

**WATERCO LIMITED**

**Half Yearly Report for the Period Ended 31<sup>st</sup> December 2018**

**For announcement to the market**

|   |              |                     |                             |
|---|--------------|---------------------|-----------------------------|
|   |              |                     | <u>\$A'000</u>              |
| Revenues  | up           | 3.9%                | to 49,624                   |
| Profit (loss) after tax attributable to members   | down         | 28.91%              | to 2,320                    |
| <b>Dividends</b>                                  |              | Amount per security | Franked amount per security |
| Interim dividend                                  |              | 2¢                  | 2¢                          |
| Previous corresponding period                     |              | 2¢                  | 2¢                          |
| Date for determining entitlements to the dividend | 3rd May 2019 |                     |                             |

**This half yearly report is to be read in conjunction with the 30<sup>th</sup> June 2018 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 -<br>\$A'000 | Previous<br>corresponding period<br>- \$A'000 |
|---|-----------------------------|---|
| Revenues  | 49,624                      | 47,759  |
| Expenses  |                             |   |
| Borrowing costs   | (582)                       | (493)   |
| Other expenses  | (45,559)                    | (42,622)                                      |
| <b>Profit (loss) before tax</b>   | <b>3,483</b>                | <b>4,644</b>                                  |
| Income tax  | (1,110)                     | (1,301)                                       |
| <b>Profit (loss) after tax</b>  | <b>2,373</b>                | <b>3,343</b>                                  |
| Net profit (loss) attributable to non controlling interests                           | 53                          | 79  |
| <b>Net profit (loss) for the period attributable to members</b>                       | <b>2,320</b>                | <b>3,264</b>                                  |
| <b>Other Comprehensive income</b>   |                             |   |
| Net exchange differences recognised in equity   | 1,283                       | 1,006   |
| Property Revaluation increment/(decrement)  | 539                         | 421   |
| Other comprehensive income for the period   | 1,822                       | 1,427   |
| <b>Total comprehensive income/(loss) attributable to members of the parent entity</b> | <b>4,142</b>                | <b>4,691</b>                                  |

### Earnings per security (EPS)

|             |      |      |
|-------------|------|------|
| Basic EPS   | 6.3c | 8.7c |
| Diluted EPS | 6.3c | 8.7c |

### Calculation of Earnings per security (EPS)

|   | Current Period<br>\$A'000 | Previous corresponding<br>Period \$A'000 |
|---|---------------------------|--|
| Net Profit/(Loss)   | 2,373                     | 3,343                                    |
| Net Profit/(Loss) attributable to non-controlling interests   | 53                        | 79                                       |
| Earnings used in calculation of basic EPS   | 2,320                     | 3,264                                    |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | 37,050                    | 37,489                                   |

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

#### Profit (loss) attributable to members

|   | Current period -<br>\$A'000 | Previous<br>corresponding period<br>- \$A'000 |
|---|-----------------------------|---|
| Profit (loss) after tax                                 | 2,373                       | 3,343   |
| Less (plus) non-controlling interests                   | 53                          | 79  |
| <b>Profit (loss) after tax, attributable to members</b> | <b>2,320</b>                | <b>3,264</b>                                  |

## Revenue and expenses - See Annexure A

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

## Movement in Retained Profits

|   | Current period -<br>\$A'000 | Previous<br>corresponding period<br>- \$A'000 |
|---|-----------------------------|---|
| Retained profits at the beginning of the financial period               | 13,944                      | 11,959  |
| Adjustment for change in accounting policy (AASB15)                     | (154)                       | -   |
| Retained profits at the beginning of the financial period- restated     | 13,790                      | 11,959  |
| Net profit (loss) attributable to members                               | 2,320                       | 3,264   |
| Dividends and other equity distributions paid or payable                | (1,108)                     | (1,119)                                       |
| <b>Retained profits (accumulated losses) at end of financial period</b> | <b>15,002</b>               | <b>14,104</b>                                 |

