

WATERCO LIMITED

APPENDIX 4E
Preliminary Final Report for the
Financial Year Ended 30 June 2016

FOR ANNOUNCEMENT TO THE MARKET

WATERCO LTD

Summary of results FY ended 30 June 2016

Sales Revenue	\$81.72 million, up 1%
Net Profit After Tax	\$2.85 million, up 84%
EBIT	\$5.08 million, up 10%
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 \$2.85 million, registering an increase of 84% on the previous corresponding period (PCP) and 19% on the profit guidance provided on 23 June 2016. Earnings Before Interest and Tax (EBIT) for the year increased by 10% to \$5.01 million from \$4.56 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 lower than that of the PCP as expected, as a result of a weaker AUD raising cost of goods sold and lowering trading margins.

The North America and Europe Division has reduced the level of its EBIT losses by 13%. This performance reflects the progress of the rationalization of the Division.

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contributions by division is as follows:

	FY16	FY15	
	(\$000)	(\$000)	% Change
Australia and New Zealand	3,436	3,830	- 10%
North America and Europe	(861)	(988)	+ 13%
Asia	2,433	1,714	+ 42%
Consolidated Reported EBIT	5,008	4,556	+ 10%

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. Another product,

Hydroxypure, a unique pool sanitising system using hydrogen peroxide and ozone, has been launched in recent years and is expected to gain further traction. The product enables swimming pools to be totally chlorine-free and enriched with oxygen and benefits swimmers who suffer from eczema or allergies. Interest in the market for this product was profound. However, users desired more economy in the consumption of hydrogen peroxide. With the introduction of new chemicals with improved efficiency, we expect the market to react positively and hope to see further increase in sales of this product.

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.

The relocation of the heat-pump manufacturing operations to Malaysia is now complete. There is, therefore, a smaller production team attending to the manufacture of larger filters. This has allowed WUSA to focus on marketing

The sale of surplus property, as part of this restructure, has reduced our overheads structure in the USA to a level, which will minimize our exposure to this large but complex market, while we continue in our efforts to gain more market share.

Sale of commercial and industrial filters underpinned Sales revenue in WUSA, and better results are expected for future years.

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.

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.

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 continuance 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.

Waterco's key products for the future continue to be the Hydroxypure range of products. The system uses two disinfectants (ozone and hydrogen peroxide) that actively work in harmony to increase active oxygen in the water. Continued research and development on this water-treatment process will improve market acceptance of this product. Improvements to this form of water treatment from on-going research and trials will see further enhancements to come.

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 2017, 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 2016. 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 2016

SUMMARY OF RESULTS

\$A'000

Revenues	Down	4.8.%	to	83,971
Profit (loss) after tax attributable to members	Up	87.5%	to	2,784
Dividends		Amount per security		Franked amount per security
Final dividend		5¢		5¢
Previous corresponding period		5¢		5¢
Date for determining entitlements to the dividend	14 th November 2016			

Statement of Profit and Loss and Other Comprehensive Income

	Current period - \$A'000	Previous corresponding period - \$A'000
Revenues	83,971	88,171
Expenses		
Goodwill (on acquisition) Impairment Losses	(2)	(6)
Finance costs	(1,243)	(1,541)
Other Expenses	(78,903)	(83,577)
Profit (loss) before tax	3,823	3,047
Income tax (see Annexure A)	973	1,495
Profit (loss) after tax	2,850	1,552
Net profit (loss) attributable to non controlling interests	66	67
Net profit (loss) for the period attributable to members	2,784	1,485
Non-owner transaction changes in equity		
Net exchange differences recognised in equity		
Other revenue, expense and initial adjustments recognised directly in equity	1,529	4,259
Total transactions and adjustments recognised directly in equity	1,529	4,259
Total changes in equity not resulting from transactions with owners as owners	4,313	5,744

Earnings per security (EPS)	Current period	Previous corresponding Period
Basic EPS	7.6c	4.1c
Diluted EPS	7.6c	4.1c

Calculation of Earnings per security (EPS)

	Current period	Previous corresponding Period
Net Profit (\$000)	2,850	1,552
Net Profit/(Loss) attributable to non controlling interests (\$000)	66	67
Earnings used in calculation of basic EPS (\$000)	2,784	1,485
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	36,826,788	35,971,769

