, Rydalmere NSW 2116
P.O. Box 230, Rydalmere BC NSW 1701
Ph: + 61 2 9898 8600
Fx: + 61 2 9898 1877
www.waterco.com

14 May 2010

Dear Shareholder

**Waterco Ltd ACN 002 070 733**
**ASX CODE: WAT**

Please find **enclosed** the following documents in relation to a General Meeting of shareholders of Waterco Ltd (**Waterco**) to be held at Waterco's registered office at 36 South St Rydalmere NSW 2116 at 3pm on 21 June 2010:

(a) Notice of General Meeting (together with Explanatory Memorandum and Independent Expert's Report); and

(b) Appointment of Proxy form.

The General Meeting is convened for the purpose of seeking the shareholder approvals required under ASX Listing Rules 10.1 and 10.11. As previously advised if shareholder approval is granted Waterco's wholly owned subsidiary, Waterco (Far east) Sdn Bhd (**WFE**), will acquire land where the Waterco Group's principal manufacturing facility is situated in Malaysia (at Lot 832 Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor). This manufacturing facility was built at WFE's cost and makes pumps and filters for both the commercial and residential markets.

In light of WFE's investment in the facility, the non-associated directors of Waterco believe that it is desirable that WFE owns the Land rather than lease it from the owner of the land, Goh Lai Huat and Sons Sdn Berhad. The non-associated directors therefore seek your support in respect of the resolutions.

The details of the proposed resolutions are set out in the Explanatory Memorandum accompanying and forming part of the Notice of General Meeting, and further important information is contained in the Independent Expert's Report. **Shareholders are encouraged to read all of this material.**

If you are unable to attend the General Meeting in person you are urged to complete and lodge the enclosed Appointment of Proxy form.

Yours sincerely
**Waterco Limited**

**Garry Norman**
Deputy Chairman

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# Notice of General Meeting and Explanatory Memorandum

**Date of Meeting**

21 June 2010

**Time of Meeting**

3pm

**Place of Meeting**

36 South Street, Rydalmere NSW Australia 2116

**Important Notice**

This Notice of General Meeting, Explanatory Memorandum and Independent Expert's Report requires your immediate attention. It should be read in its entirety.

If you do not understand any of the content in this document you should seek advice from your accountant, solicitor or other professional adviser without delay.

# Notice of General Meeting

NOTICE IS HEREBY GIVEN that a General Meeting of shareholders of Waterco Ltd ("Company") will be held at 36 South Street, Rydalmere NSW Australia 2116 on **Monday 21 June 2010 at 3pm Australian Eastern Standard Time** to consider and, if thought fit, to pass the Resolutions set out in this Notice.

An Explanatory Memorandum containing information in relation to the resolution accompanies this Notice of Meeting. The Notice of Meeting and Explanatory Memorandum should be read in their entirety.

Capitalised terms in this Notice of Meeting which are not defined have the meanings given to them in the Explanatory Memorandum accompanying and forming part of this Notice.

## Resolutions

### 1. Resolution 1: approval of Waterco (Far East) Sdn Bhd acquisition of the Land

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*"That, for the purpose of ASX listing rule 10.1 and for all other purposes, the ordinary shareholders of the Company authorise the acquisition of the land at Lot 832 Jalan Kusta, Kawasan Perindustrian SB Jaya, 4700 Sungai Buloh, Selangor, Malaysia by the Company's wholly owned subsidiary Waterco (Far East) Sdn Bhd for a total consideration of RM 13,748,625 on the terms and conditions described in the Explanatory Memorandum accompanying and forming part of this Notice".*

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 1 by:

- a party to the Proposed Transaction; and
- an associate of that person (or those persons).

Therefore the Company will disregard any votes cast on Resolution 1 by persons or entities in the Soon Sinn Goh Group.

However the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### 2. Resolution 2: approval of the potential issue of shares in the Company to Goh Lai Huat and Sons Sdn Berhad

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*"That, for the purpose of ASX listing rule 10.11 and for all other purposes, the ordinary shareholders of the Company authorise a potential allotment and issue of shares to Goh Lai Huat and Sons Sdn Berhad in the Company in satisfaction of part of the consideration for the acquisition of the Land by Waterco (Far East) Sdn Bhd on the terms and conditions described in the Explanatory Memorandum accompanying and forming part of this Notice."*

If approval is given under ASX listing rule 10.11, then under ASX listing rule 7.2 exception 14, approval is not required under ASX listing rule 7.1.

Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 2 by:

- a person who is to receive securities in the Company; and
- an associate of that person (or those persons).

Therefore the Company will disregard any votes cast on Resolution 2 by persons or entities in the Soon Sinn Goh Group.

However the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## Additional Information about Voting

### 1. Voting Entitlement

For the purpose of this Meeting, the Company has determined that all securities of the Company that are quoted securities at 7:00pm Australian Eastern Standard Time on Friday 18 June 2010 will be taken, for the purpose of this Meeting, to be held by the persons who were registered holders at that time. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at this Meeting.

### 2. Proxies

A member entitled to attend this Meeting and vote is entitled to appoint no more than 2 proxies to attend and vote for the member at the Meeting. A member can appoint an individual or body corporate as proxy. If you appoint a body corporate, that body corporate must appoint an individual to represent and exercise its powers in accordance with section 250D of the Corporations Act.

A proxy may but need not be a member. If the member appoints 2 proxies and the authority of one is not conditional on the other failing to attend or vote, the following applies:

(a) Each proxy must be appointed to represent a specified proportion of the member's voting rights;

(b) on a show of hands, only the first person named in the instrument appointing the proxies, or if they are named in separate instruments, the person whose name is earlier in alphabetical sequence, may vote; and

(c) on a poll, each proxy may only exercise the voting rights the proxy represents.

A form of proxy accompanies this Notice.

The Proxy Form (which is enclosed with this Notice of Meeting) and any power of attorney or authority under which they are signed must be received:

- at the share registry of the Company, Computershare Investor Services Pty Ltd, GPO Box 242 Melbourne Victoria 3001 or at the Company's Registered Office, 36 South Street, Rydalmere NSW 2116, or
- by facsimile to Computershare on 1800 783 447 from within Australia or +61 3 9473 2555 from outside Australia or to the Company on (02) 9898 1877

at least 48 hours prior to the AGM (ie **by no later than 3pm Australian Eastern Standard Time on Saturday 19 June 2010**) or any adjournment. ***Any proxy form received after this deadline, including at the Meeting, will be invalid.***

## 3. Further information

If you require any further information about the proxy form or attendance at the Company's General Meeting, please contact Bee Hong Leo by telephone on +61 2 9898 8625.

14 May 2010

BY ORDER OF THE BOARD

Bee Hong Leo, Company Secretary

# Explanatory Memorandum and Independent Expert's Report

This Explanatory Memorandum forms part of a Notice convening a Meeting of members of Waterco Ltd ("Company") to be held on 21 June 2010. This Explanatory Memorandum is to provide Shareholders with information that is reasonably required by them to decide how to vote upon the Resolution.

The Board of the Company recommends that the members carefully read this Explanatory Memorandum and the accompanying Independent Expert's Report before making any decision in relation to the proposed Resolutions.

## 1. Overview of the Proposed Transaction

On 19 April 2010 the Company announced that it entered into an agreement ("Agreement") with its wholly owned subsidiary Waterco (Far East) Sdn Bhd ("WFE") and with Goh Lai Huat and Sons Sdn Berhad ("GLH"), an entity associated with Soon Sinn Goh (managing director and chairman of the Company).

As identified in the Company's announcement the transaction contemplated by the Agreement is the sale of land in Malaysia at Lot 832 Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor ("Land") by GLH to WFE for a consideration of RM 13,748,625, which will be, at GLH's election, either:

(a) 100% in cash; or

(b) 55% (RM 7,561,744) in cash and 45% (RM 6,186,881) in shares in the Company at an issue price of $A1.15 (which, depending on the $A/RM exchange rate at completion of the purchase, will be approximately 1,793,300 shares, and will result in an increase in the voting power of the Soon Sinn Goh Group in the Company of 2.76 percentage points).

(the "**Proposed Transaction**")

GLH is a "related party" of the Company for the purpose of the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

If GLH elects option (b) (i.e. to receive part of the consideration in the Company's shares) it must provide notification of this decision to the Company within 7 days from the Meeting of the Company's shareholders approving the Transaction. Under the terms of the Agreement the maximum number of shares which may be issued to GLH, as a result of the transaction, is no more than that number of shares which would result in an increase in the voting power of the Soon Sinn Goh Group in the Company of 3 percentage points[1].

The Agreement is subject to the shareholder approvals sought in the Notice of Meeting.

## 2. Additional Information about the Proposed Transaction

Further to the description to the Proposed Transaction provided above:

[1] 3 percentage point increase over 6 months is the maximum permitted under section 611 exception 9 of the Corporations Act, without the need for shareholder approval of the increase, or a full takeover bid

- The Proposed Transaction is governed by a Master Agreement between the Company, GLH and WFE.
- Contemporaneously with the Master Agreement, GLH and WFE have signed a Land Sale Agreement to facilitate the sale of the Land from GLH to WFE. The Land Sale Agreement has been drafted by Malaysian solicitors to reflect Malaysian law and conveyancing practice.
- If the Shareholders have approved Resolution 2 and GLH wishes to receive part of the consideration for the Land in shares in the Company then GLH must deliver to the Company, within 7 days of the Meeting, executed copies of a share subscription agreement (to then be executed by the Company).
- WFE has the option of terminating the Land Sale Agreement if the average exchange rate of the $A against the RM as published by the Reserve Bank of Australia at 4.00pm for each of the 5 Business Days before the date of Completion is more than 15% lower than the A$/RM exchange rate published by the Reserve Bank of Australia at 4.00pm on the Business Day before the date of the Agreement.
- If Shareholders approve Resolution 1 but not Resolution 2 the Land Sale will proceed but the consideration will be cash only.

## 3. Directors' Recommendation

Mr Soon Sinn Goh abstained from making a recommendation due to his interest in the Proposed Transaction as shareholder and director of GLH. Mr Bruce Leitch, a director of the Company, is on leave of absence and Mr Bryan Goh, his alternate, has abstained from making a recommendation due to his relationship to Mr Soon Sinn Goh.

The remaining directors of the Company -- Mr Benjamin Hunt, Mr Garry Norman and Mr Richard Ling -- recommend that Shareholders approve the Proposed Transaction by voting in favour of Resolution 1 and Resolution 2.

The Non-Associated Directors make the following comments as to why they believe the Proposed Transaction is in the interests of the Company:

- WFE owns the Waterco Group's principal manufacturing facility, which was built at WFE's cost and is situated on the Land. The manufacturing facility makes pumps and filters for both the commercial and residential markets. The Proposed Transaction will result in WFE owning the Land on which the Waterco Group's principal manufacturing facility is located.
- WFE currently leases the land from GLH. In light of WFE's investment in the manufacturing facility it is desirable that WFE own the Land rather than leasing it from GLH, providing greater stability for their operations.

The Non-Associated Directors make the following comments as to the financial impact of the Proposed Transaction on the Company:

- Before approving the transaction in principle, the Non-Associated Directors arranged for the Land to be valued by a local professional valuer in Malaysia and on the basis of that valuation they were satisfied that the consideration for the Land is no greater than a reasonable arms' length amount. The Independent Expert's Report accompanying this Notice includes a further valuation of the Land, and the consideration payable by WFE is within the range of values given by that Valuer, being at the upper end of the range.

- allowing GLH the option of receiving shares in the Company as part of the consideration is reasonable as the issue price of $1.15 per share is a premium of 16.6% over the 30 day VWAP up to the trading day before the Proposed Transaction was announced ($0.9859) and the allotment will not substantially increase the voting power of the Soon Sinn Goh Group in the Company. The Independent Expert's Report accompanying this notice values the Company's shares at between $1.02 and $1.24, so the issue price of $1.15 is within this range of value.

## 4. Further Comments in light of Independent Expert's Report

The Non-Associated Directors commissioned Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton") to review the Proposed Transaction. A copy of the Independent Expert's Report (**Report**) is included and **Grant Thornton are of the opinion that the Transaction** (whether GLH elects to receive 100% cash or 55% cash and 45% shares) **is fair and reasonable** to those Shareholders who are not part of the Soon Sinn Goh Group..

In the Report, Grant Thornton identified a number of **advantages** and **disadvantages** (see pages 4 to 6).

The **advantages** identified by Grant Thornton are:

- benefits to the Waterco Group of owning the land on which WFE's manufacturing facility is located; and
- benefits to the Waterco Group of lower exposure to foreign currency risk due to no longer paying rental amounts in RM.

Some of the **disadvantages** identified by Grant Thornton set out here along with the Non-Associated directors' comments on those matters are:

| Disadvantage identified by Grant Thornton | Directors' comments |
|---|---|
| Relatively low implied annual yield on the land | The rental is due for a market review with effect from 1 July 2010, so (if the Transaction did not proceed) the rent would probably be reviewed upward in light of the recent rise of property values. |
| The possibility of increased gearing to fund the transaction, which may make the Company less attractive to investors | At present the Waterco Group has close to its lowest gearing in the last 5 years. If GLH elects to take part of the consideration as shares the current gearing level will only increase very slightly, and the Company will have a wider capital base. |
| The Land is occupied under a long-term lease (expiring 2057) so acquiring the Land is of little strategic value | Currently the Landlord is a related party which has allowed WFE to grant a charge over the buildings to secure WFE's banking facilities. If the Land were sold to a third party, or GLH underwent a change of ownership, the same concessions may not be given. |

***These observations relate to some of the points made in the Report. Shareholders are encouraged to read the Report in full.***

## 5. Information Relevant to Resolution 1 in the Notice of Meeting

ASX listing rule 10.1 requires that a listed entity or any of its child entities (i.e. a related party or a subsidiary) not acquire, or dispose of, a substantial asset from or to a related party (or a substantial shareholder) without shareholder approval.

The Proposed Transaction requires Shareholder approval under ASX Listing Rule 10.1 because:

(a) The consideration to be paid for the Land exceeds 5% of the equity interests of the Company's total equity as per its Annual Report of 30 June 2009 and is therefore classified as a "substantial asset" under ASX Listing Rule 10.2; and

(b) The Land is being acquired from a related party, GLH. Under section 228 of the Corporations Act a "related party" includes a director of the company (section 228(2)(a)) and an entity "controlled" by a director (section 228(4)). Mr Soon Sinn Goh (managing director and chairman of the Company) is a director of and holds approximately 40% of the shares in GLH, and Mr Soon Sinn Goh's brother and other family members hold the balance of the shares.

ASX listing rule 10.10 requires that a notice of meeting seeking Shareholder approval under ASX Listing Rule 10.1 include the following details:

- **A voting exclusion statement that excludes any party to the Proposed Transaction on voting on the relevant resolution.**

  The required voting exclusion statement is set out in the Notice of Meeting.

- **A report on the Proposed Transaction from an independent expert. The report must state whether the Proposed Transaction is fair and reasonable to Shareholders whose votes are not to be disregarded in the vote on the resolution.**

  The Non-Associated Directors commissioned Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton") to review the Proposed Transaction. A copy of the Independent Expert Report (**Report**) is included and Grant Thornton are of the opinion that the Transaction (whether GLH elects to receive 100% cash or 55% cash and 45% shares) is fair and reasonable to those Shareholders who are not excluded from voting. ***Shareholders are encouraged to read the Report in full.***

## 6. Information Relevant to Resolution 2 of the Notice of Meeting

ASX listing rule 10.11 requires that an entity must not issue equity securities without shareholder approval to:

(a) a related party; or

(b) a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained.

The Proposed Transaction requires Shareholder approval under ASX Listing Rule 10.11 because GLH, a related party, has the option of receiving Shares in the Company as part of the consideration being paid by WFE.

ASX Listing Rule 10.13 requires that the notice of meeting seeking Shareholder approval under ASX Listing Rule 10.11 include the following details:

- **The name of the related parties receiving securities.**

  Goh Lai Huat and Sons Sdn Berhad

- **The maximum number of securities to be issued (if known) or the formula for calculating the number of securities to be issued to the related parties.**

  The exact number is not currently known, and will be the lower of:

  (i) the number of Shares calculated as follows:

  *Relevant Number ÷ Subscription Price*

  where "**Relevant Number**" means the A$ equivalent of RM 6,186,881 converted to A$ at the average of the closing RM/A$ exchange rates published by the Reserve Bank of Australia at 4.00pm for each of the 5 Business Days before the date of Completion and **"Subscription Price"** means A$1.15; and

  (ii) that number of Shares, as determined by Waterco acting reasonably, that would result in the Voting Power of the Soon Sinn Goh Group in Waterco being 3 percentage points higher than it was 6 months before the date of Completion.[2]

  At the time the transaction was announced, a notional exchange rate of 1 Australian Dollar to 3 Ringgit Malaysia was used to arrive at an estimated number of 1,793,300 shares. Based on a notional A$/RM exchange rate of 1 Australian Dollar to 3.4 Ringgit Malaysia (the notional exchange rate used in the Independent Expert's Report) 1,829,165 shares would be allotted, representing an increase of 2.81 percentage points in the voting power of the Soon Sinn Goh Group. The exact number will depend on the exchange rate at the time of Completion, but will not in any event result in the Voting Power of the Soon Sinn Goh Group in Waterco being 3 percentage points higher than it was 6 months before the date of Completion.

- **The date by which the Company will issue the securities, which must not be more than 1 month after the date of the meeting.**

  Provided that the terms of issue identified in (e) below are met, and completion of the Land Sale takes place within 1 month of the date of the Meeting, the Company will issue the shares within 1 month of the Meeting. However, if completion of the sale of Land does not take place within 1 month of the Meeting then consideration for the Land will be in cash only, even if GLH has exercised the option of receiving the consideration as partly cash and partly shares in the Company.

- **If a related party receiving securities is not a director, a statement of the relationship between the person and the director (or responsible entity or management company) that requires the approval to be obtained.**

  Mr Soon Sinn Goh (managing director and shareholder in the Company) is a director and shareholder of Goh Lai Huat and Sons Sdn Berhad.

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[2] [2] 3 percentage point increase over 6 months is the maximum permitted under section 611 exception 9 of the Corporations Act, without the need for shareholder approval of the increase, or a full takeover bid

- **The issue price of the securities and a statement of the terms of issue**

  The issue price of the shares is A$1.15 and issue of the shares is subject to:

  (i) Shareholder approval of both Resolution 1 and Resolution 2 at the Meeting;

  (ii) GLH electing within 7 days of the Meeting to receive part of the consideration for the Land as shares in the Company and providing the documentation required for the issue of shares to the Company within that period;

  (iii) Completion of the Land Sale occurring within 1 month of the date of the Meeting; and

  (iv) WFE not terminating the Land Sale Agreement due to adverse movement in the AUD/RM exchange rate.

