

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2014

For announcement to the market

			<u>\$A'000</u>
Revenues	up	5.05%	to 43,516
Profit after tax attributable to members	down	29.6%	to 1,451
Dividends		Amount per security	Franked amount per security
Interim dividend		0¢	0¢
Previous corresponding period		3¢	3¢
Date for determining entitlements to the dividend	<input type="text"/>		

This half yearly report is to be read in conjunction with the 30th June 2014 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	43,516	41,425
Expenses		
Borrowing costs	(807)	(724)
Other expenses	(40,290)	(37,536)
Profit before tax	2,419	3,165
Income tax	(927)	(1,063)
Profit after tax	1,492	2,102
Net profit attributable to non controlling interests	41	(40)
Net profit for the period attributable to members	1,451	2,062
Other Comprehensive income		
Net exchange differences recognised in equity	4,076	1,020
Property revaluation decrement	-	191
Share option reserve	(20)	-
Other comprehensive income for the period	4,056	1,211
Total comprehensive income attributable to members of the parent entity	5,507	3,273

Earnings per security (EPS)

Basic EPS	4.10c	6.0c
Diluted EPS	4.10c	6.0c

Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit	1,492	2,102
Net Profit attributable to non-controlling interests	41	40
Earnings used in calculation of basic EPS	1,451	2,062
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	35,405	34,627

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

Profit attributable to members

	Current period - \$A'000	Previous corresponding period - \$A'000
Profit after tax	1,492	2,102
Less (plus) non-controlling interests	41	40
Profit after tax, attributable to members	1,451	2,062

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	9,533	11,067
Net profit attributable to members	1,451	2,062
Net transfers from (to) reserves	-	-
Dividends and other equity distributions paid or payable	(1,069)	(1,389)
Retained profits at end of financial period	9,915	11,740

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	--	--	3
Amortisation of other intangibles	8	--	--	8
Total Impairment/ amortisation of intangibles	11	--	--	11

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	2,979	1,588	2,542
Receivables	16,298	11,816	15,671
Inventories	36,761	33,827	36,161
Other	866	724	939
Total current assets	56,904	47,955	55,313
Non-current assets			
Property, plant and equipment (net)	46,029	43,987	40,241
Intangibles (net)	350	355	417
Deferred Tax assets	780	614	748
Other	-	-	-
Total non-current assets	47,159	44,956	41,406
Total assets	104,063	92,911	96,719
Current liabilities			
Payables	16,393	11,512	17,577
Interest bearing liabilities	17,227	4,380	3,035
Current tax liabilities	758	(65)	685
Provisions exc. tax liabilities	1,740	1,492	1,556
Other	-	-	-
Total current liabilities	36,118	17,319	22,853
Non-current liabilities			
Payables			
Interest bearing liabilities	10,340	23,280	24,069
Deferred tax liabilities	1,631	1,524	1,246
Provisions exc. tax liabilities	183	189	174
Other	-	-	-
Total non-current liabilities	12,154	24,993	25,489
Total liabilities	48,272	42,312	48,342
Net assets	55,791	50,599	48,377
Equity			
Issued capital	38,143	37,483	36,842
Employee share loans	-	(53)	(57)
Reserves	7,302	3,246	(511)
Retained profits	9,915	9,533	11,740
Parent entity interest	55,360	50,209	48,014
Non-controlling interest	431	390	363
Total equity	55,791	50,599	48,377

Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	41,663	39,122
Payments to suppliers and employees	(40,119)	(37,040)
Other Income	300	245
Interest received	24	19
Interest and other costs of finance paid	(807)	(724)
Income taxes paid	(163)	(604)
Net operating cash flows	898	1,018
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(2,347)	(927)
Proceeds from sale of property, plant and equipment	62	129
Proceeds from sale of business		
Payment for intangibles		
Dividends received	1	1
Net investing cash flows	(2,284)	(797)
Cash flows related to financing activities		
Proceeds from issues of shares	659	402
Proceeds from borrowings	205	350
Repayment of borrowings	(93)	(141)
Dividends paid	(1,069)	(1,389)
Net financing cash flows	(298)	(778)
Net increase (decrease) in cash held	(1,684)	(557)
Cash at beginning of period (see <i>Reconciliation of cash</i>)	(68)	(1,938)
Exchange rate adjustments	3,277	887
Cash at end of period (see <i>Reconciliation of cash</i>)	1,525	2,268

Non-cash financing and investing activities: During the period, the economic entity acquired plant and equipment amounting to \$51,068 (2013 \$190,752) 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	2,979	2,542
Bank overdraft	(1,454)	(274)
Other (commercial bills)		
Total cash at end of period	1,525	2,268

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	5.6%	7.6%
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	2.6%	4.3%

NTA Per Share

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	1.53	1.38

Dividends

Date the dividend is payable

Date of entitlements to the dividend

Amount per security

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

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

The last date for receipt of election notices for the dividend (being the next business day after the Record Date)

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	36,259,090	36,259,090		
Changes during current period				
Increases through issues				
Waterco DRP	627,977	627,977	\$1.05	\$1.05
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 2015