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	2,784	1,552
Less (plus) non controlling interests	66	67
Profit (loss) after tax, attributable to members	2,850	1,485

Revenue and Expenses - SEE ANNEXURE A

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	9,949	9,533
Net profit attributable to members	2,784	1,485
Transfer from Asset Revaluation Reserve	20	-
Adjustment relating to AASB 121		
Dividends paid	2,559	1,069
Retained profits at end of financial period	10,194	9,949

Intangibles – Impairment/Amortisation

	<i>Consolidated - current period</i>			
	Before tax \$A'000 (a)	Related tax \$A'000 (b)	Related non controlling interests \$A'000 (c)	Amount (after tax) attributable to members \$A'000 (d)
Impairment of goodwill	2	-	-	2
Amortisation of other intangibles	52	-	-	52
Total Impairment/ amortisation of intangibles	54	-	-	54

Comparison of half year profits

	Current year - \$A'000	Previous year - \$A'000
Consolidated profit (loss) after tax attributable to members reported for the 1st half year	2,109	1,451
Consolidated profit (loss) after tax attributable to members for the 2nd half year	675	34

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	4,518	3,771	7,293
Trade and other receivables	14,608	18,885	21,307
Inventories	30,874	33,970	33,265
Other	776	843	951
Total current assets	50,776	57,469	62,816
Non-current assets			
Other property, plant and equipment (net)	40,984	41,325	39,219
Intangibles (net)	260	322	281
Deferred tax assets	365	1,071	444
Total non-current assets	41,609	42,718	39,944
Total assets	92,385	100,187	102,760
Current liabilities			
Trade and other payables	8,843	14,289	18,629
Interest bearing liabilities	5,553	15,418	7,374
Current tax liabilities	231	279	1,007
Provisions exc. tax liabilities	1,691	1,658	1,767
Total current liabilities	16,318	31,644	28,777
Non-current liabilities			
Interest bearing liabilities	15,339	10,211	16,024
Deferred tax liabilities	1,231	2,101	1,294
Provisions exc. tax liabilities	184	178	189
Total non-current liabilities	16,754	12,490	17,507
Total liabilities	33,072	44,134	46,284
Net assets	59,313	56,053	56,476
Equity			
Issued Capital	39,582	38,142	39,265
Employee share loans		-	-
Reserves	9,014	7,505	6,428
Retained Earnings	10,194	9,949	10,265
Parent entity Interest	58,790	55,596	55,958
Non controlling interests in controlled entities	523	457	518
Total equity	59,313	56,053	56,476

Consolidated Statement of Cashflows

	Current period \$A'000	Previous corresponding period - \$A'000
Cash flows related to operating activities		
Receipts from customers	88,322	84,638
Payments to suppliers and employees	(81,085)	(85,320)
Interest and other items of similar nature received	58	33
Interest and other costs of finance paid	(1,243)	(1,541)
Income taxes paid	(1,185)	(602)
Other	2,197	7,042
Net operating cash flows	7,064	4,250
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(1,591)	(3,007)
Proceeds from sale of property, plant and equipment	1,243	168
Proceeds from sale of business Investments		
Payment for intangibles		
Net investing cash flows	(348)	(2,839)
Cash flows related to financing activities		
Proceeds from issues of shares	1,601	659
Share Buyback	(162)	-
Proceeds from borrowings	11,303	-
Repayment of borrowings	(15,774)	(1,382)
Dividends paid	(2,559)	(1,069)
Net financing cash flows	(5,591)	(1,792)
Net increase (decrease) in cash held	1,125	(381)
Cash at beginning of period (see Reconciliation of cash)	3,264	(68)
Exchange rate adjustments.	129	3,712
Cash at end of period (see Reconciliation of cash)	4,518	3,264

Non-cash financing and investing activities

During the year, the economic entity acquired plant and equipment with an aggregate fair value of \$240,918 (2015-\$78,213) by means of finance leases and \$nil (2015-\$431,430) by means of hire purchase agreements. 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	4,518	3,771
Bank overdraft	-	(507)
Other (provide details)		
Total cash at end of period	4,518	3,264

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	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	4.7%	2.7%

