

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2016

For announcement to the market

			<u>\$A'000</u>
Revenues	down	4.25%	to 44,246
Profit (loss) after tax attributable to members	up	15.3%	to 2,432
Dividends		Amount per security	Franked amount per security
Interim dividend		2¢	2¢
Previous corresponding period		2¢	2¢
Date for determining entitlements to the dividend	5 th May 2017		

This half yearly report is to be read in conjunction with the 30th June 2016 annual financial report and any announcements made to the market during the period.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Current period - \$A'000	Previous corresponding period - \$A'000
Revenues	44,246	46,211
Expenses		
Borrowing costs	(512)	(656)
Other expenses	(40,124)	(42,320)
Profit (loss) before tax	3,610	3,235
Income tax	(1,097)	(1,065)
Profit (loss) after tax	2,513	2,170
Net profit (loss) attributable to non controlling interests	81	61
Net profit (loss) for the period attributable to members	2,432	2,109
Other Comprehensive income		
Net exchange differences recognised in equity	(1,809)	(1,057)
Property Revaluation increment/(decrement)	5,108	-
Other comprehensive income for the period	3,299	(1,057)
Total comprehensive income/(loss) attributable to members of the parent entity	5,731	1,052

Earnings per security (EPS)

Basic EPS	6.5c	5.8c
Diluted EPS	6.5c	5.8c

Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit/(Loss)	2,513	2,170
Net Profit/(Loss) attributable to non-controlling interests	81	61
Earnings used in calculation of basic EPS	2,432	2,109
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	37,420	36,312

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

Profit (loss) attributable to members

	Current period - \$A'000	Previous corresponding period - \$A'000
Profit (loss) after tax	2,513	2,170
Less (plus) non-controlling interests	81	61
Profit (loss) after tax, attributable to members	2,432	2,109

Revenue and expenses - See Annexure A

Capitalised outlays		
Interest costs capitalised in asset values	--	--
Outlays capitalised in intangibles (unless arising from an acquisition of a business)	--	--

Movement in Retained Profits

	Current period - \$A'000	Previous corresponding period - \$A'000
Retained profits at the beginning of the financial period	10,194	9,949
Net profit (loss) attributable to members	2,432	2,109
Net transfers from (to) reserves	-	20
Dividends and other equity distributions paid or payable	(1,119)	(1,813)
Retained profits (accumulated losses) at end of financial period	11,507	10,265

Intangibles-Impairment/Amortisation

	<i>Consolidated - current period</i>			
	Before tax \$A'000	Related tax \$A'000	Related outside equity interests \$A'000	Amount (after tax) attributable to members \$A'000
Impairment of goodwill	5	--	--	5
Amortisation of other intangibles	59	--	--	59
Total Impairment/ amortisation of intangibles	64	--	--	64

Consolidated Statement of Financial Position

	At end of current period \$A'000	As shown in last annual report \$A'000	As in last half yearly report \$A'000
Current assets			
Cash	7,614	4,518	7,293
Receivables	15,516	14,608	21,307
Inventories	31,309	30,874	33,265
Other	717	776	951
Total current assets	55,156	50,776	62,816
Non-current assets			
Property, plant and equipment (net)	51,171	40,984	39,219
Intangibles (net)	231	260	281
Deferred Tax assets	1,064	1,653	1,731
Other	-	-	-
Total non-current assets	52,466	42,897	41,231
Total assets	107,622	93,673	104,047
Current liabilities			
Payables	14,802	8,843	15,312
Interest bearing liabilities	2,882	5,553	10,691
Current tax liabilities	683	231	1,007
Provisions exc. tax liabilities	1,806	1,691	1,767
Other	-	-	-
Total current liabilities	20,173	16,318	28,777
Non-current liabilities			
Payables			
Interest bearing liabilities	18,912	15,339	16,024
Deferred tax liabilities	4,097	2,519	2,581
Provisions exc. tax liabilities	197	184	189
Other	-	-	-
Total non-current liabilities	23,206	18,042	18,794
Total liabilities	43,379	34,360	47,571
Net assets	64,243	59,313	56,476
Equity			
Issued capital	39,820	39,582	39,265
Reserves	12,312	9,014	6,428
Retained profits	11,507	10,194	10,265
Parent entity interest	63,639	58,790	55,958
Non-controlling interest	604	523	518
Total equity	64,243	59,313	56,476

Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	41,904	44,738
Payments to suppliers and employees	(36,045)	(38,126)
Other Income	40	30
Interest received	882	1,174
Interest and other costs of finance paid	(512)	(656)
Income taxes refund/paid	(892)	(516)
Net operating cash flows	5,377	6,644
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(1,710)	(474)
Proceeds from sale of property, plant and equipment	50	111
Proceeds from sale of business		
Payment for intangibles		
Dividends received	1	1
Net investing cash flows	(1,659)	(362)
Cash flows related to financing activities		
Proceeds from issues of shares	732	1,123
Share buyback	(493)	-
Proceeds from borrowings	1,465	14,159
Repayment of borrowings	(691)	(16,068)
Dividends paid	(1,119)	(1,813)
Net financing cash flows	(106)	(2,599)
Net increase (decrease) in cash held	3,612	3,683
Cash at beginning of period (see Reconciliation of cash)	4,518	3,264
Exchange rate adjustments	(516)	346
Cash at end of period (see Reconciliation of cash)	7,614	7,293

Non-cash financing and investing activities: During the period, the economic entity acquired plant and equipment amounting to \$133,012 (2015 \$184,017) by means of finance leases. These financing activities are not reflected in the Cash flow statement.

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the cash flow statement) to the related items in the accounts is as follows.	Current period \$A'000	Previous corresponding period - \$A'000
Cash on hand and at bank	7,614	7,293
Bank overdraft		-
Other (commercial bills)		
Total cash at end of period	7,614	7,293

Other notes to the financial statements

Ratios	Current period	Previous corresponding Period
Profit before tax / revenue Profit (loss) before tax as a percentage of revenue	8.2%	7.0%
Profit after tax / equity interests Profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	3.82%	3.77%

NTA Per Share	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$1.69	\$1.50

Dividends

Date shares trade ex-dividend	4 th May 2017
Record date to determine entitlements to the dividend	5 th May 2017
Date the dividend is payable	15 th June 2017

Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend: Current year	2¢	2¢	¢
Previous year	2¢	2¢	¢

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

Waterco Dividend Reinvestment Plan

Shares to be issued at 5% discount to average market price of the dividend record date and the four prior trading days

Issued and quoted securities at end of current period

Category of securities	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
Ordinary securities	37,810,621	37,810,621		
Changes during current period				
(a) Increases through issues Waterco DRP	530,691	530,691	\$1.38	\$1.38
(b) Decreases through returns of capital, buybacks	357,136	357,136	\$1.382	\$1.382
Options			<i>Exercise Price</i>	<i>Expiry date</i>
Directors and Senior Executives Option Plan Issued during current period				
Exercised during current period				
Expired during current period				

Segment reporting - See Annexure B

Review Of Operations - See Annexure C

Compliance statement

- 1 This report has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.
- 2 This report and the accounts upon which the report is based use the same accounting policies.
- 3 This report does give a true and fair view of the matters disclosed
- 4 This report is based on accounts which have been subject to review.
- 5 The entity has a formally constituted audit committee.



