



WATERCO
water, the liquid of life

Annual Report **2014**



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Company Profile

Waterco is an Australian publicly listed company involved in the manufacture and distribution of:

- Pool and spa equipment
- Domestic water filters, softeners and purifiers
- Pool and spa chemicals
- Commercial water treatment equipment

Waterco exports its products to over 40 countries via its branches in Australia, New Zealand, China, Malaysia, Singapore, Indonesia, United Kingdom, France Canada and America.

Company Profile

Distributor to Manufacturer

Waterco commenced business in 1981 as a distributor of PVC pipes for swimming pools and spas. Since then, through a series of acquisitions as well as internal growth, the company has expanded into the manufacture and distribution of a comprehensive range of swimming pool and spa products and water treatment equipment.

Manufacturing Power House

Waterco's research & development team has created an innovative range of award winning products. Waterco delivers high quality products at exceptional value with its efficient manufacturing procedures, advanced fibreglass winding and pioneering plastic moulding.



SWIMART
Australia's pool & spa specialists



Swimart is Australia's premium pool and spa specialist group. With over 30 years' experience and 71 outlets across Australia and New Zealand, the vast majority of Swimart stores are owned and operated by independent franchisees. Swimart also operates a fleet of over 200 reliable mobile service vans, led by highly-trained and experienced technicians.

ZANE
Solar Pool Heating



Zane Solar Systems consists of a 24-strong dealer network throughout Australia. Trained dealers install solar pool heating systems for both domestic and commercial applications using Zane's award winning solar absorber.

 **Watershoppes**



In certain regions of Malaysia, residents experience water discolouration caused by rust from unlined galvanised pipes. To capture this market Waterco has set up a dealer network of 11 Watershoppes selling Waterco's range of water filters and drinking water purifiers.

Economic Entity Financial Highlights



Financial Year Ended	2014	2013	2012	2011	2010
	\$	\$	\$	\$	\$
Operating revenue (\$ million)	77.97	68.80	66.56	68.20	71.47
Sales revenue (\$ million)	77.12	68.21	66.14	67.74	70.88
Earnings Before Interest and Tax (EBIT) (\$ million)	3.43	4.62	4.54	6.07	6.64
EBIT / Sales Revenue	4.4%	6.7%	6.9%	9.0%	9.4%
Profit before income tax (\$ million)	1.93	3.19	2.90	4.48	5.33
Net profit attributable to Members of the Parent Entity (\$ million)	0.91	1.67	2.03	3.20	3.70
Total assets (\$ million)	92.98	85.75	74.15	72.50	78.78
Equity (\$ million)	50.60	46.05	41.82	40.11	46.44
Basic Earnings per share	2.6 cents	4.9 cents	6.1 cents	9.8 cents	12.3 cents
Dividend per share	6.0 cents	7.0 cents	7.0 cents	9.0 cents	8.0 cents
Net Tangible Assets per share	\$1.41	\$1.33	\$1.23	\$1.21	\$1.43

Chief Executive Officer's Review Of Operations



SOON SINN GOH
Chairman/CEO

REVENUE AND PROFITABILITY

The Group reported a Net Profit After Tax (NPAT) of \$0.97 million, registering a decrease of 43% on the previous corresponding period (PCP) and coming in below the profit guidance provided at the last Annual General Meeting but in line with the profit announcement on 13 August 2014. Losses in North America and Europe entities were not tax-effected, accentuating their impact on the Group's profitability. Earnings Before Interest and Tax (EBIT) for the year fell by 25% to \$3.43 million from \$4.62 million but Sales Revenue grew by 13% to \$77.12 million from \$68.21 million.

Activities in the Australian and New Zealand Division account for a major portion of the Group's profitability and sales. Though the EBIT of this Division came in below that of the PCP, we are confident that the operations of this division are fundamentally sound.

The North America and Europe Division has reduced the level of its losses by 20%. However, the losses still exceeded expectation, as a projected marginal profit in Canada turned into a loss of \$949,000, largely as a result of pricing commitments made the previous year to the Canadian market when the Canadian Dollar was close to parity with the US Dollar. The subsequent increase in cost to Waterco Canada, as a result of the weaker Canadian dollar against the US dollar, amounted to \$417,000.

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contributions by division is as follows:

	FY14	FY13	
	(\$000)	(\$000)	% Change
Australia and New Zealand	3,231	4,897	– 34%
North America and Europe	(2,007)	(2,520)	+ 20%
Asia	2,209	2,246	– 2%
Consolidated Reported EBIT	3,433	4,623	– 25%



AUSTRALIA AND NEW ZEALAND (ANZ)

The Australia and New Zealand Division derives its revenue predominantly from the domestic swimming pool industry. Apart from selling a wide range of products, including chemicals for swimming pool water treatment, Waterco is also the franchisor of the Swimart chain of pool stores. Through more than three decades of experience, Waterco has acquired an extremely good understanding of the factors that drive consumer demand in the after-market. The franchise programme has been developed and improved on in-house since 1984, with the opening of a company-owned pool shop in Sydney. This shop was subsequently franchised and developed into the Swimart Pool and Spa franchising retail system. This solid foundation has enabled this Division to maintain an acceptable, albeit lower, level of profitability through the challenging times in the last few years, during which the industry underwent consolidation and transformation.



Hydrostorm Eco is equipped with a three speed motor which allows pool owners to set the pump at a low, energy saving flow rate for every day filtration. The pump uses almost 70% less energy than standard single speed pumps.



Glass Pearls offer much finer filtration than other filter media on the market and are therefore capable of providing outstanding water purity and clarity. They also require 20 per cent less water for backwashing compared to sand.

Steady market share in the domestic pool sector has underpinned the Division's performance. The Division's introduction of a range of energy and water saving swimming pool products generated sales growth, affirming Waterco's expectation of the market's appetite for environmentally friendly products, such as Waterco's Hydrostorm ECO pump and Glass Pearls for improved filtration performance and reduced water usage from shorter backwash cycle. This was instrumental in enabling the company to retain market share.

Unfortunately, a weaker Australian Dollar increased costs of imports, resulting in a lower trading margin. Difficult trading conditions prevailed. Nevertheless, Waterco forged ahead with the introduction of a new ERP system and continued with market and product development of the Hydroxypure chlorine-free sanitizing system. With this background, the Division recorded a reduced EBIT of 34%, on increased sales revenue of 3%.

NORTH AMERICA AND EUROPE

Waterco North America and Europe comprises the Group's operations in the USA, Canada, UK and France.



Waterco USA (WUSA) The US market is the largest in the world and Waterco USA had enhanced its presence there through a substantial investment in its acquisition of Baker Hydro in March 2005. Our operations in Augusta, Georgia manufacture larger filters and assemble commercial pumps.

In the United States, sales were up by 6% on PCP. This improved underlying performance was, however, not reflected in the EBIT, as the Entity incurred once-off expenses related to the manufacturing of heat pumps, including inventory write-down of \$169,000, production wastages, air freight expenses and overtime amounting to \$298,000 in order to meet delivery schedules needed in the narrow Canadian season.

Growth in sales of commercial and industrial filters saw this sector making up more than 45% of total sales in WUSA during the year. WUSA continued to deliver more high-pressure seven-bar rated horizontal filters to the Middle East for installation in a desalination plant.

Waterco Canada (WCI) This Entity was the Group's original centre for the manufacture of heat pumps. Its expertise, developed over more than two decades, with assistance from our Research and Development division in Sydney, had improved performance of our products in both quality and cost. This continues to benefit the Group and enables other manufacturing entities in the Group to produce heat pumps of quality. WCI is now a trading entity with heat pumps as their key product.

Waterco Europe (WEL), combining an entity set up in 2003 and the acquisition of Lacron in 2004, enjoys a continuous and successful history of almost 40 years in the manufacture of fibreglass filters. The renowned "Lacron" name is synonymous with quality filters and coupled with progressive manufacturing techniques – which were introduced after the acquisition – it has enabled WEL to bring to the market filters of quality at acceptable prices. As a result, both the Lacron and the Waterco brands are now well-recognised as quality products in Europe. This recognition continues, even after the manufacturing operations were transferred to Malaysia and China, because the same high standards have been maintained.



The Micron horizontal filter is a space-saving high performer; its compact horizontal design allows installation with minimal waste of space. Its spherical ends are designed to give uniform flow from both inlet and outlet collection assemblies. Waterco's largest Micron horizontal filter, the MD11000, is capable of filtering 6600 litres per minute.



Waterco expanded its Electroheat heat pump range with the addition of the Electroheat MKIV, which combines compactness and performance to effectively heat both spas and domestic pools.

The Electroheat MKIV's small footprint enables greater installation flexibility.



Internationally, Lacron is known for its commercial fibreglass filters, that are the preferred choice for more intense commercial installations such as commercial spas and heavy-use commercial pools.



The economic conditions in the UK have largely remained unchanged this year. Sales continue to be flat, despite new customers making up for some of the decline in sales to existing customers. Margins continue to come under pressure because of the conditions.

Waterco France (WFR) was set up as the thrust into Europe, with UK as the base. France is one of the largest markets in Europe. However, with the business environment in Europe remaining unchanged during the financial year, this Entity continued to consolidate its operations, in preparation for a higher level of activity, when the business environment improves.

ASIA

Waterco Far East in Malaysia (WFE) was borne out of Waterco's familiarity with the Southeast Asian market. WFE was initially a sales operation designed to service Waterco Australia's Southeast Asian customer base. In 1991 WFE added manufacturing operations to our undertakings in Kuala Lumpur, Malaysia. As well as bringing the Group closer to our markets in Southeast Asia, this also gave cost-efficiency in our manufacturing operations. Since then, WFE has become the principal manufacturing facility for pumps and filters for the Waterco Group. WFE continues to deliver new products to give the Group an edge in our marketing activities.



ISO 9001:2008 certification – With ISO9001:2008 certification, international customers are able to appreciate that Waterco Far East's management system is up to an international standard.

Waterco Far East's manufacturing plant spans more than 22,500 square metres and provides for global manufacturing, design and product development divisions and Waterco's R&D operations all under one roof.

WFE has achieved ISO9001:2008 certification, the internationally recognised standard for the quality management of businesses, and demonstrates the existence of an effective and well-designed quality management system, which stands up to the rigours of an independent external audit. A key criterion of this standard is that the management system can provide confidence in creating products that meet expectations and requirements.

Local sales in Malaysia improved significantly and were ahead of expectation. However, this Entity's performance was below PCP, mainly as a result of a stronger local currency.

Waterco China This entity commenced operations in 2000, delivering advantages of low operational costs and a foothold into the huge China



market. Today, these operations manufacture filters primarily for the European and the Australian markets. High manufacturing standards have been maintained, enabling the acceptance of filters made by Waterco in China, with the Waterco brand, in these markets.

Waterco China has also achieved an internationally recognised quality assurance certificate.

This Entity performed well during the year. Turnover was above expectation. Management changes put in place during the year are expected to improve performance further in the future.

Waterco International in Singapore (WI) focuses on sales in Asian countries, other than Malaysia and China, where we have our own trading entities. WI also provides technical assistance to our Indonesian entity and has been able to contribute to the growth of the latter. WI has improved on its performance over PCP.



Waterco's Hydroxypure chlorine free pool sanitisation has been launched in China, with a particular focus on the commercial pool market.

One of their first customers was the Agricultural Bank of China, located in Jinan, Shandong Province.

Its pool has a volume of 300,000 litres. The pool's water quality has surpassed all expectations and local laboratory water tests.

PRODUCT DEVELOPMENT AND WATER TREATMENT

The Group continues to invest in Research and Development in order to be at the forefront of the industry. The number of patents that the Group has secured or are in the process of applying for continues to increase.

During the year, the chlorine-free system, Hydroxypure, was granted a patent in the United States (USA). Applications in other countries are pending.

At about the same time, a patent was also granted in the US for a Biocidal composition for treating water. Primarily an important support chemical for the Hydroxypure system, this Biocidal composition is also suitable for ordinary chlorine-treated pools, improving the convenience of treating all residential pools.

Also linked to the Hydroxypure system is the method of mixing and measuring ozone dosing. An innovation patent has been granted in Australia with patents pending in other countries. This method of mixing and measuring ozone dosing has applications to enhance treatment of pool water in all residential pools.



Used in conjunction with the Hydroxypure system, Waterco launched its range of Perox Perfect and Perox Balance chemicals to simplify pool maintenance.

The dual action Perox Perfect and Perox Balance have been specifically designed as a preventative approach to keep swimming pools in pristine condition and trouble-free.



Waterco's MultiCyclone technology has been incorporated into the Hydroxypure system. It maximises the strength of sanitisation by cleverly mixing the ozone into the pool water as well as providing adequate contact time for maximising sanitisation.



Waterco has simplified advanced drinking water treatment technology and successfully applied it to treating swimming pool and spa water.

The end result is a chlorine free, oxygen enriched swimming pool that's soft and gentle on the skin.



Waterco has been recognised for outstanding achievement with four prestigious industry awards for its Hydroxypure and MultiCyclone XL products.