- **A voting exclusion statement that excludes any related party that is to receive securities in the Proposed Transaction from voting on the relevant resolution.**

  The required voting exclusion statement is set out in the notice of meeting.

- **The intended use of the funds raised.**

  The intended use of the funds will be lending the equivalent amount to WFE to fund part of the consideration for the purchase of the Land.

## 7. Glossary

**30 Day VWAP** means the volume weighted average price over 30 trading days

**$, A$ or AUD** means Australian Dollars

**Agreement or Master Agreement** means the agreement entered into by Waterco Ltd with its wholly owned subsidiary Waterco (Far East) Sdn Bhd and with Goh Lai Huat and Sons Sdn Berhad for the proposed transaction identified in the Explanatory Memorandum

**Corporations Act** means the *Corporations Act 2001* (Cth)

**GLH** means Goh Lai Huat and Sons Sdn Berhad

**Land** means Lot 832 Jalan Kusta, Kawasan Perindustrian SB Jaya, 4700 Sungai Buloh, Selangor , Malaysia

**Meeting** means the general meeting of Shareholders to be held at 3:00pm on 21 June 2010 at 36 South Street, Rydalmere NSW Australia 2116

**Non-Associated Directors** means Ben Hunt, Richard Ling and Garry Norman

**RM** means Ringgit Malaysia

**Shareholders** means the shareholders of Waterco Ltd ACN 002 070 733

**Soon Sinn Goh Group** means the following persons/entities: Soon Sinn Goh, Goh Lai Huat & Sons Sdn Bhd, Mint Holdings Pty Ltd and GSS Holdings Sdn Bhd

**WFE** means Waterco (Far East) Sdn Bhd

# Waterco Limited

Independent Expert's Report and Financial Services Guide

11 May 2010

The Directors
Waterco Limited
36 South Street
Rydalmere, NSW 2116,

**Grant Thornton Corporate Finance Pty Ltd**
ABN 59 003 265 987
AFSL 247140

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
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11 May 2010

Dear Sirs

**Independent Expert's Report and Financial Services Guide**

**Introduction**

Waterco Limited ("Waterco" or the "Company") is a public Australian company which listed on the Australian Securities Exchange ("ASX") in 1989. The Company's primary activities include the manufacturing and distribution of an extensive range of pool and spa products and other water treatment equipment. Waterco's market capitalisation was approximately A$30 million as at 29 April 2010.

Waterco's wholly owned subsidiary, Waterco Far East Sdn Bhd, ("WFE"), is a private company incorporated in Malaysia and houses one of the group's principal facility (the "Manufacturing Facility")[1] for the manufacture of pumps and filters for both the commercial and residential sectors.

WFE currently leases the land (the "Land Asset") on which the Manufacturing Facility is located from Goh Lai Huat & Sons Sdn Bhd ("GLH"), a private company incorporated in Malaysia and an entity associated with Waterco's chairman and managing director, Mr Soon Sinn Goh. The current lease expires on 30 June 2057.

GLH is considered a "related party" of Waterco as the Company's chairman and managing director, Mr Soon Sinn Goh, is a major shareholder of Waterco as well as a shareholder and director of GLH.

Mr Soon Sinn Goh and his associates' (consisting of GLH, Mint Holdings Pty Ltd and GSS Holdings Sdn Bhd) (the "SSG Group") collectively own shares in Waterco ("Waterco Shares") amounting to approximately 50.9% of Waterco's current issued capital.

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[1] The Manufacturing Facility is located at Lot 832 Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor, Malaysia.

**Proposed Transaction**

On 19 April 2010, Waterco announced that the Company had entered into a Master Agreement with WFE and GLH comprising a Sale of Land Agreement and a Share Subscription Agreement as Annexure B and C respectively (the "Land Sale Agreement") whereby WFE proposes to acquire the Land Asset from GLH for a purchase consideration of Ringgit Malaysia ("RM") 13,748,625, approximately A$4.7 million, based on the exchange rate of RM1:A$0.34[2].

The consideration for the Land Asset will be satisfied at GLH's election either via:

i 100% cash (RM13,748,625 or A$4.7 million) ("Option A"); or

ii 55% cash (RM7,561,744 or A$2.6 million) and 45% (RM6,186,881 or A$2.1 million) in Waterco Shares at an issue price of A$1.15 per share ("Option B"). [3]

The above is referred to as the "Proposed Transaction". Subject to obtaining the required shareholders approvals, GLH has the option to elect either Option A or Option B to satisfy the purchase consideration and must notify Waterco and WFE of its election within 7 days of the shareholders' meeting approving the Proposed Transaction.

If the Proposed Transaction is completed and GLH elects Option B, SSG Group's interest in Waterco will increase from 50.9% to up to a maximum of 53.8%.

The two resolutions are not interdependent and if the shareholders of Waterco ("Waterco Shareholders") not associated with the SSG Group ("Non-Associated Shareholders") approve the acquisition of the Land Asset only, then the Proposed Transaction will proceed but the consideration will be satisfied via cash only (i.e. Option A).

**Purpose of the report**

The Proposed Transaction represents the acquisition of a substantial asset from an entity owned by a related party, being the SSG Group, and as such requires the approval of the Non-Associated Shareholders in accordance with ASX Listing Rule 10.1. ASX Listing Rule 10.10.2 requires that the Notice of Meeting to be accompanied by an independent expert report stating whether the transaction is fair and reasonable to the Non-Associated Shareholders.

Accordingly, the independent directors of Waterco have engaged Grant Thornton Corporate Finance to prepare an independent expert's report to state whether, in Grant Thornton Corporate Finance's opinion the Proposed Transaction under Option A and under Option B is fair and reasonable to the Non-Associated Shareholders for the purpose ASX Listing Rule 10.1.

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[2] This rate reflects our assessed exchange rate based on our review of recent spot rates and short-term and long-term forward rates further discussed in section 6.4.

[3] We note that the Land Sale Agreement includes a provision which limits the maximum number of Waterco Shares which may be issued to SSG Group such that it does not breach the 3% creeping rule in accordance with Item 9 of Section 611 of the Corporations Act. The number of Waterco Shares to be issued to GLH will be determined based on the average RM/A$ closing exchange rates published by the Reserve Bank of Australia for the five business days before completion.

For the purpose of this report, a property valuation specialist, Rahim & Co Chartered Surveyors Sdn Bhd ("Rahim & Co"), an international associate of Savills plc, was engaged to provide a valuation report which assesses the fair market value of the Land Asset. The report prepared by Rahim & Co ("Rahim & Co's Report") is included as Appendix D to this report.

**Summary of opinion**

**Grant Thornton Corporate Finance has concluded that the Proposed Transaction under Option A is fair and reasonable to the Non-Associated Shareholders.**

**Grant Thornton Corporate Finance has concluded that the Proposed Transaction under Option B is fair and reasonable to the Non-Associated Shareholders.**

We note that we have expressed separate opinions in relation to each of the option available under the Proposed Transaction as the options are not inter-dependent.

This summary of opinion should be read in conjunction with the detailed findings set out in the remainder of this report.

***Fairness assessment***

Option A

Under Option A, GLH will satisfy 100% of the purchase consideration via cash. In forming our opinion in relation to the fairness of the Proposed Transaction under Option A, Grant Thornton Corporate Finance has compared the value of the 100% cash consideration to the assessed value of the Land Asset as set out below. We note that the fair market value of the Land Asset has been independently assessed by Rahim & Co. and converted into Australian dollars using the assessed exchange rate of RM1/A$0.34.

| Fairness - Option A | Section reference | Low '000 | High '000 |
|---|---|---|---|
| 100% cash consideration (A$) | 7 | 4,675 | 4,675 |
| Assessed value of the Land Asset (A$) | 9 | 4,488 | 4,675 |
| Premium/(discount) (A$) | | 187 | 0 |
| Premium/(discount) (%) | | 4.2% | 0.0% |

*Source: Calculations*

The high end of the consideration offered falls within the assessed valuation range of the Land Asset. Accordingly, we conclude that the Proposed Transaction under Option A is fair to the Non-Associated Shareholders.

Whilst we have concluded that the Proposed Transaction under Option A is fair, we note that the consideration offered exceeds the low end of the Land Asset's valuation range.

**We note that in the event that the fair market value of the Land Assets is below A$4.675 million, then the Proposed Transaction would not be fair. Under these circumstances we believe that the Proposed Transaction would also not be reasonable having regard to the reasonableness considerations set out below.**

Option B

We note that under Option B, GLH will satisfy 55% of the purchase consideration via cash and the remaining 45% via the issue of Waterco Shares. In forming our opinion in relation to the fairness of the Proposed Transaction under Option B, Grant Thornton Corporate Finance has compared the value of the consideration offered to the assessed value of the Land Asset as set out below:

| Fairness - Option B | Section reference | Low '000 | High '000 |
|---|---|---|---|
| **Consideration offered comprising:** | | | |
| Cash consideration (A$) | 7 | 2,571 | 2,571 |
| Scrip consideration: | | | |
| Number of Waterco Shares offered as consideration | 8.1.6 | 1,829 | 1,829 |
| Assessed value per Waterco Share (A$) | 8.1.7 | 1.02 | 1.24 |
| Assessed value of scrip consideration (A$) | | 1,865 | 2,268 |
| **Total consideration offered (A$)** | | **4,436** | **4,839** |
| **Assessed value of the Land Asset (A$)** | 9 | **4,488** | **4,675** |
| Premium/(discount) (A$) | | (52) | 164 |
| Premium/(discount) (%) | | -1.1% | 3.5% |

*Source: Calculations*

The total assessed consideration offered is within the valuation range of the Land Asset. Accordingly, we conclude that the Proposed Transaction under Option B is fair to the Non-Associated Shareholders.

Whilst we have concluded that the Proposed Transaction under Option B is fair, we note that the high end of the assessed total consideration offered exceeds the high end of the Land Asset's valuation range.

**We note that in the event that the assessed total consideration offered exceeds A$4.675 million, then the Proposed Transaction would not be fair. Under these circumstances, we believe that the Proposed Transaction would also not be reasonable having regard to the reasonableness considerations set out below.**

***Reasonableness assessment***

For the purpose of assessing whether the Proposed Transaction is reasonable to the Non-Associated Shareholders, we have considered the following likely advantages and disadvantages associated with the Proposed Transaction. We also note that pursuant to RG 111, the Proposed Transaction is reasonable if it is fair.

<u>Advantages</u>

- If the Proposed Transaction is completed, WFE will own the land in which its principal pump and filter manufacturing facility is located on and consequently, secure control over the Manufacturing Facility in its entirety. Any future activities that WFE may wish to undertake with regards to the Land Asset and the Manufacturing Facility such as modifications, expansions, divestments etc., can be managed and implemented without seeking approval from the land owner. Consequently, any potential uncertainties with regards to third party approval requirements will be removed and in turn, enhance operational and general business stability.

- WFE will no longer be required to remit RM denominated rental payments on a monthly basis which will help reduce the Company's exposure to foreign currency risk.

<u>Disadvantages</u>

- the ownership of the Land Asset increases Waterco's fixed asset investment in a foreign country and increases the Company's exposure to the risks associated with an emerging economy;

- the Proposed Transaction will involve upfront cash outlay of approximately A$4.7 million under Option A which may otherwise be used for alternative investments, expansion activities or working capital purposes given the current lease of the Company with GLH expires in 2057;

- based on the independent valuation provided by Rahim & Co as set out in Appendix D and the current lease agreement between WFE and GLH, the implied annual yield on the Land Asset is approximately 4.3%. The implied yield is in our view lower than:

  - the weighted average cost of capital of the Company; and

  - the interest rate potentially payable by the Company on debt facilities secured by the Land Asset.

- in our assessment of the value per share of Waterco as set out in section 8.1, we have estimated the EBITDA multiple of the Company between 6.0 times and 6.5 times. If the Proposed Transaction is implemented, based on the actual rent paid by the Company to GLH (i.e. A$0.2 million per annum), the value uplift after implementation of the Proposed Transaction will be lower than the cash consideration payable by the Company under Option A;

- Waterco currently enjoys a secured long term lease up to 2057 and accordingly, the Proposed Transaction has little strategic value to the Non-Associated Shareholders;

- Waterco's cash balance may be insufficient to fully finance the cash purchase consideration. The Company may have to explore alternative forms of funding including debt borrowings which will further increase the Company's gearing levels. Waterco Shareholders may be exposed to investments that are more leveraged than previously;

- companies with high gearing levels are generally perceived to be riskier which may have an adverse impact on the Company's share price and, consequently, the value of Waterco Shareholders' investment in Waterco; and

- the Non-Associated Shareholders interest in Waterco will be slightly diluted as the SSG Group will collectively increase their ownership in Waterco from approximately 51% to up to approximately 54%, depending on the exchange rates leading up to the completion of the Proposed Transaction if GLH elects Option B.

***Other factors***

*Waterco Shareholders' position if the Proposed Transaction is not approved*

If the Proposed Transaction is not approved, it would be the current directors' intention to continue operating in line with its current objectives. Waterco Shareholders who retain their shares will continue to share in any benefits and risks in relation to Waterco's ongoing business.

*Land Asset sale price determination*

We note that prior to approving the transaction in-principle, Waterco's Non-Associated Directors obtained an independent valuation of the Land Asset from a local real estate property valuer based in Malaysia. On the basis that the Non-Associated Directors were satisfied that the consideration proposed for the Land Asset is no greater than the arms' length valuation, they approved the Proposed Transaction in-principal.

*Taxation*

Grant Thornton Corporate Finance has not provided any taxation advice in relation to the Proposed Transaction. Waterco Shareholders should consider the information contained in the Notice of Meeting and Explanatory Memorandum as well as seek their own taxation advice in relation to any potential taxation implications.

**Other matters**

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to approve the Proposed Transaction is a matter for each Waterco Shareholder based on their own views of value of Waterco and expectations about future market conditions, Waterco performance, risk profile and investment strategy. If Waterco Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

SCOTT GRIFFIN
Director

11 May 2010

**Financial Services Guide**

## i Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Waterco Limited ("Waterco" or the "Company") to provide general financial product advice in the form of an independent expert's report in relation to the proposed transaction between Waterco, Waterco's wholly owned subsidiary, Waterco Far East Sdn Bhd ("WFE") and Goh Lai Huat & Sons Sdn Bhd ("GLH") (the "Proposed Transaction"). This report is included in the Company's Notice of Meeting and Explanatory Memorandum.

## ii Financial Services Guide

This Financial Services Guide ("FSG") has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

## iii General financial product advice

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

## iv Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from Waterco a fixed fee range of A$40,000 to A$45,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.

**v Independence**

Grant Thornton Corporate Finance is required to be independent of Waterco in order to provide this report. The guidelines for independence in the preparation of independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

*"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Waterco (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Propose Transaction.*

*Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.*

*Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.*

*Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."*

**vi Complaints process**

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West
Melbourne, VIC 8007
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

**Compensation arrangements**

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

# Contents

# 1 Outline of the proposed transaction

## 1.1 Proposed transaction

Waterco Limited ("Waterco" or the "Company") is a public Australian company which listed on the Australian Securities Exchange ("ASX") in 1989. The Company's primary activities include the manufacturing and distribution of an extensive range of pool and spa products and other water treatment equipment. Waterco's market capitalisation was approximately A$30 million as at 29 April 2010.

Waterco's wholly owned subsidiary, Waterco Far East Sdn Bhd, ("WFE"), is a private company incorporated in Malaysia and houses one of the group's principal facility (the "Manufacturing Facility")[4] for the manufacture of pumps and filters for both the commercial and the residential sectors. WFE supplies all major overseas companies of the Waterco group, including Australia.

WFE currently leases the land (the "Land Asset") on which the Manufacturing Facility is located from Goh Lai Huat & Sons Sdn Bhd ("GLH"), a private company incorporated in Malaysia and an entity associated with Waterco's chairman and managing director, Mr Soon Sinn Goh. The current lease expires on 30 June 2057.

On 19 April 2010, Waterco announced that the Company had entered into a Master Agreement with WFE and GLH comprising a Sale of Land Agreement and a Share Subscription Agreement as Annexure B and C respectively (the "Land Sale Agreement") whereby WFE proposes to acquire the Land Asset from GLH for a purchase consideration of Ringgit Malaysia ("RM") 13,748,625, approximately A$4.7 million, based on the exchange rate of RM1:A$0.34[5].

The consideration for the Land Asset will be satisfied at GLH's election either via:

i 100% cash (RM13,748,625 or A$4.7 million) ("Option A"); or

ii 55% cash (RM7,561,744 or A$2.6 million) and 45% (RM6,186,881 or A$2.1 million) in shares in Waterco ("Waterco Shares") at an issue price of A$1.15 per share ("Option B"). [6]

The above is referred to as the "Proposed Transaction".

Subject to obtaining the required shareholder approvals, GLH has the option to elect either Option A or Option B to satisfy the purchase consideration and must notify Waterco and WFE of its selection within 7 days of the shareholders' meeting approving the Proposed Transaction.

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[4] The Manufacturing Facility is located at Lot 832 Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor, Malaysia.

[5] This rate reflects our assessed exchange rate based on our review of recent spot rates and short-term and long-term forward rates further discussed in section 6.4.

[6] We note that the Land Sale Agreement includes a provision which limits the maximum number of Waterco Shares which may be issued to SSG Group such that it does not breach the 3% creeping rule in accordance with Item 9 of Section 611 of the Corporations Act. The number of Waterco Shares to be issued to GLH will be determined based on the average RM/A$ closing exchange rates published by the Reserve Bank of Australia for the five business days before completion.

GLH is considered a "related party" of Waterco as the Company's chairman and managing director, Mr Soon Sinn Goh, is a major shareholder of Waterco as well as a shareholder and director of GLH.

Mr Soon Sinn Goh and his associates' (consisting of GLH, Mint Holdings Pty Ltd and GSS Holdings Sdn Bhd) (the "SSG Group") collectively own shares in Waterco ("Waterco Shares") amounting to approximately 50.9% of Waterco's current issued capital. Furthermore, Mr Soon Sinn Goh's brother is also a shareholder and director of GLH.

The Company is seeking the approval of the Shareholders not associated with Mr Soon Sinn Goh and his associates' ("Non-Associated Shareholders") in relation to the following:

- the acquisition of the Land Asset by WFE in accordance with the requirements of ASX Listing Rule 10.1; and

- the approval of the potential issue of Waterco Shares to GLH if Option B is elected by GLH in accordance with the requirements of ASX Listing Rule 10.11.

