

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2013

For announcement to the market

			<u>\$A'000</u>
Revenues	up	9.4%	to 41,425
Profit (loss) after tax attributable to members	up	24.3%	to 2,062
Dividends		Amount per security	Franked amount per security
Interim dividend		3¢	3¢
Previous corresponding period		3¢	3¢
Date for determining entitlements to the dividend	9th May 2014		

This half yearly report is to be read in conjunction with the 30th June 2013 annual financial report and any announcements made to the market during the period.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Current period - \$A'000	Previous corresponding period - \$A'000
Revenues	41,425	37,872
Expenses		
Borrowing costs	(724)	(747)
Other expenses	(37,536)	(34,451)
Profit (loss) before tax	3,165	2,674
Income tax	(1,063)	(974)
Profit (loss) after tax	2,102	1,700
Net profit (loss) attributable to non controlling interests	(40)	(41)
Net profit (loss) for the period attributable to members	2,062	1,659
Other Comprehensive income		
Net exchange differences recognised in equity	1,020	403
Property revaluation decrement	191	18
Share option reserve	-	2
Other comprehensive income for the period	1,211	423
Total comprehensive income/(loss) attributable to members of the parent entity	3,273	2,082

Earnings per security (EPS)

Basic EPS	6.0c	4.9c
Diluted EPS	6.0c	4.9c

Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit/(Loss)	2,102	1,700
Net Profit/(Loss) attributable to non-controlling interests	40	41
Earnings used in calculation of basic EPS	2,062	1,659
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	34,627	33,802

Notes to the Consolidated Statement of Profit or Loss and Other Comprehensive Income

Profit (loss) attributable to members

	Current period - \$A'000	Previous corresponding period - \$A'000
Profit (loss) after tax	2,102	1,700
Less (plus) non-controlling interests	40	41
Profit (loss) after tax, attributable to members	2,062	1,659

Revenue and expenses - See Annexure A

Capitalised outlays		
Interest costs capitalised in asset values	--	--
Outlays capitalised in intangibles (unless arising from an acquisition of a business)	--	--

Movement in Retained Profits

	Current period - \$A'000	Previous corresponding period - \$A'000
Retained profits at the beginning of the financial period	11,067	11,785
Restated Retained Profits at the beginning of the financial period	11,067	11,785
Net profit (loss) attributable to members	2,062	1,659
Net transfers from (to) reserves	-	-
Adjustment on deregistration of subsidiary Dividends and other equity distributions paid or payable	(1,389)	(1,356)
Retained profits (accumulated losses) at end of financial period	11,740	12,088

Intangibles-Impairment/Amortisation

	<i>Consolidated - current period</i>			
	Before tax \$A'000	Related tax \$A'000	Related outside equity interests \$A'000	Amount (after tax) attributable to members \$A'000
Impairment of goodwill		--	--	3
Amortisation of other intangibles		--	--	21
Total Impairment/ amortisation of intangibles		--	--	24

Consolidated Statement of Financial Position

	At end of current period \$A'000	As shown in last annual report \$A'000	As in last half yearly report \$A'000
Current assets			
Cash	2,542	2,456	2,796
Receivables	15,671	9,850	15,192
Inventories	36,161	31,370	28,364
Other	939	859	719
Total current assets	55,313	44,535	47,071
Non-current assets			
Property, plant and equipment (net)	40,241	40,115	36,801
Intangibles (net)	16	19	22
Deferred Tax assets	748	676	706
Other	401	403	360
Total non-current assets	41,406	41,213	37,889
Total assets	96,719	85,748	84,960
Current liabilities			
Payables	17,577	9,676	14,138
Interest bearing liabilities	3,035	3,227	3,617
Current tax liabilities	685	362	839
Provisions exc. tax liabilities	1,556	1,510	1,461
Other	-	-	-
Total current liabilities	22,853	14,775	20,055
Non-current liabilities			
Payables	-	-	-
Interest bearing liabilities	24,069	23,723	20,861
Deferred tax liabilities	1,246	1,037	598
Provisions exc. tax liabilities	174	165	258
Other	-	-	-
Total non-current liabilities	25,489	24,925	21,717
Total liabilities	48,342	39,700	41,772
Net assets	48,377	46,048	43,188
Equity			
Issued capital	36,842	36,441	36,150
Employee share loans	(57)	(61)	(72)
Reserves	(511)	(1,722)	(5,295)
Retained profits (accumulated losses)	11,740	11,067	12,087
Parent entity interest	48,014	45,725	42,870
Non-controlling interest	363	323	318
Total equity	48,377	46,048	43,188

Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	39,122	35,412
Payments to suppliers and employees	(37,040)	(33,141)
Other Income	245	184
Interest received	19	37
Interest and other costs of finance paid	(724)	(747)
Income taxes refund/paid	(604)	69
Net operating cash flows	1,018	1,814
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(926)	(1,139)
Proceeds from sale of property, plant and equipment	129	73
Proceeds from sale of business		
Payment for intangibles		
Payment for investments		
Net investing cash flows	(797)	(1,066)
Cash flows related to financing activities		
Proceeds from issues of shares	402	588
Proceeds from borrowings	350	274
Repayment of borrowings	(141)	(118)
Dividends paid	(1,389)	(1,356)
Net financing cash flows	(778)	(612)
Net increase (decrease) in cash held	(557)	136
Cash at beginning of period (see <i>Reconciliation of cash</i>)	(1,938)	1,832
Exchange rate adjustments	887	633
Cash at end of period (see <i>Reconciliation of cash</i>)	2,268	2,601

Non-cash financing and investing activities: During the period, the economic entity acquired plant and equipment amounting to \$190,752 (2012 \$260,044) by means of finance leases. These financing activities are not reflected in the Cash flow statement.

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the cash flow statement) to the related items in the accounts is as follows.	Current period \$A'000	Previous corresponding period - \$A'000
Cash on hand and at bank	2,542	2,796
Bank overdraft	(274)	(195)
Other (commercial bills)		
Total cash at end of period	2,268	2,601

Other notes to the financial statements

Ratios	Current period	Previous corresponding Period
Profit before tax / revenue Profit (loss) before tax as a percentage of revenue	7.6%	7.1%
Profit after tax / equity interests Profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	4.3%	3.9%

NTA Per Share	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	1.38	1.25

Dividends

Date the dividend is payable	16th June 2014
Date of entitlements to the dividend	9th May 2014

Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend: Current year	3¢	3¢	¢
Previous year	3¢	3¢	¢

The †dividend or distribution plans shown below are in operation.

<p>Waterco Dividend Reinvestment Plan</p> <ul style="list-style-type: none"> • Shares to be issued at 5% discount to the weighted average market price. • Securities to be issued shall rank pari passu in all respect with the existing ordinary securities. The issue price of the DRP shares is based on the weighted average market price of all Waterco shares sold on the Dividend Record date and 14 trading days immediately prior to the Record Date or such number of days that the Board of Directors may so determine

The last date for receipt of election notices for the dividend (being the next business day after the Record Date)	12th May 2014
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Issued and quoted securities at end of current period

Category of securities	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
Ordinary securities	35,069,298	35,069,298		
Changes during current period				
Increases through issues				
Waterco DRP	337,412	337,412	\$1.19	\$1.19
Options			<i>Exercise Price</i>	<i>Expiry date</i>
Directors and Senior Executives Option Plan Issued during current period				
Exercised during current period				
Expired during current period	90,000		\$1.35	1/7/2013

Segment reporting - See Annexure B

Review Of Operations - See Annexure C

Compliance statement

- 1 This report has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.
- 2 This report and the accounts upon which the report is based use the same accounting policies.
- 3 This report does give a true and fair view of the matters disclosed
- 4 This report is based on accounts which have been subject to review.
- 5 The entity has a formally constituted audit committee.



Soon Sinn Goh
Chief Executive Officer

26th February 2014

Notes

1. **Income tax** Reconciliation of income tax *prima facie* payable on the profit before tax to income tax expense
2. **Rounding of figures** This report anticipates that the information required is given to the nearest \$1,000 (where stated)
3. **Comparative figures** When required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31 December 2013

