

WATERCO LIMITED

APPENDIX 4E
Preliminary Final Report for the
Financial Year Ended 30 June 2017

FOR ANNOUNCEMENT TO THE MARKET

WATERCO LTD

Summary of results FY ended 30 June 2017

Sales Revenue	\$82.51 million, up 1%
Net Profit After Tax	\$3.71 million, up 30%
EBIT	\$6.21 million, up 24%
Total dividend payout	5c per share (full year)

Chief Executive Officer's Review of Operations

REVENUE AND PROFITABILITY

The Group is pleased to report a Net Profit After Tax (NPAT) of \$3.71 million, registering an increase of 30% on the previous corresponding period (PCP). Earnings Before Interest and Tax (EBIT) for the year increased by 24% to \$6.21 million from \$5.01 million.

Activities in the Australian and New Zealand Division account for a major portion of the Group's profitability and sales. The EBIT of this Division came in significantly higher than that of the PCP. Pleasingly, this Division registered a growth in sales. Coupled with better margins, as a result of a stronger AUD reducing cost of goods sold, this provided the impetus for the strong performance.

The North America and Europe Division continues to undergo restructuring. EBIT losses increased by 16%.

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	FY17	FY16	
	(\$000)	(\$000)	% Change
Australia and New Zealand	4,532	3,436	+32%
North America and Europe	(1,000)	(861)	-16%
Asia	2,681	2,433	+10%
Consolidated Reported	6,213	5,008	+24%

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 level of profitability through the challenging times in the last few years, during which the industry underwent consolidation and transformation.

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 multi-award winning Multicyclone centrifugal filters and Glass Pearls filter media for improved filtration performance and reduced pool water usage. This was instrumental in enabling the company to retain market share.

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.

Sale of commercial and industrial filters underpinned Sales revenue in WUSA. This sector is expected to provide growth for the Entity in future years.

Changes continue to be made to improve the performance of this Entity. This culminated in the appointment of a new CEO late into the financial year. The Entity is confident that the changes will improve its position in the sale of residential pool products.

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, has 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, having transferred the manufacturing operations to Malaysia.

WCI has re-organised its Operations and substantially trimmed back its Overheads. This year's performance was weighed down by Warranty expenses from sales made in the previous year. However, with the restructure of the Warranty operations and a new team in place, this Entity is expected to show improvement in the following financial year.

Waterco Europe (WEL), combining an entity set up in 1999 and the business acquired from Lacron Ltd in 2003, 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.

Despite continuing uncertainty in the economy, WEL has grown its market share in Europe and increased sales revenue and profits. This is due, in part, to the Entity's consolidation of its operations during the difficult years. Notably, there was an increased level of commercial filter sales into the Netherlands and Germany. These filters were of high pressure ratings developed mainly for water treatment, in particular, as pre-filtration for seawater desalination. The Group's ability to manufacture filters of such pressure ratings from composites provides an opportunity to enhance our presence into a market that has traditionally used steel to withstand such pressures.

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.

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 were steady, in spite of weaker economic conditions. Increased production volume with the addition of heat pumps production line has improved overall efficiency, resulting in a higher profit in this entity.

Waterco China This entity commenced operations in 2000, delivering advantages of low operational costs and a foothold into the huge China market. The manufacturing of filters primarily for the European and the Australian markets has been relocated to Malaysia, leaving this entity to focus on development of commercial heat pumps and to improve marketing of pool equipment to the commercial pool market in China.

This Entity performed below expectation during the year, following continuation of a slow-down in the housing market in China.

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. Performance during the year was steady.

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.

Product innovation and research and development in the water-treatment subsector are considered to be critical to 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 pool markets globally and are expected to improve the appeal of the Swimart franchise, as well as that of other pool shops which market the products.

DIVIDEND AND OUTLOOK

The results, with improvement of the NPAT figure, is above expectation, with interest expense savings and normalisation of tax as key contributing factors. This is especially pleasing, as losses in entities in the North America and Europe Division had not been tax-effected and have, therefore, accentuated their impact.

The Board will provide a profit guidance at a later stage for the financial year ending 30 June 2018, as more information becomes available during the year.