The two resolutions are not interdependent and if the Non-Associated Shareholders of Waterco approve the acquisition of the Land Asset only, then the Proposed Transaction will proceed but the consideration will only be satisfied via cash (i.e. Option A).

The Proposed Transaction is subject to a number of conditions as summarised in section 1.2 including the approval by Waterco Shareholders. This Independent Expert's Report will accompany a Notice of Meeting and Explanatory Memorandum to be sent to shareholders of Waterco ("Waterco Shareholders").

### 1.2 Conditions precedent

Apart from the customary conditions precedents for a transaction of this nature, the Proposed Transaction is subject to the following key conditions precedent:

- WFE has the option to terminate the Land Asset Agreement if the average exchange rate of the A$ against the RM, as published by the Reserve Bank of Australia, at 4.00pm for each of the five business days before the date of completion is more than 15% lower than the A$/RM exchange rate published by the Reserve Bank of Australia at 4.00pm on the business day before the date of the Land Sale Agreement. As at the date of this Report, the RM/A$ exchange rate is RM1:A$0.34 which is approximately equivalent to the exchange rate as at the date of exchange of the Land Sale Agreement; and

- Waterco receives approval from shareholders to undertake the Proposed Transaction.

## 1.3 Effects of the Proposed Transaction

### 1.3.1 Option A

If the Proposed Transaction is implemented via Option A, then:

- WFE will own the Land Asset in which the Manufacturing Facility is located; and
- WFE will pay RM13,748,625 (approximately A$4.7 million) in cash as consideration for the Land Asset.

### 1.3.2 Option B

If the Proposed Transaction is implemented via Option B, then:

- WFE will own the Land Asset in which the Manufacturing Facility is located;
- WFE will pay RM7,561,744 or approximately A$2.5 million cash and Waterco will issue approximately 1.8 million[7] Waterco Shares at an issue price of A$1.15 per share as consideration for the Land Asset; and
- SSG Group's interest in Waterco will increase from 50.9% to up to a maximum of 53.8%.

[7] This is based on converting the scrip consideration of RM6,186,881 into A$2.1 million using the assessed exchange rate based on our review of recent spot rates and short-term and long-term forward rates further discussed in section 6.4.

## 2 Purpose and scope of the report

### 2.1 Purpose

Chapter 10 of the ASX Listing Rules requires approval from the Non-Associated Shareholders of a company if it proposes to acquire a substantial asset from a related party or a substantial holder.

ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is 5% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX. Based on ASX Listing Rule 10.1.3, a substantial holder is a person who has a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the voting power of the company.

ASX Listing Rule 10.10.2 requires the Notice of Meeting to be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the Non-Associated Shareholders.

With respect to the Proposed Transaction, we note that the consideration offered by Waterco to GLH of RM13,748,625 (approximately A$4.7 million) exceeds 5% of Waterco's latest reported net assets as at 31 December 2009. Accordingly, Waterco's proposed acquisition of the Land Asset is considered a substantial asset for the purpose of ASX Listing Rule 10.1.

As the Proposed Transaction represents the acquisition of a substantial asset from a related party, the Proposed Transaction requires the approval of Waterco Shareholders not associated with GLH in accordance with ASX Listing Rule 10.1.

Accordingly, the independent directors of Waterco have engaged Grant Thornton Corporate Finance to prepare an independent expert's report to state whether, in Grant Thornton Corporate Finance's opinion the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders for the purpose ASX Listing Rule 10.1.

### 2.2 Basis of assessment

In preparing this report, Grant Thornton Corporate Finance has had regard to ASIC Regulatory Guide 111: *Content of Expert Reports* ("RG111"). RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG 111 does not however, provide any direct guidance on transaction under Chapter 10 of the ASX Listing Rules.

As the ASX Listing Rules do not provide any guidance on the meaning of fairness and reasonableness, we have referred to RG111 for guidance. In accordance with RG 111, an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject of the offer. A comparison must be made assuming 100% ownership of the target company.

RG 111 considers an offer to be "reasonable" if it is fair. An offer may also be reasonable if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

In our opinion, the most appropriate way to evaluate the fairness of the Proposed Transaction is to compare the fair market value of the Land Asset being acquired by WFE to the fair market value of the consideration offered by WFE.

As discussed in section 1.1, GLH has agreed to sell the Land Asset to WFE for RM13,748,625 (approximately A$4.7 million). WFE will satisfy the purchase consideration, at the election of GLH, by Option A or Option B. As the outcome of whether Option A or Option B will be selected is unknown as at the date of this report, we have assessed the fairness of the Proposed Transaction as set out below:

i Under Option A – by comparing the 100% cash consideration of RM13,748,625 to the fair market value of the Land Asset; and

ii Under Option B – by comparing the fair market value of the cash and scrip combined consideration to the fair market value of the Land Asset.

With respect to the reasonableness of the Proposed Transaction to the Non-Associated Shareholders, we have considered a number of factors, including:

- whether the Proposed Transaction under Option A and Option B is fair;
- the terms and conditions relating to the Proposed Transaction between Waterco and GLH going forward and its impact on Waterco;
- the implications to Waterco and the Non-Associated Shareholders if the Proposed Transaction is not approved;
- other likely advantages and disadvantages associated with the Proposed Transaction; and
- other costs and risks associated with the Proposed Transaction that could potentially affect the Non-Associated Shareholders.

For the purpose of this report, a property valuation specialist, Rahim & Co Chartered Surveyors Sdn Bhd ("Rahim & Co"), an international associate of Savills plc, was engaged to provide a valuation report which assesses the fair market value of the Land Asset. The report prepared by Rahim & Co ("Rahim & Co's Report") is included as Appendix D to this report.

### 2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Proposed Transaction with reference to the ASIC Regulatory Guide 112 "Independence of Expert's Reports" ("RG 112").

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of an independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

### 2.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around May 2010 in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Transaction.

This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of General Meeting and Explanatory Statement.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to Waterco Shareholders as a whole. We have not considered the potential impact of the Proposed Transaction on individual Waterco Shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual shareholders.

The decision of whether or not to approve the Proposed Transaction is a matter for each Waterco Shareholder based on their own views of value of Waterco and expectations about future market conditions, Waterco's performance, risk profile and investment strategy. If Waterco Shareholders are in doubt about the action they should take in relation to each of the Proposed Transaction, they should seek their own professional advice.

## 3 Profile of the industry

Waterco's primary activities include the manufacturing and distribution of a range of pool and spa products and other water treatment equipment. WFE houses the Manufacturing Facility in Malaysia which produces Waterco's pumps and filters for commercial and residential sectors.

### 3.1 Overview of the pump and compressor manufacturing industry

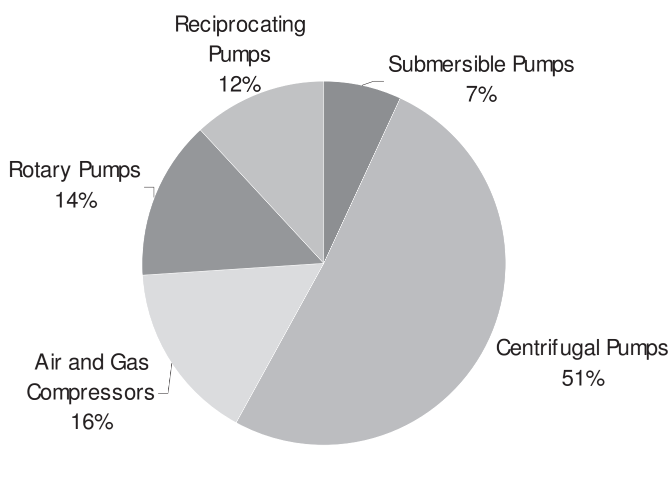
The pump and compressor manufacturing industry includes those entities involved in the manufacture of pumps and pumping systems. The main products manufactured by the industry are air and gas compressors, centrifugal pumps, reciprocating pumps, rotary pumps and submersible pumps. The products produced by the industry are typically used to move fluids, including liquids, gases and slurries, by physical or mechanical action. The industry also manufactures air and gas compressors, however, specifically excludes those used in air conditioning and refrigeration.

The pump and compressor manufacturing industry consists largely of numerous small to medium sized entities and a few large entities. Competitors within the industry tend to focus on specialised, high value products designed specifically for particular markets and customers. The nature of the industry often results in successful competitors being acquired by larger international players.

The pump and compressor manufacturing industry is a growing industry with a high level of competition. Technological advancements and shifting customer demographics has fuelled growth in the industry during the past five years. The industry maintains relatively high barriers to entry as a result of the capital expenditure required to acquire or develop new technology, which is a key competitive edge to win market share.

### 3.2 Major products and services

The following graph sets out the major products and services manufactured by players in the industry in 2009.




*Source: IBISWorld*

- centrifugal pumps are the most commonly produced pump in the industry and are often supplied to the water supply, mining and agriculture industries. The primary usage of these pumps is to move liquids through a piping system;

- air and gas compressors can be used to pump air or other gases into a closed container and range from hand pumps to large power-driven devices that furnish compressed air for operating pneumatic machinery;

- rotary pumps are positive-displacement pumps that move fluid using rotation. The vacuum created by the rotation of the pump captures and draws in the liquid;

- reciprocating pumps function as a system of suction and discharge valves to move fluid and are commonly used to pump highly viscous fluids, such as concrete and heavy oils;

- submersible pumps have hermetically sealed motor close-coupled to the pump body and are commonly used in drainage, sewage pumping, industrial pumping and slurry pumping.

### 3.3 Competition

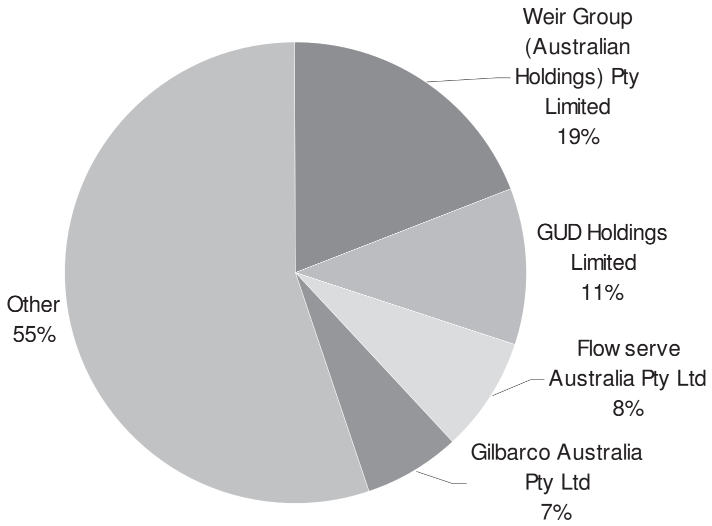
The pump and compressor manufacturing industry consists largely of numerous small to medium sized entities and a few large entities. The four largest firms in the industry account for approximately 45% of total industry revenue. These industrial operators typically manufacture and distribute a large and diverse range of products to a wide geographical customer base.

There is a high level of competition in the pump and compressor industry where competition is primarily based on product quality and price. There has been a growing trend within the industry for competitors to maintain competitiveness by relocating their manufacturing operations to low-cost regions, such as many Asian countries.

Increasing competition has also led domestic players to differentiate themselves by providing more specialised, higher value products designed specifically for niche markets and incorporating the latest technological advancements.

### 3.4 Key competitors

The industry's key players are set out below:




*Source: IBISWorld*

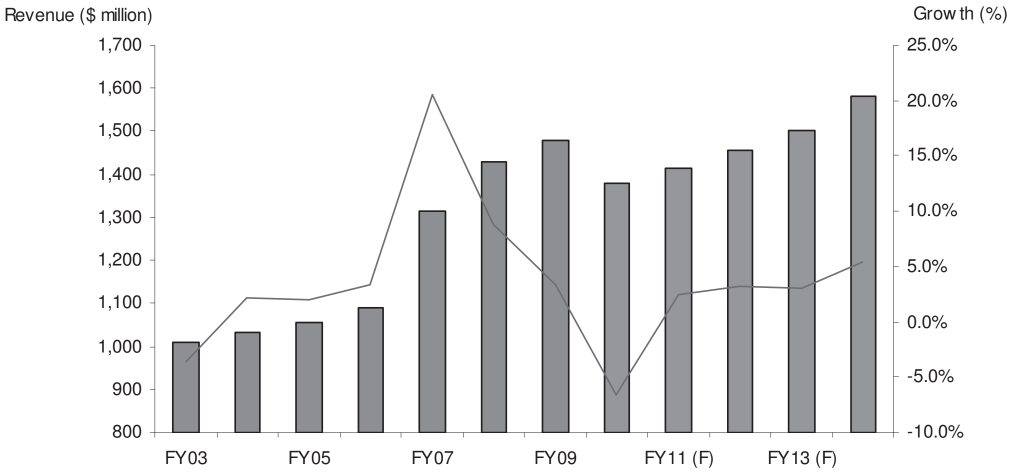
### 3.5 Key performance factors

Set out below are the key factors affecting the performance of competitors within the pump and compressor manufacturing industry:

- proximity to target market, ability to deliver on time, customer service and post-sale support;
- effective distribution and supply networks;
- modern and efficient technology and manufacturing infrastructure; and
- fluctuations in exchange rates and commodity prices.

### 3.6 Industry performance

The historical and forecast revenue in the pump and compressor manufacturing industry is set out below.




*Source: IBISWorld*

The pump and compressor manufacturing industry has suffered severely during the global financial crisis due to reduced demand for both industrial and consumer products. It is estimated the industry will contract by 16.7% during FY10, due to production cuts, delays in expansion plans and closed-down mines.

Demand is expected to increase gradually during FY10 to FY14 as a result of expected improving economic conditions, high growth in south-east Asia and China, increasing activity in the natural gas sector and increasing mining and exploration activities. On the retail side, rising incomes, improving housing affordability and private wealth coupled with various forms of fiscal stimulation are expected to stimulate the demand for leisure products in the consumer market.

There are some challenges facing the industry, including ongoing dry conditions in rural areas, which may adversely affect the volume of pumps and compressors demanded by the agricultural industry. Further regulation surrounding water usage may also impact on the level of demand for retail and industrial pumps and compressors.

# 4 Profile of Waterco

## 4.1 Corporate overview

Waterco is a public Australian company which listed on the ASX in 1989. The Company was established in 1981 in Sydney, Australia as a distributor of Polyvinyl Chloride pipes and fittings and subsequently expanded into the manufacturing and distribution of pool and spa products and water treatment equipment.

Waterco currently employs approximately 460 people worldwide. The Company manufactures and distributes pool and spa products and water treatment equipment in Australia, New Zealand, Malaysia, China, the United Kingdom, United States of America, Canada and Indonesia. Revenue is predominantly generated by supplying these products to swimming pool builders and retailers. Retailers include Waterco's global retail networks for which Waterco is the franchisor. Waterco's dealer and franchise networks include the following:

- Swimart: Waterco is the franchisor for Australia and New Zealand's largest chain of pool and spa stores with 63 retail stores and more than 150 mobile service vans. There are currently no Company owned Swimart stores;

- Zane Solar: consists of a network of 35 dealers throughout Australia. Zane dealers install solar pool heating systems using Zane's award winning solar absorbers; and

- Watershoppe: a network of 11 dealers through which Waterco's domestic water filters and purifiers are sold throughout Malaysia.

Since 2000, Waterco has grown through a series of acquisitions, including:

- In September 2000, Waterco acquired the Watercare division of Asia Pacific Chemicals Limited, which subsequently became Australia's largest supplier of dry chlorine. During FY09, Waterco sold its chemical division business which supplies supermarkets, mass merchants and hardware customers to Pool Resources Pty Limited. Waterco retained the portion of its chemical business that supplies independent pool stores and Swimart stores;

- In April 2003, Waterco acquired Lacron Limited, Britain's largest and most progressive manufacturer of pressure vessels and filters used in swimming pools, irrigation systems, drinking water systems, fish farming, industrial plants and sewage installations. This acquisition formed part of Waterco's strategic manoeuvre into the European market;

- In March 2005, Waterco acquired Focus Temp International Inc ("Focus Temp"), a Canadian based manufacturer of high energy-efficient swimming pool heat pumps. The acquisition of this business provided a dominant market share in Canada and a growing presence in both the United States and international markets. The acquisition and subsequent performance of Focus Temp have, however, resulted in disputes between Waterco and Focus Temp's previous owner and employee; and

- In March 2005, Waterco acquired the business assets of Baker Hydro. Baker Hydro was a filtration and water treatment company with a strong presence in international markets.

### 4.2 Waterco products

The range of products offered by Waterco includes:

- swimming pool pumps, filters, heaters, chlorinators and chemicals;
- underwater lights;
- general pool, spa and spa bath equipment;
- domestic pressure pumps, filters and softeners;
- drinking water purifiers;
- pumps and filters for commercial water treatment; and
- pumps and filters for aquaculture.

Generally, pumps, filters and chemicals are the largest contributor to Waterco's total annual sales.

Waterco has recently designed a new product, known as the 'Multi Cyclone', which works on the basis of centrifugal water filtration and has no moving parts to wear and no filter media to clean or replace. There are patents pending for the Multi Cyclone within Australia, China, Europe and the US. The product has just recently been released in Australia. Waterco has built two new manufacturing plants in Malaysia and China to meet increasing demands from Europe and the US for its products. The Malaysian manufacturing plant measures 22,500 square metres and the Chinese manufacturing plant measures 12,000 square meters. Both facilities have been built with the provision for future expansion in warehousing and manufacturing equipment.

### 4.3 Operations

Waterco has operations in numerous regions worldwide. The following figure from Waterco's 2009 financial report sets out the global reach of Waterco:


*Source: Waterco 2009 Financial Report*

The following table sets out the revenue breakdown for each of Waterco's geographic segments for the first half of FY10:

| Waterco<br>Income breakdown | HY10 Revenue Audited A$'000 | Percentage of total revenue % |
|---|---|---|
| Australia and New Zealand | 29,839 | 77% |
| South-East Asia | 2,049 | 5% |
| North America | 3,670 | 9% |
| Other | 2,862 | 7% |
| Unallocated revenue | 303 | 1% |
| **Total revenue** | **38,723** | **100%** |

*Source: Waterco HY10 Financial Report*

Waterco's wholly owned subsidiary, WFE, is a private company incorporated in Malaysia. WFE houses the Manufacturing Facility where the group's pumps and filters for both the commercial and the residential sectors are produced. WFE supplies all major overseas divisions, including Australia.

WFE currently leases the Land Asset from GLH under an agreement ("the Tenancy Agreement") which commenced on 1 July 2007 and expires on 30 June 2057. Under the Tenancy Agreement, for the period from 1 July 2007 to 30 June 2010, WFE is required to remit monthly rental of RM50,833 per month or approximately A$17,000 per month, with a new rental amount to be negotiated for the period following 30 June 2010.

