

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2015

For announcement to the market

			<u>\$A'000</u>
Revenues	up	6.19%	to 46,211
Profit (loss) after tax attributable to members	up	45.4%	to 2,109
Dividends		Amount per security	Franked amount per security
Interim dividend		2¢	2¢
Previous corresponding period		0¢	0¢
Date for determining entitlements to the dividend	5 th May 2016		

This half yearly report is to be read in conjunction with the 30th June 2015 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	46,211	43,516
Expenses		
Borrowing costs	(656)	(807)
Other expenses	(42,320)	(40,290)
Profit (loss) before tax	3,235	2,419
Income tax	(1,065)	(927)
Profit (loss) after tax	2,170	1,492
Net profit (loss) attributable to non controlling interests	61	41
Net profit (loss) for the period attributable to members	2,109	1,451
Other Comprehensive income		
Net exchange differences recognised in equity	(1,057)	4,076
Share option reserve	-	(20)
Other comprehensive income for the period	(1,057)	4,056
Total comprehensive income/(loss) attributable to members of the parent entity	1,052	5,507

Earnings per security (EPS)

Basic EPS	5.8c	4.10c
Diluted EPS	5.8c	4.10c

Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit/(Loss)	2,170	1,492
Net Profit/(Loss) attributable to non-controlling interests	61	41
Earnings used in calculation of basic EPS	2,109	1,451
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	36,312	35,405

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	2,170	1,492
Less (plus) non-controlling interests	61	41
Profit (loss) after tax, attributable to members	2,109	1,451

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	9,949	9,533
Net profit (loss) attributable to members	2,109	1,451
Net transfers from (to) reserves	20	-
Dividends and other equity distributions paid or payable	(1,813)	(1,069)
Retained profits (accumulated losses) at end of financial period	10,265	9,915

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	1	--	--	1
Amortisation of other intangibles	9	--	--	9
Total Impairment/ amortisation of intangibles	10	--	--	10

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	7,293	3,771	2,979
Receivables	21,307	16,735	16,298
Inventories	33,265	33,970	36,761
Other	951	843	866
Total current assets	62,816	55,319	56,904
Non-current assets			
Property, plant and equipment (net)	39,219	41,325	46,029
Intangibles (net)	281	322	350
Deferred Tax assets	444	311	780
Other	-	-	-
Total non-current assets	39,944	41,958	47,159
Total assets	102,760	97,277	104,063
Current liabilities			
Payables	18,629	12,139	16,393
Interest bearing liabilities	7,374	15,418	17,227
Current tax liabilities	1,007	279	758
Provisions exc. tax liabilities	1,767	1,658	1,740
Other	-	-	-
Total current liabilities	28,777	29,494	36,118
Non-current liabilities			
Payables			
Interest bearing liabilities	16,024	10,211	10,340
Deferred tax liabilities	1,294	1,341	1,631
Provisions exc. tax liabilities	189	178	183
Other	-	-	-
Total non-current liabilities	17,507	11,730	12,154
Total liabilities	46,284	41,224	48,272
Net assets	56,476	56,053	55,791
Equity			
Issued capital	39,265	38,142	38,143
Employee share loans	-	-	-
Reserves	6,428	7,505	7,302
Retained profits	10,265	9,949	9,915
Parent entity interest	55,958	55,596	55,360
Non-controlling interest	518	457	431
Total equity	56,476	56,053	55,791

Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	44,738	41,663
Payments to suppliers and employees	(38,126)	(40,120)
Other Income	30	300
Interest received	1,174	24
Interest and other costs of finance paid	(656)	(807)
Income taxes refund/paid	(516)	(163)
Net operating cash flows	6,644	898
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(474)	(2,347)
Proceeds from sale of property, plant and equipment	111	62
Proceeds from sale of business		
Payment for intangibles		
Dividends received	1	1
Net investing cash flows	(362)	(2,284)
Cash flows related to financing activities		
Proceeds from issues of shares	1,123	659
Proceeds from borrowings	14,159	1,299
Repayment of borrowings	(16,068)	(1,187)
Dividends paid	(1,813)	(1,069)
Net financing cash flows	(2,599)	(298)
Net increase (decrease) in cash held	3,683	(1,684)
Cash at beginning of period (see <i>Reconciliation of cash</i>)	3,264	(68)
Exchange rate adjustments	346	3,277
Cash at end of period (see <i>Reconciliation of cash</i>)	7,293	1,525