The Swimming Pool & Spa Association of SA and the Swimming Pool & Spa Alliance both recognised Waterco's products at their recent Awards of Excellence.

Product innovation and research and development in the water-treatment subsector are considered to be critical in Waterco staying at the forefront of the industry. Waterco considers water-treatment products and systems to be a key revenue driver for the Group. As such, ensuring that our products and systems are appropriately protected is of value and importance.

The array of patents will improve Waterco's position in the servicing of swimming pools globally and are expected to improve the appeal of the Swimart franchise, as well as that of other pool shops which market the products.

Waterco's key products for the future are the Hydroxypure range of products that use hydrogen peroxide as a substitute for chlorine as a sanitising agent. The system uses two disinfectants (ozone and hydrogen peroxide) that actively work in harmony to increase active oxygen in the water. The synergy of the two disinfectants ensures the water environment is safe, without the creation of harmful chemical by-products. The end result is a swimming pool that is totally chlorine-free and enriched with oxygen. Hydroxypure is good news for those with eczema and allergies. It is the only such sanitisation system to receive a tick of approval from the National Asthma Council Australia.

During the year, a commercial Multicyclone was introduced to the market. This helped to secure sales of commercial filters which Waterco might not have otherwise obtained.

DIVIDEND AND OUTLOOK

The results for the year are below expectation and profitability has yet to return to normal levels, with the North America and Europe Division again incurring a significant EBIT loss.

The North America and Europe Division showed a reduction of its EBIT loss to \$2.01 million from PCP's loss of \$2.52 million. This year's loss in this Division includes significant non-recurrent costs, particularly with the set-up of a second heat-pump manufacturing division in WFE, Malaysia. The North America and Europe Division continues to undergo restructuring, to strengthen its operations, in order to enable



it to withstand adverse business conditions. Our pursuit of National Sanitation Foundation (NSF) approval for our commercial filters is beginning to bring in orders for commercial filters and is expected to gain momentum. These measures should enable the Division to perform significantly better during the new financial year. There are signs that the business environment in this market, in particular in the United States, is starting to improve. If conditions become favourable, the Group considers it possible that there could be a break-even situation in this Division in the next financial year. If achieved, this would mark a significant turning point in this Division.

The way is now clear for Hydroxypure, the Group's system of non-chlorine sanitization, to be sold for domestic installations in almost all the markets in which Waterco operates; approval is pending in the US. The group also holds or is pending appropriate patents for this system. Sales in the Australia and New Zealand market commenced during the financial year and are expected to contribute significantly to the turnover in the next financial year. Besides improvement in sales, this system will reinforce Waterco's standing as a manufacturer of innovative and environmentally-friendly products. The patents will help protect our market share in the foreseeable future. Trials of this system continue in the commercial sector. These trials have been successful and the Group is greatly encouraged by their results. The Group is seeking approvals from the respective authorities to extend this product into the commercial market.

Accordingly, Waterco declares a final dividend payment of 3 cents per share, payable to shareholders on 15 December 2014. This brings the total dividend payout to 6 cents per share for the year, a satisfactory outcome in an environment of poor global economic conditions.

The Board will provide a profit guidance at a later stage for the financial year ending 30 June 2015, as more information becomes available during the year.



Waterco's Micron commercial filters have received certification to NSF/ANSI Standard 50. Its certification verifies compliance with the American National Standard for confirming performance, safety, and material health effects requirements have been met. Most American commercial pool codes require compliance with NSF/ANSI Standard 50.



Turtle Beach Resort on Queensland's Gold Coast, is the 1st commercial installation of the chlorine-free Hydroxypure sanitisation system.

The Hydroxypure system provided not only an automated chlorine free environment, but also the added advantage of complete water recycling without any additional treatment.

The resort is now able to reuse all of the waste water from the filter cleaning cycles to either irrigate the gardens or fill water features.

Board of Directors



SOON SINN GOH - B COM FCPA
Chairman/CEO

Mr. Goh is the founder of Waterco Limited. He has been a member of the Board since the Company's incorporation in February 1981. Prior to the inception of Waterco, he was the Managing Director of a company specialising in the construction of water and sewage treatment facilities. His extensive experience in the water treatment industry is instrumental to the success of Waterco.

He held no other listed company directorships during the past three financial years.



BRYAN GOH - B ECON
Group Marketing Director

Mr. Goh was appointed to the Board on 2 June 2010.

As the Group Marketing Director, Mr. Goh has overall responsibility for business and product development in Australia and oversees the marketing activities of Waterco's overseas subsidiaries.

Mr. Goh was on the board of directors of The Swimming Pool & Spa Association of New South Wales Ltd (from February 2005 to February 2009), a non-profit organisation dedicated to maintaining and improving standards within the industry for the betterment of consumers, pool builders and suppliers.

He held no other listed company directorships during the past three financial years.



GARRY NORMAN - B COM CA
Non-Executive Director

Mr. Norman was appointed to the Board as a Non-Executive Director in October 1993.

He has been in public practice since 1990, having been previously employed by Duesburys Chartered Accountants (now Deloitte) for fourteen years before leaving to establish his own Chartered firm - G R Norman & Co.

He has an extensive background in accounting and taxation matters, having been involved with a wide range of clients in both city and suburban practices – previously in his role as a manager of the Business Services Division of Duesburys and currently in his role as principal of a suburban practice.

Mr. Norman is the Chairman of the Audit Committee and a member of the Remuneration Committee.

He held no other listed company directorships during the past three financial years.



BEN HUNT - PHD (ANU)
Non-Executive Director

Dr. Hunt was appointed to the Board as a Non-Executive Director in June 1998. His most recent academic appointment was as the Head of the Graduate School of Business and Associate Dean of the Faculty of Business and an Associate Professor of Finance at the University of Technology, Sydney (UTS).

He has a doctorate from the Australian National University. Although Dr Hunt has written extensively on Australian financial markets (he is the co-author of the text *Australian Institutions and Markets*, 7th Ed.), his knowledge extends to the South East Asian region. He is a regular presenter of financial seminars in Hong Kong and Singapore for the UK publishing and training company Euromoney.

Dr Hunt is the Chairman of the Remuneration Committee and a member of the Audit Committee.

He held no other listed company directorships during the past three financial years.



RICHARD CHENG FAH LING - B COM CA
Non-Executive Director

Mr. Ling was appointed to the Board as a Non-Executive Director on 8 May 2009.

He holds a Bachelor of Commerce degree from the University of Newcastle, Australia. He is a member of the Institute of Chartered Accountants in Australia and the Malaysia Institute of Accountants. He has worked in companies based in Australia as Financial Controller, Company Secretary and Senior Manager from 1980 to 1989. In 1992, Mr. Ling was appointed Group General Manager of Tiong Nam Logistics Holdings Berhad, a public company listed on the Main Board of Bursa Malaysia (Malaysian Stock Exchange). The company has operations in Malaysia, Singapore and Thailand. In 2001, Mr. Ling joined the Board of Tiong Nam Logistics Holdings Berhad as Executive Director. Since 2009 he has been a Non-Executive Director. Mr. Ling is a member of the Remuneration and Nomination Committee and the Chairman of the Audit Committee of Tiong Nam Logistics Holdings Berhad. Mr. Ling has a good understanding of corporate finance, with experience in raising funds for companies in Australia and Malaysia, via the capital markets in Asia.

Mr. Ling is a member of the Audit Committee and the Remuneration Committee of Waterco Limited.

He held no other listed company directorships during the past three financial years.

Statement of Corporate Governance Practices

This statement sets out the corporate governance practices that the Company had in place throughout the financial year ended 30 June 2014 and current as at the date of this report.

In compliance with ASX Listing Rule 4.10, this statement:

- discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations) during the financial year; and
- identifies those recommendations that have not been followed and the reasons for not following them.

PRINCIPLE 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board

The Board oversees the business and operations of the Company directly or through its Committees with particular focus on and responsibility for:

- developing and approving strategies designed to ensure the controlled growth and success of the Company;
- the monitoring of Key Management Personnel's strategy implementation and performance;
- ensuring that the necessary resources are available to allow effective strategy implementation by Key Management Personnel;
- the appointment, evaluation and removal of the CEO and, where appropriate, ratifying the appointment and removal of Key Management Personnel;
- monitoring of the Company's control and accountability systems;
- reviewing and adopting annual budgets for the financial performance of the Company and monitoring the results on a regular basis;

- monitoring and approving any other necessary reporting, financial or otherwise;
- reviewing, ratifying and monitoring systems of internal controls, risk management and legal compliance; and
- approving and supervising significant capital expenditure, capital management and acquisitions and divestments.

Some responsibilities and authorities have been delegated to Key Management Personnel for the purposes of operating the Company's day to day activities.

In accordance with the ASX Recommendations, some further responsibilities have been delegated to the Company's Committees. Satisfaction of these responsibilities is monitored by the Board by way of established lines of communication between the Board and the Committees.

The Board Charter is published on the Company's website www.waterco.com.

Appointment and Re-Election of Directors

The Company has in place a policy for nomination and appointment of directors. Before appointing a director, the Company will undertake appropriate checks on a candidate for directorship and will provide all material information in its possession to its shareholders to make a decision on whether or not to elect or re-elect a director.

Performance of the Board

The Board is committed to an ongoing internal process of performance evaluation of the Board, its Committees and individual Directors to ensure the diligent and effective discharge of responsibilities and a consistent mindset in improving corporate governance practices. The Board has undertaken an evaluation on the performance of the Board, its Committees and individual Directors for the financial year ended 30 June 2014.

Performance of Key Management Personnel

The Board is committed to an ongoing internal process of performance evaluation of Key Management Personnel to ensure the diligent and effective discharge of their responsibilities. Key Management Personnel participated in an annual performance evaluation for the financial year ended 30 June 2014.

PRINCIPLE 2

STRUCTURE THE BOARD TO ADD VALUE

Nomination Committee

The Company has not established a Nomination Committee. The ASX Recommendations acknowledge that such a committee may not be required for smaller boards. The Board is of the opinion that it is appropriate for a company the size of Waterco for matters that come under the purview of a Nomination Committee to be undertaken by the Board through the Remuneration Committee. Furthermore, the Board has established processes in place to raise and address issues that would otherwise be considered by the Nomination Committee.

Board Composition

The Board of Directors comprises an Executive Chairman who is also the Chief Executive Officer, an Executive Director and three Non-Executive Directors. The Board views each of the three Non-Executive Directors as being independent.

The Board's membership is reviewed periodically to ensure that it maintains an appropriate mix of skills, qualifications and experience. In particular the Board has identified skills and experience in corporate finance, international trade and international business environment, marketing and accounting and technical and industry knowledge in the water treatment and pool industries to be important. Although currently all male, the Board composition represents diversity in age, ethnicity and background. At each Annual General Meeting (AGM), one third of the directors (excluding the Chief Executive Officer) and any director appointed to fill a casual vacancy since the previous AGM must retire but may stand for re-election.

The Company achieved its preferred Board Composition of at least five directors during the last year, with a majority of Non-Executive (and, where possible, independent) Directors.

Directors

The names of the directors in office during and since the end of the financial year are:

- Soon Sinn Goh
- Bryan Goh
- Garry Norman
- Ben Hunt
- Richard Ling

The details of the Directors' skills, experience and expertise, along with the period for which they have held office are set out in the Board of Directors section of the Company's Annual Report.

Independent Directors

A majority of the Board - Garry Norman, Ben Hunt and Richard Ling - are independent directors, taking into account the factors relevant to "independence" under the ASX guidelines.

The Company's assessment of the materiality of Directors' other relationships with the Company is considered on a case by case basis by the Board. Where an entity associated with a Director provides services to the Company, the Board uses a threshold of \$100,000 in fees in a financial year as a guideline. However the Board does not follow an inflexible set of criteria but considers whether the relationship in question is reasonably likely to interfere with that Director's independent judgment.

Further details as to how the Board assesses independence can be found in the Board Charter published on the Company's website.

The Company's Directors have the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Company's operations or undertakings in order to fulfill their duties and responsibilities as Directors, subject to prior approval from the Chairman. In light

of this, the Board is of the opinion that a more formal procedure for Directors to seek independent advice need not be established at this time.

Chairperson of the Board

The roles of Chairperson and Chief Executive Officer are both held by Mr Soon Sinn Goh. The Board believes that Mr. Goh brings a vital level of industry experience to the operations of the Company. Also, as the major shareholder of the Company, Mr. Goh's commitment to the success of the Company is unquestionable. Therefore, it is the Board's opinion that it is appropriate in the Company's circumstances that the two roles be combined. With the majority of the Board's Directors being independent, and with Independent Directors chairing the Audit and the Remuneration Committees, the Board is also of the opinion that it is not necessary that the office of Chairperson be held by an Independent Director.

Directors Induction Program

All new directors undergo an induction to familiarize them with the business of the Company, the Company's internal control and risk management practices and policies and procedures. The Company also provides appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

PRINCIPLE 3 PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

A Code of Conduct for Directors, Key Management Personnel and Employees that addresses the issues referred to in the ASX guidelines is published on the Company's website.