Waterco declares a final dividend payment of 3 cents per share, payable to shareholders on 15 December 2017. With an interim dividend of 2 cents declared after the announcement of the Half-Year results, this dividend of 3 cents brings the total dividend for the year to 5 cents, a satisfactory outcome in an environment of poor global economic conditions.

WATERCO LIMITED

Preliminary Final Report for the Financial Year Ended 30 June 2017

SUMMARY OF RESULTS

	<u>\$A'000</u>
Revenues	Up 1.5% to 85,205
Profit (loss) after tax attributable to members	Up 30.5% to 3,635
Dividends	Amount per security Franked amount per security
Final dividend	3¢ 3¢
Previous corresponding period	3¢ 3¢
Date for determining entitlements to the dividend	10 th November 2017

Statement of Profit and Loss and Other Comprehensive Income

	Current period \$A'000	Previous corresponding period \$A'000
Revenues	85,205	83,971
Expenses		
Goodwill (on acquisition) Impairment Losses	(5)	(2)
Finance costs	(980)	(1,243)
Other Expenses	(78,891)	(78,903)
Profit (loss) before tax	5,329	3,823
Income tax (see Annexure A)	1,622	973
Profit (loss) after tax	3,707	2,850
Net profit (loss) attributable to non-controlling interests	72	66
Net profit (loss) for the period attributable to members	3,635	2,784
Non-owner transaction changes in equity		
Net exchange differences recognised in equity		
Other revenue, expense and initial adjustments recognised directly in equity	3,478	1,529
Total transactions and adjustments recognised directly in equity	3,478	1,529
Total changes in equity not resulting from transactions with owners as owners	7,113	4,313

Earnings per security (EPS)

	Current period	Previous corresponding Period
Basic EPS	9.7c	7.6c
Diluted EPS	9.7c	7.6c

Calculation of Earnings per security (EPS)

	Current period	Previous corresponding Period
Net Profit (\$000)	3,707	2,850
Net Profit/(Loss) attributable to non-controlling interests (\$000)	72	66
Earnings used in calculation of basic EPS (\$000)	3,635	2,784
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	37,564,558	36,826,788

Notes to the statement of profit and loss and other comprehensive income**Profit (loss) attributable to members**

	Current period \$A'000	Previous corresponding period \$A'000
Profit (loss) after tax	3,707	2,784
Less (plus) non controlling interests	72	66
Profit (loss) after tax, attributable to members	3,635	2,850

Revenue and Expenses - SEE ANNEXURE A

	Current period \$A'000	Previous corresponding period \$A'000
Capitalised outlays		
Interest costs capitalised in asset values	-	-
Outlays capitalised in intangibles (excluding those arising from acquisition of a business)	-	-

Operating Segments – SEE ANNEXURE A

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 attributable to members	3,635	2,784
Transfer from Asset Revaluation Reserve	-	20
Adjustment relating to AASB 121		
Dividends paid	1,870	2,559
Retained profits at end of financial period	11,959	10,194

Intangibles – Impairment/Amortisation

	<i>Consolidated - current period</i>			
	Before tax \$A'000	Related tax \$A'000	Related non- controlling interests \$A'000	Amount (after tax) attributable to members \$A'000
	(a)	(b)	(c)	(d)
Impairment of goodwill	5	-	-	5
Amortisation of other intangibles	117	-	-	117
Total Impairment/ amortisation of intangibles	122	-	-	122

Comparison of half year profits

	Current year - \$A'000	Previous year - \$A'000
Consolidated profit (loss) after tax attributable to members reported for the <i>1st</i> half year	2,432	2,109
Consolidated profit (loss) after tax attributable to members for the <i>2nd</i> half year	1,203	675

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 and cash equivalents	4,634	4,518	7,614
Trade and other receivables	12,861	14,608	15,516
Inventories	29,775	30,874	31,309
Other	667	776	717
Total current assets	47,937	50,776	55,156
Non-current assets			
Other property, plant and equipment (net)	52,344	40,984	51,171
Intangibles (net)	135	260	231
Deferred tax assets	1,015	365	1,064
Total non-current assets	53,494	41,609	52,466
Total assets	101,431	92,385	107,622
Current liabilities			
Trade and other payables	11,461	8,843	14,802
Interest bearing liabilities	2,388	5,553	2,882
Current tax liabilities	690	231	683
Provisions exc. tax liabilities	2,120	1,691	1,806
Total current liabilities	16,659	16,318	20,173
Non-current liabilities			
Interest bearing liabilities	15,805	15,339	18,912
Deferred tax liabilities	4,388	1,231	4,097
Provisions exc. tax liabilities	200	184	197
Total non-current liabilities	20,393	16,754	23,206
Total liabilities	37,052	33,072	43,379
Net assets	64,379	59,313	64,243

