WATERCO
Water, the liquid of life

WATERCO LIMITED
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WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2012

For announcement to the market

					$A'000
Revenues	up		3.8%	to	37,872
Profit (loss) after tax attributable to members	up		4.0%	to	1,659

Dividends	Amount per security	Franked amount per security
Interim dividend	3¢	3¢
Previous corresponding period	3¢	3¢
Date for determining entitlements to the dividend	10th May 2013	

This half yearly report is to be read in conjunction with the 30th June 2012 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	37,872	36,490
Expenses		
Borrowing costs	(747)	(866)
Other expenses	(34,451)	(33,179)
Profit (loss) before tax	**2,674**	**2,445**
Income tax	(974)	(809)
Profit (loss) after tax	**1,700**	**1,636**
Net profit (loss) attributable to non controlling interests	(41)	(41)
Net profit (loss) for the period attributable to members	**1,659**	**1,595**
Other Comprehensive income		
Net exchange differences recognised in equity	403	671
Property revaluation decrement	18	403
Share option reserve	2	14
Other comprehensive income for the period	423	1,088
Total comprehensive income/(loss) attributable to members of the parent entity	2,082	2,683

Earnings per security (EPS)

Basic EPS	4.9c	4.8c
Diluted EPS	4.9c	4.8c

Calculation of Earnings per security (EPS)

	Current Period *$A'000*	Previous corresponding *Period $A'000*
Net Profit/(Loss)	1,700	1,636
Net Profit/(Loss) attributable to non-controlling interests	41	41
Earnings used in calculation of basic EPS	1,659	1,595
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	33,802	33,110

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

Profit (loss) attributable to members

	Current period - $A'000	Previous corresponding period - $A'000
Profit (loss) after tax	1,700	1,636
Less (plus) non-controlling interests	41	41
Profit (loss) after tax, attributable to members	**1,659**	**1,595**

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	11,785	11,167
Restated Retained Profits at the beginning of the financial period	11,785	11,167
Net profit (loss) attributable to members	1,659	1,595
Net transfers from (to) reserves	-	-
Adjustment on deregistration of subsidiary		
Dividends and other equity distributions paid or payable	(1,356)	(1,662)
Retained profits (accumulated losses) at end of financial period	**12,088**	**11,100**

Intangibles-Impairment/Amortisation

	Consolidated - current period			
	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	70	--	--	70
Total Impairment/ amortisation of intangibles	73	--	--	73

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	2,796	1,998	2,457
Receivables	15,192	8,452	12,717
Inventories	28,364	25,292	27,994
Other	719	583	685
Total current assets	**47,071**	**36,325**	**43,853**
Non-current assets			
Property, plant and equipment (net)	36,801	36,846	36,353
Intangibles (net)	22	25	29
Deferred Tax assets	706	578	134
Other	360	378	345
Total non-current assets	**37,889**	**37,827**	**36,861**
Total assets	**84,960**	**74,152**	**80,714**
Current liabilities			
Payables	14,138	6,517	12,308
Interest bearing liabilities	3,617	3,056	3,033
Current tax liabilities	839	(257)	490
Provisions exc. tax liabilities	1,461	1,333	1,694
Other	-	-	-
Total current liabilities	**20,055**	10,649	**17,525**
Non-current liabilities			
Payables	-	-	-
Interest bearing liabilities	20,861	20,989	21,112
Deferred tax liabilities	598	524	347
Provisions exc. tax liabilities	258	171	103
Other	-	-	-
Total non-current liabilities	**21,717**	**21,684**	**21,562**
Total liabilities	**41,772**	**32,333**	**39,087**
Net assets	**43,188**	**41,819**	**41,627**
Equity			
Issued capital	36,150	35,562	35,291
Employee share loans	(72)	(85)	(94)
Reserves	(5,295)	(5,718)	(4,931)
Retained profits (accumulated losses)	12,087	11,784	11,100
Parent entity interest	**42,870**	**41,543**	**41,366**
Non-controlling interest	318	276	261
Total equity	**43,188**	**41,819**	**41,627**

Consolidated cash flow statement

	Current period $A'000	Previous corresponding period $A'000
Cash flows related to operating activities		
Receipts from customers	35,412	34,737
Payments to suppliers and employees	(33,141)	(31,570)
Other Income	184	188
Interest received	37	26
Interest and other costs of finance paid	(747)	(865)
Income taxes refund/paid	69	(756)
Net operating cash flows	**1,814**	**1,760**
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(1,139)	(2,651)
Proceeds from sale of property, plant and equipment	73	13
Proceeds from sale of business		
Payment for intangibles		
Payment for investments		
Net investing cash flows	**(1,066)**	**(2,638)**
Cash flows related to financing activities		
Proceeds from issues of shares	588	451
Proceeds from borrowings	274	1,469
Repayment of borrowings	(118)	(173)
Dividends paid	(1,356)	(1,662)
Net financing cash flows	**(612)**	**85**
Net increase (decrease) in cash held	136	(793)
Cash at beginning of period *(see Reconciliation of cash)*	1,832	2,381
Exchange rate adjustments	633	869
Cash at end of period *(see Reconciliation of cash)*	2,601	2,457