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 2014

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2014	31/12/2013
	\$000	\$000
Revenues	43,516	41,425
Changes in inventories of finished goods and work in progress	(3,152)	(4,424)
Raw Materials and consumables used	(19,801)	(16,186)
Employee benefits expense	(7,930)	(7,778)
Depreciation and amortisation expense	(624)	(761)
Finance costs	(807)	(724)
Advertising expense	(813)	(1,023)
Discounts allowed	(121)	(215)
Outward freight expense	(1,224)	(1,155)
Rent expense	(1,315)	(1,325)
Contracted staff expense	(156)	(193)
Warranty expense	(117)	(241)
Commission expense	(111)	(61)
Other expenses	(4,926)	(4,174)
Profit before income tax	2,419	3,165
Income tax expense	(927)	(1,063)
Profit for the period	1,492	2,102
Other comprehensive income		
Gain on revaluation of land & buildings	-	191
Share option reserve increment	(20)	-
Exchange differences on translation of foreign controlled entities	4,076	1,020
Other comprehensive income for the period	4,056	1,211
Total comprehensive income for the period	5,548	3,313
Profit attributable to:		
Members of the parent entity	1,451	2,062
Non-controlling interest	41	40
	1,492	2,102

WATERCO LIMITED AND CONTROLLED ENTITIESHalf Yearly Report for the Period Ended 31st December 2014**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

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					(325)
Profit before income tax					2,419
Income tax expense					(927)
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>

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	<u>30,870</u>	<u>19,045</u>	<u>7,224</u>	<u>(16,094)</u>	<u>41,425</u>
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					<u>2,102</u>
Segment assets	<u>84,413</u>	<u>43,468</u>	<u>16,504</u>	<u>(47,666)</u>	<u>96,719</u>
Segment liabilities	<u>38,340</u>	<u>25,356</u>	<u>29,995</u>	<u>(45,349)</u>	<u>48,342</u>

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2014

ANNEXURE C

Review of Operations

For the six months ended 31 December 2014 the Group reported a Net Profit After Tax of \$1.49 million. This is a reduction of \$0.61 million compared with a reported Net Profit After Tax of \$2.10 million for the previous corresponding period (PCP). The reduction in Net Profit After Tax was mainly due to additional provision for stock valuation write-down.

Earnings Before Interest & Tax for this Half-year was \$3.20 million (PCP \$3.87 million).

Total Revenue was \$ 43.52 million (PCP \$41.42 million).

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

	Dec 2014	Dec 2013	%
	(\$000)	(\$000)	Change
Australia and New Zealand	31,351	30,428	+3.03%
Asia	5,119	5,390	- 5.03%
North America and Europe	6,721	5,227	+28.6%
Sales revenue	43,191	41,045	+ 5.2%
Other revenue	325	380	-14.5%
Total	43,516	41,425	+5.05%

Sales in Australia and New Zealand registered a moderate growth for the half year compared to PCP and coupled with a strong improvement notably in Europe this Half-year, the Group recorded a decent increase of 5.05%. Sales in Asia were not up to expectations, with China under performing as a result of the property sector receding again.

North American sales were flat in this Half-year whereas Europe showed signs of recovery despite sluggish general economic conditions. We hope to see this continue in the second half-year before we conclude that the recovery can be sustained. For now, results were encouraging.

Divisional EBIT Performance

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2014:

	Dec 2014	Dec 2013	%
	(\$000)	(\$000)	Change
Australia and New Zealand	2,791	2,822	- 1.1%
Asia	1,001	2,589	- 61.3%
North America and Europe	(590)	(1,540)	+61.7%
Consolidated Reported EBIT	3,202	3,871	-17.3%

Australia and New Zealand

As expected, profitability remained below expectations 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 continued throughout the relevant reporting period resulting in a reduction in sales of our commercial filters. Overall, we have maintained a modest growth in sales compared to PCP.

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 to 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 compared with PCP. The relocation of the Heat Pump manufacturing facility from North America was completed during the year. WFE absorbed the costs of relocation, including some write down of inventory, resulting in a lower profitability than expected.

North America and Europe

This Division reported an EBIT loss for the six months of \$590,000, a considerable improvement compared to the PCP of \$1,540,000 loss. 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 business environment in the Euro-Zone was still weak, margins continued to come under pressure. Despite difficult economic conditions, our UK based entity had increased sales and improved performance beyond expectations.

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 Asia, reducing manufacturing activities in North America. 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 \$0.524 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 registration overseas.

Working Capital

	Dec 2014 (\$000)	Dec 2013 (\$000)
Inventory	36,761	36,161
Debtors	16,298	15,671
Creditors	(16,392)	(17,577)
TOTAL	36,667	34,255

The group's working capital position as at 31 December 2014 had increased by \$2.412 million, mainly attributable to increased inventory and other debtors and reduction in creditors, compared with the PCP.

Dividend

Because of the fire at its Head Office in NSW on 7 January 2015 and decrease in performance for the half year, Waterco Limited's directors will not be declaring an interim dividend (last year 3 cents).

Outlook

The board of Waterco considers this Half-year's results as below expectation after making an additional provision for stock write down valuation of \$500,000.

The next half-year year will be more dependent on the performance of North America and Europe. Sales in Europe look promising with better level of forward sales compared to PCP. In North America, sales level is expected to be maintained and with lower overheads, an improvement in financial results is expected.