Non-cash financing and investing activities: During the period, the economic entity acquired plant and equipment amounting to \$184,017 (2014 \$51,068) 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	7,293	2,979
Bank overdraft	-	(1,454)
Other (commercial bills)		
Total cash at end of period	7,293	1,525

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	7.0%	5.6%
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	3.77%	2.6%

NTA Per Share	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$1.50	\$1.53

Dividends

Date shares trade ex-dividend	5 th May 2016
Record date to determine entitlements to the dividend	6 th May 2016
Date the dividend is payable	15 th June 2016

Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend: Current year	2¢	2¢	¢
Previous year	0¢	0¢	¢

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

Waterco Dividend Reinvestment Plan

- 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

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	37,339,244	37,339,244		
Changes during current period				
Increases through issues				
Waterco DRP	1,080,154	1,080,154	\$1.04	\$1.04
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				

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 2016

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 2015

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2015	31/12/2014
	\$000	\$000
Sales revenue	44,908	43,191
Other revenue	1,303	325
Changes in inventories of finished goods and work in progress	(74)	(3,152)
Raw Materials and consumables used	(23,757)	(19,801)
Employee benefits expense	(8,420)	(7,930)
Depreciation and amortisation expense	(654)	(624)
Finance costs	(656)	(807)
Advertising expense	(935)	(813)
Discounts allowed	(116)	(121)
Outward freight expense	(1,061)	(1,224)
Rent expense	(1,379)	(1,315)
Contracted staff expense	(137)	(156)
Warranty expense	(381)	(117)
Commission expense	(178)	(111)
Other expenses	(5,228)	(4,926)
Profit before income tax	3,235	2,419
Income tax expense	(1,065)	(927)
Profit for the period	2,170	1,492
Other comprehensive income		
Items that maybe reclassified to profit or loss		
Share option reserve decrement	-	(20)
Exchange differences on translation of foreign controlled entities	(1,057)	4,076
Other comprehensive income for the period	(1,057)	4,056
Total comprehensive income for the period	1,113	5,548
Profit attributable to:		
Members of the parent entity	2,109	1,451
Non-controlling interest	61	41
	2,170	1,492

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2015

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

2015

	AUSTRALIA & NEW ZEALAND 31/12/2015 \$000	ASIA 31/12/2015 \$000	NORTH AMERICA &EUROPE 31/12/2015 \$000	ELIMINATION 31/12/2015 \$000	CONSOLIDATED GROUP 31/12/2015 \$000
Revenue					
Sales to customers outside the economic entity	31,907	6,190	6,811		44,908
Intersegment sales	728	15,037	793	(16,558)	
Unallocated revenue					1,303
Total revenue	<u>32,635</u>	<u>21,227</u>	<u>7,604</u>	<u>(16,558)</u>	<u>46,211</u>
Segment result	4,203	1,826	(1,281)	(210)	4,538
Unallocated expenses net of unallocated revenue					<u>(1,303)</u>
Profit before income tax					3,235
Income tax expense					<u>(1,065)</u>
Profit after income tax					<u>2,170</u>
Segment assets	<u>83,031</u>	<u>49,945</u>	<u>14,745</u>	<u>(44,961)</u>	<u>102,760</u>
Segment liabilities	<u>35,414</u>	<u>23,779</u>	<u>32,946</u>	<u>(45,855)</u>	<u>46,284</u>

2014

	AUSTRALIA & NEW ZEALAND 31/12/2014 \$000	ASIA 31/12/2014 \$000	NORTH AMERICA &EUROPE 31/12/2014 \$000	ELIMINATION 31/12/2014 \$000	CONSOLIDATED GROUP 31/12/2014 \$000
Revenue					
Sales to customers outside the economic entity	31,351	5,119	6,721		43,191
Intersegment sales	837	14,504	2,103	(17,444)	
Unallocated revenue					325
Total revenue	<u>32,188</u>	<u>19,623</u>	<u>8,824</u>	<u>(17,444)</u>	<u>43,516</u>
Segment result	6,046	687	(592)	(3,397)	2,744
Unallocated expenses net of unallocated revenue					<u>(325)</u>
Profit before income tax					2,419
Income tax expense					<u>(927)</u>
Profit after income tax					<u>1,492</u>
Segment assets	<u>83,794</u>	<u>50,238</u>	<u>17,552</u>	<u>(47,521)</u>	<u>104,063</u>
Segment liabilities	<u>34,727</u>	<u>24,988</u>	<u>32,945</u>	<u>(44,388)</u>	<u>48,272</u>

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2015

ANNEXURE C

REVIEW OF OPERATIONS

For the six months ended 31 December 2015 (this Half-year) Waterco Limited reported a Net Profit After Tax of \$2.17 million. This compares with a reported Net Profit After Tax of \$1.49 million for the previous corresponding period (PCP).