Equity			
Issued Capital	39,333	39,582	39,820
Reserves	12,492	9,014	12,312
Retained Earnings	11,959	10,194	11,507
Parent entity Interest	63,784	58,790	63,639
Non controlling interests in controlled entities	595	523	604
Total equity	64,379	59,313	64,243

Consolidated Statement of Cashflows	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	86,822	88,322
Payments to suppliers and employees	(77,838)	(81,085)
Interest and other items of similar nature received	96	58
Interest and other costs of finance paid	(980)	(1,243)
Income taxes paid	(1,069)	(1,185)
Other	2,600	2,197
Net operating cash flows	9,631	7,064
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(3,316)	(1,591)
Proceeds from sale of property, plant and equipment	143	1,243
Proceeds from sale of business Investments		
Payment for intangibles	(81)	
Net investing cash flows	(3,254)	(348)
Cash flows related to financing activities		
Proceeds from issues of shares	732	1,601
Share Buyback	(981)	(162)
Proceeds from borrowings	395	11,303
Repayment of borrowings	(3,487)	(15,774)
Dividends paid	(1,870)	(2,559)
Net financing cash flows	(5,211)	(5,591)
Net increase (decrease) in cash held	1,166	1,125
Cash at beginning of period (see <i>Reconciliation of cash</i>)	4,518	3,264
Exchange rate adjustments.	(1,050)	129
Cash at end of period (see <i>Reconciliation of cash</i>)	4,634	4,518

Non-cash financing and investing activities

During the year, the economic entity acquired plant and equipment with an aggregate fair value of \$392,639 (2016-\$240,918) by means of finance leases. These financing activities are not reflected in the statement of cash flows.

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) 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	4,634	4,518
Bank overdraft	-	-
Other (provide details)		
Total cash at end of period	4,634	4,518

Other notes to the condensed financial statements

Ratios	Current period	Previous corresponding Period
Profit before tax / revenue Consolidated profit (loss) before tax as a percentage of revenue	6.25%	4.6%
Profit after tax /equity interests Consolidated net profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	5.7%	4.7%

NTA PER SHARE	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$1.71	\$1.57

Final Dividend Declared

Date shares trade ex-dividend	9 th November 2017
Record date to determine entitlements to the dividend	10 th November 2017
Date the dividend is payable	14 th December 2017

Dividend per share

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

Total dividend per share (interim *plus* final)

	Current year	Previous year
+Ordinary securities	5¢	5¢

Dividend Plans in operation

There is no current dividend reinvestment plan in operation

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	37,494,704	37,494,704		
Changes during current period				
(a) Increases through issues	530,691	530,691	\$1.38	\$1.38
(b) Decreases through returns of capital, buybacks	673,053	673,053	\$1.4574	\$1.4574
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				

Annual meeting

The annual meeting will be held as follows:

Place	36 South St Rydalmere NSW
Date	27 th October 2017
Time	3PM
Approximate date the annual report will be available	22nd September 2017

Compliance statement

1. This report has been prepared in accordance with the Corporations Act 2001 including complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001
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 are in the process of being audited.
5. The entity has a formally constituted audit committee.