In addition to the Code of Conduct:

- there is a published policy within the organisation on accepting gifts;

- employees' letters of appointment emphasise their obligations to protect the Company's confidential information, not to misuse Company property, to act responsibly in matters of health and safety and to conduct themselves ethically and lawfully;
- the Company's Audit Committee has responsibility for encouraging the reporting by employees of matters of concern; and
- these matters are reinforced in the Company's induction processes for employees.

Diversity Policy

The Board recognises diversity and equity as strengths and has adopted a Diversity & Equity Policy for the Company.

The objectives of the Diversity & Equity Policy include:

- Fostering a working culture that values, respects and responds to the rich diversity of its staff;
- Creating an all inclusive work culture;
- Facilitating equal employment opportunities in all levels of management based on merit;
- Developing flexible work arrangements for staff, including encouraging women to return to workforce after maternity leave and encouraging a balanced work and personal life; and
- Developing a harassment-free work environment.

The Diversity & Equity Policy are addressed as part of the induction processes for new employees. Recruitment agencies are mandated to provide a gender balance of suitably qualified shortlisted candidates for interview. Further, senior executives are required to address gender balance of women in succession plans.

The Board sets the measurable objectives for achieving gender diversity and assesses annually both the objectives and the progress of achievement of the measurable objectives.

With respect to the achievement of these objectives, the Board notes that as of 30 June 2014:

- 1) 30% of employees in the Company were women; and
- 2) 17% of management and senior executive positions were held by women.

The Board is satisfied that the Company has met the measurable objectives for gender diversity based on the current operational requirement of the Company.

PRINCIPLE 4 SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit Committee

The Audit Committee operates under the Audit Committee Charter which is published on the Company's website.

The role of the Audit Committee is to assist the Board with its oversight of the integrity of the financial statements, including to oversee the existence and maintenance of internal controls, accounting systems, and the financial reporting process. The Committee also nominates external auditors, reviews existing audit arrangements and co-ordinates external and internal auditing functions. In addition, the Audit Committee examines any other matters referred to it by the Board.

Throughout the last financial year (and to the date of this report) the Audit Committee consisted of 3 Independent Non-Executive Directors and was headed by an Independent Chairperson not holding the position of Chairperson of the Board.

The members of the Audit Committee during the year were:

- Garry Norman – Chairman;
- Ben Hunt; and
- Richard Ling.

The number of Audit Committee meetings and details of Committee members' attendance are included in the Directors' Report section of the Company's Annual Report.

PRINCIPLE 5 MAKE TIMELY AND BALANCED DISCLOSURE

The Company's Continuous Disclosure Policy is published on its website. This policy sets out the rules and responsibilities for Waterco's officers and employees in promoting factual and timely disclosure of all material matters concerning the Company.

The Continuous Disclosure Policy further sets out the following:

- Information to be disclosed, being information that a reasonable person would expect to have a material effect on the price or value of the Company's securities
- Limited circumstances where disclosure is not required under Listing Rule 3.1
- Commitment towards preventing a false market
- Policy towards safeguarding of information
- Contact with media

PRINCIPLE 6 RESPECT THE RIGHTS OF SHAREHOLDERS

A communications strategy entitled "Shareholder Communication Policy" is published on the Company's website. This policy details the mechanisms put in place to ensure that the rights of shareholders are respected and to facilitate the effective exercise of those rights.

All disclosures made to the ASX and all information provided to analysts or the media during briefings are promptly posted on the Company's website after they have been released to the ASX.

The Shareholder Communication Policy contains information on persons whom shareholders can contact in relation to procedures at shareholders meetings, matters being considered at shareholders meetings and other issues.

Shareholders who are unable to attend any of the Company's meetings are encouraged to vote on the proposed motions by appointing a proxy. Proxy forms are included with meeting notices that also provides details on how proxy forms should be completed and submitted.

PRINCIPLE 7

RECOGNISE AND MANAGE RISK

The Board requires the Company's management to design and implement the risk management and internal control system to manage the Company's material business risks. The Audit Committee is responsible for overseeing the effectiveness of the Company's risk management system. The Committee has appointed the Head of the Group Corporate Advisory and Assurance as the Risk Manager. A Risk Register is maintained. Risks identified and actions taken are reported to the Audit Committee. The Company's Risk Management Policy is summarised and published on the Company's website as "Summary of Risk Management Policy."

The Audit Committee reports to the Board on the effectiveness of the risk management and internal control processes of the Company.

The Board reviews the risk management framework of the Company periodically as and when necessary to meet the operational requirements of the Company and changes in the law. The Board has performed the review for the reporting period.

The Board considers that the Company is not materially exposed to economic, environmental and social sustainability risks.

Declaration under section 295A of Corporations Act

The Board approves the Company's financial statements for the financial period after receiving a declaration from its Chief Executive Officer (CEO) and Chief Financial Officer (CFO) under section 295A of the Corporations Act.

The CEO and CFO advised the Board in writing that:

- in their opinion the Company's financial reports have been properly maintained and have complied with the appropriate accounting standards and give a true and fair view of the Company's financial position and performance; and
- their opinion were founded on a system of risk management and internal compliance and control which implements the policies adopted by the Board, and that this system is operating efficiently and effectively in all material respects.

Attendance of Auditors at AGM

The external auditor attends the Annual General Meeting (AGM) for the purpose of answering shareholder questions regarding the conduct of the audit and the preparation and content of the audit report.

PRINCIPLE 8

REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board of Directors on remuneration packages and policies for the Executive Directors and the Key Management Personnel. The Remuneration Committee Charter is published on the Company's website.

Remuneration Committee Composition

Throughout the last financial year (and to the date of this report), the Remuneration Committee consisted of three Independent Non-Executive Directors and was headed by an independent Chairperson not holding the position of Chairperson of the Board.

The members of the Remuneration Committee during the year were:

- Ben Hunt – Chairman
- Garry Norman
- Richard Ling

The number of Remuneration Committee meetings and details of Committee members' attendance are set out in the Directors' Report section of the Annual Report.

The Remuneration Report at the Directors' Report section of the Annual Report sets out:

- Information about the Remuneration Policy developed by the Remuneration Committee and adopted by the Board, and
- Details of remuneration of the Directors and Key Management Personnel (including options issued to Key Management Personnel).

Remuneration of Directors -v- Non-Executive Directors

In line with the ASX Recommendations, remuneration of the Company's Non-Executive Directors operates on different principles to the remuneration of Executive Directors. No equity-based remuneration or other performance-based remuneration was offered to Non-Executive Directors in the financial year just ended, nor is there any proposal to do so this year. Non-Executive Directors receive fixed fees, and are not entitled to any retirement benefits other than statutory superannuation.

Directors' Report

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2014.

Directors

The names of directors in office during and since the end of the financial year are:

- Soon Sinn Goh
- Bryan Goh
- Garry Norman
- Ben Hunt
- Richard Ling

All directors have been in office since the start of the financial year.

For details of the directors' qualifications and experience, refer to the section titled "Board of Directors" which is to be read as part of this report.

Company Secretaries

The following persons held the position of joint company secretary throughout the financial year:

Bee Hong Leo

Mrs Leo was appointed Company Secretary on 3 March 1983. She has been employed by Waterco since March 1981 performing management roles in the administration and legal divisions.

Gerard Doumit FCPA

Mr Doumit was appointed Joint Company Secretary on 22 July 1991. He has been employed by Waterco since January 1987 as an Accountant and is currently Chief Accountant and Joint Company Secretary.

Principal Activities

The principal activities of the consolidated Group during the financial year were:

- Wholesale, export and manufacture of equipment and accessories in the swimming pool, spa pool, spa bath, rural pump and water treatment industries;

- Manufacture and sale of solar heating systems for swimming pools and pre-heat industrial solar systems;
- Franchise of retail outlets for swimming pool equipment and accessories; and
- Formulating, packing and distribution of swimming pool chemicals to independent pool stores and stores in its Swimart franchise network.

There were no significant changes in the nature of the consolidated Group's principal activities during the financial year.

Consolidated Results

The consolidated profit of the Group after providing for income tax and eliminating non controlling interests amounted to \$906,662.00.

Dividends

Dividends paid or declared for payment are as follows:

- Final ordinary dividend of 4 cents per share paid on 16 December 2013 as recommended in last year's report - \$1,389,275
- Interim ordinary dividend of 3 cents per share paid on 16 June 2014 - \$1,052,079.
- Final ordinary dividend of 3 cents per share declared by the directors to be paid on 15 December 2014 - \$1,068,933. All dividends paid or declared since the end of the previous financial year were fully franked.

Review of Operations

A review of operations of the consolidated Group during the financial year and of the results of those operations together with likely developments in the operations of the consolidated Group and the expected results of those operations are set out in the Chief Executive Officer's Review of Operations.

Financial Position

The net assets of the consolidated Group have increased by \$4.6 million from \$46.0 million in June 2013 to \$50.6 million in June 2014.

The change has largely resulted from:

- Increase in the share capital from the Waterco Dividend Reinvestment Plan \$1.1 million;
- Downward movement in foreign currency translation of \$0.3 million;
- Downward movement in profits less dividends of \$1.5 million; and
- Net increase in the asset revaluation reserve of group companies (due to revaluations and changes in foreign exchange rates) \$5.3 million.

The Group's working capital being current assets less current liabilities increased from \$29.8 million in 2013 to \$30.6 million in 2014.

The directors believe that the Group is in a strong and stable financial position.

Significant Changes in State of Affairs

The directors are not aware of any significant changes in the state of affairs of the consolidated Group that occurred during the financial year which have not been covered elsewhere in this report.

After Balance Date Events

Since the end of the reporting period, the Board resolved to pay a final dividend of 3 cents per share fully franked.

No other matters or circumstances have arisen since the end of the financial year which significantly

affected or may significantly affect the operations of the consolidated Group, the results of those operations, or the state of affairs of the consolidated Group in future financial years.

Future Developments, Prospects and Business Strategies

Information as to future developments, prospects and business strategies in the operations of the consolidated Group are included in the Chief Executive Officer's Review of Operations. Other possible developments have not been included in this report as such inclusions would, in the opinion of the directors, prejudice the interests of the consolidated Group.

Environmental Issues

The consolidated Group's operations are subject to some environmental regulations, particularly with regard to the storage of chemicals and waste management. The consolidated Group has adequate systems in place for the management of its environmental requirements. The directors are not aware of any breaches of the environmental regulations during the financial year.

Directors' Shareholdings

Details of the directors' shareholdings are contained in Note 7 to the Financial Statements.

Meetings of Directors

During the financial year, 13 meetings of directors (including Audit and Remuneration Committees) were held. Attendances are set out below:

Director	Directors' Meeting		Audit Committee Meeting		Remuneration Committee Meeting	
	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended
Soon Sinn Goh	5	5	-	-	-	-
Bryan Goh	5	5	-	-	-	-
Garry Norman	5	5	6	6	2	2
Ben Hunt	5	5	6	6	2	2
Richard Ling	5	5	6	6	2	2

Indemnifying Officers or Auditor

During and since the financial year, the Company has paid premiums to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred by such an officer or auditor.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit arising from a contract made by the parent entity, or a related body corporate with a director, a firm of which a director is a member or a director or an entity in which a director has a substantial financial interest other than:

- i. Sales made by a controlled entity to Asiapools (M) Sdn Bhd of which Mr Soon Sinn Goh is a director and shareholder.
- ii. Payments made for rental of warehouses and offices to Mint Holdings Pty Ltd of which Mr Soon Sinn Goh is a director and shareholder.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the Company's accounts or the fixed salary of a full time employee of the parent entity, controlled entity or related body corporate.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party

for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-Audit Services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2014 has been received and is included in the directors' report.

ASIC Class Order 98/100 Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statement and directors' report have been rounded to the nearest thousand dollars.

Remuneration Report

Introduction

This report provides remuneration policy and payment details applying in the financial year for persons who were members of Key Management Personnel of the consolidated Group.

2014 Remuneration Policy

The Remuneration Committee governs the Company's Remuneration Policy. The Committee comprises of Independent Non-Executive Directors.

It has the following objectives:

- attract, retain and motivate management of the appropriate calibre to further the success of the business;
- align management reward with shareholder value;
- ensure that total remuneration is reasonable and comparable with market standards;
- ensure that remuneration should realistically reflect the responsibilities of the executives;
- ensure that incentive schemes reward superior company performance and be clearly linked to appropriate performance benchmarks based on improved company performance; and
- ensure that the remuneration costs are disclosed in accordance with the requirements of law and relevant accounting standards.

The remuneration structure for Key Management Personnel of the Waterco Group comprises:

- Fixed remuneration. This consists of base salary and the full costs of other benefits; and
- Incentives. The level varies with performance. It consists of an annual incentive plan.

The Remuneration Committee reviews market data and the performance of the CEO. The Committee then recommends the fixed remuneration and annual incentive payment of the CEO for approval by the Board.

The CEO recommends the fixed remuneration of Key Management Personnel to the Remuneration Committee. Fixed remuneration for Key Management Personnel is reviewed annually and determined by reference to appropriate benchmark information of comparable companies, taking into account their

responsibility, performance, qualifications, experience and potential. Adjustments are made only if there is the prospect of fixed remuneration levels falling behind market levels.