NTA PER SHARE

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$1.57	\$1.54

Final Dividend Declared

Date shares trade ex-dividend	11 th November 2016
Record date to determine entitlements to the dividend	14 th November 2016
Date the dividend is payable	15 th December 2016

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	5¢	5¢	¢

Total dividend per share (interim *plus* final)

	Current year	Previous year
+Ordinary securities	5¢	5¢

Dividend Plans 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	37,637,066	37,637,066		
Changes during current period				
(a) Increases through issues	1,080,154	1,080,154	\$1.04	\$1.04
	434,597	434,597	\$1.10	\$1.10
(b) Decreases through returns of capital, buybacks				
	136,775	136,775	\$1.18104	\$1.18104
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	28 th October 2016
Time	3PM
Approximate date the annual report will be available	21 st September 2016

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

24th August 2016

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 2016

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	2016	2015
	\$000	\$000
Revenues	83,971	88,171
Changes in inventories of finished goods and work in progress	2,507	(874)
Raw materials and consumables used	(47,012)	(44,833)
Employee benefits expense	(16,435)	(15,730)
Depreciation, impairment and amortisation expense	(1,177)	(1,155)
Finance costs	(1,243)	(1,541)
Advertising expense	(1,580)	(1,579)
Discounts allowed	(107)	(97)
Outward freight expense	(1,537)	(1,806)
Rent expense	(2,642)	(2,545)
Contracted staff expense	(234)	(278)
Warranty expense	(783)	(361)
Commission expense	(302)	(397)
Impairment loss on building and plant and equipment	-	(3,753)
Increased cost of working- Rydalmere Fire	(708)	(1,224)
Other expenses	(8,895)	(8,951)
Profit before income tax expense	3,823	3,047
Income tax expense	973	1,495
Profit for the year	2,850	1,552

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2016 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 2016

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	55,550	36,381	16,788	108,719
Reconciliation of segment revenue to group revenue				2,256
Other revenue				(27,004)
Intersegment elimination				83,971
Total group revenue				
Segment net profit/(loss) from continuing operations before tax	4,821	2,113	(855)	6,079
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items				(2,256)
- other				
Net profit before tax from continuing operations				3,823
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				(14,534)
Total group assets				92,385
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				(18,556)
Total group liabilities				33,072

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

**PRELIMINARY FINAL REPORT 30 JUNE 2016
ANNEXURE A
Operating Segments**

Geographical Segments

	2015			
	AUSTRALIA & NEW ZEALAND \$000	ASIA \$000	NORTH AMERICA & EUROPE \$000	CONSOLIDATED GROUP \$000
REVENUE				
Sales to customers outside the consolidated group	52,565	10,773	17,548	80,886
Intersegment sales	1,213	25,948	4,269	31,430
Total segment revenue	53,778	36,721	21,817	112,316
Reconciliation of segment revenue to group revenue				
Other revenue				7,285
Intersegment elimination				(31,430)
Total group revenue				88,171
Segment net profit/(loss) from continuing operations before tax	10,212	1,112	(992)	10,332
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items				
- other				(7,285)
Net profit before tax from continuing operations				3,047
Segment assets	72,473	50,495	(10,313)	112,655
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				(15,378)
Total group assets				97,277
Capital expenditure	806	1,224	325	2,355
Segment liabilities	26,501	24,410	6,552	57,463
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(16,239)
Total group liabilities				41,224

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2016

ANNEXURE A

Income Tax Expense

	Consolidated Group	
	2016	2015
	\$000	\$000
The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax	3,823	3,047
Prima facie tax payable on profit before income tax at 30% (2015 30%)	1,147	914
Add		
Tax effect of:		
• Depreciation of buildings	6	8
• Entertainment	1	2
• Amortisation – Goodwill	1	2
• Amortisation – Land use rights	5	5
• Prior period tax adjustment	-	377
• Foreign controlled entities not tax effected	314	765
• Other	3	-
Less		
Tax effect of:		
• Research and development	-	88
• Effects of lower rates in overseas countries	153	156
• Unrealised foreign exchange losses/(gains)	287	48
• Overprovision/(under) for tax in prior years	51	107
• Reinvestment allowance	13	82
• Other	-	97
Income tax expense attributable to entity	973	1,495
The applicable weighted average effective tax rates are as follows:	25%	49%