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2013	31/12/2012
	\$000	\$000
Revenues	41,425	37,872
Changes in inventories of finished goods and work in progress	(4,424)	(3,787)
Raw Materials and consumables used	(16,186)	(15,192)
Employee benefits expense	(7,778)	(7,046)
Depreciation and amortisation expense	(761)	(634)
Finance costs	(724)	(747)
Advertising expense	(1,023)	(912)
Discounts allowed	(215)	(237)
Outward freight expense	(1,155)	(917)
Rent expense	(1,325)	(1,141)
Contracted staff expense	(193)	(105)
Warranty expense	(241)	(252)
Commission expense	(61)	(203)
Other expenses	(4,174)	(4,025)
Profit before income tax	3,165	2,674
Income tax expense	(1,063)	(974)
Profit for the period	2,102	1,700
Other comprehensive income		
Gain on revaluation of land & buildings	191	18
Share option reserve increment	-	2
Exchange differences on translation of foreign controlled entities	1,020	403
Other comprehensive income for the period	1,211	423
Total comprehensive income for the period	3,313	2,123
Profit attributable to:		
Members of the parent entity	2,062	1,659
Non-controlling interest	40	41
	2,102	1,700

WATERCO LIMITED AND CONTROLLED ENTITIESHalf Yearly Report for the Period Ended 31st December 2013**ANNEXURE B****OPERATING SEGMENTS****Industry Segments**

The economic entity operates predominantly in one industry, being the manufacture and wholesale of swimming pool chemicals, accessories and equipment, manufacture and sale of solar pool heating systems and as a franchisor of swimming pool outlets retailing swimming pool accessories and equipment.

Geographical Segments

2013

	AUSTRALIA & NEW ZEALAND 31/12/2013 \$000	ASIA 31/12/2013 \$000	NORTH AMERICA &EUROPE 31/12/2013 \$000	ELIMINATION 31/12/2013 \$000	CONSOLIDATED GROUP 31/12/2013 \$000
Revenue					
Sales to customers outside the economic entity	30,428	5,390	5,227		41,045
Intersegment sales	442	13,655	1,997	(16,094)	
Unallocated revenue					380
Total revenue	30,870	19,045	7,224	(16,094)	41,425
Segment result	3,830	2,372	(1,540)	(1,117)	3,545
Unallocated expenses net of unallocated revenue					(380)
Profit before income tax					3,165
Income tax expense					(1,063)
Profit after income tax					2,102
Segment assets	84,413	43,468	16,504	(47,666)	96,719
Segment liabilities	38,340	25,356	29,995	(45,349)	48,342

2012

	AUSTRALIA & NEW ZEALAND 31/12/2012 \$000	ASIA 31/12/2012 \$000	NORTH AMERICA &EUROPE 31/12/2012 \$000	ELIMINATION 31/12/2012 \$000	CONSOLIDATED GROUP 31/12/2012 \$000
Revenue					
Sales to customers outside the economic entity	29,369	3,388	4,894		37,651
Intersegment sales	592	11,779	569	(12,940)	
Unallocated revenue					221
Total revenue	29,961	15,167	5,463	(12,940)	37,872
Segment result	3,791	806	(1,422)	(280)	2,895
Unallocated expenses net of unallocated revenue					(221)
Profit before income tax					2,674
Income tax expense					(974)
Profit after income tax					1,700
Segment assets	84,825	41,975	12,498	(54,338)	84,960
Segment liabilities	41,136	28,201	22,209	(49,774)	41,772

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2013

ANNEXURE C

REVIEW OF OPERATIONS

For the six months ended 31 December 2013 (this Half-year) Waterco Limited reported a Net Profit After Tax of \$2.10 million. This compares with a reported Net Profit After Tax of \$1.70 million for the previous corresponding period (PCP).

Earnings Before Interest & Tax for this Half-year were \$3.87 million (PCP \$3.38 million).

Total Revenue was \$41.42 million (PCP \$37.87 million).

Detailed below is a breakdown of the sales revenue contribution for this Half-year compared with the PCP:

	Dec 2013 (\$000)	Dec 2012 (\$000)	% Change
Australia and New Zealand	30,428	29,369	+ 3.6%
Asia	5,390	3,389	+ 59.0%
North America and Europe	5,227	4,893	+ 6.8%
Sales revenue	41,045	37,651	+ 9.0%
Other revenue	380	221	+71.9%
Total	41,425	37,872	+ 9.4%

Sales in Australia and New Zealand registered strong growth in the first quarter, though they flattened out in the second quarter, compared to PCP, enabling this Half-year to record a decent increase of 3.6%.

Sales in Asia increased mainly with performance in China returning to expectations, as a result of a recovery in the property sector.

In the United States, sales were flat in this Half-year. However, orders to be fulfilled in the second half-year have since built up to a reasonable level. Notably, new business from GE Waters for filters suitable for water treatment will contribute to this recovery. We expect that our presence in the water treatment industry will be a significant contributor to this entity's return to profitability in the long run. Canada and Europe showed signs of recovery and we hope to see this continue in the second half-year before we conclude that the recovery can be sustained.

