Water, the Liquid of Life
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Waterco first half profit up 13%
Dividend up 17%

International water treatment and filtration products group Waterco Limited (ASX: WAT) today announced a net profit after tax of $3.21 million for the six months to 31 December 2004, an increase of 13.0 per cent over the previous corresponding period (2003: $2.84 million). Sales revenue increased by 6 per cent to $43.20 million (2003: $40.91 million).

Earnings per share were 15.2 cents (2003: 14.9 cents), following a $5.49 million share placement in November 2004. Net tangible assets per share increased to $1.68 from $1.22.

This result includes a foreign exchange loss of $964,247 (2003: $687,364) related to Waterco's intercompany loans to fund its overseas operations. This unrealised loss has no effect on Waterco's cash flow. If foreign exchange losses are excluded, the company's profit after tax would have shown an improvement over the previous year's by 18 per cent.

Directors have declared a fully franked interim dividend of 7.0 cents per share (2003: 6.0 cents), payable on 9 May 2005 to shareholders on the register at 4 April.

Results summary for the six months to	31 December 2004 ($M)	31 December 2003 ($M)	Increase (%)
Sales revenue	**43.20**	40.91	5.6
Earnings before interest, tax, depreciation and amortisation	**5.96**	4.97	19.9
Operating profit before tax	**4.74**	3.91	21.2
Net profit after tax	**3.21**	2.84	13.0
Earnings per share (cents)	**15.2**	14.9	2.0
Interim dividend (cents)	**7.0**	6.0	16.7

Results excluding unrealised foreign exchange losses	31 December 2004 ($M)	31 December 2003 ($M)	Increase (%)
Operating profit before tax	**5.70**	4.59	24.2
Net profit after tax	**4.18**	3.53	18.4
Earnings per share (cents)	**19.83**	18.48	7.3

Mr Soon Sinn Goh, Managing Director, said: "This is an encouraging result, underpinned by healthy margins from equipment sales in Australia and promising sales of pumps in the United States.

"The funds we raised during the year are enabling us to expand our manufacturing facilities in China and Malaysia. We expect these to be completed in 2005, further strengthening our position as a global supplier of water treatment and filtration products and enabling us to cater for increased demand."

Review of operations

Australia and New Zealand

Waterco's Australian operations, which generate more than 70 per cent of group revenue, produced a good result with higher margins due partly to the strong Australian dollar. Growth in Australia is now underpinned by sales of equipment, as the trend toward salt water pools reduces demand for dry chlorine, namely calcium hypochlorite. The company is diversifying into the commercial market, and its inventory level has increased to cater for this expansion.

The franchising division performed well, and healthy sales to the 54 Swimart stores contributed to the growth of the Australian business. These stores are expected to continue to trade satisfactorily in the second half.

The New Zealand business made a positive contribution, with a reduction in expenses, brought about by efficiency improvements.

North America and Europe

Sales of new pumps continued to improve in the United States, and contributed to a profitable half-year. This division is expected to generate a healthy profit for the Waterco group in 2004/5.

The European business has been restructured to improve its future earnings performance. Meanwhile, sales were below expectations and restructuring costs resulted in a loss for the period.

Manufacturing and restructuring

During the period, Waterco relocated part of its filter manufacturing operations from Malaysia to China. There are currently 50 staff in the China operations. This will increase to 100 when the new 11,000 square-metre facility is complete in end-2005. As labour is readily available in China, the new plant will give Waterco the flexibility to increase production at short notice to cater for increases in demand in the United States and Europe.

The 18,000 square-metre manufacturing facility in Malaysia will be ready by the end of 2005, also improving Waterco's ability to meet demand in the United States and Europe. The company's facilities in Malaysia and China will enable Waterco to compete more effectively in the demanding United States and European markets.

The transfer of pump manufacturing from Australia to Malaysia to cater for the Asian market, and to the United Kingdom to supply the European market, has been substantially completed. A pump assembly line and commercial filter manufacturing facilities are planned in the United States in the near future.

These moves will bring Waterco's supply lines closer to its markets and shorten delivery times. While inventory levels have increased temporarily as the company prepares for the moves, the shorter delivery times in future will enable the company to reduce stock.

Outlook

Steady growth is expected during the second half of the financial year. Sales in the northern hemisphere, and particularly in the United States show promise, and the company expects stronger performance in Europe, reflecting the seasonal peak in the fourth quarter.

The company has achieved promising results from a new product, which clarifies grey water through electrolysis. It is understood that this product can remove dissolved iron from bore water. These successes will enable us to widen the use of Waterco products for water treatment, and, as awareness of water shortage and the need for treatment of greywater for re-use increases, the company looks to this area for growth and to build new product lines.

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About Waterco
Headquartered in Sydney, Australia, Waterco is a leading developer, manufacturer and marketer of domestic and commercial water treatment and filtration products. The company exports to more than 44 countries, and employs 470 staff at locations in Australia, China, Malaysia, New Zealand, the United Kingdom and United States.

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