Non-cash financing and investing activities: During the period, the economic entity acquired plant and equipment amounting to $260,044 (2011 $176,602) by means of finance leases and hire purchase agreements. 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	2,796	2,457
Bank overdraft	(195)	-
Other (commercial bills)		
Total cash at end of period	**2,601**	**2,457**

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	7.1%	6.7%
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	3.9%	3.9%

NTA Per Share	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	1.25	1.24

Dividends

Date the dividend is payable	14th June 2013
Date of entitlements to the dividend	10th May 2013

Amount per security

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

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

Waterco Dividend Reinvestment Plan

- Shares to be issued at 7.5% discount to average market price of dividend record date and the four prior trading days

The last date for receipt of election notices for the dividend	10th May 2013

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	34,464,981	34,464,981		
Changes during current period Increases through issues Share Placement Waterco DRP	 212,000 357,702	 212,000 357,702	 $1.00 $1.05	 $1.00 $1.05
Options			*Exercise Price*	*Expiry date*
Directors and Senior Executives Option Plan	90,000		$1.35	1/7/2013
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 2001and 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 2013

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 2012

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2012	31/12/2011
	$	$
Revenues	37,871,900	36,489,798
Changes in inventories of finished goods and work in progress	(3,786,665)	(2,926,068)
Raw Materials and consumables used	(15,192,051)	(15,853,503)
Employee benefits expense	(7,046,145)	(6,826,990)
Depreciation and amortisation expense	(633,963)	(732,178)
Finance costs	(746,967)	(865,540)
Advertising expense	(911,404)	(862,078)
Discounts allowed	(237,426)	(152,065)
Outward freight expense	(917,152)	(844,565)
Rent expense	(1,141,391)	(1,039,929)
Contracted staff expense	(104,476)	(128,254)
Warranty expense	(251,588)	(211,692)
Commission expense	(203,386)	(128,811)
Other expenses	(4,024,984)	(3,472,823)
Profit before income tax	**2,674,302**	**2,445,302**
Income tax expense	(973,994)	(809,017)
Profit for the period	1,700,308	1,636,285
Other comprehensive income		
Gain/(loss) on revaluation of land and buildings	17,720	403,241
Share option reserve increment	2,018	13,817
Exchange differences on translation of foreign controlled Entities	403,316	670,500
Other comprehensive income for the period	423,054	1,087,558
Total comprehensive income/(loss) for the period	2,123,362	2,723,843
Profit/(loss) attributable to:		
Members of the parent entity	1,658,742	1,594,506
Non-controlling interest	41,566	41,779
	1,700,308	1,636,285

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2012

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

2012

	AUSTRALIA & NEW ZEALAND 31/12/2012 $	ASIA 31/12/2012 $	NORTH AMERICA &EUROPE 31/12/2012 $	ELIMINATION 31/12/2012 $	CONSOLIDATED GROUP 31/12/2012 $
Revenue					
Sales to customers outside the economic entity	29,369,081	3,388,271	4,893,311		37,650,663
Intersegment sales	592,519	11,778,920	568,858	(12,940,297)	
Unallocated revenue					221,237
Total revenue	29,961,600	15,167,191	5,462,169	(12,940,297)	37,871,900
Segment result	3,791,096	806,533	(1,422,116)	(279,974)	2,895,539
Unallocated expenses net of unallocated revenue					(221,237)
Profit before income tax					2,674,302
Income tax expense					(973,994)
Profit after income tax					1,700,308
Segment assets	84,825,113	41,975,512	12,497,526	(54,338,215)	84,959,936
Segment liabilities	41,136,075	28,201,652	22,208,708	(49,774,076)	41,772,359

2011

	AUSTRALIA & NEW ZEALAND 31/12/2011 $	ASIA 31/12/2011 $	NORTH AMERICA &EUROPE 31/12/2011 $	ELIMINATION 31/12/2011 $	CONSOLIDATED GROUP 31/12/2011 $
Revenue					
Sales to customers outside the economic entity	27,598,827	3,673,981	5,002,098		36,274,906
Intersegment sales	942,936	10,097,361	833,297	(11,873,594)	
Unallocated revenue					214,892
Total revenue	28,541,763	13,771,342	5,835,395	(11,873,594)	36,489,798
Segment result	3,171,385	1,219,826	(1,213,584)	(517,433)	2,660,194
Unallocated expenses net of unallocated revenue					(214,892)
Profit before income tax					2,445,302
Income tax expense					(809,017)
Profit after income tax					1,636,285
Segment assets	79,793,077	37,877,923	11,967,079	(48,923,616)	80,714,463
Segment liabilities	37,596,797	24,910,680	20,086,628	(43,506,984)	39,087,121

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2012

ANNEXURE C

REVIEW OF OPERATIONS

For the six months ended 31 December 2012 (this half-year) Waterco Limited reported a Net Profit After Tax of $1.70 million. This compares with a reported Net Profit After Tax of $1.63 million for the previous corresponding period (PCP).