## Intangibles-Impairment/Amortisation

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

## Consolidated Statement of Financial Position

|                                      | At end of current period<br>\$A'000 | As shown in last annual report<br>\$A'000 | As in last half yearly report<br>\$A'000 |
|--------------------------------------|-------------------------------------|---|--|
| <b>Current assets</b>                |                                     |   |  |
| Cash                                 | 4,193                               | 4,291                                     | 5,846                                    |
| Receivables                          | 17,043                              | 12,636                                    | 17,354                                   |
| Inventories                          | 39,633                              | 37,590                                    | 33,841                                   |
| Other                                | 846                                 | 832                                       | 1,105                                    |
| <b>Total current assets</b>          | <b>61,715</b>                       | <b>55,349</b>                             | <b>58,146</b>                            |
| <b>Non-current assets</b>            |                                     |   |  |
| Property, plant and equipment (net)  |                                     |   | 53,194                                   |
| Intangibles (net)                    | 62,022                              | 60,696                                    | 138                                      |
| Deferred Tax assets                  | 177                                 | 189                                       | 369                                      |
| Other                                | 541                                 | 352                                       | -  |
| <b>Total non-current assets</b>      | <b>62,740</b>                       | <b>61,237</b>                             | <b>53,701</b>                            |
| <b>Total assets</b>                  | <b>124,455</b>                      | <b>116,586</b>                            | <b>111,847</b>                           |
| <b>Current liabilities</b>           |                                     |   |  |
| Payables                             | 18,172                              | 10,040                                    | 15,729                                   |
| Interest bearing liabilities         | 10,346                              | 12,786                                    | 11,891                                   |
| Current tax liabilities              | 417                                 | 277                                       | 876                                      |
| Provisions exc. tax liabilities      | 1,914                               | 2,132                                     | 1,988                                    |
| <b>Total current liabilities</b>     | <b>30,849</b>                       | <b>25,235</b>                             | <b>30,484</b>                            |
| <b>Non-current liabilities</b>       |                                     |   |  |
| Payables                             |                                     |   |  |
| Interest bearing liabilities         | 10,732                              | 11,039                                    | 9,961                                    |
| Deferred tax liabilities             | 5,968                               | 5,932                                     | 3,796                                    |
| Provisions exc. tax liabilities      | 213                                 | 211                                       | 190                                      |
| <b>Total non-current liabilities</b> | <b>16,913</b>                       | <b>17,182</b>                             | <b>13,947</b>                            |
| <b>Total liabilities</b>             | <b>47,762</b>                       | <b>42,417</b>                             | <b>44,431</b>                            |
| <b>Net assets</b>                    | <b>76,693</b>                       | <b>74,169</b>                             | <b>67,416</b>                            |
| <b>Equity</b>                        |                                     |   |  |
| Issued capital                       | 38,182                              | 38,590                                    | 38,719                                   |
| Reserves                             | 22,757                              | 20,936                                    | 13,919                                   |
| Retained profits                     | 15,002                              | 13,944                                    | 14,104                                   |
| <b>Parent entity interest</b>        | <b>75,941</b>                       | <b>73,470</b>                             | <b>66,742</b>                            |
| Non-controlling interest             | 752                                 | 699                                       | 674                                      |
| <b>Total equity</b>                  | <b>76,693</b>                       | <b>74,169</b>                             | <b>67,416</b>                            |

## Consolidated cash flow statement

|  | Current period<br>\$A'000 | Previous<br>corresponding<br>period \$A'000 |
|--|---------------------------|---|
| <b>Cash flows related to operating activities</b>                    |                           |   |
| Receipts from customers  | 47,701                    | 46,864                                      |
| Payments to suppliers and employees                                  | (41,612)                  | (45,750)                                    |
| Other Income   | 553                       | 379   |
| Interest received  | 16                        | 15  |
| Interest and other costs of finance paid                             | (582)                     | (493)                                       |
| Income taxes refund/paid   | (1,059)                   | (1,061)                                     |
| <b>Net operating cash flows</b>                                      | <b>5,017</b>              | <b>(46)</b>                                 |
| <b>Cash flows related to investing activities</b>                    |                           |   |
| Payment for purchases of property, plant and equipment               | (1,897)                   | (1,530)                                     |
| Proceeds from sale of property, plant and equipment                  | 4                         | 108   |
| Proceeds from sale of business                                       |                           |   |
| Payment for intangibles  |                           |   |
| Dividends received   | 1                         | 1   |
| <b>Net investing cash flows</b>                                      | <b>(1,892)</b>            | <b>(1,421)</b>                              |
| <b>Cash flows related to financing activities</b>                    |                           |   |
| Proceeds from issues of shares                                       | -                         | -   |
| Share buyback  | (408)                     | (614)                                       |
| Proceeds from borrowings   | -                         | 4,183                                       |
| Repayment of borrowings  | (3,517)                   | (785)                                       |
| Dividends paid   | (1,108)                   | (1,119)                                     |
| <b>Net financing cash flows</b>                                      | <b>(5,033)</b>            | <b>1,665</b>                                |
| <b>Net increase (decrease) in cash held</b>                          | <b>(1,908)</b>            | <b>198</b>                                  |
| Cash at beginning of period<br>(see <i>Reconciliation of cash</i> )  | 3,419                     | 4,634                                       |
| Exchange rate adjustments  | (1,103)                   | 1,014                                       |
| <b>Cash at end of period</b><br>(see <i>Reconciliation of cash</i> ) | <b>2,614</b>              | <b>5,846</b>                                |

Non-cash financing and investing activities: During the period, the economic entity acquired plant and equipment amounting to \$61,993 (2017 \$261,423) 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<br>\$A'000 | Previous<br>corresponding<br>period - \$A'000 |
|---|---------------------------|---|
| Cash on hand and at bank  | 4,193                     | 5,846   |
| Bank overdraft  | (1,579)                   | -   |
| Other (commercial bills)  |                           |   |
| <b>Total cash at end of period</b>  | <b>2,614</b>              | <b>5,846</b>                                  |