### 4.4 Financial information

The following table summarises the audited income statements of Waterco for FY08, FY09 and the first half of FY10:

| Waterco | FY08 | FY09 | 1HY10 |
|---|---|---|---|
| **Income statements** | **Audited A$'000** | **Audited A$'000** | **Audited A$'000** |
| Total revenue | 77,538 | 72,286 | 38,723 |
| Changes in inventories of finished goods and work in progress | 5,398 | (1,740) | 442 |
| **Expenses** | | | |
| Raw materials and consumables used | (48,289) | (39,649) | (21,518) |
| Employee benefits | (12,314) | (12,205) | (6,106) |
| Advertising | (1,415) | (1,408) | (653) |
| Discounts allowed | (1,009) | (155) | (159) |
| Outward freight expense | (2,542) | (1,657) | (860) |
| Rent | (3,213) | (2,395) | (1,151) |
| Contracted staff | (649) | (528) | (177) |
| Warranty expense | (863) | (686) | (341) |
| Comission expense | (825) | (477) | (207) |
| Costs of non-current assets disposed of during the year | - | - | |
| Unrealised foreign exchange losses | - | - | - |
| Other expenses | (4,211) | (3,548) | (2,788) |
| Expenses (split unavailable) | | | |
| **Total expenses** | **(75,328)** | **(62,706)** | **(33,960)** |
| EBITDA | 7,607 | 7,839 | 5,205 |
| EBITDA margin | 10% | 11% | 13% |
| Depreciation, amortisation and impairment(1) | (4,727) | (2,744) | (1,407) |
| **EBIT** | **2,880** | **5,096** | **3,798** |
| EBIT margin | 4% | 7% | 10% |
| Interest income | 94 | 43 | n/a* |
| Finance costs | (2,256) | (1,584) | (634) |
| **Profit before tax** | **718** | **3,555** | **3,164** |
| income tax | (1,303) | (1,277) | (1,057) |
| **Net profit after tax** | **(586)** | **2,278** | **2,107** |
| Net profit margin | -1% | 3% | 5% |

Note (1): The depreciation includes the plant & equipment depreciation which was allocated to cost of goods sold in the audited accounts

*Source: Waterco financial reports*

We note the following in relation to Waterco's income statements:

### 4.4.1 Revenue

- during FY08, a fire at the Manufacturing Facility destroyed almost all of WFE's inventory and caused significant disruption to Waterco's supply network. The fire resulted in the loss of approximately A$3 million in revenue. A significant portion of the resultant losses were covered by insurance and the Manufacturing Facility has since been restored and resumed operating at full production;

- sales in FY08 were also affected by the global financial crisis which decreased the construction of new pools decreased and manufacturing activities as consumer spending contracted;

- during FY09, Waterco sold the portion of its chemical division business that supplied to supermarkets, hardware stores and other mass merchants across Australia. This resulted in lower sales revenue generated by Waterco during FY09;

- Waterco generated approximately 77% of total revenue during the first half of FY10 from the Australian and New Zealand markets;

- In the first half of FY10, Waterco's sales performance improved due to the recovery in the contribution from Waterco's Swimart franchise group as well as the strong Australian and New Zealand currencies;

- Trading conditions in the North American and European markets continue to be difficult as a result of the lingering effects of the global financial crisis prevalent in those markets;

- Waterco has continued to grow its emerging commercial water treatment equipment business in Australian and New Zealand which helped to offset the decline in the residential sector; and

- the Company has continued to undertake research and development and expand into high pressure filters for water treatment, which resulted in sales of large commercial filters designed for the pre-filtration of seawater for a desalination plant in the Middle-East.

### 4.4.2 Expenses

- during FY08, the Company incurred impairment expenses in the order of A$1.4 million and A$1.8 million relating to goodwill recognised on the acquisitions of the business assets of Focus Temp Canada and Baker Hydro Filtrations Inc in the United States respectively;

- Waterco continued to relocate its manufacturing activities to WFE and downsize its Australian manufacturing staff during FY09;

- discounts allowed decreased significantly during FY09 compared to previous years as a result of the sale of Waterco's chemical division business, which previously paid substantial rebates to mass merchants and hardware stores;

- rental expenses include amounts incurred by WFE in relation to the occupancy of the Land Asset;

- other expenses include insurance, payroll tax, discount allowed, consultancy fees, printing and stationary, travel expenses, computer expenses and telephone expenses.

The balance sheets of Waterco as at 30 June 2009 and as at 31 December 2009 are set out below:

| Waterco<br>Balance Sheets | Jun-09<br>Audited<br>A$'000 | Dec-09<br>Audited<br>A$'000 |
|---|---|---|
| **Current assets** | | |
| Cash | 2,050 | 4,124 |
| Receivables | 11,122 | 13,945 |
| Inventories | 25,571 | 25,013 |
| Other current assets | 665 | 734 |
| **Total current assets** | **39,408** | **43,816** |
| **Non-current assets** | | |
| Property, plant and equipment | 33,187 | 29,289 |
| Intangibles | 41 | 32 |
| Deferred tax | 594 | 586 |
| Related party loans | - | - |
| Other non-current assets | 341 | 280 |
| **Total non-current assets** | **34,163** | **30,187** |
| **Total assets** | **73,571** | **74,003** |
| **Current liabilities** | | |
| Trade and other payables | 7,666 | 12,022 |
| Financial liabilities | 1,393 | 1,200 |
| Current tax liabilities | 288 | 793 |
| Employee provisions | 1,701 | 1,738 |
| **Total current liabilities** | **11,048** | **15,753** |
| **Non-current liabilities** | | |
| Financial liabilities | 20,242 | 19,227 |
| Employee provisions | 211 | 205 |
| Deferred Tax | 1,439 | 741 |
| **Total non-current liabilities** | **21,892** | **20,173** |
| **Total liabilities** | **32,940** | **35,926** |
| **Net assets** | **40,631** | **38,077** |

*Source: Waterco Financial Reports*

We note the following in relation to Waterco's balance sheets:

- property, plant and equipment includes freehold land and buildings, leasehold land and plant and equipment. The Company acquired A$5.8 million net in freehold land, freehold buildings and plant and equipment during FY09;

- other current assets and other non-current assets consist primarily of prepayments and deferred expenditure respectively;

- trade payables increased from approximately A$7.7 million at 30 June 2009 to A$12.0 million at 31 December 2009, primarily caused by the seasonality of the business' operations;

- Waterco has debt levels which are quite significant relative to its current market capitalisation. The company's implied gearing is approximately 60% based on net debt levels as at 31 December 2009; and

- deferred tax liabilities decreased from approximately A$1.4 million at 30 June 2009 to A$0.7 million at 31 December 2009, primarily caused by a downward revaluation of one of Waterco's properties located in Rydalmere, NSW in November 2009.

## 4.5 Capital Structure

### 4.5.1 Waterco Shares

As at the date of this report, Waterco has 30,152,637 ordinary shares on issue. The following table sets out the top 20 Waterco Shareholders as at 14 April 2010:

| Shareholder | Number of Waterco Shares held | Interest % |
|---|---|---|
| SSG Group | 15,341,114 | 50.88% |
| Redbrook Nominees Pty Ltd | 995,559 | 3.30% |
| HSBC Custody Nominees (Australia) Limited | 951,501 | 3.16% |
| Acres Holdings Pty Ltd | 929,663 | 3.08% |
| Mr Bruce and Mrs Judy Leitch <Leitch Super Fund A/C> | 490,501 | 1.63% |
| Redbrook Nominees Pty Ltd | 465,350 | 1.54% |
| Jok Pty Limited <Hempton Super Fund A/C> | 464,905 | 1.54% |
| Mr Chu Shien Chang | 340,281 | 1.13% |
| Redbrook Nominees Pty Ltd | 321,503 | 1.07% |
| Acres Holdings Pty Ltd | 318,745 | 1.06% |
| Ms Janet Swee Nyet Goh | 305,607 | 1.01% |
| Brazil Enterprises Pty Ltd | 295,173 | 0.98% |
| Mr Swee Kheong Goon | 290,000 | 0.96% |
| SG Corporation Pty Limited | 271,026 | 0.90% |
| Mr Benjamin Hunt <B F Hunt Super Fund A/C> | 252,181 | 0.84% |
| Mr Tiow Lip Lee | 245,386 | 0.81% |
| Ms May-Yin Goh | 207,217 | 0.69% |
| GWK Corporation Pty Limited | 192,409 | 0.64% |
| Other shareholders | 7,474,516 | 24.8% |
| **Total** | **30,152,637** | **100.0%** |

*Source: Waterco*

### 4.5.2 Waterco options

As at the date of this report, Waterco has 498,000 unlisted employee share options ("Waterco Options") on issue with the following terms:

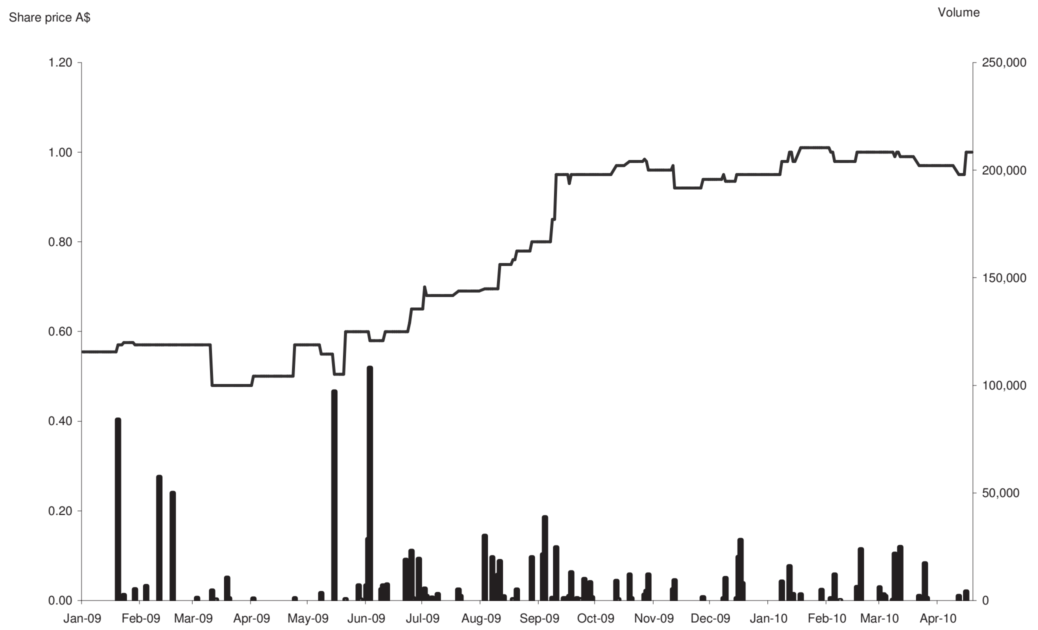
| Grant date | Vesting date | expiry date | exercise price A$ | Optons on issue |
|---|---|---|---|---|
| 7-May-08 | 22-Jan-10 | 22-Jan-13 | 1.35 | 100,000 |
| 7-May-08 | 22-Jan-11 | 22-Jan-13 | 1.35 | 100,000 |
| 7-May-08 | 22-Jan-12 | 22-Jan-13 | 1.35 | 100,000 |
| 31-Oct-08 | 1-Jul-10 | 1-Jul-13 | 1.35 | 36,000 |
| 31-Oct-08 | 1-Jul-11 | 1-Jul-13 | 1.35 | 36,000 |
| 31-Oct-08 | 1-Jul-12 | 1-Jul-13 | 1.35 | 36,000 |
| 29-Jul-08 | 1-Jul-10 | 1-Jul-13 | 1.35 | 30,000 |
| 29-Jul-08 | 1-Jul-11 | 1-Jul-13 | 1.35 | 30,000 |
| 29-Jul-08 | 1-Jul-12 | 1-Jul-13 | 1.35 | 30,000 |
| | | | **Total** | **498,000** |

*Source: Waterco*

We note that the only vesting conditions in place with regards to Waterco Options relate to the timing of the vesting of the options.

## 4.6 Share price performance

The share market price movements and volumes of Waterco Shares traded on the ASX from 1 January 2009 to April 2010 are set out in the chart below:




*Source: Reuters*

We note the following in relation to the share price history shown above:

| Date | Comments |
|---|---|
| 19 Apr 2010 | Waterco announced the Proposed Transaction. The share price of Waterco closed at A$1.00. |
| 25 Feb 2010 | Waterco released it's first half of FY10 interim financial report. The share price of Waterco closed at A$1.00. |
| 18 Dec 2009 | Waterco issued 392,108 Waterco Shares at A$0.86 per share pursuant to the Company's dividend reinvestment plan. The share price of Waterco closed at A$0.95. |
| 27 Nov 2009 | Waterco released a notice of change of interests of a substantial holder regarding Mr Soon Sinn Goh's acquisition of an additional 700,000 Waterco Shares, increasing his interest in Waterco from 48.4% to 50.7%. The share price of Waterco closed at A$0.94. |
| 31 August 2009 | Waterco released its preliminary FY10 annual financial report. The share price of Waterco closed at A$0.80. |
| 22 Jul 2009 | Waterco released a notice of initial substantial holder regarding Redbrook Nominees Pty Limited becoming a substantial shareholder of Waterco. The share price of Waterco closed at A$0.69. |
| 29 May 2009 | Waterco issued 620,836 Waterco Shares at A$0.50 per share pursuant to the Company's dividend reinvestment plan. The share price of Waterco closed at A$0.60. |
| 19 Feb 2009 | Waterco released its first half of FY09 interim financial report. The share price of Waterco closed at A$0.57. |

*Source: ASX and Reuters*

Set out below is the share performance of Waterco since January 2009:

| Share price performance | High A$ | Low A$ | Close A$ | Average weekly volume |
|---|---|---|---|---|
| **Month ended** | | | | |
| January 2009 | 0.58 | 0.56 | 0.57 | 20,852 |
| February 2009 | 0.58 | 0.57 | 0.57 | 28,535 |
| March 2009 | 0.57 | 0.48 | 0.48 | 4,018 |
| April 2009 | 0.57 | 0.48 | 0.57 | 439 |
| May 2009 | 0.60 | 0.48 | 0.60 | 25,795 |
| June 2009 | 0.65 | 0.58 | 0.65 | 53,476 |
| July 2009 | 0.70 | 0.65 | 0.69 | 4,284 |
| August 2009 | 0.80 | 0.70 | 0.80 | 25,623 |
| September 2009 | 0.95 | 0.80 | 0.95 | 28,343 |
| October 2009 | 1.00 | 0.95 | 0.96 | 9,430 |
| November 2009 | 0.97 | 0.92 | 0.94 | 3,810 |
| December 2009 | 0.95 | 0.94 | 0.95 | 14,942 |
| January 2010 | 1.01 | 0.95 | 1.01 | 8,390 |
| February 2010 | 1.01 | 0.98 | 1.00 | 10,800 |
| March 2010 | 1.00 | 0.97 | 0.97 | 19,283 |
| April 2010 | 1.05 | 0.95 | 1.05 | 7,242 |
| **Week ended** | | | | |
| 5 Feb 2010 | 1.01 | 0.98 | 0.98 | 13,000 |
| 12 Feb 2010 | 0.98 | 0.98 | 0.98 | 200 |
| 19 Feb 2010 | 1.00 | 0.98 | 1.00 | 30,000 |
| 26 Feb 2010 | 1.00 | 1.00 | 1.00 | - |
| 5 Mar 2010 | 1.00 | 1.00 | 1.00 | 13,000 |
| 12 Mar 2010 | 1.00 | 0.99 | 0.99 | 54,965 |
| 19 Mar 2010 | 1.00 | 0.99 | 0.99 | - |
| 26 Mar 2010 | 0.97 | 0.97 | 0.97 | 20,737 |
| 2 Apr 2010 | 0.97 | 0.97 | 0.97 | - |
| 9 Apr 2010 | 0.97 | 0.97 | 0.97 | - |
| 16 Apr 2010 | 1.00 | 0.95 | 1.00 | 6,137 |
| 23 Apr 2010 | 1.00 | 0.96 | 1.00 | 22,729 |
| 30 Apr 2010 | 1.05 | 1.00 | 1.05 | 3,000 |

*Source: Reuters*

# 5 The Land Asset

## 5.1 Overview

The Land Asset relates to the parcel of land, upon which the Manufacturing Facility has been constructed, which WFE currently leases from GLH.

The address of the Land Asset is Lot 832, Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor Darul Ehsan, Malaysia. It is located within the local authority area of Majlis Perbandaran Selayang, approximately 25 kilometers northwest of Kuala Lumpur's city centre.

With a surveyed land area of approximately 2.55 hectares (274,969 square feet), the Land Asset is a plot of freehold industrial land upon which the Manufacturing Facility has been erected. The Manufacturing Facility is a three-storey office annexed with a one-and-a-half-storey detached factory and a one-story detached factory together with other outbuildings.

The Manufacturing Facility was established as part of Waterco's strategy to relocate part of the Company's manufacturing activities to Malaysia in order to reduce overheads. WFE incurred all costs associated with the construction of the Manufacturing Facility on the Land Asset. The Manufacturing Facility is Waterco's principal facility for the production of pumps and filters for both the commercial and the residential sectors. The Manufacturing Facility's output supplies all major overseas Waterco divisions, including Australia.

## 5.2 Tenancy agreement

The current Tenancy Agreement between WFE and GLH commenced on 1 July 2007 and expires on 30 June 2057. Under the Tenancy Agreement, for the period from 1 July 2007 to 30 June 2010, WFE is required to remit monthly rental of RM50,833 per month or approximately A$17,000 per month, with a new rental amount to be negotiated for the period following 30 June 2010.

Under the tenancy agreement, WFE must submit all building plans and cost estimates and obtain written permission from GLH prior to undertaking any land improvement works on the Land Asset. Furthermore, if any construction activity is undertaken, GLH may subsequently require WFE to restore the Land Asset back to its original condition at the expense of WFE if the Company decides to relocate the Manufacturing Facility.

GLH is entitled to dispose of the Land Asset and, at the same time, WFE is entitled to dispose of the Manufacturing Facility and any other improvement works undertaken on the Land Asset, whereupon the Tenancy Agreement would lapse.

# 6 Valuation methodologies

## 6.1 Introduction

As discussed in section 2.2, GLH has the option to receive the purchase consideration by either cash only (i.e. Option A) or by a mix of cash and scrip (i.e. Option B).