The remuneration of Non-Executive Directors is fixed and does not change according to the performance of the company. They do not participate in any incentive plans available to managers. Non-Executive Directors are paid fees based on the nature of their work and their responsibilities. The Company also pays superannuation guarantee (SG), in addition to those fees. The level and structure of fees is based upon the need for the Company to be able to attract and retain Non-Executive Directors of an appropriate calibre, the demands of the role and prevailing market conditions.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

There has been an increase of 3% in the Non-Executive Director fees for the 2014/2015 financial year. The total fees are now at an aggregate of \$159,551 plus superannuation guarantee (SG).

The Remuneration Committee seeks independent external advice when required.

Performance-based Remuneration policy, and its relationship with Company performance

There is an annual incentive plan in place for all Key Management Personnel. This is a payment that varies with performance measured over a twelve-month period.

There have been no changes in performance based remuneration policy compared with the prior reporting period.

Maximum payments are capped.

In the case of the CEO, the Remuneration Committee sets the performance requirements; in the case of other Key Management Personnel, the CEO recommends performance requirements for consideration by the Remuneration Committee.

The annual incentive performance criteria relate to the employee's responsibilities. If requirements are achieved, there will be an improvement in shareholder value.

The key performance requirements for an incentive payment are Net Profit After Tax (NPAT).

This provides a clear alignment between the interests of shareholders and the level of reward for eligible employees.

Performance criteria are tabulated below:

Key Management Personnel with annual incentives	Summary of Performance Condition FY 14	Why Chosen
Soon Sinn Goh – CEO	Budgeted NPAT for the Waterco Group.	Encourage CEO to improve the performance levels of the Group as a whole and thereby increase shareholder wealth.
Key Management Personnel	Budgeted NPAT for the Waterco Group.	The performance of other key management personnel can have a Group impact, so targets are based on Group performance.

The satisfaction of the performance conditions of the annual incentive is based on a review of the audited financial statements of the Group.

If the Group's performance, as a whole does not reach the relevant target levels, then no annual incentive payments are made.

None of the Company's Key Management Personnel achieved their performance targets in FY 2014. Therefore they will not receive an annual incentive payment for the financial year just ended.

The following table shows the Sales Revenue, Net Profit Before Tax (NPBT), Net Profit After Tax (NPAT), Earnings Per Share (EPS), dividends and year-end share price in the financial year just ended and the previous four financial years for the consolidated Group.

Year ended	June 14	June 13	June 12	June 11	June 10
Sales Revenue (\$million)	77.12	68.21	66.14	67.74	70.88
NPBT (\$million)	1.93	3.19	2.9	4.48	5.33
EPS (cents)	2.6	4.9	6.1	9.8	12.3
Dividends per share (cents)	6.0	7.0	7.0	9.0	8.0
Year end share price (\$)	1.15	1.00	0.88	1.06	1.02
NPAT (\$million)	0.97	1.72	2.09	3.18	3.71

Employment Details of Key Management Personnel

The following table provides employment details for the financial year for Key Management Personnel. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

			Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
	Position held as at 30 June 2014 and any change during the year	Contract details (duration & termination)	Non-salary cash-based incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/ Fees %	Total %
Key Management Personnel							
Soon Sinn Goh	Chairman & CEO	No fixed term; may be terminated on 6 months' notice by either party	-	-	-	100	100
Bryan Goh	Group Marketing Director - Executive	No fixed term; may be terminated on 1 month's notice by either party	-	-	-	100	100
Garry Norman	Director - Non-Executive	No formal contract, but subject to member confirmation every 3 years after AGM when first appointed	-	-	-	100	100
Ben Hunt	Director - Non-Executive	No formal contract, but subject to member confirmation every 3 years after AGM when first appointed	-	-	-	100	100
Richard Ling	Director - Non-Executive	No fixed term, but subject to member confirmation every 3 years after AGM when first appointed	-	-	-	100	100
Sze Tin Lim	Chief Financial Officer	No fixed term, may be terminated on 1 months' notice by either party	-	-	-	100	100
Bee Hong Leo	Joint Company Secretary	No fixed term, may be terminated on 1 months' notice by either party	-	-	-	100	100
Gerard Doumit	Chief Accountant/ Joint Company Secretary	No written contract	-	-	-	100	100

Changes in Directors and Key Management Personnel Subsequent to Year-end

There have been no changes in Directors and Key Management Personnel subsequent to year-end.

Remuneration Details for the Year Ended 30 June 2014

The following table provides remuneration details for the 2014 and 2013 financial years for Key Management Personnel.

		Short-term benefits			Post-employment benefits	Long-term benefits		Equity-settled share-based payments		
		Salary, fees and leave \$	Profit share and bonus \$	Non-monetary (3) \$	Pension and super-annuation \$	Incentive plans (2) \$	LSL \$	Share/ Units \$	Option/ Rights \$	Total \$
Key Management Personnel										
Soon Sinn Goh(1)	2014	359,465	-	-	10,440	-	-	-	-	369,905
	2013	346,722	-	-	9,813	-	-	-	-	356,535
Bryan Goh	2014	186,800	-	-	18,470	-	13,557	-	-	218,827
	2013	181,485	-	-	15,775	-	11,630	-	-	208,890
Garry Norman	2014	51,635	-	-	4,776	-	-	-	-	56,411
	2013	49,768	-	-	4,479	-	-	-	-	54,247
Ben Hunt	2014	51,635	-	-	4,776	-	-	-	-	56,411
	2013	49,768	-	-	4,479	-	-	-	-	54,247
Richard Ling	2014	51,635	-	-	4,776	-	-	-	-	56,411
	2013	49,768	-	-	4,479	-	-	-	-	54,247
Sze Tin Lim	2014	192,260	-	-	18,470	1,649	16,022	-	-	228,401
	2013	195,349	-	-	15,775	1,822	5,405	-	4,036	222,387
Ben Hong Leo	2014	163,963	-	-	16,095	1,413	10,038	-	-	191,509
	2013	154,810	-	-	15,094	1,562	12,901	-	-	184,367
Gerard Doumit	2014	153,583	-	20,578	14,206	1,413	-	-	-	189,780
	2013	148,033	-	15,022	13,323	1,562	-	-	-	177,940

(1) Soon Sinn Goh's Base Salary of \$359,465 is made up of \$112,862 paid by Waterco Ltd, \$84,364 paid by Waterco (Far East) Sdn Bhd (a subsidiary) and \$162,239 paid by Waterco International Pte Ltd (a subsidiary).

(2) These represent the benefits from the Legacy Non-recourse Loan Employee Share Plan.

(3) Non monetary benefits are made up of Company vehicle benefits.

Securities Received that are not Performance Related

No Key Management Personnel are entitled to receive securities which are not performance based as part of their remuneration package.

Cash incentives, Performance-related Bonus and Share-based Payments

No options or other share based payments were granted in the 2014 financial year.

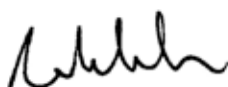
Maximum cash incentives expressed as a percentage of fixed remuneration and the maximum value that could have been earned in 2013/2014 if stretch performance targets were achieved are tabulated below:

Position	Maximum possible incentive as a percentage of fixed pay	Maximum possible incentive \$
Key Management Personnel		
CEO, Waterco Limited	27%	\$100,000
Group Marketing Director, Waterco Limited	18%	\$40,000
CFO, Waterco Limited	18%	\$40,000
Joint Company Secretary, Waterco Limited	13%	\$25,000
Chief Accountant/Joint Company Secretary, Waterco Limited	13%	\$25,000

The percentage of cash incentives paid and forfeited during the year to key management personnel.

Key Management Personnel	Short term incentive in respect of 2014 financial year	
	Paid %	Forfeited %
Soon Sinn Goh	0	100
Bryan Goh	0	100
Sze Tin Lim	0	100
Bee Hong Leo	0	100
Gerard Doumit	0	100

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors:



Soon Sinn Goh
Chairman

3rd September 2014

Auditor's Independence Declaration



RSM Bird Cameron Partners
Level 12, 60 Castlereagh Street Sydney NSW 2000
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T +61 2 8226 4500 F +61 2 8226 4501

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Waterco Limited for the year ended 30 June 2014, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron

RSM BIRD CAMERON PARTNERS

A handwritten signature in blue ink, appearing to read "W E Beauman".

W E Beauman
Partner

Sydney, NSW
Dated: 3 September 2014

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Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

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Consolidated Financial Report

For the year ended 30 June 2014

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 30 June 2014

Consolidated Group			
	Note	2014	2013
	No.	\$000	\$000
Revenues	3	77,971	68,802
Changes in inventories of finished goods and work in progress		(1,309)	(5,685)
Raw materials and consumables used		(40,771)	(28,660)
Employee benefits expense		(15,153)	(13,994)
Depreciation, impairment and amortisation expense	4	(1,310)	(1,263)
Finance costs	4	(1,529)	(1,437)
Advertising expense		(1,797)	(1,506)
Discounts allowed		(9)	(287)
Outward freight expense		(1,801)	(1,604)
Rent expense	4	(2,480)	(2,233)
Contracted staff expense		(375)	(289)
Warranty expense		(457)	(546)
Commission expense		(416)	(447)
Other expenses		(8,636)	(7,665)
Profit before income tax expense	4	1,928	3,186
Income tax expense	6	(954)	(1,467)
Profit for the year		974	1,719
Other comprehensive income			
Items that will not be classified subsequently to profit or loss			
Property revaluation increment (net of tax)		5,251	750
Items that maybe reclassified to profit or loss			
Share option reserve increment		-	4
Exchange translation differences		(283)	3,242
Other comprehensive income for the year		4,968	3,996
Total comprehensive income for the year		5,942	5,715
Profit attributable to :			
Members of the parent entity		907	1,673
Non-controlling interest		67	46
		974	1,719
Total comprehensive income for the year attributable to:			
Members of the parent entity		5,875	5,669
Non-controlling interest		67	46
Total comprehensive income for the year		5,942	5,715
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share (cents per share)	29	2.6	4.9
Diluted earnings per share (cents per share)	29	2.6	4.9
From continuing operations			
Basic earnings per share (cents per share)	29	2.6	4.9
Diluted earnings per share (cents per share)	29	2.6	4.9
Dividends per share (cents per share)	28	6.0	7.0

The accompanying notes form part of these financial statements.

Consolidated Statement Of Financial Position

As At 30 June 2014

Consolidated Group			
	Note	2014	2013
	No.	\$000	\$000
ASSETS			
Current Assets			
Cash and cash equivalents	8	1,588	2,456
Trade and other receivables	9	11,816	9,850
Inventories	10	33,827	31,370
Current tax assets	17	65	-
Other current assets	11	724	859
Total Current Assets		48,020	44,535
Non-Current Assets			
Property, plant & equipment	13	43,987	40,115
Intangible assets	14	355	422
Deferred tax assets	17	614	676
Total Non-Current Assets		44,956	41,213
Total Assets		92,976	85,748
LIABILITIES			
Current Liabilities			
Trade and other payables	15	11,512	9,675
Borrowings	16	4,380	3,227
Current tax liabilities	17	-	363
Short term provisions	18	1,492	1,510
Total Current Liabilities		17,384	14,775
Non-Current Liabilities			
Borrowings	19	23,280	23,723
Deferred tax liabilities	17	1,524	1,037
Long-term provisions	20	189	165
Total Non-Current Liabilities		24,993	24,925
Total Liabilities		42,377	39,700
Net Assets		50,599	46,048
EQUITY			
Issued capital	21	37,430	36,380
Reserves	22	3,246	(1,722)
Retained earnings	23	9,533	11,067
Parent interest		50,209	45,725
Non-controlling interest		390	323
Total Equity		50,599	46,048

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity

For Year Ended 30 June 2014

		Ordinary Shares	Retained Earnings	Capital Profits Reserve	Asset Revalua- tion Reserve	Foreign Currency Translation Reserve	Share Options Reserve	Non- Controlling Interests	Total
Consolidated Group	Note No.	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 30/6/2012		35,477	11,784	211	6,084	(12,029)	16	277	41,820
Comprehensive income									
Profit for the year		-	1,673	-	-	-	-	46	1,719
Other comprehensive income for the year		-	-	-	750	3,242	4	-	3,996
Total comprehensive income for the year		-	1,673	-	750	3,242	4	46	5,715
Transactions with owners, in their capacity as owners and other transfers									
Issue of shares under Waterco DRP		667	-	-	-	-	-	-	667
Issue of shares for Poppits Acquisition		212	-	-	-	-	-	-	212
Employee share loans		24	-	-	-	-	-	-	24
Dividends paid	28	-	(2,390)	-	-	-	-	-	(2,390)
Total transactions with owners and other transfers		903	(2,390)	-	-	-	-	-	(1,487)
Balance at 30/6/2013		36,380	11,067	211	6,834	(8,787)	20	323	46,048
Comprehensive income									
Profit for the year		-	907	-	-	-	-	67	974
Other comprehensive income for the year		-	-	-	5,251	(283)	-	-	4,968
Total comprehensive income for the year		-	907	-	5,251	(283)	-	67	5,942
Transactions with owners, in their capacity as owners and other transfers									
Issue of shares under Waterco DRP		1,042	-	-	-	-	-	-	1,042
Employee share loans		8	-	-	-	-	-	-	8
Dividends paid	28	-	(2,441)	-	-	-	-	-	(2,441)
Total transactions with owners and other transfers		1,050	(2,441)	-	-	-	-	-	(1,391)
Balance at 30/6/2014		37,430	9,533	211	12,085	(9,070)	20	390	50,599

The accompanying notes form part of these financial statements.