Soon Sinn Goh
Chief Executive Officer

27th February 2017

Notes

1. **Income tax** Reconciliation of income tax *prima facie* payable on the profit before tax to income tax expense
2. **Rounding of figures** This report anticipates that the information required is given to the nearest \$1,000 (where stated)
3. **Comparative figures** When required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31 December 2016

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2016	31/12/2015
	\$000	\$000
Sales revenue	43,324	44,908
Other revenue	922	1,303
Changes in inventories of finished goods and work in progress	(1,187)	(74)
Raw Materials and consumables used	(21,023)	(23,757)
Employee benefits expense	(8,338)	(8,420)
Depreciation and amortisation expense	(642)	(654)
Finance costs	(512)	(656)
Advertising expense	(1,011)	(935)
Discounts allowed	(83)	(116)
Outward freight expense	(921)	(1,061)
Rent expense	(1,291)	(1,379)
Contracted staff expense	(98)	(137)
Warranty expense	(170)	(381)
Commission expense	(50)	(178)
Other expenses	(5,310)	(5,228)
Profit before income tax	3,610	3,235
Income tax expense	(1,097)	(1,065)
Profit for the period	2,513	2,170
 Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation increment/(decrement) (net of tax and reversals)	5,108	-
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	(1,809)	(1,057)
Other comprehensive income for the period	3,299	(1,057)
Total comprehensive income for the period	5,812	1,113
 Profit attributable to:		
Members of the parent entity	2,432	2,109
Non-controlling interest	81	61
	2,513	2,170

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2016

ANNEXURE B

OPERATING SEGMENTS

Industry Segments

The economic entity operates predominantly in one industry, being the manufacture and wholesale of swimming pool chemicals, accessories and equipment, manufacture and sale of solar pool heating systems and as a franchisor of swimming pool outlets retailing swimming pool accessories and equipment.

Geographical Segments

2016

	AUSTRALIA & NEW ZEALAND 31/12/2016 \$000	ASIA 31/12/2016 \$000	NORTH AMERICA &EUROPE 31/12/2016 \$000	ELIMINATION 31/12/2016 \$000	CONSOLIDATED GROUP 31/12/2016 \$000
Revenue					
Sales to customers outside the economic entity	32,172	5,764	5,388		43,324
Intersegment sales	645	13,134	382	(14,161)	
Unallocated revenue					922
Total revenue	<u>32,817</u>	<u>18,898</u>	<u>5,770</u>	<u>(14,161)</u>	<u>44,246</u>
Segment result	4,332	1,715	(793)	(722)	4,532
Unallocated expenses net of unallocated revenue					<u>(922)</u>
Profit before income tax					3,610
Income tax expense					<u>(1,097)</u>
Profit after income tax					<u>2,513</u>
Segment assets	<u>92,621</u>	<u>49,259</u>	<u>13,583</u>	<u>(47,841)</u>	<u>107,622</u>
Segment liabilities	<u>39,537</u>	<u>23,034</u>	<u>32,146</u>	<u>(51,338)</u>	<u>43,379</u>

2015

	AUSTRALIA & NEW ZEALAND 31/12/2015 \$000	ASIA 31/12/2015 \$000	NORTH AMERICA &EUROPE 31/12/2015 \$000	ELIMINATION 31/12/2015 \$000	CONSOLIDATED GROUP 31/12/2015 \$000
Revenue					
Sales to customers outside the economic entity	31,907	6,190	6,811		44,908
Intersegment sales	728	15,037	793	(16,558)	
Unallocated revenue					1,303
Total revenue	<u>32,635</u>	<u>21,227</u>	<u>7,604</u>	<u>(16,558)</u>	<u>46,211</u>
Segment result	4,203	1,826	(1,281)	(210)	4,538
Unallocated expenses net of unallocated revenue					<u>(1,303)</u>
Profit before income tax					3,235
Income tax expense					<u>(1,065)</u>
Profit after income tax					<u>2,170</u>
Segment assets	<u>84,318</u>	<u>49,945</u>	<u>14,745</u>	<u>(44,961)</u>	<u>104,047</u>
Segment liabilities	<u>36,701</u>	<u>23,779</u>	<u>32,946</u>	<u>(45,855)</u>	<u>47,571</u>

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2016

ANNEXURE C

REVIEW OF OPERATIONS

For the six months ended 31 December 2016 (This Half-year) Waterco Limited reported a Net Profit After Tax of \$2.51 million, against \$2.17 million for the previous corresponding period (PCP). This result, though modest, is nevertheless encouraging, as it reflects the Group's continuous efforts to attain a better level of profitability.