Earnings Before Interest & Tax for this Half-year were $3.38 million (PCP $3.28 million).

Total Revenue was $37.87 million (PCP $36.49 million).

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

	Dec 2012 ($000)	Dec 2011 ($000)	% Change
Australia and New Zealand	$ 29,369	$ 27,599	+ 6.4%
Asia Region	$ 3,389	$ 3,674	- 7.8%
Northern Region	$ 4,893	$ 5,002	- 2.2%
Sales revenue	$ 37,651	$ 36,275	+ 3.8%
Other revenue	$ 221	$ 215	NA
Total	**$ 37,872**	**$ 36,490**	**+ 3.8%**

Sales in Australia and New Zealand registered a strong improvement in the second quarter closing the First Half Year with a pleasing 6.4% increase over PCP. An improvement in market share and a return to a more regular weather pattern from the exceptionally wet weather condition of the previous year's were the main factors for this increase.

Sales in Asia had a decline mainly with performance in China dropping below expectations, resulting from a slowdown in the property sector.

In the United States, sales showed a significant improvement with increased presence in the water treatment sector. Successful delivery of our latest high pressure seven-bar rated nozzle-plate filter of three-metre diameter for a small desalination plant project was one of the key milestones and has helped to boost sales in Waterco USA. However poor performance in Europe and Canada restrained gains in this region.

PERFORMANCE BY REGION

Detailed below is a breakdown of EBIT contributions (after consolidation adjustments for unrealized forex gains/losses on intercompany loans and intercompany dividends) by region for the half year ended 31 December 2012:

	Dec 2012 ($000)	Dec 2011 ($000)	% Change
Australia and New Zealand	$ 4,128	$ 3,158	+ 30.7%
Asia Region	$ 685	$ 1,355	- 49.4%
Northern Region	($ 1,429)	($ 1,229)	- 16.3%
Consolidated Reported EBIT	**$ 3,384**	**$ 3,284**	**+ 3.04%**

AUSTRALIA AND NEW ZEALAND OPERATIONS

Waterco achieved higher profitability this period despite facing a competitive business environment. This division invested in efforts in the pool-builder segment of the business and saw results of these efforts in this financial reporting period.

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. 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 remained steady compared with PCP.

NORTHERN REGION

Waterco Limited's operations in the United States, Canada and Europe are collectively known as Waterco Northern Region. Waterco Northern Region reported an EBIT loss for the six months of $1.429 million which is an increase on the loss of $0.20 million from 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. However, there are 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.

Trading conditions in Europe continued to be tough. As the business environment in the Euro-Zone was still weak, margins in this division 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.

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. During this first half year, assembly of heat pumps was transferred to Augusta, Georgia, consolidating the manufacturing activities in North America into a single site. Some one-off expenses were incurred, together with reduction of staffing level and relocation costs. Losses in Canada are expected to deteriorate this financial year.

PRODUCT DEVELOPMENT & WATER TREATMENT

In this half-year, Waterco invested approximately $0.52 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. These were in the development of water filtration products, an area which Waterco had specialized in, over the years. Notably, Waterco has several patents in a chlorine-free system of sanitization which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using various mediums of chlorine. This chlorine-free system extends the Group's efforts in producing environmentally-friendly products and is expected to drive sales in Australia, and subsequently globally.

WORKING CAPITAL

	Dec 2012 ($000)	Dec 2011 ($000)
Inventory	$ 28,365	$ 27,994
Debtors	$ 15,192	$ 12,717
Creditors	($ 14,138)	($ 12,309)
TOTAL	**$ 29,419**	**$ 28,402**

The group's working capital position as at December 2012 has been increased by $1.02 million, mainly attributable to increased inventory and other debtors, compared with the PCP.

DIVIDEND

Based on the 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 14 June 2013 to shareholders on our register as at 10 May 2013.

OUTLOOK

The board of Waterco considers this half-year's results as encouraging, considering that the first three months of the year were slow. The second quarter sales in Australia and New Zealand were significantly strong and continued on into the second half year as at the date of this report.

The next half-year will be more dependent on the business of Waterco's Northern Region. Sales in the USA continue to look promising. However, in Canada, sales are expected to be less than PCP.