Statement Of Cash Flows

For The Year Ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000
Cash Flows from Operating Activities		
Receipts from customers	81,845	71,589
Payments to suppliers and employees	(79,204)	(69,939)
Interest received	24	64
Other Income	828	531
Finance costs	(1,529)	(1,437)
Income tax paid	(1,238)	(431)
Net cash provided by operating activities (note 33a)	726	377
Cash Flows from Investing Activities		
Payment for property, plant & equipment	(1,603)	(3,473)
Proceeds from sale of property, plant & equipment	155	77
Net cash used in investing activities	(1,448)	(3,396)
Cash Flows from Financing Activities		
Proceeds from borrowings	(382)	2,330
Proceeds from issue of shares	1,042	879
Payment of hire purchase creditors	-	(68)
Payment of lease liabilities	(238)	(126)
Dividends paid	(2,441)	(2,390)
Employee share plan repayments	8	24
Net cash (used in) / provided by financing activities	(2,011)	649
Net decrease in cash held	(2,733)	(2,370)
Cash at beginning of the year	1,939	1,832
Effects of exchange rate changes on balance of cash held in foreign currencies	726	2,477
Cash and cash equivalents at the end of the year (Note 8)	(68)	1,939

The accompanying notes form part of these financial statements.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies

These consolidated financial statements and notes represent those of Waterco Limited and controlled entities, ("Group").

Waterco Limited is a listed public company, incorporated and domiciled in Australia.

The separate financial statements of the parent entity, Waterco Limited have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 3 September 2014.

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Waterco Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 12. All subsidiaries have a June financial year end except for Waterco Guangzhou Ltd, Waterco (C) Ltd, and PT Waterco

Indonesia all of which have a December financial year end.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

a. Principles of Consolidation (continued)

Business combinations (continued)

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

b. Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Refer to Note 14 for information on the goodwill policy adopted by the Group for acquisitions.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

c. Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

d. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

e. Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a standard cost basis. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Net realisable value is determined as the estimated selling price less costs to sell.

f. Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Waterco Limited and its wholly-owned Australian Subsidiaries have formed a consolidated group for the purposes of the tax consolidation provisions of the Income Tax Assessment Act 1997. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the "stand-alone taxpayer" approach to allocation. All of the deferred tax assets and liabilities of the subsidiary members have become part of the deferred assets and liabilities of Waterco Ltd. Each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the consolidated group. The group notified the ATO on 20 January 2005 that it had formed an income tax consolidated group to apply from 1 July 2003.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

g. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in

the statement of comprehensive income. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

h. Employee Benefits

Provision for employee benefits, which include long service leave, and annual leave are computed to cover expected benefits at balance date.

Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. (See note 18)

Employee benefits (long service leave) payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Contributions are made by the consolidated group to an employee superannuation fund and are charged as expenses when incurred. The consolidated group has no legal obligation to cover any shortfall in the funds obligations to provide benefits to employees on retirement.

Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

i. Deferred Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

j. Acquisition of Assets

The cost method of accounting has been used for acquisition of all assets (including shares). Cost is defined as the fair value of the assets given up at the date of acquisition plus costs incidental to acquisition. Where goodwill arises it is brought to account on the basis described in note 1 (b) to the accounts.

k. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Land and buildings are measured on a fair value basis being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction. It is the policy of the consolidated group to have an independent valuation every three years.

The value of the land and building owned by the consolidated group is based on the following independent valuations:

Land & Buildings	Date of Valuation	Amount
Rydalmere, NSW	15 June 2012	AUD 9,750,000
Malaysia	30 April 2014	MYR 55,000,000
China	18 June 2012	CNY 42,170,000
USA	17 June 2013	USD 1,995,000

Valuations were made on the basis of open value. The revaluation surplus net of applicable deferred capital gains taxes was credited to an asset revaluation reserve in shareholders' equity.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(n) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

k. Property, Plant and Equipment (continued)

Plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated over their useful lives commencing from the time the asset is ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in operating profit before income tax of the consolidated group in the year of disposal.

Depreciation where applicable has been charged in the accounts so as to write off each asset over the estimated useful life of the asset concerned. Either the diminishing value or straight line method, as considered appropriate, is used. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate		
Buildings	1.50%	-	2.50%
Plant and equipment	6.00%	-	33.33%
Leased plant and equipment	13.00%	-	20.00%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

l. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Franchise fee income is invoiced and recognised as revenue on a monthly basis.

All revenue is stated net of the amount of goods and services tax (GST).

m. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cashflows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

n. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

o. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within twelve months at the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment (see 1 n.)

p. Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

q. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

r. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

s. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income or loss in the period in which they are incurred.

t. Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

t. Financial Instruments (continued)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

u. Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100. Accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest \$1,000, unless specified otherwise.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

v. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates

(i) Investments in / loans to Controlled Entities

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions. The parent entity holds significant investments in, and loans to controlled entities. Discounted cash flow projections for the impairment assessment of these loans and investments include average growth rates of 10.6-12.3% for the next five years on the basis of management's expectations and strategic plans. Growth rates of 2.5% subsequent to this period have been used. The rates used incorporate allowance for inflation. Pre-tax discount rates of 7.09% have been used in all models. Such impairment models are to assess the carrying value of investments in subsidiaries and loans owing by subsidiaries at the parent company level, and any impairment losses do not impact on the consolidated balances or results as these eliminate in full on consolidation.

(ii) Inventory Classification

Included in inventory are certain inventory items held to service existing products and various components used in the manufacturing process. The nature of these items may require them to be included in inventory for more than one year. Management have evaluated these inventory items and do not consider the carrying value of these items as material. All inventory items have therefore been classified as current.

(iii) Inventory Obsolescence

Management review inventory reports on a regular basis to determine slow-moving or obsolescence.

Appropriate provisions are carried for impairment of slow-moving items. Obsolete

items are disposed of as and when identified.

(v) Impairment - General

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

(vi) Impairment - Carbon Price

In November 2011, the Federal Parliament passed the Clean Energy Act 2011, which implements a carbon pricing mechanism from 1 July 2012. Under the mechanism, entities that produce over the threshold level of carbon emissions will be required to purchase permits to offset their carbon emissions.

The Group is not directly impacted by the carbon pricing mechanism because it does not control facilities that produce emissions greater than the threshold level. However, the Group will be indirectly impacted by the mechanism through increases in the prices it pays for energy and materials purchased from suppliers that are impacted by the introduction of the mechanism. The Group also anticipates that it will experience an increase in expenditures related to waste disposal under the carbon pricing mechanism, although any future increases in such costs are likely to be less significant than the anticipated increases in energy and material costs.

Management of the Group has considered whether the introduction of the carbon pricing mechanism is an impairment indicator and has determined that it is not expected to have a significant impact on the estimated net cash flows of the Group's operations or the recoverability of its assets, principally because the Group has the capacity to pass on any increases in production costs through its contracts with customers.

At the time of writing, management is aware that the Clean Energy Act may be repealed.

w. Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

x. New and Amended Accounting Policies Adopted by the Group

The below table shows the new and revised accounting standards (including amending standards) and interpretations that are mandatory for the year ended 30 June 2014.

Standard	Effective Date	Requirements or amendments	Impact
AASB 10 Consolidated Financial Statements	1 January 2013	Replaces the requirements of AASB 127 and Interpretation 112 pertaining to the principles to be applied in the preparation and presentation of consolidated financial statements.	None
AASB 11 Joint Arrangements	1 January 2013	Replaces the requirements of AASB 131 pertaining to the principles to be applied for financial reporting by entities that have an interest in arrangements that are jointly controlled.	None
AASB 12 Disclosure of Interests in Other Entities	1 January 2013	Replaces the disclosure requirements of AASB 127 and AASB 131 pertaining to interests in other entities.	None
AASB 127 Separate Financial Statements	1 January 2013	Prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	None
AASB 13 Fair Value Measurement	1 January 2013	Provides a clear definition of fair value, a framework for measuring fair value and requires enhanced disclosures about fair value measurement.	Disclosure only
2011-8 Amendments to Australian Accounting Standards arising from AASB 13	1 January 2013	Amends AASB 1, 2, 3, 4, 5, 7, 9, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132 as a result of issuance of AASB 13 Fair Value Measurement.	Disclosure only
AASB 119 Employee Benefits	1 January 2013	The amendments to this Standard eliminates the option for defined benefit plans to use the corridor approach to defer the recognition of actuarial gains and losses and introduce enhanced disclosures about defined benefit plans. The amendments also incorporate changes to the accounting for termination benefits.	None
2011-10 Amendments to Australian Accounting Standards arising from AASB 119	1 January 2013	Amends AASB 1, 8, 101, 124, 134, 1049, 2011-8 & Interpretation 14 as a result of the issuance of AASB 119 Employee Benefits.	None

Notes To The Financial Statements

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (continued)

y. New Accounting Standards for Application in Future Periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
AASB 9	Financial Instruments	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2017	Unlikely to be significant
2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132.	1 January 2014	Unlikely to be significant
Interpretation 21	Levies	Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. This Interpretation is not expected to significantly impact the Group's financial statements	1 January 2014	Unlikely to be significant
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	This Standard amends the disclosure requirements in AASB 136: Impairment of Assets pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Group's financial statements	1 January 2014	Unlikely to be significant

Notes To The Financial Statements

For the year ended 30 June 2014

Note 2: Parent Information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with accounting standards.

STATEMENT OF FINANCIAL POSITION

	2014	2013
	\$000	\$000
ASSETS		
Current Assets	18,969	18,485
TOTAL ASSETS (i)	67,482	75,526
LIABILITIES		
Current Liabilities	5,347	16,756
TOTAL LIABILITIES	25,288	33,183
EQUITY		
Issued capital	37,430	36,380
Capital profits reserve	180	180
Asset revaluation reserve	2,229	2,229
Share options reserve	20	20
Retained earnings	2,336	3,534
TOTAL EQUITY	42,195	42,343

(i) refer accounting policy Note1 (v) (i) key estimates and judgements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2014	2013
	\$000	\$000
Total profit after tax	1,243	3,759
Total comprehensive income	1,243	3,763

Guarantees

At 30th June 2014, Waterco Ltd has provided a guarantees of RM11,150,000 and \$US1,000,000 (A\$4,752,164) (2013: RM6,150,000 (A\$2,093,047)) to AM Bank for loans provided to a subsidiary, Waterco (Far East) Sdn Bhd.

Contingent Liabilities

At 30th June 2014, Waterco Ltd has provided guarantees of \$5,428,897 (2013: \$5,864,772) to landlords for leases of premises subleased to its Swimart franchisees.

Contractual Commitments

At 30th June 2014, Waterco Ltd has not entered any contractual commitments for the acquisition of any property, plant and equipment. (2013: nil).

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 3: Revenue and Other Income

Revenue from Continuing Operations

Sales revenue

- Sale of goods 77,118 68,206

Other revenue

- Interest received 3(a) 24 64
- Rent 210 180
- Other 619 352

Total Revenue	77,971	68,802
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(a) Interest received or receivable from

- Other persons 24 64

Total interest revenue	24	64
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Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 4: Profit for the Year

Profit for the year has been determined after:

(a) Expenses:

Cost of Sales	42,249	34,231
Finance costs:		
• Borrowings	1,503	1,410
• Hire purchase expense	-	1
• Finance charges on finance leases	26	26
	1,529	1,437
Depreciation of non-current assets :		
• Buildings	222	377
• Plant & equipment	868	653
• Capitalised leased assets	179	86
	1,269	1,116
Amortisation of non-current assets:		
• Land use rights	15	-
• Leasehold land	13	54
• Goodwill on acquisition	6	5
• Expenditure carried forward	7	88
	41	147
Total depreciation, amortisation and impairment	1,310	1,263
Bad and doubtful debts		
• Trade debtors	4	60
Rental expense on Operating leases		
• Minimum lease payments	2,480	2,233
Research & development	1,063	1,027
Net loss on disposal of non-current assets		
• Property, plant and equipment	85	34

Note 5: Auditors' Remuneration

Remuneration of the auditor of the parent entity for:

• Audit or reviewing the financial report	169	144
• Non audit fees for agreed upon procedures	-	3

Remuneration of other auditors of subsidiaries for:

• Auditing or reviewing the financial report of subsidiaries	107	110
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Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 6: Income Tax Expense

(a) The components of tax expense comprise:

• Current tax	800	1,166
• Deferred tax	54	360
• Recoupment of prior year tax losses	100	(59)
	<u>954</u>	<u>1,467</u>

(b) The prima facie tax on profit before income tax is reconciled to the income tax as follows:

Profit before income tax	<u>1,928</u>	<u>3,186</u>
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Prima facie tax payable on profit before income tax at 30% (2013 30%)	578	956
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Add

Tax effect of:

• Depreciation of buildings	12	12
• Entertainment	2	3
• Amortisation – Goodwill	2	2
• Amortisation – Leasehold Land	4	16
• Foreign controlled entities not tax effected	565	785
• Expenses not allowable	-	2
• Unrealised foreign exchange losses (gains)	57	(214)
• Other	-	17

Less

Tax effect of:

• Research and development	67	79
• Special building write off	6	25
• Effects of lower rates in overseas countries	127	109
• Overprovision / (underprovision) for tax in prior years	57	(101)
• Other	9	-

Income tax expense attributable to entity	<u>954</u>	<u>1,467</u>
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The applicable weighted average effective tax rates are as follows:	49%	46%
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Notes To The Financial Statements

For the year ended 30 June 2014

Note 7: Key Management Personnel Compensation

Consolidated Group		
	2014	2013
	\$000	\$000

(a) Key Management Personnel ("KMP") Compensation

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

Short-term employee benefits	1,232	1,191
Post-employment benefits	92	83
Other long term benefits	40	30
Share-based payments	4	9
	<u>1,368</u>	<u>1,313</u>

Refer to the remuneration report contained in the directors' report for remuneration paid or payable to each member of the Group's KMP for the year ended 30 June 2014.