Earnings Before Interest & Tax (EBIT) for This Half-year were \$4.08 million (PCP \$3.86 million).

Total Revenue was \$44.25 million (PCP \$46.21 million).

DIVISIONAL EBIT PERFORMANCE

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2016:

	Dec 2016 (\$000)	Dec 2015 (\$000)	% Change
Australia and New Zealand	3,130	3,154	- 0.1%
Asia	1,766	1,997	-11.6%
North America and Europe	(814)	(1,291)	+37.0%
Consolidated Reported EBIT	4,082	3,860	+5.8%

AUSTRALIA AND NEW ZEALAND

In Australia and New Zealand (ANZ), we had a soft start at the beginning of the financial year. However, sales caught up as the weather warmed and ended up matching the sales of PCP. Margins firmed, compared with PCP, due to a stable Australian Dollar (AUD). As a result, Gross Profit improved. EBIT was, however, similar to the level of PCP, which had the benefit of one-off credits from booking of insurance claims.

Waterco is pleased to note that the building in Rydalmere has been completely rebuilt, after the fire in January 2015. The Head Office has moved back to these new premises during This Half-year.

ASIA

In Asia, sales were also tracking similar to PCP but a stronger Australian Dollar caused a slight decline in their contribution to the Group's figures.

In the past year, the Group transferred the fibreglass manufacturing operations from Waterco China to Waterco Far East (WFE) to improve the efficiency of the Malaysian entity and to provide a net gain to the Group. This will be reflected in either the second half-year or the next financial year.

WFE continues to consolidate its position as a manufacturer for the Group with improvement in the quality of the heat pump. Further improvement of manufacturing lines of other products will result in a better performance in the future.

NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA and Europe – generally, poor economic conditions continued. However, the restructure of the Canada and USA entities has enabled the Group to reduce EBIT losses for this Division. The supply of large commercial filters capable of high pressure rating will underpin our presence in the USA. In Europe, we are beginning to feel the benefits from the firm foundation we built during the past few years, with results showing improvement over PCP.

This Division reported an EBIT loss for the six months of \$0.81 million, or an improvement of 37.0% on the PCP. The main business season for this Division is in the second half of the financial year. Trading conditions in the US remain tough, though we do see prospects of an improvement in the water-treatment sector.

PRODUCT DEVELOPMENT & WATER TREATMENT

In This Half-year, Waterco invested approximately \$0.59 million on research and development, which was fully expensed. The Group continues to respond to market demands for innovative, durable and energy-efficient products and will continue its vigorous efforts in this area.

The Group continues to develop water filtration products in Australia and overseas. This is an area which Waterco has specialised in over the years. We also hold several patents in a chlorine-free system of sanitisation which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using chlorine in various forms.

WORKING CAPITAL

	Dec 2016 (\$000)	Dec 2015 (\$000)
Inventory	31,309	33,265
Debtors	15,516	21,307
Creditors	(14,802)	(18,629)
TOTAL	32,023	35,943

The group's working capital as at December 2016 saw a decrease of \$3.92 million, with reduction seen in all the components.

DIVIDEND

Based on This Half-year result, the Board is pleased to declare a fully-franked interim dividend of 2 cents per share payable on 15 June 2017.

OUTLOOK

The Board considers This half-year's results as encouraging.

The second half-year represents a smaller contribution to the results for the year because of seasonal factors. It will be more dependent on North America and Europe, where we have hopes that the USA entity would do better, particularly in commercial filters, would feature prominently in this period. This year, we are encouraged by the good start to the second half-year by the Australia and New Zealand Division, assisted by the hot weather. We are optimistic that this could mean a better result for the full year than previously expected.