

WATERCO LIMITED
A.B.N. 62 002 070 733
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR
ENDED 31 DECEMBER, 2015

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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, 2015

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 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.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 14.

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



.....
Soon Sinn Goh
Chairman
Waterco Limited
26 February 2016

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
WATERCO LIMITED AND CONTROLLED ENTITIES**

	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
Total comprehensive income for the period attributable to:		
Members of the parent entity	1,052	5,507
Non-controlling interest	61	41
Total comprehensive income for the period	1,113	5,548
Earnings per share		
Basic earnings per share (cents per share)	5.8	4.1
Diluted earnings per share (cents per share)	5.8	4.1

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2015	30/6/2015
	\$000	\$000
Current Assets		
Cash and cash equivalents	7,293	3,771
Trade and other receivables	21,307	16,735
Inventories	33,265	33,970
Other current assets	951	843
Total Current Assets	62,816	55,319
Non-Current Assets		
Property, plant & equipment	39,219	41,325
Intangible assets	281	322
Deferred tax assets	444	311
Total Non-Current Assets	39,944	41,958
Total Assets	102,760	97,277
Current Liabilities		
Trade and other payables	18,629	12,139
Borrowings	7,374	15,418
Current tax liabilities	1,007	279
Short-term provisions	1,767	1,658
Total Current Liabilities	28,777	29,494
Non-Current Liabilities		
Borrowings	16,024	10,211
Deferred tax liabilities	1,294	1,341
Long-term provisions	189	178
Total Non-Current Liabilities	17,507	11,730
Total Liabilities	46,284	41,224
Net Assets	56,476	56,053
Equity		
Issued capital	39,265	38,142
Reserves	6,428	7,505
Retained earnings	10,265	9,949
Parent interest	55,958	55,596
Non-controlling interest	518	457
Total Equity	56,476	56,053

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
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 30/6/14	37,430	9,533	211	12,085	(9,070)	20	390	50,599
Comprehensive income								
Profit for the period		1,451					41	1,492
Exchange differences on translation of foreign controlled entities					3,106			3,106
Share option increment						(20)		(20)
Other comprehensive income				970				970
Total comprehensive income/(loss) for the period		1,451		970	3,106	(20)	41	5,548
Transactions with owners in their capacity as owners and other transfers								
15 December 2014 Issue of 627,977 shares at \$1.05 each under Waterco Dividend Reinvestment Plan	659							659
Employee share loan repayments	54							54
Dividends paid		(1,069)						(1,069)
Total transactions with owners and other transfers	713	(1,069)	-					(356)
Balance at 31/12/14	38,143	9,915	211	13,055	(5,964)	-	431	55,791
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 reserve transfer		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
Employee share loan repayments								
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

The accompanying notes form part of this financial report.

**CONSOLIDATED CASHFLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2015	31/12/2014
	\$000	\$000
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	44,738	41,663
Payments to suppliers and employees	(38,126)	(40,119)
Interest received	30	24
Other income	1,174	300
Finance costs	(656)	(807)
Income tax	(516)	(163)
Net cash provided by operating activities	6,644	898
<u>Cash Flows from Investing Activities</u>		
Dividends received	1	1
Payment for property, plant & equipment	(474)	(2,347)
Proceeds from sale of property, plant & equipment	111	62
Net cash (used in) investing activities	(362)	(2,284)
<u>Cash Flows from Financing Activities</u>		
Proceeds from borrowings	14,159	1,245
(Repayment) of borrowings	(15,852)	(1,094)
Proceeds from issue of shares	1,123	659
Payment of lease liabilities	(140)	(93)
Payment of hire purchase creditors	(76)	-
Dividends paid	(1,813)	(1,069)
Employee share plan repayments	-	54
Net cash (used in) financing activities	(2,599)	(298)
Net increase)/(decrease) in cash held	3,683	(1,684)
Cash and cash equivalents at the beginning of period	3,264	(68)
Effects of exchange rate changes on balances of assets and liabilities held in foreign currencies	346	3,277
Cash and cash equivalents at the end of period	7,293	1,525

The accompanying notes form part of this financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
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 2015 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 2015 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 2015 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 2015, 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	
	31/12/2015	31/12/2014
	\$000	\$000
Dividends paid		
Final fully franked dividend declared on 26th August 2015 of 5c (2014:3c) per share franked at the tax rate of 30% (2014 30%)	1,813	1,069
	<u>1,813</u>	<u>1,069</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 2015
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

	2015				
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA &EUROPE	ELIMINATION	CONSOLIDATED GROUP
	31/12/2015	31/12/2015	31/12/2015	31/12/2015	31/12/2015
	\$000	\$000	\$000	\$000	\$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					3,235
Income tax expense					(1,065)
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	ASIA	NORTH AMERICA &EUROPE	ELIMINATION	CONSOLIDATED GROUP
	31/12/2014	31/12/2014	31/12/2014	31/12/2014	31/12/2014
	\$000	\$000	\$000	\$000	\$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>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 4: Contingent Liabilities

	Consolidated Group	
	31/12/2015	31/12/2014
	\$000	\$000
Estimate of the maximum amount of contingent liabilities that may become payable:		
Guarantee of leases of premises subleased to franchisees	7,372	7,409
	<u>7,372</u>	<u>7,409</u>

Note 5 Events Subsequent to Reporting Date

There are no material subsequent events since the half year ended 31 December 2015.

**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 2015 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 2016

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 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 2015 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 auditor's review report.

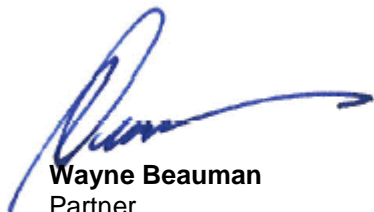
Conclusion

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 company's financial position as at 31 December 2015 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 Beauman
Partner

Sydney, NSW
Dated: 26 February 2016

RSM Australia Partners

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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 2015, 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.

A handwritten signature in blue ink, appearing to read 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read 'Wayne Beauman'.

Wayne Beauman
Partner

Sydney, NSW

Dated: 26 February 2016