(b) Shareholdings

Number of Shares held by key Management Personnel 2014

Key Management Personnel	Balance 1.7.2013	Received as Remuneration	Net Change Other	Balance 30.6.2014
Mr S S Goh	18,716,514	-	590,689	19,307,203
Mr B Goh	539,703	-	134	539,837
Mr G Norman	146,287	-	2,997	149,284
Mr B Hunt	311,191	-	18,926	330,117
Mr R Ling	-	-	-	-
Mr S T Lim	120,317	-	-	120,317
Mrs B H Leo	81,361	-	-	81,361
Mr G Doumit	86,300	-	-	86,300

2013

Key Management Personnel	Balance 1.7.12	Received as Remuneration	Net Change Other	Balance 30.6.13
Mr S S Goh	18,388,422	-	328,092	18,716,514
Mr B Goh	524,265	-	15,438	539,703
Mr G Norman	143,005	-	3,282	146,287
Mr B Hunt	291,741	-	19,450	311,191
Mr R Ling	-	-	-	-
Mr S T Lim	120,317	-	-	120,317
Mrs B H Leo	81,361	-	-	81,361
Mr G Doumit	86,300	-	-	86,300

(c) Options

2014

Key Management Personnel	Balance 1.7.13	Received as Remuneration	Net Change Other	Balance 30.6.14
Mr S T Lim	90,000	-	(90,000)	-

2013

Key Management Personnel	Balance 1.7.12	Received as Remuneration	Net Change Other	Balance 30.6.13
Mr S T Lim	90,000	-	-	90,000

Notes To The Financial Statements

For the year ended 30 June 2014

Note 7: Key Management Personnel Compensation (continued)

(d) Compensation Practices

In constructing, reviewing and determining the remuneration policy for Executive Directors and the senior executive team, the Board and Remuneration Committee have considered a number of factors including the importance of attracting, retaining and motivating management of the appropriate calibre to further the success of the business;

- linking pay to performance by rewarding effective individual achievement as well as business performance; and
- the mix within the package which is designed to align personal reward with enhanced shareholder value over both the short and long-term.

The Executive Directors' and the senior executive team's package consists of two general components:

- fixed remuneration component consisting of base salary which executives may "salary sacrifice" and other benefits; and
- variable or "at risk" component consisting of an annual short term incentive plan for executives and a long term incentive plan for the CEO.

Remuneration of the company's Non-Executive Directors is determined by the Board, based on the nature of their work, responsibilities and market comparisons. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders.

CURRENT ASSETS

Note 8: Cash and cash equivalents

	Consolidated Group	
	2014	2013
	\$000	\$000
Cash at bank and in hand	1,588	2,456

Reconciliation of cash

Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	1,588	2,456
Bank overdraft (note 16)	(1,656)	(517)
	(68)	1,939

Note 9: Trade and other receivables

Trade receivables	10,603	9,277
Less: provision for impairment of receivables	(186)	(242)
	10,417	9,035
Other receivables	1,399	815
	11,816	9,850

Provision For Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 9: Trade and other receivables (continued)

Movement in the provision for impairment of receivables is as follows:

	Opening Balance 1.7.2012	Charge for the Year	Amounts Written Off	Closing Balance 30.6.2013
	\$000	\$000	\$000	\$000

Consolidated Group

Current trade receivables	339	(37)	(60)	242
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	Opening Balance 1.7.2013	Charge for the Year	Amounts Written Off	Closing Balance 30.6.2014
	\$000	\$000	\$000	\$000

Consolidated Group

Current trade receivables	242	(52)	(4)	186
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There are \$2,712,348 (2013: \$2,102,399) within trade and other receivables that are not impaired and are past due. It is expected these balances will be received in full. Impaired assets are provided for in full.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			< 30	31-60	61-90	> 90	
	\$000	\$000	\$000	\$000	\$000	\$000	\$000

Consolidated Group

2014

Trade and term receivables	10,603	186	1,425	455	833	-	7,704
Other receivables	1,399	-	-	-	-	-	1,399
Total	12,002	186	1,425	455	833	-	9,103

2013

Trade and term receivables	9,277	242	1,364	295	443	-	6,933
Other receivables	815	-	-	-	-	-	815
Total	10,092	242	1,364	295	443	-	7,748

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 10 : Inventories

Raw materials and stores at cost	10,572	9,725
Work in progress at cost	1,144	1,038
Finished goods at cost	20,910	20,402
Goods in transit at cost	2,230	1,172
Provision for inventory write-down	(1,029)	(967)
	<u>33,827</u>	<u>31,370</u>

Note 11: Other current assets

Prepayments	724	859
	<u>724</u>	<u>859</u>

NON CURRENT ASSETS

Note 12: Interests in Subsidiaries

	Country of incorporation	Carries on business in	% owned	
			2014	2013
Parent Entity				
Waterco Limited	Australia	Australia	-	-
Controlled Entities of Waterco Limited:				
Swimart Pty Ltd	Australia	Australia	100	100
Zane Solar Systems Australia Pty Ltd	Australia	Australia	100	100
Swimart Network Pty Ltd*	Australia	Australia	100	100
Waterco USA Inc	USA	USA	100	100
Waterco Engineering Sdn Bhd	Malaysia	Malaysia	100	100
Waterco (Far East) Sdn Bhd	Malaysia	Malaysia	100	100
Watershoppe (M) Sdn Bhd	Malaysia	Malaysia	100	100
Baker Hydro (Far East) Sdn Bhd**	Malaysia	Malaysia	100	100
Waterco Engineering Services Sdn Bhd	Malaysia	Malaysia	100	100
Waterco (NZ) Ltd	New Zealand	New Zealand	100	100
Swimart (NZ) Ltd	New Zealand	New Zealand	100	100
Waterco (Guangzhou) Ltd	China	China	100	100
Waterco (C) Ltd	China	China	100	100
Waterco (Europe) Ltd	United Kingdom	United Kingdom	100	100
Waterco Canada Inc	Canada	Canada	100	100
PT Waterco Indonesia	Indonesia	Indonesia	51	51
Waterco International Pte Ltd	Singapore	Singapore	100	100
Waterco France	France	France	100	100

* On 15 October 2013, Aquaswim Australia Pty Ltd changed its name to Swimart Network Pty Ltd

** On 15 August 2013, Lacron Filters (Far East) Sdn Bhd changes its name to Baker Hydro (Far East) Sdn Bhd

Notes To The Financial Statements

For the year ended 30 June 2014

		Consolidated Group	
		2014	2013
		\$000	\$000
Note 13: Property, plant & equipment			
Freehold land at independent valuation		13,327	8,278
Land use rights		3,246	3,330
Less: accumulated amortisation		(15)	-
		3,231	3,330
Freehold buildings at independent valuation		21,015	22,815
Less: accumulated depreciation		(976)	(2,354)
		20,039	20,461
Leasehold land at cost		268	268
Less: accumulated amortisation		(268)	(255)
		-	13
Plant & equipment at cost		26,076	25,770
Less: accumulated depreciation		(19,189)	(18,299)
		6,887	7,471
Leased plant & equipment at cost		668	721
Less: accumulated depreciation		(165)	(159)
		503	562
Total written down value		43,987	40,115

Movements in Carrying Amounts

2014	Freehold Land	Buildings	Land use rights	Leasehold Land	Plant & Equipment	Leased Plant & Equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Consolidated Group:							
Balance at the beginning of year	8,278	20,461	3,330	13	7,471	562	40,115
Foreign exchange translation	(5)	(257)	(84)	-	-	-	(346)
Additions	-	-	-	-	1,413	190	1,603
Revaluation	5,054	367	-	-	-	-	5,421
Disposals	-	-	-	-	(308)	(100)	(408)
Depreciation expense*	-	(532)	(15)	(13)	(1,689)	(149)	(2,398)
Carrying amount at the end of year	13,327	20,039	3,231	-	6,887	503	43,987

* Included in the depreciation expense above is \$1,131,000 (2013:\$938,150) that has been capitalised into the cost of inventory and is reflected in raw materials cost.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 13: Property, plant & equipment (continued)

Movements in Carrying Amounts

2013	Freehold Land	Buildings	Land use rights	Leasehold Land	Plant & Equipment	Leased Plant & Equipment	Hire Purchase Plant & Equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Consolidated Group:								
Balance at the beginning of year	7,747	19,255	2,930	67	6,413	225	209	36,846
Additions	491	1,332	71	-	2,745	423	-	5,062
Revaluation	40	291	329	-	-	-	-	660
Disposals	-	-	-	-	(145)	-	(200)	(345)
Depreciation expense*	-	(417)	-	(54)	(1,542)	(86)	(9)	(2,108)
Carrying amount at the end of year	8,278	20,461	3,330	13	7,471	562	-	40,115

* Included in the depreciation expense above is \$938,150 (2012: \$1,109,683) that has been capitalised into the cost of inventory and is reflected in raw materials cost

Consolidated Group	
2014	2013
\$000	\$000

If Land & Buildings were stated at historic cost, amounts would be as follows:

Cost	28,106	27,927
Less: Accumulated depreciation	(4,077)	(3,560)
Net book value	24,029	24,367

The Group's land and buildings were revalued as per the disclosures in note 1(k)). The directors consider the carrying value of the land and buildings to be a fair reflection of the market value.

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 14: Intangible assets

Goodwill (note 1b)	280	280
Less: accumulated amortisation	(268)	(262)
	12	18
Preliminary expenses	1	1
Deferred expenditure carried forward at cost	414	798
less: accumulated amortisation	72	395
	342	403
	355	422

Movements in Carrying Amounts

	Preliminary Expense	Goodwill	Deferred expenditure	Total
	\$000	\$000	\$000	\$000

Consolidated Group:

Balance at the beginning of year	1	18	403	422
Additions	-	-	-	-
Disposals	-	-	54	54
Amortisation expense	-	6	7	13
Carrying amount at the end of year	1	12	342	355

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

CURRENT LIABILITIES

Note 15: Trade and other payables - unsecured

Trade creditors	8,219	6,855
Sundry creditors and accrued expenses	3,293	2,820
	<u>11,512</u>	<u>9,675</u>

Note 16: Borrowings

Bank loans	2,556	2,510
Bank overdraft	1,656	517
Lease liability	168	200
	<u>4,380</u>	<u>3,227</u>

Bank facilities of the group are secured by a first ranking and registered fixed and floating debenture charge over the assets of the parent entity, and registered mortgages over freehold land and buildings and guarantees and indemnities from subsidiaries. That part of the facilities that fluctuate on an annual basis are classified as current.