As the outcome of whether Option A or Option B will be selected remains unknown as at the date of this report, we have separately assessed the fairness of the Proposed Transaction under Option A and Option B.

In each case, Grant Thornton Corporate Finance has assessed values using the concept of fair market value. Fair market value is commonly defined as:

*"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."*

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

## 6.2 Valuation methodologies

We have referred to RG111 which outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
- application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- amount available for distribution to security holders on an orderly realisation of assets;
- quoted price for listed securities, when there is a liquid and active market; and
- any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

## 6.3 Selected valuation methods

In order to determine whether or not the Proposed Transaction is fair to the Non-Associated Shareholders, we have assessed the fair market value of the Waterco Shares and the Land Asset and converted the cash consideration into A$. Our selected valuation methods are set out below:

### 6.3.1 Valuation of cash consideration

The cash consideration under Option A and Option B is denominated in the Malaysian sovereign currency, Ringgit Malaysia ("RM"). In order to determine the value of the cash consideration under each option, we have converted the cash amounts being offered as consideration into Australian dollars. Our assessment of the adopted exchange rate has been discussed in section 6.4.

### 6.3.2 Valuation of Waterco Shares

When considering the appropriate valuation methodology for Waterco, Grant Thornton Corporate Finance notes that:

- our analysis of Waterco's historical financials and short-term financial forecast indicates that the Company has consistently achieved EBITDA gains in recent years and has forecast to achieve further EBITDA gains for FY10;

- the trading volumes of Waterco Shares on the ASX are low with large oscillations in share prices; and

- a long-term financial forecast of Waterco has not been made available to us to enable an assessment of the Company using the DCF methodology.

For the purpose of this report we have selected the capitalisation of future maintainable EBITDA approach to value the Waterco Shares. The application of the capitalisation of earnings approach generally requires the business to demonstrate consistent historical and forecast earnings.

Our valuation assessment of Waterco Shares assumes that the Proposed Transaction proceeds in order to assess the value of the consideration offered to GLH in accordance with the requirements of ASIC's RG111. Accordingly, upon implementation, WFE will no longer remit rental payments to GLH and under Option B there will be an additional 1.8 million Waterco Shares on issue. This is consistent with the requirements of RG111.

In addition, our assessment of Waterco Shares is on a minority basis as the number of Waterco Shares to be issued if GLH elects Option B is below the 3% 'creeping' rule, which is one of the key exceptions to the takeover provision under Section 611(9) of the Corporations Act.

The application of the capitalisation of earnings methodology involves:

- selecting an appropriate level of EBITDA (generally referred to as maintainable EBITDA), having regard to the historical and forecast operating results after adjusting for non-recurring items of income and expenditure and other known factors likely to affect the future operating performance of the business; and

- determining an appropriate EBITDA multiple having regard to the trading multiples of comparable companies, transaction evidence, extent and nature of competition in the industry, quality of earnings, future growth opportunities, asset backing and relative investment risk.

Under the capitalisation of EBITDA methodology, the level of net interest bearing debt and other assets/liabilities not reflected in the EBITDA are adjusted from the enterprise value to derive the value of the equity.

We have cross-checked our valuation results to the recent share price of Waterco.

#### 6.3.3 Valuation of the Land Asset

The valuation of the Land Asset has been carried out in conjunction with an independent property valuation specialist with expertise in the relevant area in accordance with RG112 and generally accepted market practice. Rahim & Co has been appointed by Grant Thornton Corporate Finance to undertake the valuation of the Land Asset. Rahim & Co has conducted the valuation of the Land Asset in accordance with international valuation standards.

As discussed in section 5.1, WFE incurred all costs associated with the construction of the Manufacturing Facility on the Land Asset. Accordingly, Rahim & Co has valued the Land Asset based on vacant possession of the land.

A copy of Rahim & Co's Report is included as Appendix D to this report.

### 6.4 Exchange rate assumption

Our assessment of whether or not the Proposed Transaction is fair to the Non-Associated Shareholders involves the conversion of RM to A$. In order to select an appropriate exchange rate for our valuation, we have had regard to the recent spot rates and the short-term and long-term forward rates for the A$, RM and US$.

Grant Thornton Corporate Finance considers an exchange rate of RM1:A$0.34 to be appropriate for the purpose of this report.

## 7 Cash consideration

The cash consideration payable under the Proposed Transaction differs depending upon whether Option A or Option B is selected.

As discussed in section 6.4, Grant Thornton Corporate Finance considers an exchange rate of RM1:A$0.34 to be appropriate for the purpose of this report. Accordingly, we have converted the cash consideration payable under Option A and Option B at the adopted exchange rate as set out below:

| Cash consideration | RM'000 | Adopted exchange rate (RM/A$) | A$'000 |
|---|---|---|---|
| Option A: 100% cash consideration | 13,749 | 0.34 | **4,675** |
| Option B: 55% cash consideration | 7,562 | 0.34 | **2,571** |

## 8 Valuation of Waterco Shares

As outlined in section 6, we have valued Waterco Shares using the capitalisation of estimated future maintainable earnings method assuming that the Proposed Transaction is in place.

### 8.1 Capitalisation of estimated future maintainable earnings

#### 8.1.1 Assessed estimated future maintainable earnings

We have adopted EBITDA as the earnings base for our valuation of the Waterco Shares using the capitalisation of estimated future maintainable earnings method. The following table sets out the normalised EBITDA for FY08, FY09, the first half of FY10 and the FY10 estimate which is based on eight months of actual results to February 2010 and four months of forecast results to June 2010 (the "Combined FY10 Estimate").

| Waterco<br>Income statements | FY08<br>Audited<br>A$'000 | FY09<br>Audited<br>A$'000 | 1HY10<br>Audited<br>A$'000 | Combined FY10<br>Unaudited<br>A$'000 |
|---|---|---|---|---|
| Revenue | 77,538 | 72,286 | 38,723 | 72,857 |
| Expenses | (75,328) | (62,706) | (33,960) | (63,416) |
| EBITDA | 7,607 | 7,839 | 5,205 | 9,441 |
| EBITDA margin | 10% | 11% | 13% | 13% |
| Add: Rental payments to GLH | 207 | 207 | 104 | 207 |
| **Normalised EBITDA** | **7,814** | **8,047** | **5,309** | **9,648** |
| Normalised EBITDA margin | 10% | 11% | 14% | 13% |

*Source: Waterco and calculations*

Upon completion of the acquisition of the Land Asset, WFE will no longer be required to remit rental payments to GLH on a monthly basis. Accordingly, we have added back the corresponding rental expense as a normalisation adjustment to EBITDA to assess the fair market value of Waterco following completion of the Proposed Transaction.

When considering the appropriate level of EBITDA used for the valuation, we have considered the following:

*(i) Financial performance and trends*

Waterco has historically consistently generated positive EBITDA. The Company's performance in FY08 and FY09 has been negatively affected by a decline in manufacturing activities and difficult trading environments in the North America and European markets due to the impact of the global financial crisis on consumer demand levels. Other factors which have affected the performance of Waterco in FY08 and FY09 include:

- the relocation of a significant portion of Waterco's manufacturing activities to WFE;
- the fire at the Manufacturing Facility that destroyed almost all of WFE's inventory and caused significant disruption to Waterco's supply network;

- the sale of Waterco's chemical division business which supplied supermarkets, mass merchants and hardware customers during FY09;

- the continuing depressed level of new pool constructions as a result of reduced consumer spending; and

- the implementation of Waterco's internal restructuring plan to reduce operating expenses which resulted in cost savings in its Australian, New Zealand and North-American operations.

For the first half of 2010, Waterco's half-year report indicated that the significant improvement in the Company's performance was mainly due to:

- the improvement in Australian/New Zealand sales especially the significant improvements in sales by the Swimart franchise;

- the strong performance of Australian and New Zealand currencies; and

- cost saving from the implementation of an internal expense restructuring which have improved margins at the EBITDA level.

The improved trading conditions during the first half of FY10 have resulted in Waterco upgrading its FY10 net profit after tax guidance from A$3.0 million to A$3.5 million in the Company's financial report for the first half of FY10.

*(ii) Related party transactions*

Waterco's EBITDA during the past five years has involved numerous transactions with related parties. The Company's FY09 EBITDA included the following related party transactions:

- Sales to Asiapools (M) Sdn Bhd, a company which Mr Soon Sinn Goh exerts significant influence over, amounting to A$251,312;

- rental expenses paid to GLH in relation to the Tenancy Agreement amounting to A$203,320;

- rental expenses paid to Mint Holdings Pty Ltd for warehouses and offices amounting to A$602,963;

Waterco's FY09 annual report confirms that the amounts discussed above were paid on normal commercial terms.

Based on the above, Grant Thornton Corporate Finance has adopted a future maintainable EBITDA range of $8.6 million to $9.0 million as the estimated future maintainable earnings for the purpose of the valuation of Waterco Shares.

### 8.1.2 Capitalisation multiple

The selection of an appropriate capitalisation multiple is a matter of judgement and involves consideration of a number of factors including:

- the stability and quality of earnings;
- the nature and size of the business;
- the quality of the management team;
- comparable company trading multiples which have been attributed by share market investors;
- the implied multiples of recent acquisitions of businesses involved in similar activities;
- future prospects of the business;
- cyclical nature of the industry; and
- the asset backing of the underlying business and the quality of the assets.

In determining an appropriate capitalisation multiple, we note that the earnings basis selected to determine the future maintainable earnings is EBITDA. We note that Waterco is involved in both manufacturing and distribution activities relating to pool and spa products. The distribution activities relate to the distribution of the manufactured products to Waterco-owned retail franchises as well as other retailers.

Waterco is listed on the ASX. We have searched for similar companies comparable to Waterco and were unable to identify any unique listed comparable companies in Australia or New Zealand. Our research indicated many of the companies in this space are either large private companies or overseas-based conglomerates which have a presence in Australia and New Zealand. Consequently, we have broadened our analysis of comparable companies to listed companies in the following sectors:

- equipment manufacturing in Australia and New Zealand; and
- production of pool and spa products, pumps and other water treatment products worldwide.

We note that the companies involved in the sectors outlined above may not directly be comparable to Waterco, however, they are likely affected by similar business risks.

The following table summarises the trading multiples for the selected comparable companies of Waterco:

| Industry | Company name | Currency | Market cap (millions) | EV/EBITDA Actual FY09 | EV/EBITDA Forecast FY10 | EV/EBITDA Forecast FY11 |
|---|---|---|---|---|---|---|
| **Equipment manufacturing** | | | | | | |
| | Alesco Corporation Ltd | AUD | 281 | 4.38x | 7.20x | 5.62x |
| | Hastie Group Ltd | AUD | 399 | 5.57x | 6.08x | 5.75x |
| | Coventry Group Ltd | AUD | 82 | 5.57x | 6.16x | 5.47x |
| | Hills Industries Ltd | AUD | 630 | 9.45x | 8.36x | 7.60x |
| | Reece Australia Ltd | AUD | 2515 | 14.61x | 12.75x | 11.23x |
| | Methven Ltd | NZD | 64 | 6.95x | 8.11x | 7.38x |
| | | | **Median** | **6.26x** | **7.65x** | **6.56x** |
| | | | **Average** | **7.76x** | **8.11x** | **7.18x** |
| **Pool and spa products, pumps and other water treatment** | | | | | | |
| | Pool Corporation | USD | 1226 | 15.26x | 11.66x | N/A |
| | G.U.D. Holdings Ltd | AUD | 548 | 8.94x | 7.71x | 7.35x |
| | Pentair Inc | USD | 3574 | 14.96x | 9.77x | 8.82x |
| | Piscines Desjoyaux SA | EUR | 72 | 6.11x | N/A | N/A |
| | Waterco Ltd | AUD | 31 | 7.74x | N/A | N/A |
| | | | **Median (excl. Waterco)** | **11.95x** | **9.77x** | **8.09x** |
| | | | **Average (excl. Waterco)** | **11.32x** | **9.71x** | **8.09x** |

*Source: Reuters and calculations*

With regards to the comparable companies above, we note the following:

- A number of the comparable companies are significantly larger than Waterco in terms of market capitalisation. We have taken this into account in selecting an appropriate EBITDA multiple to apply to Waterco.
- the EBITDA multiples are based on minority parcels of shares traded and do not include a premium for control;
- Waterco is a listed company in its own right which has a trading earnings multiple that broadly reflects the markets' view and perception of the Company's profitability, risk profile and future prospects; and
- we consider the companies involved in equipment manufacturing activities in Australia and New Zealand to be broadly comparable to Waterco.

We consider G.U.D Holdings Ltd ("GUD") to be the closest listed comparable company to Waterco in Australia. GUD manufactures a range of water pumps and pressure system for the domestic and international market through the Davey brand. We note that GUD also offers cleaning products, household appliances, automotive filters and other automotive products, locking devices. GUD acquired Davey Products from McPhersons Ltd in 1995 and has since grown their Water Products Segment through the acquisition of other companies. Davey Water Products manufactures pumping, water conservation and water treatment products for urban, rural, irrigation and commercial applications. The company also manufactures pumps and filters for swimming pools and spa baths as well as distributing submersible bore-hole and sump pumps. GUD is estimated to have 10.8% of the Australian market share of the pumps and compressor manufacturing segment (Source: IBISWorld).

GUD is significantly larger in terms of market capitalisation and annual revenue sales compared to Waterco. It also has a more diversified product range compared to Waterco. We have taken the difference in size and level of diversification in considering the EBITDA multiple to apply to Waterco.

Based on the above, we have selected an EBITDA multiple range of 6.0 to 6.5 for the valuation of Waterco Shares on a minority basis.

We have set out a description of the companies selected in Appendix C.

#### 8.1.3 Net debt/cash

The capitalisation of Waterco's EBITDA results in an enterprise value. In order to arrive at the equity value of Waterco, we have deducted the level of net debt from the enterprise value.

We have adopted a net debt based on the latest year-to-date management accounts of Waterco as at 28 February 2010 of approximately $17.2 million, consisting of cash of approximately $3.1 million and interest bearing liabilities of approximately $20.3 million.

#### 8.1.4 Waterco options

The Waterco Options relate to stock options issued to key Waterco personnel. Waterco currently has 498,000 Waterco Options on issue. The value of the Waterco Options has been determined using the binomial option pricing model.

We have assessed the total value of Waterco Options to be A$166,000 having regard to the following key assumptions:

- the remaining life of the options range from 2.7 to 3.2 years as at April 2010;
- underlying Waterco share price of A$1.05 as at 30 April 2010;
- interest rate of 5.27%, being yield on a three year Australian Commonwealth Government bond as at April 2010; and
- assessed volatility of 68% based on Waterco's share prices in the last 3 years.

#### 8.1.5 Tax losses

Waterco had approximately A$3.8 million of gross accumulated losses which could potentially be used to offset against future taxable income. For the purpose of the valuation, we believe that the accumulated losses have a value as they can be used to offset against future taxable income.

For the purpose of this report, we have calculated the net present value of the unutilised tax losses using the DCF approach and the following assumptions:

- Waterco will continue to generate earnings similar to Combined FY10; and

- A cost of equity of 14.5%, which represents our assessed cost of equity of Waterco.

Based on the above assumptions, our assessed net present value of tax losses is in the order of $0.98 million. Our assessment of the net present value of tax losses assumes Waterco satisfies the taxation requirements in relation to utilising these tax losses. We have not assessed Waterco's position in relation to the utilisation of these tax losses in the future.

### 8.1.6 Number of Waterco Shares on issue (post Proposed Transaction)

As discussed in section 4.5, Waterco currently has 30,152,637 ordinary shares on issue. The following table sets out the number of Waterco Shares on issue upon completion of the Proposed Transaction under Option B:

| **Number of Waterco Shares on issue** | **Section reference** | **'000** |
|---|---|---|
| Number of Waterco Shares on issue (pre Proposed Transaction) | 4.5.1 | 30,153 |
| Agreed value of scrip consideration (RM) | 1.1 | 6,187 |
| Adopted exchange rate (RM/A$) | 6.4 | 0.340 |
| Agreed value of scrip consideration (A$) | | 2,104 |
| Agreed Waterco Share issue price (A$) | 1.1 | 1.15 |
| Number of Waterco Shares to be issued as consideration | | 1,829 |
| **Number of Waterco Shares on issue (post Proposed Transaction)** | | **31,982** |

*Source: Calculations*

### 8.1.7 Valuation summary

The valuation of Waterco Shares using the capitalisation of estimated future maintainable earnings method is set out below:

| | **Section reference** | **Low A$'000** | **High A$'000** |
|---|---|---|---|
| Assessed maintainable EBITDA | 8.1.1 | 8,600 | 9,000 |
| EBITDA multiple (times) | 8.1.2 | 6.0 | 6.5 |
| **Enterprise value** | | **51,600** | **58,500** |
| *Net debt* | | | |
| Add: Cash at Feb-09 | 8.1.3 | 3,057 | 3,057 |
| Less: Debt at Feb-09 | 8.1.3 | (20,282) | (20,282) |
| Less: Assessed value of Waterco Options | 8.1.4 | (166) | (166) |
| Add: Tax losses | 8.1.5 | 978 | 978 |
| Less: Cash consideration | 7 | (2,571) | (2,571) |
| **Assessed equity value** | | **32,616** | **39,516** |
| Number of Waterco Shares on issue (post Proposed Transaction) | 8.1.6 | 31,982 | 31,982 |
| **Assessed value per Waterco Share (minority basis)** | | **1.02** | **1.24** |

*Source: Calculations*

## 8.2 Valuation cross-check

Prior to reaching our valuation conclusion, we have considered the quoted security price of Waterco. In accordance with the requirements of RG111, we have considered the listed securities' depth, liquidity, and whether or not the market value is likely to represent the value of Waterco.

The following table summarises the monthly trading volume of Waterco Shares since January 2009:

| Month end | Volume traded | Monthly VWAP price A$ | Total value of shares traded A$ | Volume traded as % of free float* |
|---|---|---|---|---|
| January 2009 | 91,747 | 0.57 | 52,308 | 0.96% |
| February 2009 | 114,140 | 0.57 | 65,060 | 1.19% |
| March 2009 | 17,681 | 0.49 | 8,587 | 0.18% |
| April 2009 | 1,932 | 0.54 | 1,038 | 0.02% |
| May 2009 | 108,341 | 0.51 | 55,612 | 1.13% |
| June 2009 | 235,296 | 0.60 | 141,122 | 2.45% |
| July 2009 | 19,705 | 0.69 | 13,579 | 0.21% |
| August 2009 | 107,616 | 0.73 | 78,463 | 1.12% |
| September 2009 | 124,708 | 0.88 | 109,311 | 1.30% |
| October 2009 | 41,493 | 0.97 | 40,340 | 0.43% |
| November 2009 | 16,000 | 0.94 | 15,006 | 0.17% |
| December 2009 | 68,732 | 0.95 | 65,139 | 0.72% |
| January 2010 | 35,240 | 1.00 | 35,081 | 0.37% |
| February 2010 | 43,200 | 0.99 | 42,956 | 0.45% |
| March 2010 | 88,702 | 0.99 | 87,614 | 0.92% |
| April 2010 | 31,866 | 1.00 | 31,916 | 0.33% |

As at April 2010, there were 9.6 million Waterco Shares considered to be free float.

