

WATERCO LIMITED
A.B.N. 62 002 070 733
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR
ENDED 31 DECEMBER, 2016

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WATERCO LIMITED AND CONTROLLED ENTITIES

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DIRECTORS' REPORT

The Directors of Waterco Limited have pleasure in submitting herewith the Interim Financial Report of the consolidated group for the half-year ended 31st December, 2016

The directors of the company who held office during or since the end of the half-year are:

Soon Sinn Goh
Bryan Goh
Garry Norman
Ben Hunt
Richard Ling

REVIEW OF OPERATIONS

For the six months ended 31 December 2016 (This Half-year) Waterco Limited reported a Net Profit After Tax of \$2.51 million, against \$2.17 million for the previous corresponding period (PCP). This result, though modest, is nevertheless encouraging, as it reflects the Group's continuous efforts to attain a better level of profitability.

Earnings Before Interest & Tax (EBIT) for This Half-year were \$4.08 million (PCP \$3.86 million).

Total Revenue was \$44.25 million (PCP \$46.21 million).

DIVISIONAL EBIT PERFORMANCE

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2016:

	Dec 2016 (\$000)	Dec 2015 (\$000)	% Change
Australia and New Zealand	3,130	3,154	- 0.1%
Asia	1,766	1,997	-11.6%
North America and Europe	(814)	(1,291)	+37.0%
Consolidated Reported EBIT	4,082	3,860	+5.8%

AUSTRALIA AND NEW ZEALAND

In Australia and New Zealand (ANZ), we had a soft start at the beginning of the financial year. However, sales caught up as the weather warmed and ended up matching the sales of PCP. Margins firmed, compared with PCP, due to a stable Australian Dollar (AUD). As a result, Gross Profit improved. EBIT was, however, similar to the level of PCP, which had the benefit of one-off credits from booking of insurance claims.

Waterco is pleased to note that the building in Rydalmere has been completely rebuilt, after the fire in January 2015. The Head Office has moved back to these new premises during This Half-year.

ASIA

In Asia, sales were also tracking similar to PCP but a stronger Australian Dollar caused a slight decline in their contribution to the Group's figures.

In the past year, the Group transferred the fibreglass manufacturing operations from Waterco China to Waterco Far East (WFE) to improve the efficiency of the Malaysian entity and to provide a net gain to the Group. This will be reflected in either the second half-year or the next financial year.

WFE continues to consolidate its position as a manufacturer for the Group with improvement in the quality of the heat pump. Further improvement of manufacturing lines of other products will result in a better performance in the future.

NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA and Europe – generally, poor economic conditions continued. However, the restructure of the Canada and USA entities has enabled the Group to reduce EBIT losses for this Division. The supply of large commercial filters capable of high pressure rating will underpin our presence in the USA. In Europe, we are beginning to feel the benefits from the firm foundation we built during the past few years, with results showing improvement over PCP.

This Division reported an EBIT loss for the six months of \$0.81 million, or an improvement of 37.0% on the PCP. The main business season for this Division is in the second half of the financial year. Trading conditions in the US remain tough, though we do see prospects of an improvement in the water-treatment sector.

PRODUCT DEVELOPMENT & WATER TREATMENT

In This Half-year, Waterco invested approximately \$0.59 million on research and development, which was fully expensed. The Group continues to respond to market demands for innovative, durable and energy-efficient products and will continue its vigorous efforts in this area.

The Group continues to develop water filtration products in Australia and overseas. This is an area which Waterco has specialised in over the years. We also hold several patents in a chlorine-free system of sanitation which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using chlorine in various forms.

WORKING CAPITAL

	Dec 2016 (\$000)	Dec 2015 (\$000)
Inventory	31,309	33,265
Debtors	15,516	21,307
Creditors	(14,802)	(18,629)
TOTAL	32,023	35,943

The group's working capital as at December 2016 saw a decrease of \$3.92 million, with reduction seen in all the components.

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 2017.

OUTLOOK

The Board considers This half-year's results as encouraging.

The second half-year represents a smaller contribution to the results for the year because of seasonal factors. It will be more dependent on North America and Europe, where we have hopes that the USA entity would do better, particularly in commercial filters, would feature prominently in this period. This year, we are encouraged by the good start to the second half-year by the Australia and New Zealand Division, assisted by the hot weather. We are optimistic that this could mean a better result for the full year than previously expected.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page14.

This report is signed in accordance with a resolution of the Board of Directors.



