

WATERCO LIMITED
A.B.N. 62 002 070 733
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR
ENDED 31 DECEMBER, 2013

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WATERCO LIMITED AND CONTROLLED ENTITIES

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, 2013

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 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.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page15.

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



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Soon Sinn Goh
Chairman
Waterco Limited
26 February 2014

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
WATERCO LIMITED AND CONTROLLED ENTITIES**

	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		
Items that will not be reclassified to profit or loss		
Gain on revaluation of land & buildings	191	18
Items that maybe reclassified to profit or loss		
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
Total comprehensive income for the period attributable to:		
Members of the parent entity	3,273	2,082
Non-controlling interest	40	41
Total comprehensive income for the period	3,313	2,123
Earnings per share		
From continuing and discontinued operations		
Basic earnings per share (cents per share)	6.0	4.9
Diluted earnings per share (cents per share)	6.0	4.9
From continuing operations		
Basic earnings per share (cents per share)	6.0	4.9
Diluted earnings per share (cents per share)	6.0	4.9

The accompanying notes form part of this financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
WATERCO LIMITED AND CONTROLLED ENTITIES

	Consolidated Group	
	31/12/2013	30/6/2013
	\$000	\$000
Current Assets		
Cash and cash equivalents	2,542	2,456
Trade and other receivables	15,670	9,850
Inventories	36,161	31,371
Other current assets	939	859
Total Current Assets	55,312	44,536
Non-Current Assets		
Property, plant & equipment	40,242	40,115
Intangible assets	16	19
Deferred tax assets	748	675
Other non-current assets	401	403
Total Non-Current Assets	41,407	41,212
Total Assets	96,719	85,748
Current Liabilities		
Trade and other payables	17,577	9,675
Borrowings	3,035	3,227
Current tax liabilities	685	363
Short-term provisions	1,556	1,510
Total Current Liabilities	22,853	14,775
Non-Current Liabilities		
Borrowings	24,069	23,723
Deferred tax liabilities	1,246	1,037
Long-term provisions	174	165
Total Non-Current Liabilities	25,489	24,925
Total Liabilities	48,342	39,700
Net Assets	48,377	46,048
Equity		
Issued capital	36,785	36,380
Reserves	(511)	(1,722)
Retained earnings	11,740	11,067
Parent interest	48,014	45,725
Non-controlling interest	363	323
Total Equity	48,377	46,048

The accompanying notes form part of this financial report.

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
WATERCO LIMITED AND CONTROLLED ENTITIES**

Consolidated Group	Issued Capital Ordinary	Retained Earnings	Capital Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Share Option Reserve	Non- controlling Interest	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 30/6/12	35,477	11,785	211	6,085	(12,030)	16	276	41,820
Comprehensive income								
Profit for the period		1,659					41	1,700
Exchange differences on translation of foreign controlled entities					403			403
Share option increment						2		2
Gain on revaluation of land and buildings				18				18
Total comprehensive income/(loss) for the period	-	1,659	-	18	403	2	41	2,123
Transactions with owners in their capacity as owners and other transfers								
4 December 2012 Issue of 212,000 shares at \$1.00 each	212							212
14 December 2012 Issue of 357,702 shares at \$1.05 each under Waterco Dividend Reinvestment Plan	376							376
Employee share loan repayments	13							13
Dividends paid		(1,356)						(1,356)
Total transactions with owners and other transfers	601	(1,356)	-	-	-	-	-	(755)
Balance at 31/12/12	36,078	12,088	211	6,103	(11,627)	18	317	43,188
Balance at 30/6/13	36,380	11,067	211	6,834	(8,787)	20	323	46,048
Comprehensive income								
Profit for the period		2,062					40	2,102
Exchange differences on translation of foreign controlled entities					1,020			1,020
Share option increment						-		-
Gain on revaluation of land and buildings				191				191
Total comprehensive income/(loss) for the period	-	2,062	-	191	1,020	-	40	3,313
Transactions with owners in their capacity as owners and other transfers								
16 December 2013 Issue of 337,412 shares at \$1.19 each under Waterco Dividend Reinvestment Plan	401							401
Employee share loan repayments	4							4
Dividends paid		(1,389)						(1,389)
Total transactions with owners and other transfers	405	(1,389)	-	-	-	-	-	(984)
Balance at 31/12/13	36,785	11,740	211	7,025	(7,767)	20	363	48,377

The accompanying notes form part of this financial report.

**CASHFLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2013	31/12/2012
	\$000	\$000
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	39,122	35,412
Payments to suppliers and employees	(37,040)	(33,141)
Interest received	19	37
Other income	245	184
Finance costs	(724)	(747)
Income tax	(604)	69
Net cash provided by operating activities	<u>1,018</u>	<u>1,814</u>
<u>Cash Flows from Investing Activities</u>		
Dividends received	1	1
Payment for property, plant & equipment	(927)	(1,139)
Proceeds from sale of property, plant & equipment	129	73
Net cash (used in) investing activities	<u>(797)</u>	<u>(1,065)</u>
<u>Cash Flows from Financing Activities</u>		
Proceeds from borrowings	346	261
Proceeds from issue of shares	402	588
Payment of lease liabilities	(141)	(50)
Payment of Hire Purchase Liabilities	-	(68)
Dividends paid	(1,389)	(1,356)
Employee share plan repayments	4	13
Net cash (used in) financing activities	<u>(778)</u>	<u>(612)</u>
Net (decrease)/increase in cash held	<u>(557)</u>	<u>137</u>
Cash and cash equivalents at the beginning of period	1,938	1,832
Effects of exchange rate changes on balances of assets and liabilities held in foreign currencies	887	632
Cash and cash equivalents at the end of period	<u>2,268</u>	<u>2,601</u>

The accompanying notes form part of this financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
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 2013 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 2013 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 2013 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 2013, 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	
	31/12/2013	31/12/2012
	\$000	\$000
Dividends paid		
Final fully franked dividend declared on 27th August 2013 of 4c (2012:4c) per share franked at the tax rate of 30% (2012:30%)	1,389	1,356
	1,389	1,356

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 valued 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 2013
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

	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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 4: Contingent Liabilities

	Consolidated Group	
	31/12/2013	31/12/2012
	\$000	\$000
Estimate of the maximum amount of contingent liabilities that may become payable:		
Guarantee of leases of premises subleased to franchisees	7,428	4,992
	<u>7,428</u>	<u>4,992</u>

Note 5 Events Subsequent to Reporting Date

There are no material subsequent events since the half year ended 31 December 2013.


**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 11 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 2013 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 26th day of February 2014

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 ("the consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 internal 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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.

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 review report.

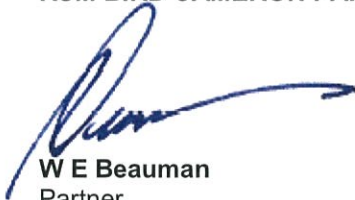
Conclusion

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 2013 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 Bird Cameron

RSM BIRD CAMERON PARTNERS



W E Beaman
Partner

Sydney, NSW
Dated: 26 February 2014

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Waterco Limited for the half year ended 31 December 2013, 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 Bird Cameron

RSM BIRD CAMERON PARTNERS



W E Beauman
Partner

Sydney, NSW
Dated: 26 February 2014