Note 17: Taxes

a) Liabilities

Current

Income Tax	-	363
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Non Current Deferred tax liability comprises:

Tax allowances relating to property, plant & equipment	1,466	1,071
Revaluation adjustments taken direct to equity	674	578
Other	2	2
	<u>2,142</u>	<u>1,651</u>
Parent entity DTA netted off against DTL	(618)	(614)
Consolidated DTL	<u>1,524</u>	<u>1,037</u>

b) Assets

Current

Income Tax	65	-
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Deferred tax assets comprises:

Provisions	632	633
Attributable to tax losses	418	473
Tax allowances relating to property, plant & equipment	(19)	13
Other	201	171
	<u>1,232</u>	<u>1,290</u>
Parent entity DTA netted off against DTL	(618)	(614)
Consolidated DTA	<u>614</u>	<u>676</u>
Net Deferred Tax Asset		

Notes To The Financial Statements

For the year ended 30 June 2014

Consolidated Group	
2014	2013
\$000	\$000

Note 17: Taxes (continued)

c) Reconciliations

i. Gross Movements

The overall movement in the deferred tax account is as follows:

Opening balance	(361)	54
Credit to statement of comprehensive income	(443)	(446)
Credit / (Charge) to equity	(106)	31
Closing Balance	(910)	(361)

ii. Deferred Tax Liability

The movement in deferred tax liability for each

temporary difference during the year is as follows:

Tax allowances relating to property, plant & equipment

Opening balance	1,071	559
Charge to statement of comprehensive income	395	512
Closing balance	1,466	1,071

Property revaluation adjustments taken direct to equity

Opening balance	578	578
Net revaluations during current period taken direct equity	96	-
Net revaluation during current period charged to statement of comprehensive income	-	-
Closing balance	674	578

Other

Opening balance	2	2
Credit / (charge) to statement of comprehensive income	-	-
Closing balance	2	2

iii. Deferred Tax Assets

The movement in deferred tax liability for each

temporary difference during the year is as follows:

Provisions

Opening balance	723	590
(Charge) / credit to statement of comprehensive income	(1)	133
Closing balance	722	723

Income tax losses

Opening balance	454	478
(Charge) to statement of comprehensive income	(43)	(54)
(Charge) / credit to equity	(11)	30
Closing balance	400	454

Capital tax losses

Opening balance	18	18
Credit / (charge) to statement of comprehensive income	-	-
Closing balance	18	18

Tax allowances relating to

Property plant & equipment

Opening balance	13	13
(Charge) to statement of comprehensive income	(5)	-
Closing balance	8	13

Other

Opening balance	81	94
Credit / (charge) to statement of comprehensive income	3	(13)
Closing balance	84	81

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 17: Taxes (continued)

- d) **Deferred tax assets not brought to account the benefits of which can only be realised if the conditions for deductibility set out in note 1(f) occur - tax losses**

- Operating losses	5,930	5,286
	5,930	5,286

Note 18: Short-term provisions

Employee Benefits (see note 1h)

Opening Balance	1,510	1,333
Additional provisions	778	866
Amounts used	(796)	(689)
Closing Balance	1,492	1,510

NON-CURRENT LIABILITIES

Note 19: Borrowings

Bank loans	23,008	23,436
Lease liability	272	287
	23,280	23,723

Bank loans of the group are secured by a first ranking and registered fixed and floating debenture charge over the assets of the parent entity, and registered mortgages over freehold land and buildings and guarantees and indemnities from subsidiaries. Bank loan of \$16,888,000, maturity date for the parent entity is 31 July 2015 and bears variable interest at 5.12% payable monthly. Management expects an agreement will be reached with the bank for the loan facility to be extended prior to maturity. The remaining bank loan amount of \$11,788,000 relates to a subsidiary and bears interest at 4.80%-5.10% repayable by monthly instalments with maturity dates of December 2021 and June 2031.

Note 20: Long-term provisions

Employee Benefits (see note 1h)

Opening balance	165	171
Additional provisions	24	17
Amounts used	-	(23)
Closing balance	189	165

a) Aggregate employee entitlement liability	1,681	1,674
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b) Number of employees at year end	532	478
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Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014 \$000	2013 \$000
Note 21: Issued capital		
34,731,886 ordinary shares fully paid at beginning of the year (2013: 33,895,279)	36,380	35,477
On 16 December 2013, 337,412 shares were issued at \$1.19 each under the Waterco Ltd DRP	402	-
On 16 June 2014, 561,815 shares were issued at \$1.14 each under the Waterco Ltd DRP	640	-
On 4 December 2012, 212,000 shares were Issued at \$1.00 to fund the Poppits Business	-	212
On 14 December 2012, 357,702 shares were issued at \$1.05 each under the Waterco Ltd DRP	-	376
On 14 June 2013, 266,905 shares were issued at \$1.09 each under the Waterco Ltd DRP	-	291
Employee Share Plans loan repayments [see note 32(1)]	8	24
35,631,113 ordinary shares fully paid at the end of the year (2013: 34,731,886)	37,430	36,380

The company has authorised share capital amounting to 200,000,000 ordinary shares of 50 cents each. Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains between 30% and 70%. The gearing ratios for the year ended 30 June 2014 and 30 June 2013 are as follows:

	Consolidated Group	
	2014 \$000	2013 \$000
Total borrowings	27,660	26,950
Less cash and cash equivalents	(1,588)	(2,456)
Net debt	26,072	24,494
Total equity	50,599	46,048
Total capital	76,671	70,542
Gearing ratio	52%	53%

Notes To The Financial Statements

For the year ended 30 June 2014

		Consolidated Group	
	Note	2014	2013
	No	\$000	\$000
Note 22: Reserves			
a) Capital profits		211	211
The capital profits reserve relates to non taxable profits on sale of property.			
b) Foreign currency translation		(9,070)	(8,787)
The foreign currency translation reserve records exchange differences on translation of foreign controlled subsidiaries			
c) Asset revaluation reserve			
Balance at the beginning of the year		6,834	6,084
Net revaluation increment/(decrement) on revaluation of land and buildings		5,251	750
Balance at the end of the year		12,085	6,834
The asset revaluation reserve records the revaluation of non-current assets			
d) Share options reserve			
Balance at the beginning of the year		20	16
Share option increment		-	4
Balance at the end of the year		20	20
The share options reserve records the cost of the share option plan			
		3,246	(1,722)
Note 23 : Retained earnings			
Opening retained earnings		11,067	11,784
Net profit attributable to the members of the parent entity		907	1,673
Dividends paid	28	(2,441)	(2,390)
Closing retained earnings		9,533	11,067
Note 24: Lease commitments			
Finance leases			
Lease expenditure contracted and provided for:			
not later than one year		182	224
later than one year but not later than five years		281	306
Total minimum lease commitments		463	530
Less: future finance charges		23	43
Lease liability		440	487
Current portion	16	168	200
Non-current portion	19	272	287
		440	487

Finance leases of 3 or 4 years are taken out on motor vehicles, forklifts and IT equipment with an option to purchase the asset at the end of the lease term at a residual of 30% to 45% depending on the asset.

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 24: Lease commitments (continued)

Operating lease payable:

Non-cancellable operating leases contracted but not capitalised in the financial statements

not later than one year

2,052

1,722

later than one year but not later than five years

3,103

3,540

5,155

5,262

Note 25: Contingent Liabilities

Estimate of the maximum amount of contingent liabilities that may become payable

Guarantee provided to a bank on behalf of a subsidiary

3,195

2,093

Guarantees of leases of premises subleased to franchisees

5,514

8,996

8,709

11,089

Note 26: Related Parties

(A) Transactions with director related parties

(i) Sales made to Asiapools (M) Sdn Bhd.

174

160

Mr S S Goh, a shareholder has significant influence over Asiapools (M) Sdn Bhd.

(ii) Payments made to Mint Holdings Pty Ltd for rental of warehouses and offices.

688

662

Mr S S Goh is a director and shareholder of Mint Holdings Pty Ltd.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 27: 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 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.

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.

Segment liabilities

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

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- other revenues

Notes To The Financial Statements

For the year ended 30 June 2014

Note 27: Operating Segments (continued)

Geographical Segments

	2014			
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA & EUROPE	CONSOLIDATED GROUP
	\$000	\$000	\$000	\$000
REVENUE				
Sales to customers outside the consolidated group	51,528	9,708	15,882	77,118
Intersegment sales	1,229	21,954	8,049	31,232
Total segment revenue	52,757	31,662	23,931	108,350
Reconciliation of segment revenue to group revenue				
Other revenue				853
Intersegment elimination				(31,232)
Total group revenue				77,971
Segment net profit / (loss) from continuing operations before tax	2,942	1,747	(1,908)	2,781
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items - other				(853)
Net profit before tax from continuing operations				1,928
Segment assets	72,106	43,491	(11,314)	104,283
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				(11,307)
Total group assets				92,976
Capital expenditure	441	662	155	1,258
Segment liabilities	27,645	22,305	2,035	51,985
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(9,608)
Total group liabilities				42,377

Notes To The Financial Statements

For the year ended 30 June 2014

Note 27: Operating Segments (continued)

Geographical Segments

	2013			
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA & EUROPE	CONSOLIDATED GROUP
	\$000	\$000	\$000	\$000
REVENUE				
Sales to customers outside the consolidated group	50,496	6,915	10,795	68,206
Intersegment sales	910	20,215	1,714	22,839
Total segment revenue	51,406	27,130	12,509	91,045
Reconciliation of segment revenue to group revenue				
Other revenue				595
Intersegment elimination				(22,838)
Total group revenue				68,802
Segment net profit / (loss) from continuing operations before tax	4,381	1,914	(2,514)	3,781
Reconciliation of segment result to group net profit/(loss) before tax				
Unallocated items				
- other				(595)
Net profit / (loss) before tax from continuing operations				3,186
Segment assets	79,900	49,438	(5,254)	124,084
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				(38,336)
Total group assets				85,748
Capital expenditure	1,215	3,328	516	5,059
Segment liabilities	35,697	33,572	6,272	75,541
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(35,841)
Total group liabilities				39,700

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 28: Dividends Paid or Proposed

Final fully franked ordinary dividend of 4c per share (2013: 4c) franked at the tax rate of 30% paid	1,389	1,356
Interim fully franked ordinary dividend of 3c per share (2013:3c) franked at the tax rate of 30% paid	1,052	1,034
	<u>2,441</u>	<u>2,390</u>
Proposed final fully franked ordinary dividend of 3c per share (2013 4c) franked at the tax rate of 30%	1,069	1,389
Balance of franking account at year end adjusted for franking credits arising from payment of income tax payable, payment of proposed dividends and franking credits not available for distribution.	1,878	2,939

Note 29: Earnings Per Share

Reconciliation of Earnings to Net Profit

Net Profit	974	1,719
Net profit attributable to outside equity interest	67	47
Earnings used in the calculation of basic EPS	907	1,673
Earnings used in the calculation of diluted EPS	907	1,673
a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	34,937	34,224
b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	34,937	34,224

Note 30: Events Subsequent to Reporting Date

There were no reportable events subsequent to balance date.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 31: Financial Risk Management

The Audit Committee (AC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The AC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The AC meets on a bi-monthly basis and minutes of the AC are reviewed by the Board.

The AC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

The main risks the group is exposed to through its financial instruments are interest rate risk, credit risk, foreign currency risk, liquidity risk and price risk.

(a) Interest Rate Risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities.

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk is managed through maintenance of procedures in relation to approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers.

Such monitoring is used in assessing receivables for impairment. Depending on the subsidiary, credit terms are generally 30 days from invoice month.

Credit risk for derivative financial instruments arises from the potential failure by counter parties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts and interest rate swaps is the net fair value of these contracts as disclosed in (c).

The Group has no single concentration of credit risk with any single debtor or group of debtors. However, on a geographical basis, the group has significant credit exposure to Australia/New Zealand and Canada given the substantial operations in those regions.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 9.

(c) Foreign Currency Risk

The parent entity is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods in currencies other than the group's measurement currency.

The parent entity has forward contracts in place at balance date relating to highly probable forecast transactions. There are no forward contracts taken out by any other member in the group. These contracts commit the group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates.

Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimised.

The following table summarises the notional amounts of the Group (and parent entity) commitments in relation to forward exchange contracts.

	Notional Amounts		Average Exchange Rate	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000

Consolidated Group (and Parent Entity)

Buy USD/Sell AUD

- Less than 6 months	1,000	3,000	0.92215	1.0392
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Notes To The Financial Statements

For the year ended 30 June 2014

Note 31: Financial Risk Management (continued)

d) Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Financial liability and financial asset maturity analysis

Consolidated Group	Within 1 Year		1 to 5 Years		Over 5 years		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial Assets								
Cash	1,588	2,456	-	-	-	-	1,588	2,456
Receivables	11,816	9,850	-	-	-	-	11,816	9,850
Total anticipated inflows	13,404	12,306	-	-	-	-	13,404	12,306
Financial Liabilities								
Bank overdraft	-	-	1,656	517	-	-	1,656	517
Bank loans	2,556	2,510	23,008	23,436	-	-	25,564	25,946
Trade and other payable	11,512	9,675	-	-	-	-	11,512	9,675
Lease Liabilities	168	200	272	287	-	-	440	487
Total contractual outflows	14,236	12,385	24,936	24,240	-	-	39,172	36,625
Less bank overdrafts	-	-	(1,656)	(517)	-	-	(1,656)	(517)
Total expected outflows	14,236	12,385	23,280	23,723	-	-	37,516	36,108
Net inflow/(outflow) on financial instruments	(832)	(79)	(23,280)	(23,723)	-	-	(24,112)	(23,802)

Notes To The Financial Statements

For the year ended 30 June 2014

Note 31: Financial Risk Management (continued)

e) Price Risk

Price risk relates to the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

Net Fair Values

The net fair value of bank overdrafts, bank loans and lease liabilities is determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value. Their net fair value is adjusted for any costs involved in settling the instrument.