*Source: Reuters and calculations*

Based on the above table we note the following:

- there has been a historically low level of consistent trading in Waterco Shares;
- the monthly volume traded as a percentage of free-float shares ranged between 0.02% and 2.45% with an average of 0.75%;
- notwithstanding the level of liquidity, Waterco complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of the Waterco; and
- in the absence of a takeover or other share offers, the trading share price represents the value in which minority shareholders could realise if they wanted to exit their investment.

Given the low level of liquidity of Waterco, we have only referred to the quoted listed securities valuation method as guidance and cross-check to our primary valuation methodology based on the estimated future maintainable earnings method.

Our assessment of Waterco's equity value using the quoted listed price is set out below.

The quoted price of listed securities method is based on the Efficient Market Hypothesis ("EMH") which states that the share price at any point in time reflects all publicly available information and will change "almost" instantaneously when new information becomes publicly available.

We have selected the share market prices of Waterco based on recent trading. Set out below is a summary of the share market prices at which Waterco Shares traded on the ASX for various periods of recent trading:

| Market share prices | High A$ | Low A$ | VWAP A$ |
|---|---|---|---|
| Prior to 30 April 2010 | | | |
| 1 week prior | 1.05 | 1.00 | 1.05 |
| 1 month prior | 1.05 | 0.95 | 1.00 |
| 2 months prior | 1.05 | 0.95 | 0.99 |
| 3 months prior | 1.05 | 0.95 | 0.99 |

*Source: Reuters and calculations*

Based on the above, we have assessed the value of Waterco Shares on a minority basis to be in the range of A$0.99 to A$1.05.

We note that our assessed value of Waterco Shares ranging from A$0.99 to A$01.05 per share is not inconsistent with the fair market value of Waterco Shares on a minority basis of A$1.02 to A$1.24 determined using the estimated future maintainable earnings method in section 8.1.7.

Based on the above, we consider our valuation assessment of Waterco Shares to be reasonable.

## 9 Valuation of the Land Asset

In order to determine the valuation of the Land Asset we have had regard to Rahim & Co's Report. Rahim & Co was appointed by Grant Thornton Corporate Finance to undertake the valuation of the Land Asset in accordance with international valuation standards.

The valuation of the Land Asset as determined by Rahim & Co and the conversion of this value into A$ is set out in the table below.

| Value of the Land Asset | Section Reference | Low | High |
|---|---|---|---|
| Valuation of Land Asset - Rahim & Co (RM'000) | | 13,200 | 13,750 |
| Adopted exchange rate (RM/A$) | 6.4 | 0.340 | 0.340 |
| **Assessed value of the Land Asset (A$'000)** | | **4,488** | **4,675** |

*Source: Rahim & Co's Report and Calculations*

As discussed in section 6.3.3, WFE incurred all costs associated with the construction of the Manufacturing Facility on the Land Asset. Accordingly, Rahim & Co has valued the Land Asset based on vacant possession of the land.

Rahim & Co's Report is included as Appendix D to this report.

# 10 Evaluation of the Proposed Transaction

## 10.1 Fairness

### 10.1.1 Fairness under Option A

Under Option A, GLH will satisfy 100% of the purchase consideration via cash. In forming our opinion in relation to the fairness of the Proposed Transaction under Option A, Grant Thornton Corporate Finance has compared the value of the 100% cash consideration to the assessed value of the Land Asset as set out below. We note that the fair market value of the Land Asset has been independently assessed by Rahim & Co. and converted into Australian dollars using the assessed exchange rate of RM1/A$0.34.

| Fairness - Option A | Section reference | Low '000 | High '000 |
|---|---|---|---|
| 100% cash consideration (A$) | 7 | 4,675 | 4,675 |
| Assessed value of the Land Asset (A$) | 9 | 4,488 | 4,675 |
| Premium/(discount) (A$) | | 187 | 0 |
| Premium/(discount) (%) | | 4.2% | 0.0% |

*Source: Calculations*

The high end of the consideration offered falls within the assessed valuation range of the Land Asset. Accordingly, we conclude that the Proposed Transaction under Option A is fair to the Non-Associated Shareholders.

Whilst we have concluded that the Proposed Transaction under Option A is fair, we note that the consideration offered exceeds the low end of the Land Asset's valuation range.

**We note that in the event that the fair market value of the Land Assets is below A$4.675 million, then the Proposed Transaction would not be fair. Under these circumstances we believe that the Proposed Transaction would also not be reasonable having regard to the reasonableness considerations set out below.**

### 10.1.2 Fairness under Option B

We note that under Option B, GLH will satisfy 55% of the purchase consideration via cash and the remaining 45% via the issue of Waterco Shares. In forming our opinion in relation to the fairness of the Proposed Transaction under Option B, Grant Thornton Corporate Finance has compared the value of the consideration offered to the assessed value of the Land Asset as set out below:

| Fairness - Option B | Section reference | Low '000 | High '000 |
|---|---|---|---|
| **Consideration offered comprising:** | | | |
| Cash consideration (A$) | 7 | 2,571 | 2,571 |
| Scrip consideration: | | | |
| Number of Waterco Shares offered as consideration | 8.1.6 | 1,829 | 1,829 |
| Assessed value per Waterco Share (A$) | 8.1.7 | 1.02 | 1.24 |
| Assessed value of scrip consideration (A$) | | 1,865 | 2,268 |
| **Total consideration offered (A$)** | | **4,436** | **4,839** |
| **Assessed value of the Land Asset (A$)** | 9 | **4,488** | **4,675** |
| Premium/(discount) (A$) | | (52) | 164 |
| Premium/(discount) (%) | | -1.1% | 3.5% |

*Source: Calculations*

The total assessed consideration offered is within the valuation range of the Land Asset. Accordingly, we conclude that the Proposed Transaction under Option B is fair to the Non-Associated Shareholders.

Whilst we have concluded that the Proposed Transaction under Option B is fair, we note that our high end of the assessed consideration offered exceeds the high end of the Land Asset's valuation range.

**We note that in the event that our assessed total consideration offered exceeds A$4.675 million, then the Proposed Transaction would not be fair. Under these circumstances, we believe that the Proposed Transaction would also not be reasonable having regard to the reasonableness considerations set out below.**

## 10.2 Reasonableness

For the purpose of assessing whether the Proposed Transaction is reasonable to the Non-Associated Shareholders, we have considered the following likely advantages and disadvantages associated with the Proposed Transaction. We also note that pursuant to RG 111, the Proposed Transaction is reasonable if it is fair.

### 10.2.1 Advantages

- If the Proposed Transaction is completed, WFE will own the land in which its principal pump and filter manufacturing facility is located on and consequently, secure control over the Manufacturing Facility in its entirety. Any future activities that WFE may wish to undertake with regards to the Land Asset and the Manufacturing Facility such as modifications, expansions, divestments etc., can be managed and implemented without seeking approval from the land owner. Consequently, any potential uncertainties with regards to third party approval requirements will be removed and in turn, enhance operational and general business stability.

- WFE will no longer be required to remit RM denominated rental payments on a monthly basis which will help reduce the Company's exposure to foreign currency risk.

### 10.2.2 Disadvantages

- the ownership of the Land Asset increases Waterco's fixed asset investment in a foreign country and increases the Company's exposure to the risks associated with an emerging economy;
- the Proposed Transaction will involve upfront cash outlay of approximately A$4.7 million under Option A which may otherwise be used for alternative investments, expansion activities or working capital purposes given the current lease of the Company with GLH expires in 2057;
- based on the independent valuation provided by Rahim & Co as set out in Appendix D and the current lease agreement between WFE and GLH, the implied annual yield on the Land Asset is approximately 4.3%. The implied yield is in our view lower than:
  - the weighted average cost of capital of the Company; and
  - the interest rate potentially payable by the Company on debt facilities secured by the Land Asset.
- in our assessment of the value per share of Waterco as set out in section 8.1, we have estimated the EBITDA multiple of the Company between 6.0 times and 6.5 times. If the Proposed Transaction is implemented, based on the actual rent paid by the Company to GLH (i.e. A$0.2 million per annum), the value uplift after implementation of the Proposed Transaction will be lower than the cash consideration payable by the Company under Option A;
- Waterco currently enjoys a secured long term lease up to 2057 and accordingly, the Proposed Transaction has little strategic value to the Non-Associated Shareholders;
- Waterco's cash balance may be insufficient to fully finance the cash purchase consideration. The Company may have to explore alternative forms of funding including debt borrowings which will further increase the Company's gearing levels. Waterco Shareholders may be exposed to investments that are more leveraged than previously;
- companies with high gearing levels are generally perceived to be riskier which may have an adverse impact on the Company's share price and, consequently, the value of Waterco Shareholders' investment in Waterco; and
- the Non-Associated Shareholders interest in Waterco will be slightly diluted as the SSG Group will collectively increase their ownership in Waterco from approximately 51% to up to approximately 54%, depending on the exchange rates leading up to the completion of the Proposed Transaction if GLH elects Option B.

### 10.2.3 Other Factors

**Waterco Shareholders' position if the Proposed Transaction is not approved**

If the Proposed Transaction is not approved, it would be the current directors' intention to continue operating in line with its current objectives. Waterco Shareholders who retain their shares will continue to share in any benefits and risks in relation to Waterco's ongoing business.

**Land Asset sale price determination**

We note that prior to approving the transaction in-principal, Waterco's Non-Associated Directors obtained an independent valuation of the Land Asset from a local real estate property valuer based in Malaysia. On the basis that the Non-Associated Directors were satisfied that the consideration proposed for the Land Asset is no greater than the arms' length valuation, they approved the Proposed Transaction in-principal.

**Taxation**

Grant Thornton Corporate Finance has not provided any taxation advice in relation to the Proposed Transaction. Waterco Shareholders should consider the information contained in the notice of Meeting and Explanatory Memorandum as well as seek their own taxation advice in relation to any potential taxation implications.

## 10.3 Overall conclusion

Based on the above, Grant Thornton Corporate Finance has concluded that the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

## 11 Sources of information, disclaimer and consents

### 11.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has relied on various sources of information, including:

- Master Agreement between Waterco, WFE and GLH;
- Sale and Purchase Agreement between Waterco, WFE and GLH;
- Share Subscription Agreement between Waterco and GLH;
- Draft Explanatory  Memorandum and Notice of General Meeting;
- Independent land valuation report prepared by Rahim & Co's in April 2010;
- Tenancy Agreement between WFE and GLH;
- Waterco budget for FY10;
- Annual reports of Waterco for FY06, FY07, FY08 and FY09;
- Interim report of Waterco for the half years ended on 31 December 2006, 2007, 2008 and 2009;
- releases and announcements by Waterco on the ASX;
- Waterco website;
- Reuters;
- Discussions with representative of management of Waterco; and
- Other publicly available information.

### 11.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to Waterco and all other parties involved in the Proposed Transaction with reference to the ASIC Regulatory Guide 112 "Independence of expert" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to Waterco, its shareholders and all other parties involved in the Proposed Transaction.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Waterco or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

### 11.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by Waterco and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by Waterco and other experts through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of Waterco.

This report has been prepared to assist the directors of Waterco in advising the Waterco Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

Waterco has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by Waterco, which Waterco knew or should have known to be false and/or reliance on information, which was material information Waterco had in its possession and which Waterco knew or should have known to be material and which Waterco did not provide to Grant Thornton Corporate Finance. Waterco will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

### 11.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of General Meeting and Explanatory Memorandum to be sent to the Waterco Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

## Appendix A – Valuation methodologies

### Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

### Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

### Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

### Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

## Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

## Appendix B – Glossary

| | |
|---|---|
| A$ or $ | Australian dollar |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| Combined FY10 Estimate | The combined actual results for the first eight months of FY10 together with Waterco's budget for the last four months of FY10 |
| The Company | Waterco Limited |
| Corporations Act | Corporations Act, 2001 |
| DCF | Discounted cash flow |
| EMH | Efficient Market Hypothesis |
| Focus Temp | Focus Temp International Inc |
| FSG | Financial Services Guide |
| FY | Financial year |
| GLH | Goh Lai Huat & Sons Sdn Bhd |
| Grant Thornton Corporate Finance | Grant Thornton Corporate Finance Pty Ltd |
| Land Asset | The parcel of land located at Lot 832 Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor, Malaysia which houses the Manufacturing Facility and which is currently leased by WFE |
| Manufacturing Facility | Waterco's principal pump and filter manufacturing facility located in Malaysia and operated by WFE |
| Non-Associated Shareholders | The shareholders of Waterco not associated with the SSG Group |
| Option A | The Proposed Transaction scenario whereby the consideration paid for the Land Asset is satisfied via 100% cash amounting to RM13,748,625 |
| Option B | The Proposed Transaction scenario whereby the consideration paid for the Land Asset is satisfied via a 55% cash component amounting to RM7,561,744 and a 45% scrip component amounting to RM6,186,881 in Waterco Shares at an issue price of A$1.15 per share |
| Proposed Transaction | The proposed acquisition of the Land Asset from GLH by WFE |
| Rahim & Co | The property valuation specialist, Rahim & Co Chartered Surveyors Sdn Bhd, an international associate of Savills International engaged to assess the fair market value of the Land Asset on a vacant possession basis |
| Rahim & Co's Report | The valuation report prepared by Rahim & Co which assesses the fair market value of the Land Asset |
| RG 111 | ASIC Regulatory Statement 111 "Content of expert reports" |
| RG 112 | ASIC Regulatory Statement 112 "Independence of experts" |
| RG 170 | ASIC Regulatory Statement 170, "Prospective financial information" |
| RM | Ringgit Malaysia |
| SSG Group | Mr Soon Sinn Goh, GLH, Mint Holdings Pty Ltd and GSS Holdings Sdn Bhd |
| Tenancy Agreement | The tenancy agreement between WFE and GLH regarding the Land Asset |
| VWAP | Volume Weighted Average Price |
| WACC | Weighted Average Cost of Capital |

| | |
|---|---|
| Waterco | Waterco Limited |
| Waterco Options | Waterco Options on issue |
| Waterco Shares | Ordinary shares in Waterco |
| Waterco Shareholders | Shareholders of Waterco |
| WFE | Waterco (Far East) Sdn Bhd |

## Appendix C – Comparable companies

| Company Name | Description |
|---|---|
| **Equipment manufacturing** | |
| Alesco Corporation Ltd | Alesco Corporation Ltd is an industrial brands business. The company connects industrial trade customers with branded industrial products and services in the new housing, renovations, general commercial and infrastructure markets across Australia and New Zealand. |
| Nylex Ltd | Nylex Limited is a diversified manufacturer and distributor of branded plastic and automotive products. The company operates in three business divisions: Lifestyle, Solutions and Automotive. The Lifestyle division includes trading in branded products, the Solutions division includes supplying plastic based solutions and the Automotive division is engaged in the supplying plastic based products and interior carpets to the car manufacturers and their suppliers. |
| Hastie Group Ltd | Hastie Group Limited is engaged in the design, manufacture, installation and service of essential building services, and commercial and industrial refrigeration products and systems. It has five segments: mechanical and hydraulics, electrical, rotary, services and refrigeration. |
| Coventry Group Ltd | Coventry Group Ltd is a supplier of products and services to the industrial and automotive markets. The company operates in three segments: Automotive Parts Distribution, Industrial Products Distribution and Gasket Manufacturing. The company operates primarily in Australia. |
| Hills Industries Ltd | Hills Industries Limited is an Australia-based company. The Company operates in three segments: Electronic Security and Entertainment; Home, Hardware and Eco Products, and Building and Industrial. |
| Reece Australia Ltd | Reece Australia Limited is a supplier of plumbing and bathroom products with operations in Australia and New Zealand. Its activities include importing, wholesaling, distribution, marketing and retailing. Reece supplies customers in the trade, retail, professional and commercial markets. |
| Methven Ltd | Methven Limited designs, manufactures and markets shower, tapware products and water control valves. It also offers other products, such as HomeSpa experience, bathroom accessories, such as slide showers, shower mixers, bath mixers, wall showers and roses, overhead showers and basin mixers and kitchen and laundry products. |
| GWA International Ltd | GWA International Limited is a supplier of fixtures and fittings to households and commercial premises. The company is engaged in the research, design, manufacturing, importing and marketing of household consumer products, as well as distribution of these products through a range of distribution channels in Australia and overseas. The Company operates in three segments: buildings fixtures and fittings, commercial furniture, and others. |
| **Pool and spa products, pumps and other water treatment** | |
| Pool Corporation | Pool Corporation is a wholesale distributor of swimming pool supplies, equipment and related leisure products and a distributor of landscape and irrigation products in the United States. As of December 31, 2009, POOL operated 287 sales centres in North America and Europe through its three distribution networks: SCP Distributors LLC (SCP), Superior Pool Products LLC (Superior) and Horizon Distributors, Inc. (Horizon). |
| GUD Holdings Limited | GUD Holdings Limited is an Australia-based company. The Company is engaged in the manufacture, distribution and sale of cleaning products, household appliances, automotive filters and automotive products, locking devices, pumps, pool and spa systems, and water pressure systems. It operates in four segments: Consumer Products (Sunbeam and Oates), Automotive Products (Ryco, Wesfil, Goss), Water Products (Davey) and Security Products (Lock Focus). |
| Pentair Inc | Pentair, Inc. is a diversified industrial manufacturing company. The Company operates in two segments: Water and Technical Products. Its Water Group provides products and systems used worldwide in the movement, storage, treatment, and enjoyment of water. Its Technical Products Group designs and manufactures standard, modified and custom enclosures that house and protect sensitive electronics and electrical components, and protect the people that use them. |
| Flexible Solutions International Inc | Flexible Solutions International, Inc. develop, manufacture and market specialty chemicals, which slow down the evaporation of water. The Company's primary product, HEAT$AVR, is marketed for use in swimming pools and spas where its use, by slowing the evaporation of water. Another product, WATER$AVR, is marketed for water conservation in irrigation canals, aquaculture and reservoirs where its use slows down water loss due to evaporation. |
| Piscines Desjoyaux SA | Piscines Desjoyaux SA is a France-based company primarily engaged in the provision of home-use swimming pool solutions, spas and above-ground pools, as well as in the construction of public swimming pools for hotels, local communities and campsites. The Company also offers pool equipment, such as coverings and shelters, solar showers, enclosures, heating pumps, electrical heaters and exchangers, and a wide range of accessories and products for the swimming pool maintenance. |

## Appendix D – Rahim & Co's Report

Rahim&Co
international property consultants

An International Associate of
savills

Our Ref : 30V100585

23rd April 2010

**Grant Thornton Corporate Finance Pty Ltd**
Level 17, 383 Kent Street, Sydney
NSW 2000
Australia

Dear Sirs,

**REPORT AND VALUATION OF GERAN MUKIM 609, LOT NO. 832, MUKIM OF BATU, DISTRICT OF GOMBAK, STATE OF SELANGOR DARUL EHSAN BEARING POSTAL ADDRESS LOT 832, JALAN KUSTA, KAWASAN PERINDUSTRIAN SB JAYA, 47000 SUNGAI BULOH, SELANGOR DARUL EHSAN, MALAYSIA**

---

We thank you for your instruction to assess the Market Value of the abovementioned property for the purposes of independent expert report to be prepared by Grant Thornton Corporate Finance Pty Ltd on a proposed transaction involving the subject property where Waterco Limited via its wholly-owned subsidiary, Waterco (Far East) Sdn Bhd, proposes to acquire the subject property from Goh Lai Huat & Sons Sdn Bhd.