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Soon Sinn Goh
Chairman
Waterco Limited
27 February 2017

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2016	31/12/2015
	\$000	\$000
Sales revenue	43,324	44,908
Other revenue	922	1,303
Changes in inventories of finished goods and work in progress	(1,187)	(74)
Raw Materials and consumables used	(21,023)	(23,757)
Employee benefits expense	(8,338)	(8,420)
Depreciation and amortisation expense	(642)	(654)
Finance costs	(512)	(656)
Advertising expense	(1,011)	(935)
Discounts allowed	(83)	(116)
Outward freight expense	(921)	(1,061)
Rent expense	(1,291)	(1,379)
Contracted staff expense	(98)	(137)
Warranty expense	(170)	(381)
Commission expense	(50)	(178)
Other expenses	(5,310)	(5,228)
Profit before income tax	3,610	3,235
Income tax expense	(1,097)	(1,065)
Profit for the period	2,513	2,170
Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation increment/(decrement) (net of tax and reversals)	5,108	-
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	(1,809)	(1,057)
Other comprehensive income for the period	3,299	(1,057)
Total comprehensive income for the period	5,812	1,113
Profit attributable to:		
Members of the parent entity	2,432	2,109
Non-controlling interest	81	61
	2,513	2,170
Total comprehensive income for the period attributable to:		
Members of the parent entity	5,731	1,052
Non-controlling interest	81	61
Total comprehensive income for the period	5,812	1,113
Earnings per share		
Basic earnings per share (cents per share)	6.5	5.8
Diluted earnings per share (cents per share)	6.5	5.8

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2016	30/6/2016
	\$000	\$000
Current Assets		
Cash and cash equivalents	7,614	4,518
Trade and other receivables	15,516	14,608
Inventories	31,309	30,874
Other current assets	717	776
Total Current Assets	55,156	50,776
Non-Current Assets		
Property, plant & equipment	51,171	40,984
Intangible assets	231	260
Deferred tax assets	1,064	1,653
Total Non-Current Assets	52,466	42,897
Total Assets	107,622	93,673
Current Liabilities		
Trade and other payables	14,802	8,843
Borrowings	2,882	5,553
Current tax liabilities	683	231
Short-term provisions	1,806	1,691
Total Current Liabilities	20,173	16,318
Non-Current Liabilities		
Borrowings	18,912	15,339
Deferred tax liabilities	4,097	2,519
Long-term provisions	197	184
Total Non-Current Liabilities	23,206	18,042
Total Liabilities	43,379	34,360
Net Assets	64,243	59,313
Equity		
Issued capital	39,820	39,582
Reserves	12,312	9,014
Retained earnings	11,507	10,194
Parent interest	63,639	58,790
Non-controlling interest	604	523
Total Equity	64,243	59,313

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
WATERCO LIMITED AND CONTROLLED ENTITIES**

Consolidated Group	Issued Capital Ordinary \$000	Retained Earnings \$000	Capital Profits Reserve \$000	Asset Revaluation Reserve \$000	Foreign Currency Translatio n Reserve \$000	Share Option Reserve \$000	Non- controlling Interest \$000	Total \$000
Balance at 30/6/15	38,142	9,949	211	11,083	(3,809)	20	457	56,053
Comprehensive income								
Profit for the period		2,109					61	2,170
Exchange differences on translation of foreign controlled entities					(686)			(686)
Share option increment		20				(20)		
Other comprehensive income				(371)				(371)
Total comprehensive income/(loss) for the period		2,129		(371)	(686)	(20)	61	1,113
Transactions with owners in their capacity as owners and other transfers								
14 December 2015								
Issue of 1,080,154 shares at \$1.04 each under Waterco Dividend Reinvestment Plan	1,123							1,123
Dividends paid		(1,813)						(1,813)
Total transactions with owners and other transfers	1,123	(1,813)						(690)
Balance at 31/12/15	39,265	10,265	211	10,712	(4,495)	-	518	56,476
Balance at 30/6/16	39,582	10,194	211	13,253	(4,450)	-	523	59,313
Comprehensive income								
Profit for the period		2,432					81	2,513
Exchange differences on translation of foreign controlled entities					(1,809)			(1,809)
Other comprehensive income				5,107				5,107
Total comprehensive income/(loss) for the period		2,432		5,107	(1,809)		81	5,811
Transactions with owners in their capacity as owners and other transfers								
15 December 2016								
Issue of 530,691 shares at \$1.38 each under Waterco Dividend Reinvestment Plan	732							732
Cancellation of shares under Waterco Share Buy Back	(494)							(494)
Dividends paid		(1,119)						(1,119)
Total transactions with owners and other transfers	238	(1,119)						(881)
Balance at 31/12/16	39,820	11,507	211	18,360	(6,259)	-	604	64,243

The accompanying notes form part of this financial report.

**CONSOLIDATED CASHFLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2016	31/12/2015
	\$000	\$000
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	41,904	44,738
Payments to suppliers and employees	(36,045)	(38,126)
Interest received	40	30
Other income	882	1,174
Finance costs	(512)	(656)
Income tax	(892)	(516)
Net cash provided by operating activities	5,377	6,644
<u>Cash Flows from Investing Activities</u>		
Dividends received	1	1
Payment for property, plant & equipment	(1,710)	(474)
Proceeds from sale of property, plant & equipment	50	111
Net cash (used in) investing activities	(1,659)	(362)
<u>Cash Flows from Financing Activities</u>		
Proceeds from borrowings	1,465	14,159
(Repayment) of borrowings	(500)	(15,852)
Proceeds from issue of shares	732	1,123
Share buyback	(493)	-
Payment of lease liabilities	(112)	(140)
Payment of hire purchase creditors	(79)	(76)
Dividends paid	(1,119)	(1,813)
Employee share plan repayments	-	-
Net cash (used in) financing activities	(106)	(2,599)
Net increase)/(decrease) in cash held	3,612	3,683
Cash and cash equivalents at the beginning of period	4,518	3,264
Effects of exchange rate changes on balance of cash and cash equivalents held in foreign currencies	(516)	346
Cash and cash equivalents at the end of period	7,614	7,293