	2014		2013	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$000	\$000	\$000	\$000
Financial Liabilities				
Bank Overdraft	1,656	1,672	517	522
Bank Loans	25,564	25,820	25,946	26,206
Lease Liabilities	440	463	487	512
	27,660	27,955	26,950	27,240

For financial assets and other liabilities, the net fair value approximates their carrying value. Financial assets where the carrying amount exceeds the net fair values have not been written down as the consolidated group intends to hold these assets to maturity.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. The sensitivity assumes the movement in a particular variable is independent to other variables.

	Consolidated Group	
	Profit	Equity
	\$000	\$000

Year ended 30 June 2014

+/- 2% in interest rates	+/-520	+/-520
+/- 5% in \$A/\$US	+/-751	+/-751

Year ended 30 June 2013

+/- 2% in interest rates	+/-510	+/-510
+/- 5% in \$A/\$US	+/-823	+/-823

Notes To The Financial Statements

For the year ended 30 June 2014

Note 32: Employee Benefits

Employee Share Plans

The following is a summary of the existing employee share plans.

1) Waterco Employee Share Plan

The plan was approved by shareholders at the 1996 Annual General Meeting.

Its objective is to encourage full-time and part-time employees of the Waterco Group to acquire ordinary shares in the company in order to promote the long term success of the company as a goal shared by the employees.

All full-time and part-time employees are invited by the Board to subscribe for ordinary shares in the company at the market price at the time of invitation (being the weighted average price over the 3 preceding trading days on ASX subject to adjustment by the board if it believes the price is distorted) but not less than twenty cents. The company may extend an interest free loan to acquire the shares which is repayable within ten years or immediately if the employee leaves the company. The security given for the loan is the pledge of the shares and a charge over any benefits generated by those shares including dividends and bonus shares etc. The proceeds of these benefits are used to reduce the borrower's indebtedness to the company.

The loans are limited recourse loans meaning that if the shares are sold and the proceeds are not sufficient to meet the loan balance outstanding, the company cannot recover the difference from the borrower. During the year, \$nil (2013: \$nil) in loan balances were written off.

Any ordinary shares issued during the year under this plan are shown in the statement of financial position as issued capital. Any residual loan amounts written off are expensed during the year. During the year no shares were issued under this plan while debts of \$7,848 (2013: \$24,387) were repaid. At reporting date, the balance of the debt receivable is \$52,685 (2013:\$60,533).

The closing share market price of an ordinary share of Waterco Limited on the Australian Stock Exchange at 30 June 2014 was \$1.15 (28 June 2013 \$1.00).

2) Waterco Limited Directors and Senior Executives Option Plan

This plan was approved by an Extraordinary General Meeting held on 18 December 1998 and amended by the Board on 7 May 2008.

Its objective is to encourage Directors and Senior Executives of the Waterco Group to acquire ordinary shares in the company in order to promote the long term success of the company.

During a previous period, 90,000 options were granted at no cost to Mr Sze Tin Lim (Chief Financial Officer). These options are split into three equal tranches of 30,000 each and may be exercised at a price of \$1.35 each over the following periods:

Tranche	Exercise Period
Tranche 1	the period beginning on 1 July 2010 and ending on 1 July 2013.
Tranche 2	the period beginning on 1 July 2011 and ending on 1 July 2013.
Tranche 3	the period beginning on 1 July 2012 and ending on 1 July 2013.

During the exercise period some or all of the options can be exercised but only in multiples of 100.

Nil options have been exercised during the period.

All options have expired on 1 July 2013.

Notes To The Financial Statements

For the year ended 30 June 2014

	Consolidated Group	
	2014	2013
	\$000	\$000

Note 33: Cash Flow Information

- a) Reconciliation of cash flows from operations with profit after income tax.

Profit after income tax	974	1,719
Non-cash flows in profit		
Depreciation	2,399	2,035
Impairment / Amortisation	19	59
(Profit) / Loss on sale of non current assets	2	(27)
Changes in Assets and Liabilities:-		
Trade debtors	(1,326)	(1,502)
Provision for doubtful debts	(56)	(97)
Other debtors	(584)	201
Inventories	(2,456)	(6,078)
Prepayments	135	(277)
Deferred tax assets	58	(97)
Expenditure carried forward	61	(25)
Trade creditors	1,363	2,786
Other creditors	472	372
Provision for employee benefits	6	171
Provision for tax	(427)	621
Provision for deferred tax	86	512
Share options reserve	-	4
Cashflow – Non Operating Activities :		
Cash Flows provided by operations	726	377

- b) Non Cash Financial and investment activities

- 1) Property, Plant and Equipment

During the year, the consolidated group acquired plant and equipment with an aggregate fair value of \$190,752 (2013:\$418,686) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

- c) Financing Facilities

The following lines of credit were available at balance date:

Fully Drawn Advance Facilities	32,863	33,488
Master lease facilities	826	865
	33,689	34,353
Amount utilised	(27,665)	(28,964)
Amount unutilised	6,024	5,389

The Fully Drawn Advance Facilities of the parent entity are due to expire on 31 July 2015. The parent entity expects to renew these facilities on expiry date.

The Fully Drawn Advance Facilities of a subsidiary is due to expire on 31 December 2021 and 30 June 2031. The subsidiary expects to renew these facilities on expiry date.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 34: Fair Value Measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- derivative financial instruments;
- freehold land and buildings;

The Group subsequently measures some items of freehold land and buildings at fair value on a non recurring basis.

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

a) Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The evaluation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Notes To The Financial Statements

For the year ended 30 June 2014

Note 34: Fair Value Measurements (continued)

The following tables provide the values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy.

30 June 2014					
	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Recurring fair value measurements					
<i>Financial assets</i>					
Derivatives held for hedging forward exchange contracts	31	-	1,000	-	1,000
Total Financial assets recognised at fair value on a recurring basis		-	1,000	-	1,000
<i>Non-financial assets</i>					
Freehold land	13	-	13,327	-	13,327
Freehold buildings	13	-	20,039	-	20,039
Total non-financial assets recognised at fair value on a recurring basis		-	33,366	-	33,366
Total non-financial assets recognised at fair value		-	33,366	-	33,366

30 June 2013					
	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Recurring fair value measurements					
<i>Financial assets</i>					
Derivatives held for hedging forward exchange contracts	31	-	3,000	-	3,000
Financial assets at fair value through profit or loss					
Total Financial assets recognised at fair value		-	3,000	-	3,000
<i>Non-financial assets</i>					
Freehold land	13	-	8,278	-	8,278
Freehold buildings	13	-	20,461	-	20,461
Total non-financial assets recognised at fair value		-	28,739	-	28,739

Notes To The Financial Statements

For the year ended 30 June 2014

Note 34: Fair Value Measurements (continued)

b) Valuation Techniques and Inputs Used to Measure Level 2 Fair Values

Description	Fair Value at 30 June 2014 \$000	Valuation Technique(s)	Inputs Used
<i>Financial assets</i>			
Forward exchange contracts	1,000	Income approach using discounted cash flow methodology	Current forward exchange rates applicable to remaining life of contract
	1,000		
<i>Non-financial assets</i>			
Freehold land ⁽ⁱ⁾	13,327	Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology	Price per hectare; market borrowing rate
Freehold buildings ⁽ⁱ⁾	20,039	Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology	Price per square metre; market borrowing rate
	33,366		

- (i) The fair value of freehold land and buildings is determined at least every three years based on valuations by an independent valuer. At the end of each intervening period, the directors review the independent valuation and, when appropriate, update the fair value measurement to reflect current market conditions using a range of valuation techniques, including recent observable market data and discounted cash flow methodologies

There were no changes during the period in the valuation techniques used by the Group to determine Level 2 fair values.

c) Disclosed Fair Value Measurements

The following assets and liabilities are not measured at fair value in the statement of financial position, but their fair values are disclosed in the notes:

- lease liability
- bank debt

Notes To The Financial Statements

For the year ended 30 June 2014

Note 34: Fair Value Measurements (continued)

The following table provides the level of the fair value hierarchy within which the disclosed fair value measurements are categorised in their entirety and a description of the valuation technique(s) and inputs used:

Description	Note	Fair Value Hierarchy Level	Valuation Technique(s)	Inputs Used
<i>Assets</i>				
<i>Liabilities</i>				
Lease liability	31	2	Income approach using discounted cash flow methodology	Current commercial borrowing rates for similar instruments
Bank debt	31	2	Income approach using discounted cash flow methodology	Current commercial borrowing rates for similar instruments

There has been no change in the valuation technique(s) used to calculate the fair values disclosed in the notes to the financial statements.

Note 35: Company Details

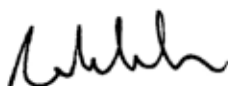
The registered office of the company is:

Waterco Limited
36 South Street
Rydalmere NSW 2116

Directors' Declaration

In accordance with a resolution of the directors of Waterco Limited, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 32 to 76 are in accordance with the Corporations Act 2001 and:
 - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the consolidated group;
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; and
3. the directors have been given the declarations required by s 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.



Soon Sinn Goh
Chief Executive Officer

Dated at Sydney this 3 September 2014

Independent Auditor's Report

To the members of Waterco Ltd



RSM Bird Cameron Partners
Level 12, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001
T +61 2 8226 4500 F +61 2 8226 4501

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATERCO LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Waterco Limited, which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Liability limited by a
scheme approved
under Professional
Standards Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is a member of the RSM network. Each member of the RSM network is an independent accounting and advisory firm which practises in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.



Independent Auditor's Report

To the members of Waterco Ltd



Independence

In conducting our audit, 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 report.

Opinion

In our opinion:

- (a) the financial report of Waterco Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 24 to 29 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Waterco Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in dark ink that reads "RSM Bird Cameron".

RSM BIRD CAMERON PARTNERS

A handwritten signature in dark ink, appearing to read "W E Beuman".

W E Beuman
Partner

Sydney, NSW
Dated: 8 September 2014

Shareholder Information

As at 21 August 2014

(a) Distribution of Shareholders

	Range		Total Holders	Options
1	-	1,000	277	-
1,001	-	5,000	287	-
5,001	-	10,000	94	-
10,001	-	100,000	126	-
100,001	-	and over	32	-
			816	

(b) Marketable Parcel

49 shareholders hold less than a marketable parcel.

(c) Substantial Shareholders

The following information is extracted from the company's register as at 21 August 2014:

Name	Number of shares
S S Goh Group	19,307,203
Redbrook Nominees Pty Ltd	2,375,930
Acres Holdings Pty Ltd	2,114,136

(d) Voting Rights

For all shares, voting rights are one vote per member on a show of hands and one vote per share on a poll.

(e) Twenty Largest Shareholders

The twenty largest shareholders hold 83.11% of the total shares issued.

	Name	Number of shares	%
1	Mr Soon Sinn Goh	16,507,203	46.33
2	Redbrook Nominees Pty Ltd	2,568,772	7.21
3	Goh Lai Huat & Sons Sdn Bhd	2,500,000	7.02
4	Acres Holdings Pty Ltd	2,422,760	6.80
5	Mr Soon Leong Goh	577,022	1.62
6	Mr Swee Kheong Goon	562,717	1.58
7	Mrs Christine Goh	500,000	1.40
8	Leitch Pty Ltd (Leitch Super Fund A/C)	483,001	1.36
9	Mrs Janet Swee Nyet Goh	447,112	1.25
10	Mr Chu Shien Chang	340,281	0.96
11	GWK Corporation Pty Ltd	334,103	0.94
12	Mr Benjamin Francis Hunt (B F Hunt Super Fund A/C)	330,117	0.93
13	Deuteronomy Pty Ltd (Dennis Hambleton SF A/C)	301,456	0.85
14	GSS Holdings Sdn Bhd	300,000	0.84
15	Brazil Enterprises Pty Ltd	295,173	0.83
16	S G Corporation Pty Limited	281,739	0.79
17	Mr Tiow Lip Lee	245,386	0.69
18	Ms May-Yin Goh	225,267	0.63
19	Mr Bryan Weng Keong Goh	200,734	0.56
20	Mr Shane Goh	188,607	0.53
TOTAL		29,611,450	83.11

(f) Stock Exchange Listing

The shares of Waterco Limited are listed on the Australian Stock Exchange under the trade symbol WAT.

Corporate Directory

Directors

Soon Sinn Goh
Bryan Goh
Garry Norman
Ben Hunt
Richard Ling

Secretaries

Bee Hong Leo
Gerard Doumit

Registered office

36 South Street, Rydalmere NSW 2116
Tel: + 61 2 9898 8600
Fax: + 61 2 9898 1877
Website: www.waterco.com
E-mail: administration@waterco.com

Share Registry

Computershare Investor Services Pty Ltd
GPO Box 2975, Melbourne VIC 3001
Tel: 1300 850 505

Offices – Australia

NSW (Head Office)

36 South Street, Rydalmere NSW 2116
Tel: + 61 2 9898 8600

QLD

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Postal Address: PO Box 606
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Tel: + 61 7 3299 9999

VIC

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WA

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Auditors

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Banker

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HSBC Centre
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Tel: + 1 706 793 7291





WATERCO LIMITED

ABN 62 002 070 733

Registered Office:

36 South Street,
Rydalmere NSW 2116.

Tel: +61 2 9898 8600

Fax: +61 2 9898 1877

Website: www.waterco.com

Email: administration@waterco.com