Soon Sinn Goh
Chief Executive Officer

23rd August 2017

Notes:

1. **Reconciliation of income tax *prima facie* payable on the profit before tax to income tax expense where *prima facie* tax payable differs by more than 15% from income tax expense.**
 2. **Rounding of figures:** Some of the information in this report have been rounded 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.
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WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2017

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	2017	2016
	\$000	\$000
Revenues	85,205	83,971
Changes in inventories of finished goods and work in progress	1,096	2,507
Raw materials and consumables used	(44,397)	(47,012)
Employee benefits expense	(17,166)	(16,435)
Depreciation, impairment and amortisation expense	(1,452)	(1,177)
Finance costs	(980)	(1,243)
Advertising expense	(1,897)	(1,580)
Discounts allowed	(149)	(107)
Outward freight expense	(1,424)	(1,537)
Rent expense	(2,667)	(2,642)
Contracted staff expense	(183)	(234)
Warranty expense	(641)	(783)
Commission expense	(184)	(302)
Increased cost of working- Rydalmere Fire	(421)	(708)
Other expenses	<u>(9,411)</u>	<u>(8,895)</u>
Profit before income tax expense	5,329	3,823
Income tax expense	<u>1,622</u>	<u>973</u>
Profit for the year	<u>3,707</u>	<u>2,850</u>

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2017 ANNEXURE A

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 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

Comparative information

This is the first reporting period in which AASB8: Operating Segments has been adopted. Comparative information has been stated to confirm to the requirements of the Standard.

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES**PRELIMINARY FINAL REPORT 30 JUNE 2017****ANNEXURE A****Operating Segments****Geographical Segments**

	2017			
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA & EUROPE	CONSOLIDATED GROUP
	\$000	\$000	\$000	\$000
REVENUE				
Sales to customers outside the consolidated group	56,626	12,364	13,518	82,508
Intersegment sales	1,280	23,159	969	25,408
Total segment revenue	<u>57,906</u>	<u>35,523</u>	<u>14,487</u>	107,916
Reconciliation of segment revenue to group revenue				
Other revenue				2,697
Intersegment elimination				<u>(25,408)</u>
Total group revenue				<u>85,205</u>
Segment net profit/(loss) from continuing operations before	6,437	2,535	(946)	8,026
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items - other				(2,697)
Net profit before tax from continuing operations				<u>5,329</u>
Segment assets	78,489	53,715	(13,188)	119,016
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				<u>(17,585)</u>
Total group assets				<u>101,431</u>
Capital expenditure	1,782	1,804	124	3,710
Segment liabilities	29,974	25,855	4,978	60,807
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				<u>(23,755)</u>
Total group liabilities				<u>37,052</u>

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES**PRELIMINARY FINAL REPORT 30 JUNE 2017****ANNEXURE A****Operating Segments****Geographical Segments**

	2016			
	AUSTRALIA & NEW ZEALAND \$000	ASIA \$000	NORTH AMERICA & EUROPE \$000	CONSOLIDATED GROUP \$000
REVENUE				
Sales to customers outside the consolidated group	54,322	12,115	15,278	81,715
Intersegment sales	1,228	24,266	1,510	27,004
Total segment revenue	<u>55,550</u>	<u>36,381</u>	<u>16,788</u>	108,719
Reconciliation of segment revenue to group revenue				
Other revenue				2,256
Intersegment elimination				<u>(27,004)</u>
Total group revenue				<u>83,971</u>
Segment net profit/(loss) from continuing operations before	4,821	2,113	(855)	6,079
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items - other				(2,256)
Net profit before tax from continuing operations				<u>3,823</u>
Segment assets	69,059	49,238	(11,378)	106,919
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				<u>(14,534)</u>
Total group assets				<u>92,385</u>
Capital expenditure	689	452	153	1,294
Segment liabilities	23,319	22,227	6,082	51,628
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				<u>(18,556)</u>
Total group liabilities				<u>33,072</u>

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2017

ANNEXURE A

Income Tax Expense

	Consolidated Group	
	2017	2016
	\$000	\$000
The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax	5,329	3,823
Prima facie tax payable on profit before income tax at 30% (2016 30%)	1,599	1,147
Add		
Tax effect of:		
• Depreciation of buildings	27	6
• Entertainment	2	1
• Amortisation – Goodwill	2	1
• Amortisation – Land use rights	5	5
• Foreign controlled entities not tax effected	646	314
• Other	42	3
Less		
Tax effect of:		
• Research and development	102	-
• Effects of lower rates in overseas countries	268	153
• Unrealised foreign exchange losses/(gains)	44	287
• Overprovision/(under) for tax in prior years	44	51
• Reinvestment allowance	241	13
• Other	2	-
Income tax expense attributable to entity	1,622	973
The applicable weighted average effective tax rates are as follows:	30%	25%