Earnings Before Interest & Tax (EBIT) for this Half-year were \$3.86 million (PCP \$3.20 million).

Total Revenue was \$46.21 million (PCP \$43.52 million).

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

	Dec 2015 (\$000)	Dec 2014 (\$000)	% Change
Australia and New Zealand	31,907	31,351	+ 1.77%
Asia	6,190	5,119	+ 20.92%
North America and Europe	6,811	6,721	+ 1.34%
Sales revenue	44,908	43,191	+ 3.98%
Other revenue	1,303	325	+300.92%
Total	46,211	43,516	+ 6.19%

DIVISIONAL EBIT PERFORMANCE

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2015:

	Dec 2015 (\$000)	Dec 2014 (\$000)	% Change
Australia and New Zealand	3,154	2,791	+ 13.0%
Asia	1,997	1,001	+99.5%
North America and Europe	(1,291)	(590)	-118.8%
Consolidated Reported EBIT	3,860	3,202	+ 20.5%

AUSTRALIA AND NEW ZEALAND

In Australia and New Zealand (ANZ), we had a soft start for the beginning of the financial year. However, sales caught up as the weather warmed up, to be marginally higher than PCP. Margins are not as strong as previous year's due to a weaker Australian Dollar (AUD). As a result, Gross Profit was marginally below that of the previous year's level. However, with favourable foreign exchange differences and the receipt of insurance claims for consequential losses suffered in previous years' fires, EBIT was up on PCP.

ASIA

In Asia we are experiencing improved performance in sales of our product lines throughout South East Asia, while sales in China improved as a result of wider acceptance of the Hydroxypure system. This is a chlorine-free sanitisation water treatment system, using a combination of ozone and hydrogen peroxide as sanitising agents. The system enables swimmers to enjoy the silkiness of the water, in comparison with the feeling if chlorine was used as the sanitising agent. Used in indoor pools, it eliminates the chlorine odour, which may be unpleasant to some swimmers. A patent to protect this system has been lodged globally, including in China.

Waterco Far East (WFE) continues to consolidate its position as a manufacturer for the Group with improved performance in the quality of the heat pump, after the line was transferred from Waterco Canada and Waterco USA. Further improvement of our manufacturing lines of other products resulted in a better performance compared to PCP.

NORTH AMERICA AND EUROPE

In the Northern Hemisphere – namely Canada, the USA and Europe – generally, poor economic conditions prevail. Waterco Canada is expected to trade poorly as a result of a weaker Canadian dollar. The performance of the USA entity is expected to improve, as restructuring exercises, which include the transfer of almost all manufacturing activities to Malaysia, have been completed. The supply of large commercial filters capable of high pressure rating will underpin our presence in the USA. In Europe, in the previous year, we built a strong foundation for growth, despite poor economic conditions and yet turned in a satisfactory financial result. Indications are that we expect this entity to continue to perform well this financial year. The Division's performance, however, is expected to be adversely affected by poor performances of Canada and USA.

This Division reported an EBIT loss for the six months of \$1.29 million, or an increase of 118.8% 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.

We expect improvement in performance of our businesses in the Northern Hemisphere in the Second Half Year, in particular the European sector.

PRODUCT DEVELOPMENT & WATER TREATMENT

In this Half-year, Waterco invested approximately \$0.551 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 2015 (\$000)	Dec 2014 (\$000)
Inventory	33,265	36,761
Debtors	21,307	16,298
Creditors	(18,629)	(16,392)
TOTAL	35,943	36,667

The group's working capital position as at December 2015 had decreased by \$0.724 million, mainly attributable to decreased Inventory and increased Creditors which offset the large increase in Debtors, compared with the PCP.

DIVIDEND

Based on this Half Year result, the Board is pleased to declare a fully-franked interim dividend of 2 cents per share payable on 15 June 2016.

OUTLOOK

The Board considers this half-year's results as encouraging. Some easing off in the second half year is expected.

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.