The valuation is carried out based on Regulatory Guide 111 issued by the Australian Securities & Investment Commission, in particular RG 111.62 where the expert is required to give a range of values.

We are pleased to report that in our opinion, the Market Value of the subject property **as at 19th April 2010, held under freehold interest, free from all encumbrances, with the title being good, marketable and registrable as well as with vacant possession is in the range of RM13,200,000.00 to RM13,750,000.00.**
(Ringgit Malaysia : Thirteen Million Two Hundred Thousand Only to Ringgit Malaysia : Thirteen Million Seven Fifty Hundred Thousand Only)

Our full Report and Valuation is contained herein.

This Report and Valuation is subject to the Limiting Conditions stated on the back page of this report.

Thank you.

Yours faithfully,
**RAHIM & CO CHARTERED SURVEYORS SDN BHD**

**CHEE KOK THIM *FISM MRICS MPEPS***
B. PROP ADMIN (AUCKLAND)
Chartered Valuation Surveyor
Registered Valuer (V 325)

Rahim & Co Chartered Surveyors Sdn. Bhd. (69437-W)
Level 17, Menara Uni Asia, 1008 Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia.
Tel: 603 - 2691 9922 Fax: 603 - 2691 9992
e-mail: rccs@rahim-co.com
website: www.rahim-co.com

Kuala Lumpur - Alor Setar - Ipoh - Johor Bahru - Kemaman - Kota Bharu - Kota Kinabalu - Kuala Terengganu - Kuantan - Kuching - Malacca - Penang - Petaling Jaya - Seremban - Sungai Petani - Temerloh

Board Reg. No: VE(1)0065

Our Ref : 30V100585

## SUMMARY OF REPORT

| | |
|---|---|
| Client | Grant Thornton Corporate Finance Pty Ltd |
| Purpose | Independent expert report to be prepared by Grant Thornton Corporate Pty Ltd on a proposed transaction involving the subject property where Waterco Limited via its wholly-owned subsidiary, Waterco (Far East) Sdn Bhd, proposes to acquire the subject property from Goh Lai Huat & Sons Sdn Bhd |
| Property Address | Lot 832, Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor Darul Ehsan |
| Property Type | A 3-storey office annexed with a 1½-storey detached factory and a single–storey detached factory together with other outbuildings |
| Title No. | GM 609 |
| Lot No. | 832, Mukim of Batu, District of Gombak, State of Selangor Darul Ehsan |
| Registered Owner | Goh Lai Huat & Sons Sdn Bhd |
| Tenure | Freehold interest |
| Surveyed Land Area | 2.5546 hectares or 6.31 acres |
| Land Usage | Industrial |
| Encumbrances | Charged twice to Public Bank Berhad |
| Caveat | Nil |
| Basis of Valuation | To value the land only and exclude all the buildings erected thereon |
| Market Value Range | RM13,200,000/- to RM13,750,000/- |
| Date of Valuation | 19th April 2010 |

**THE VALUE STATED ABOVE IS TO BE READ IN CONTEXT WITH THE WHOLE REPORT**

Our Ref : 30V100585

**REPORT AND VALUATION**

**OF**

**LOT NO. 832, MUKIM OF BATU**
**DISTRICT OF GOMBAK**
**STATE OF SELANGOR DARUL EHSAN**

**BEARING POSTAL ADDRESS LOT 832**
**JALAN KUSTA, KAWASAN PERINDUSTRIAN SB JAYA**
**47000 SUNGAI BULOH, SELANGOR DARUL EHSAN**

---

## TERMS OF REFERENCE

We have been instructed by **Grant Thornton Corporate Finance Pty Ltd** to assess the Market Value of the abovementioned property for the purpose of independent expert report to be prepared by Grant Thornton Corporate Finance Pty Ltd on a proposed transaction involving the subject property where Waterco Limited via its wholly-owned subsidiary, Waterco (Far East) Sdn Bhd, proposes to acquire the subject property from Goh Lai Huat & Sons Sdn Bhd.

The property comprises a plot of freehold industrial land erected upon with a 3-storey office annexed with a 1½-storey detached factory and a single-storey factory together with other outbuildings. As instructed by the client, the valuation is on the land only and exclude all the buildings erected thereon.

**We were instructed by the client to conduct the valuation based on Regulatory Guide 111 issued by the Australian Securities & Investment Commission, in particular RG 111.62 where the expert is required to give a range of values.**

**IT IS PERTINENT TO NOTE THAT THIS REPORT AND VALUATION IS PREPARED SPECIFICALLY FOR THE ABOVE INTENDED PURPOSE AND SHOULD NOT BE USED FOR ANY OTHER PURPOSES.**

Our Ref : 30V100585

## DEFINITION

**MARKET VALUE** is defined in the Malaysian Valuation Standards as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

## DATE OF INSPECTION & VALUATION

The property was inspected on 19th April 2010. The date of inspection is taken as the material date of valuation.

## SITUATION

The subject property bears postal address Lot 832, Jalan Kusta, Kawasan Perindustrian SB Jaya, 47000 Sungai Buloh, Selangor Darul Ehsan, Malaysia. It is located within the local authority area of Majlis Perbandaran Selayang.

It is situated approximately 25 kilometres by road northwest of Kuala Lumpur city centre.

The approximate location of the subject property is shown inside the GREEN circle on the location plan (APPENDIX A) and coloured RED on the site plan (APPENDIX B) attached.

Our Ref : 30V100585

## SURROUNDING

The immediate surrounding comprises mainly double-storey terrace factories and detached factories of individual design and construction as well as vacant industrial lots.

Detached factories located nearby include those occupied by Alumac Industries Sdn Bhd, Kumpulan Jebco (M) Sdn Bhd, KS Secondary Fibre Supplier Sdn Bhd, Kien Safety Glass Sdn Bhd, Ace Polymers, Superior Press Sdn Bhd and Hap Kee Hardware Sdn Bhd.

Prominent properties located in the vicinity include the Sekolah Kebangsaan Sungai Buloh, the Sekolah Rendah Agama Zahidah Hospital Sg Buloh, Kompleks Sungai Buloh and the Rahman Putra Golf & Country Club.

Housing estates located in the neighbourhood include Bandar Baru Sungai Buloh, Bukit Rahman Putra, Saujana Akasia, Kampung Melayu Sungai Buloh, Valencia and Sierramas.

## PARTICULARS OF TITLE

Brief particulars of the title for the subject property as extracted from the computer printout of the title document obtained from the Gombak District Land Office in Bandar Baru Selayang on 21st April 2010 are as follows:-

| | | |
|---|---|---|
| Title No. | : | GM 609 |
| Lot No. | : | 832 |
| Mukim | : | Batu |
| District | : | Gombak |
| State | : | Selangor Darul Ehsan |
| Surveyed Land Area | : | 2.5546 hectares |

| | | |
|---|---|---|
| Annual Rent | : | RM59,822/- |
| Category of Land Use | : | "Perusahaan/Perindustrian" |
| Tenure | : | Freehold interest |
| Registered Owner | : | Goh Lai Huat & Sons Sdn Bhd |
| Encumbrances | : | Charged twice to Public Bank Berhad vide the following:-<br>i) Presn. No. 7542/2005 registered on 30th November 2005<br>ii) Presn. No. 7543/2005 registered on 30th November 2005 |
| Express Condition | : | "Industri Sederhana" |
| Restrictions-In-Interest | : | Nil |
| Caveat | : | Nil |

*For referencing purposes, a photocopy of the above title document is attached as APPENDIX E.*

***We would advise that the services of a solicitor be engaged to verify the above title particulars.***

## DESCRIPTION

The subject property is a plot of freehold industrial land erected upon with a 3-storey office annexed with a 1½-storey detached factory and a single-storey detached factory together with other outbuildings. In this valuation exercise, we were instructed by the client to value the land only and exclude all the building erected thereon.

The site is rectangular in shape and encompasses a surveyed land area of approximately 2.5546 hectares or about 274,969 sq. feet. It enjoys a road frontage onto Jalan Kusta. It is generally flat in terrain and lies at the same level with the frontage road.

The subject site boundaries are mainly demarcated by metal grille surmounted onto concrete walls. The main entrances to the site are secured with metal sliding gates.

Erected upon the site are a 3-storey office annexed with a 1½-storey detached factory and a single-storey detached factory together with other outbuildings. However as instructed by the client, the valuation is on the land only and does not include all the buildings erected thereon.

Visual presentations of the property are attached as APPENDIX D.

**REPAIR & MAINTENANCE**

The buildings are noted to be generally in a good decorative state of repair.

**OCCUPATION**

The land is presently occupied by Waterco (Far East) Sdn Bhd.

**SERVICES**

Water, electricity and telephone facilities are connected to the building. The usual municipal services, i.e. road maintenance and cleaning and public lighting, are provided by Majlis Perbandaran Selayang.

Public transportation is available along the main road, i.e. along Jalan Kusta. The nearest station for the KTM Commuter train is located at Sungai Buloh Station.

## PLANNING PROVISION

The subject property is designated for industrial use as noted in the title deed.

## METHOD OF VALUATION

In arriving at the market value of the subject property, the Comparison Method is adopted.

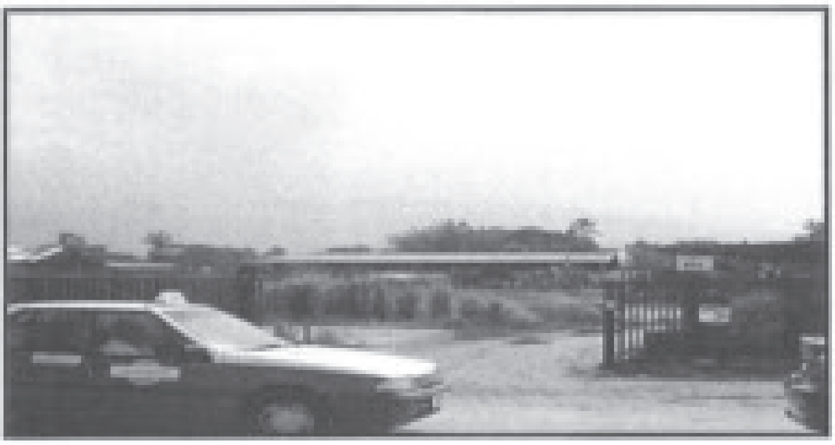
The Comparison Method entails critical analyses of recent evidence of values of comparable properties in the neighbourhood and making adjustments for differences.

Our Ref : 30V100585

**EVIDENCE OF VALUE**

Noted below are transactions of industrial properties located along Jalan Kusta, Sg Buloh, as obtained from the Valuation and Property Services Department, Minsitry of Finance, Malaysia.

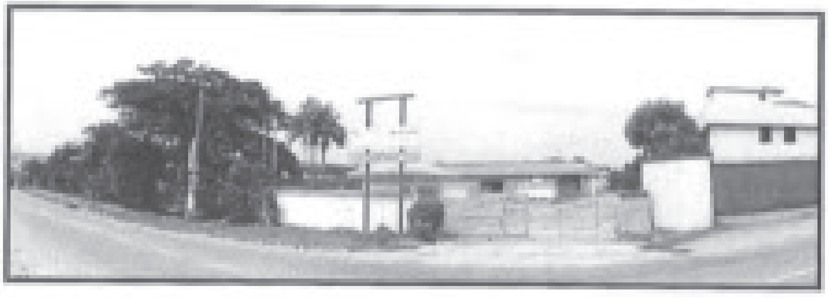
**Comparable 1**



Details of the above comparable are as follows:-

| | |
|---|---|
| Property | : Lot No 834, Mukim of Batu, District of Gombak, State of Selangor Darul Ehsan |
| Address | : Lot 834 Jalan Kusta, Kawasan Perindustrian SB Jaya, Sungai Buloh, Selangor Darul Ehsan |
| Land Area | : 213,716 sq. feet |
| Tenure | : Freehold |
| Date of transaction | : 23 November 2007 |
| Transaction Value | : RM11,750,000.00 |
| Description | : Old open sided workshop for furniture making and the built up area of the shed is 12,000 sq. feet. |

**Comparable 2**



Details of the above comparable are as follows:-

| | |
|---|---|
| Property | : Lot No 1560, Mukim of Batu, District of Gombak, State of Selangor Darul Ehsan |
| Address | : Lot 1560, Jalan Kusta, Kawasan Perindustrian SB Jaya, Sungai Buloh, Selangor Darul Ehsan |
| Land Area | : 160,628 sq. feet |
| Tenure | : Freehold |
| Date of transaction | : 14 December 2007 |
| Transaction Value | : RM12,100,000.00 |
| Description | : A factory complex with the built up areas as follows:-<br>Office : 1,600 sq. feet<br>Factory : 29,800 sq. feet |

**Comparable 3**

Details of the above comparable are as follows:-

| | | |
|---|---|---|
| Property | : | Lot No PT 26551, Mukim of Batu, District of Gombak, State of Selangor Darul Ehsan |
| Address | : | Lot 1554, Jalan Kusta, Kawasan Perindustrian SB Jaya, Sungai Buloh, Selangor Darul Ehsan |
| Land Area | : | 55,670 sq. feet |
| Tenure | : | Freehold |
| Date of transaction | : | 26 May 2008 |
| Transaction Value | : | RM4,380,000.00 |
| Description | : | A 3-storey office with a 1-storey factory annexed to it. The built up areas are as follows:-<br>Office : 3,100 sq. feet<br>Factory : 9,920 sq. feet |

The location of the abovementioned comparable properties is attached as APPENDIX C.

Our Ref : 30V100585

## VALUATION

After taking into consideration the above factors, we assess the Market Value of the subject property carried out, i.e. **GERAN MUKIM 609, LOT NO. 832, MUKIM OF BATU, DISTRICT OF GOMBAK, STATE OF SELANGOR DARUL EHSAN BEARING POSTAL ADDRESS LOT 832, JALAN KUSTA, KAWASAN PERINDUSTRIAN SB JAYA, 47000 SUNGAI BULOH, SELANGOR DARUL EHSAN, MALAYSIA,** as at 19$^{th}$ April 2010, subject to the limiting conditions stated on the back page of this report and in compliance with Regulatory Guide 111 issued by the Australian Securities & Investment Commission, in particular RG 111.62 where the expert is required to give a range of values, the subject property held under freehold tenure, free from all encumbrances, with the title being good, marketable and registrable as well as with vacant possession at between **RM13,200,000.00 to RM13,750,000.00.**

(Ringgit Malaysia : Thirteen Million Two Hundred Thousand Only to Ringgit Malaysia : Thirteen Million Seven Fifty Hundred Thousand Only)

## CERTIFICATION

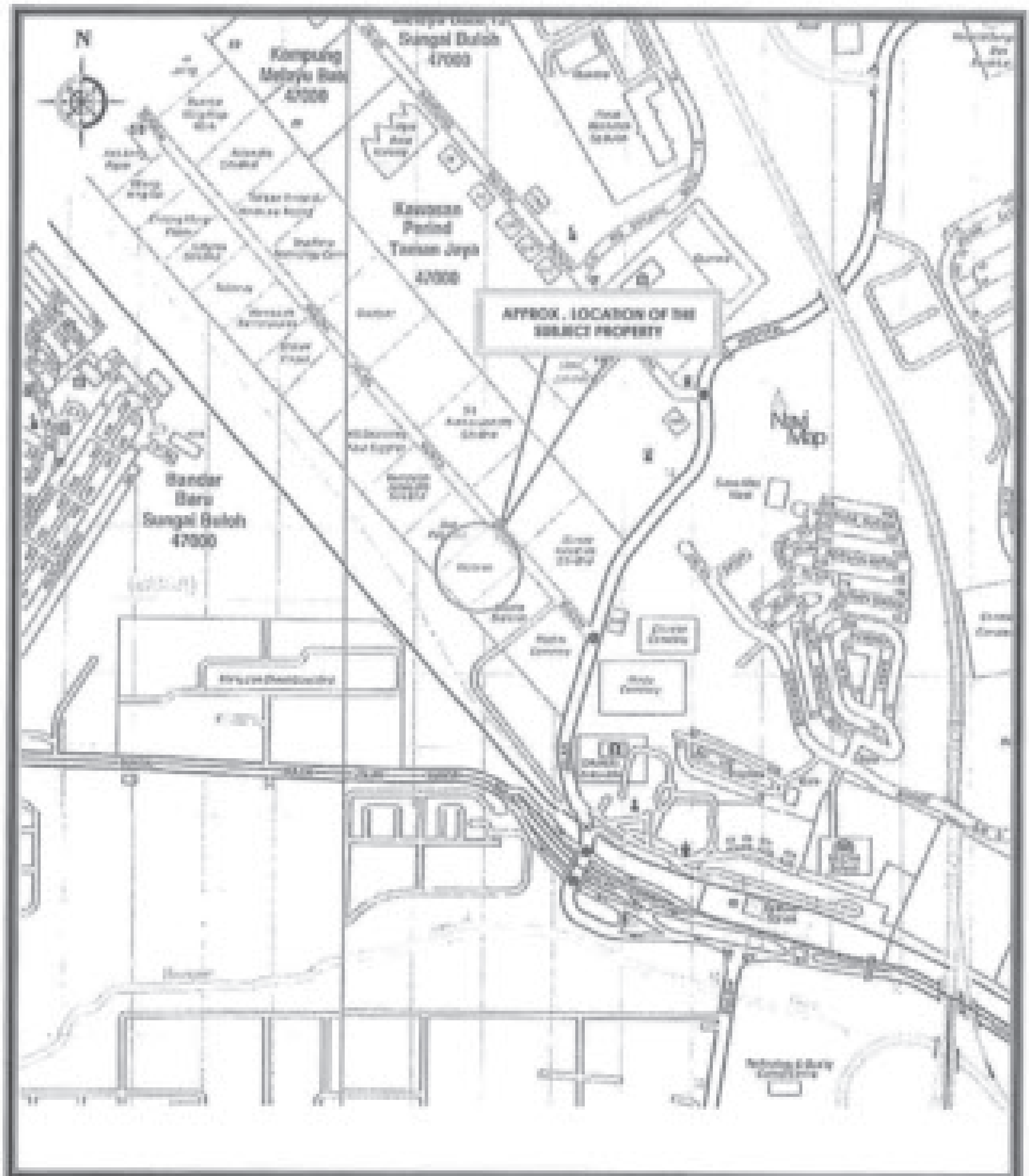
The valuation of the subject property has been carried out by **CHEE KOK THIM,** Registered Valuer (V 325).