The accompanying notes form part of this financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 1: Summary of Significant Accounting Policies

a) Basis of Preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The interim financial report is intended to provide users with an update on the latest annual financial statements of Waterco Ltd and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016 together with any public announcements made during the following half-year.

b) Accounting Policies

The same accounting policies and methods of computation have been followed in the interim financial report as were applied in the 30 June 2016 financial statements.

c) New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period

For the half-year reporting period to 31 December 2016, a number of new and revised Accounting Standard requirements became mandatory for the first time, some of which are relevant to the Group.

The adoption of all the new and revised Standards and Interpretations has not resulted in any material changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years.

Note 2: Dividends

	Consolidated Group	
	31/12/2016	31/12/2015
	\$000	\$000
Dividends paid		
Final fully franked dividend declared on 23rd August 2016 of 3c (2015:5c) per share franked at the tax rate of 30% (2015 30%)	1,119	1,813
	<u>1,119</u>	<u>1,813</u>

Note 3: Operating Segments

Segment Information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on the basis of location since the group's operations have similar different risk profiles and performance criteria. Operating segments are therefore determined on the same basis.

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

Basis of accounting for the purposes of reporting by operating segments

Accounting Policies Adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group. The Board has decided to combine all entities in the Asian Region under one segment to reflect the nature of the business and similar customer base of all these entities. The Board has also decided to combine North America and Europe into one segment to reflect the similar nature of the business and customer base in these entities.

Inter-segment transactions

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

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

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

Segment assets

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 3: Operating Segments (continued)

Segment liabilities

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

Geographical Segments

2016

	AUSTRALIA & NEW ZEALAND 31/12/2016 \$000	ASIA 31/12/2016 \$000	NORTH AMERICA &EUROPE 31/12/2016 \$000	ELIMINATION 31/12/2016 \$000	CONSOLIDATED GROUP 31/12/2016 \$000
Revenue					
Sales to customers outside the economic entity	32,172	5,764	5,388		43,324
Intersegment sales	645	13,134	382	(14,161)	
Unallocated revenue					922
Total revenue	<u>32,817</u>	<u>18,898</u>	<u>5,770</u>	<u>(14,161)</u>	<u>44,246</u>
Segment result	4,332	1,715	(793)	(722)	4,532
Unallocated expenses net of unallocated revenue					(922)
Profit before income tax					<u>3,610</u>
Income tax expense					<u>(1,097)</u>
Profit after income tax					<u>2,513</u>
Segment assets	<u>92,621</u>	<u>49,259</u>	<u>13,583</u>	<u>(47,841)</u>	<u>107,622</u>
Segment liabilities	<u>39,537</u>	<u>23,034</u>	<u>32,146</u>	<u>(51,338)</u>	<u>43,379</u>

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					(1,303)
Profit before income tax					<u>3,235</u>
Income tax expense					<u>(1,065)</u>
Profit after income tax					<u>2,170</u>
Segment assets	<u>84,318</u>	<u>49,945</u>	<u>14,745</u>	<u>(44,961)</u>	<u>104,047</u>
Segment liabilities	<u>36,701</u>	<u>23,779</u>	<u>32,946</u>	<u>(45,855)</u>	<u>47,571</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 4: Contingent Liabilities

	Consolidated Group	
	31/12/2016	31/12/2015
	\$000	\$000
Estimate of the maximum amount of contingent liabilities that may become payable:		
Guarantee of leases of premises subleased to franchisees	7,103	7,372
	<u>7,103</u>	<u>7,373</u>

Note 5 Events Subsequent to Reporting Date

There are no material subsequent events since the half year ended 31 December 2016.

**WATERCO LIMITED ABN 62 002 070 733
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

The directors of Waterco Limited hereby declare that:

- 1) the financial statements and notes, as set out on pages 5 to 10 are in accordance with the Corporations Act 2001, including:
 - a) complying with the Accounting Standard AASB 134:Interim Financial Reporting and
 - b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half- year ended on that date.
- 2) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Soon Sinn Goh
Chief Executive Officer

Dated at SYDNEY this 27th day of February 2017



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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
WATERCO LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Waterco Limited which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Waterco Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

THE POWER OF BEING UNDERSTOOD
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Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Waterco Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



Wayne Beuman
Partner

Sydney, NSW

Dated: 27 February 2017



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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Waterco Limited for the half year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM AUSTRALIA PARTNERS

Wayne Beauman
Partner

Sydney, NSW
Dated: 27 February 2017

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