DIVISIONAL EBIT PERFORMANCE

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2013:

	Dec 2013 (\$000)	Dec 2012 (\$000)	% Change
Australia and New Zealand	2,822	4,128	- 31.6%
Asia	2,589	685	+ 278.0%
North America and Europe	(1,540)	(1,429)	-7.8%
Consolidated Reported EBIT	3,871	3,384	+ 14.4%

AUSTRALIA AND NEW ZEALAND

As expected, profitability decreased, in line with a continued competitive business environment, as well as higher cost of goods, resulting from a weaker Australian Dollar (AUD). A slow-down in government spending saw a reduction in the number of projects requiring our commercial filters.

With a long-term view in mind, this Division has also introduced a new ERP system during this Half-year, with the resultant implementation costs expensed.

ASIA

Waterco Far East (WFE) consolidated its position as the Group's principal manufacturing facility for pumps and filters for both the commercial and the residential sectors, supplying all major overseas divisions, including Australia. WFE has commenced production of heat pumps, with technology transferred from Waterco Canada and Waterco USA to meet demand in Europe and Australia for the next season. In addition to being in a more central geographical location, WFE also offers the Group benefits from economies of scale and favourable labour cost. Local sales of this entity improved significantly, compared with PCP.

NORTH AMERICA AND EUROPE

This Division reported an EBIT loss for the six months of \$1.54 million, or an increase of 7.8% on the PCP. The main business season for this Division is in the second half of the financial year. Trading conditions in the US remained tough, though we do see prospects of an improvement in the water-treatment sector.

Commercial filters are currently being made in Augusta, Georgia, with the largest filter made being eighty-eight inches in diameter. The availability of a range of large filters made in Waterco's factory in the United States has been received positively and should improve Waterco's position as a supplier to the local market. There are plans to widen the filter range in Augusta in the near future.

There had hardly been any change in the trading conditions in Europe during this Half-year. As the business environment in the Euro-Zone was still weak, margins continued to come under pressure. The Group, through its UK entity, has set up a warehousing facility and a sales team in France, sustaining an increase in the operation expenses of this region. The Group expects that this strategic move will see an initial weak performance for a few years before a gradual improvement in the future as the business becomes more established. Waterco France will be trading on a lower level of overheads with support from our UK entity and will likely improve its financial position compared to PCP.

Of the entities in this region, the seasonality of the business in Canada is the most pronounced, with profit margins skewed markedly in favour of the second half of the financial year. Assembly of heat pumps had been transferred to Augusta, Georgia, consolidating the manufacturing activities in North America into a single site. Losses in Canada are expected to be curbed this financial year, with a much lower level of overheads.

PRODUCT DEVELOPMENT & WATER TREATMENT

In this Half-year, Waterco invested approximately \$0.48 million on research & development, which was fully expensed. The Group continues to believe that a strong company culture of delivering to its customers innovative, durable and energy-efficient products is an important strategic measure. Several new products introduced in recent times have had satisfactory success.

Several new patents had been lodged in Australia with some patents pending overseas registration. In addition to patents in the development of water filtration products, an area which Waterco had specialized in, over the years, there were, notably, several patents in a chlorine-free system of sanitization which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using chlorine in various forms. This chlorine-free system extends the Group's efforts in producing environmentally-friendly products and is expected to achieve significant sales, initially in Australia, and subsequently globally.

WORKING CAPITAL

	Dec 2013 (\$000)	Dec 2012 (\$000)
Inventory	36,161	28,365
Debtors	15,671	15,192
Creditors	(17,577)	(14,138)
TOTAL	34,255	29,419

The group's working capital position as at December 2013 had increased by \$4.84 million, mainly attributable to increased inventory and other debtors, compared with the PCP.

DIVIDEND

Based on this Half-year result, Waterco Limited's directors are pleased to declare a fully-franked interim dividend of 3 cents per share (last year 3 cents), payable on 16 June 2014 to shareholders on our register as at 9 May 2014.

OUTLOOK

The board of Waterco considers this half-year's results as encouraging, despite some easing off in the second quarter.

The next half-year will be more dependent on the performance of North America and Europe. Sales in the USA, particularly in commercial filters, continue to look promising. In Canada, sales are expected to recover and provide an improved financial result.