RAHIM & CO CHARTERED SURVEYORS SDN BHD

Date : 23$^{rd}$ April 2010
Our Ref : 30V100585 - [CKT/TBY/nar]

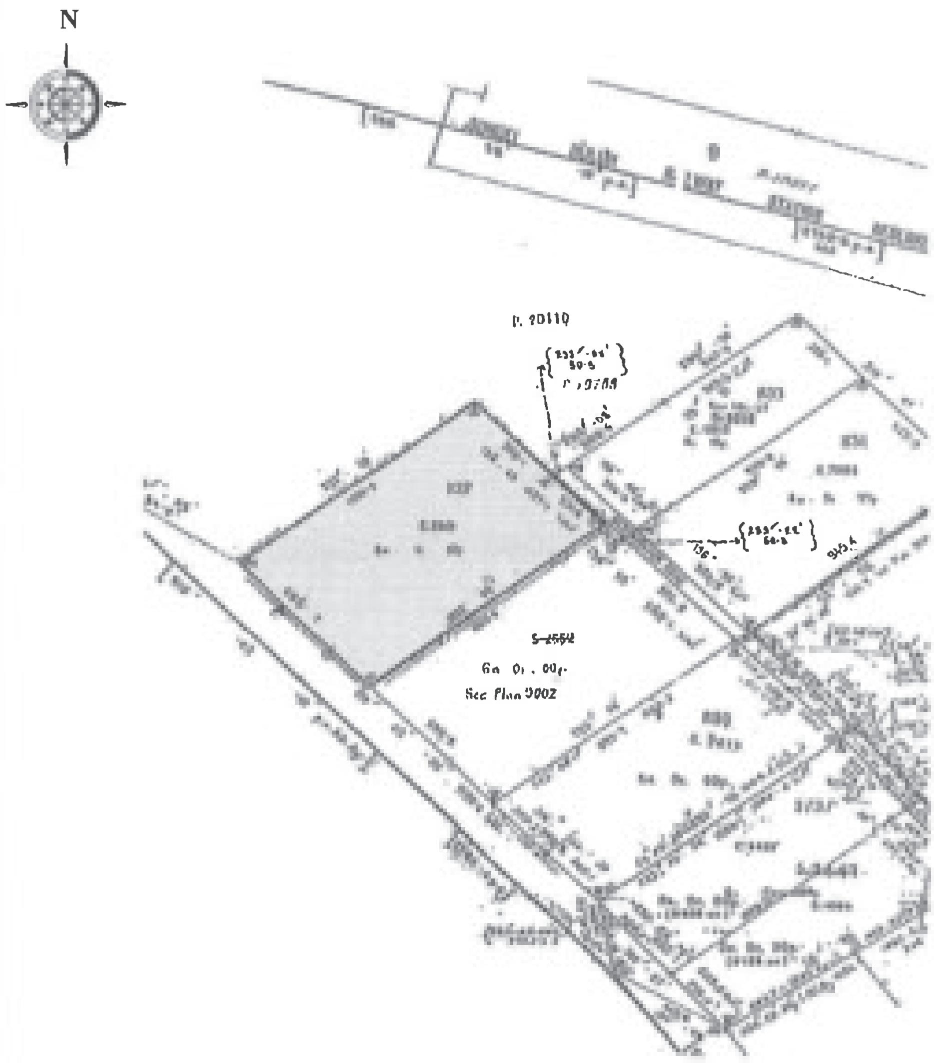
| | |
|---|---|
| Location Plan | APPENDIX A |
| Site Plan | APPENDIX B |
| Location of Comparables | APPENDIX C |
| Visual Presentation | APPENDIX D |
| Title Document | APPENDIX E |
| Limiting Conditions | ATTACHED |

## APPENDIX A




| | |
|---|---|
| LOCATION PLAN OF LOT 832<br>JALAN KUSTA, KAWASAN PERINDUSTRIAN SB JAYA<br>47000 SUNGAI BULOH, SELANGOR DARUL EHSAN. | FILE NO : 30V100585 |
| | PLAN NO : TBY100585 |
| | SCALE : NOT TO SCALE |

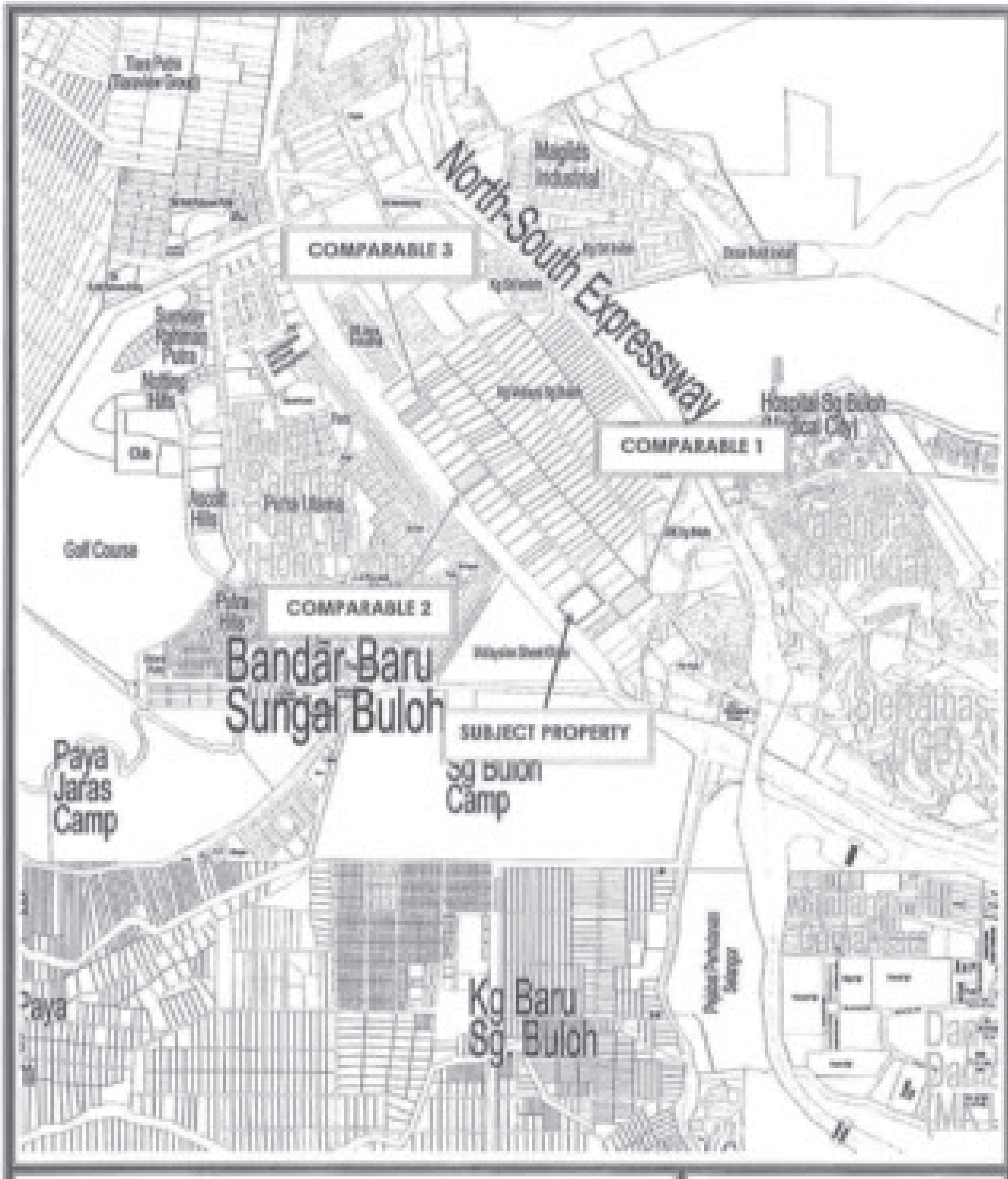
## APPENDIX B




SITE PLAN OF LOT NO. 832
MUKIM OF BATU
DISTRICT OF GOMBAK
STATE OF SELANGOR DARUL EHSAN.

| | |
|---|---|
| FILE NO | : 30V100585 |
| SHEET NO | : - |
| PLAN NO | : TBY100585 |
| SCALE | : NOT TO SCALE |

**APPENDIX C**




| | |
|---|---|
| LOCATION PLAN OF THE COMPARABLES. | FILE NO : 30V100585 |
| | PLAN NO : TBY100585 |
| | SCALE : NOT TO SCALE |

**APPENDIX D**

**GENERAL VIEW OF THE SUBJECT PROPERTY**

**LOT 832, JALAN KUSTA, KAWASAN PERINDUSTRIAN SB JAYA**
**47000 SUNGAI BULOH, SELANGOR DARUL EHSAN**

APPENDIX E

*PEJABAT TANAH DAERAH GOMBAK*
*Selangor*

# CATATAN CARIAN PERSENDIRIAN

Adalah diperakui bahawa suatu carian persendirian telah dibuat mengikut Seksyen 384, Kanun Tanah Negara berkenaan tanah berikut :

| | | | |
|---|---|---|---|
| Jenis dan No. Hakmilik | : **GM 609** | Nombor Lot | : **Lot 832** |
| Bandar/Pekan/Mukim | : **Mukim Batu** | Tempat | : **SG. BULOH** |
| Keluasan | : **2.5546 Hektar** **( 2.5546 Hektar )** | Daerah | : **Gombak** |
| Nombor Syit Piawai | : **76-B** | Nombor Pelan Akui | : **4002** |
| Taraf Pegangan *(Selama-lamanya atau Pajakan)* | : **Selama-lamanya** | Tarikh Luput Pajakan: *(Jika Berkenaan)* | |
| Kawasan Rizab *(Jika Berkenaan)* | : **Tiada** | | |
| Tarikh Daftar | : **2 Ogos 1996** | Cukai Tanah | : **RM 59,822.00** |

Bahawa pada tarikh dan waktu perakuan ini dikeluarkan, butir-butir tanah tersebut adalah seperti berikut :

Kategori Kegunaan Tanah : **Perusahaan/Perindustrian**

Syarat Nyata : **Industri Sederhana**

Sekatan Kepentingan : -

**Pemilikan dan Alamat :**

GOH LAI HUAT & SONS SDN. BERHAD , No. Syarikat : 6239-W
Tertubuh di bawah Akta Syarikat 1965 , 1/1 bahagian
LOT B 30/60 10 KM JALAN KEPONG 52000 Wilayah Persekutuan KL

**Tanggungan dan endosan-endosan lain :**

**Nombor Perserahan : 422/1999 Jil. 126 Fol. 1 Perletakhakan Oleh Mahkamah**
melibatkan Gadaian No Pers 5019/1995, 5828/1996
dari KWONG YIK BANK BERHAD, KWONG YIK BANK BERHAD
kepada PENGURUSAN DANAHARTA NASIONAL BERHAD, PENGURUSAN DANAHARTA NASIONAL BERHAD
mengikut No Perintah
dibawah Seksyen 420 K.T.N
didaftarkan pada 12 Februari 1999 jam 03:17:00 petang

**Nombor Perserahan : 1897/2004 Perintah Jual Danaharta Perjanjian Persendirian-Gadaian**

**No Pers 5828/1996 Gadaian menjamin wang pokok**
oleh SALARTECH SDN. BHD. ,1/1 bahagian
kepada PENGURUSAN DANAHARTA NASIONAL BERHAD

didaftarkan pada 3 Oktober 1996 jam 02:59:00 petang

**Hakmilik yang terdahulu :**
*(Jika hakmilik sambungan)*

| | | |
|---|---|---|
| Tarikh mula diberimilik | : | **13 Mei 1908** |
| Hakmilik Asal ( Tetap atau Sementara ) | : | **Mukim Batu EMR 2941** |
| Hakmilik sebelum daripada ini | : | |

**Perkara lain yang melibatkan hakmilik :** Tiada

| | | | |
|---|---|---|---|
| **Dikeluarkan pada** | : 9:49:36 pagi | **Tarikh** | : 21 April 2010 |
| **Bayaran dijelaskan** | : RM 30.00 | **Nombor Resit** | : 07030161454 |

## LIMITING CONDITIONS

**(Referred to in the acceptance instruction/letter)**

1. This report is confidential to the Client for the specific purpose to which it refers. It may be disclosed to other professional advisers assisting the Client in respect of that purpose, but the Client shall not disclose the report to any other person.

2. The opinion of value expressed in this report applies strictly upon the terms of and for the purpose of this Report only. The Valuer is therefore, not responsible for it if quoted out of context.

3. Neither the whole nor any part of this report/valuation certificate or any reference thereto may be included in any published document, circular or statement nor published in any way without the valuer's written approval of the form and context in which it may appear.

4. Though the property was inspected, we are not able to state that the crops are free of vermin, soil diseases. We have not carried out a chemical analysis of the soil nor other investigations to ascertain the soil suitability for the present or other cultivation. Therefore, we are not able to accept any responsibility with regard to latent infestation, and defects of the soil and any disease which affect crops.

5. While due care is taken to note building defects in the course of inspection no structural survey is made nor any inspection of woodwork or other parts of the structure which are covered or inaccessible and we are therefore unable to report that such parts of the property are free of hidden defects or concealed infestation.

Alternatives depending on type of property valued

6. While we have inspected the Title of the property as recorded by the Land Registry, we cannot accept any responsibility for its legal validity or for any liabilities against the property which are unrecorded at the time of our inspection.

7. The instruction and the valuation assigment does not automatically bind the valuer to attendance in court or to appear in enquiry before any government or statutory bodies in connection with the valuation. Prior arrangement and agreement shall be made between the client and valuer if such attendance or appearance is required.

8. We have not arranged for any investigation to be carried out to determine the:-
   (a) conditions of the mechanical and electrical services and,
   (b) load-bearing capacity of the soil, floors and foundations and we are therefore unable to report that the property/properties is/are free from risk in these respects.

9. We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium choride additive or any other deleterious material has been used in the construction of this property/properties and is/are free from risk in this respect. For the purpose of this valuation we have assumed that any such investigation would not disclose the presence of any such material in any adverse conditions.

10. Plans, drawings, sketches and photographs are included in the report to assist in visualising the property/properties and we have not engaged the services of a land surveyor to make a land survey.

11. When valuing plant and machinery and equipment, they are listed in the inventory as complete units and include all parts and accessories normally comprising the unit.

Water, the liquid of life

# Waterco Limited

ABN 62 002 070 733

000001 000 WAT
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

**Lodge your vote:**

**By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

**For all enquiries call:**
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

# Proxy Form

**For your proxy vote to be effective it must be received by 3.00pm on Saturday 19 June 2010**

## How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

## Signing Instructions

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

## Attending the Meeting

If you decide to attend the meeting instead of appointing a proxy then bring this form to assist registration. If a representative of a corporate securityholder or corporate proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

***Turn over to complete the form*** →

View your securityholder information, 24 hours a day, 7 days a week:

**www.investorcentre.com**

☑ **Review your securityholding**

☑ **Update your securityholding**

***Your secure access information is:***

**SRN/HIN: I9999999999**

**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

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# Proxy Form

**Please mark ☒ to indicate your directions**

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

**I/We being a member/s of Waterco Limited hereby appoint**

☐ **the Chairman of the meeting** **OR** ____________________

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Extraordinary General Meeting of Waterco Limited to be held at 36 South Street, Rydalmere NSW Australia 2116 on Monday 21 June 2010 at 3.00pm and at any adjournment of that meeting.

## STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

| | Item | For | Against | Abstain |
|---|---|---|---|---|
| 1. | Approval of Waterco (Far East) Sdn Bhd acquisition of the Land | ☐ | ☐ | ☐ |
| 2. | Approval of the potential issue of shares in the Company to Goh Lai Huat and Sons Sdn Berhad | ☐ | ☐ | ☐ |

**The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.**

## SIGN Signature of Securityholder(s) *This section must be completed.*

| Individual or Securityholder 1 | Securityholder 2 | Securityholder 3 |
|---|---|---|
| | | |
| Sole Director and Sole Company Secretary | Director | Director/Company Secretary |

**Contact Name** ____________________ **Contact Daytime Telephone** ____________________ **Date** ___ / ___ /

**WATERCO**

**Water, the liquid of life**

# Waterco Limited

ABN 62 002 070 733

**All general correspondence to:**
Computershare Investor Services Pty Limited
GPO Box 2975 Melbourne
Victoria 3001 Australia
Enquiries (within Australia) 1300 855 080
(outside Australia) 61 3 9415 4000
Facsimile 61 3 9473 2500
web.queries@computershare.com.au
www.computershare.com

000001 000 WAT
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Dear Securityholder,

We have been trying to contact you in connection with matters arising from your securityholding in Waterco Limited. Unfortunately, our correspondence has been returned to us marked “Unknown at the current address”. For security reasons we have flagged this against your securityholding which will exclude you from future mailings, other than notice of meeting.

We value you as a securityholder and request that you supply your current address so that we can keep you informed about our Company. Where the correspondence has been returned to us in error we request that you advise us of this so that we may correct our records.

You are requested to include the following;

> Security Reference Number (SRN);
> ASX trading code;
> Name of company in which security is held;
> Old address; and
> New address.

Please ensure that the notification is signed by all holders and forwarded to our Share Registry at:

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne Victoria 3001
Australia

Note: If your holding is sponsored within the CHESS environment you need to advise your sponsoring participant (in most cases this would be your broker) of your change of address so that your records with CHESS are also updated.

Yours sincerely

Bee Hong Leo
**Company Secretary**