## Other notes to the financial statements

| <b>Ratios</b>   | Current period | Previous corresponding Period |
|---|----------------|-------------------------------|
| <b>Profit before tax / revenue</b><br>Profit (loss) before tax as a percentage of revenue   | 7.00%          | 9.7%                          |
| <b>Profit after tax / equity interests</b><br>Profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period | 3.06%          | 4.89%                         |

| <b>NTA Per Share</b>                             | Current period | Previous corresponding Period |
|--|----------------|-------------------------------|
| Net tangible asset backing per ordinary security | \$2.07         | \$1.81                        |

## Dividends

|   |                            |
|---|----------------------------|
| Date shares trade ex-dividend                         | 2nd May 2019               |
| Record date to determine entitlements to the dividend | 3rd May 2019               |
| Date the dividend is payable                          | 14 <sup>th</sup> June 2019 |

## Amount per security

|                                       | Amount per security | Franked amount per security at 30% tax | Amount per security of foreign source dividend |
|---------------------------------------|---------------------|--|--|
| <b>Interim dividend:</b> Current year | 2¢                  | 2¢                                     | ¢  |
| Previous year                         | 2¢                  | 2¢                                     | ¢  |

The <sup>+</sup>dividend or distribution plans shown below are in operation.

The Waterco Dividend Reinvestment Plan has been suspended until further notice.

## 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) |
|--|--------------|---------------|----------------------------------|-------------------------------------|
| <b>Ordinary securities</b>                         | 36,884,852   | 36,884,852    |                                  |                                     |
| Changes during current period                      |              |               |                                  |                                     |
| (a) Increases through issues Waterco DRP           |              |               |                                  |                                     |
| (b) Decreases through returns of capital, buybacks | 198,553      | 198,553       | \$2.0566                         | \$2.0566                            |

**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

22nd February 2019

## 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 2018**

**ANNEXURE A**

**REVENUE AND EXPENSES**

|  | <b>Consolidated Group</b> |                   |
|--|---------------------------|-------------------|
|  | <b>31/12/2018</b>         | <b>31/12/2017</b> |
|  | <b>\$000</b>              | <b>\$000</b>      |
| Sales revenue  | 49,054                    | 47,364            |
| Other revenue  | 570                       | 395               |
| Changes in inventories of finished goods and work in progress            | (1,724)                   | (3,421)           |
| Raw Materials and consumables used                                       | (23,249)                  | (20,456)          |
| Employee benefits expense  | (9,934)                   | (9,096)           |
| Depreciation and amortisation expense                                    | (858)                     | (781)             |
| Finance costs  | (582)                     | (493)             |
| Advertising expense  | (1,146)                   | (997)             |
| Discounts allowed  | (180)                     | (119)             |
| Outward freight expense  | (1,024)                   | (687)             |
| Rent expense   | (1,358)                   | (1,372)           |
| Research and development   | (837)                     | (725)             |
| Insurance General  | (434)                     | (377)             |
| Contracted staff expense   | (103)                     | (107)             |
| Warranty expense   | (472)                     | (409)             |
| Commission expense   | (127)                     | (88)              |
| Other expenses   | (4,113)                   | (3,987)           |
| <b>Profit before income tax</b>  | <b>3,483</b>              | <b>4,644</b>      |
| Income tax expense   | (1,110)                   | (1,301)           |
| <b>Profit for the period</b>   | <b>2,373</b>              | <b>3,343</b>      |
| <br><b>Other comprehensive income</b>                                    |                           |                   |
| <b>Items that will not be classified subsequently to profit or loss</b>  |                           |                   |
| Property revaluation increment/(decrement)<br>(net of tax and reversals) | 539                       | 421               |
| <b>Items that maybe reclassified to profit or loss</b>                   |                           |                   |
| Exchange differences on translation of foreign controlled entities       | 1,283                     | 1,006             |
| Other comprehensive income for the period                                | 1,822                     | 1,427             |
| <br><b>Total comprehensive income for the period</b>                     | <br>4,195                 | <br>4,770         |
| <br>Profit attributable to:  |                           |                   |
| Members of the parent entity   | 2,320                     | 3,264             |
| Non-controlling interest   | 53                        | 79                |
|  | 2,373                     | 3,343             |



**WATERCO LIMITED AND CONTROLLED ENTITIES**

**Half Yearly Report for the Period Ended 31<sup>st</sup> December 2018**

**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**

**2018**

|  | AUSTRALIA &<br>NEW ZEALAND<br>31/12/2018<br>\$000 | ASIA<br>31/12/2018<br>\$000 | NORTH<br>AMERICA<br>&EUROPE<br>31/12/2018<br>\$000 | ELIMINATION<br>31/12/2018<br>\$000 | CONSOLIDATED<br>GROUP<br>31/12/2018<br>\$000 |
|--|---|-----------------------------|--|------------------------------------|--|
| Revenue  |   |                             |  |                                    |  |
| Sales to customers outside<br>the economic entity  | 34,306  | 7,664                       | 7,084  |                                    | 49,054                                       |
| Intersegment sales                                 | 432   | 15,208                      | 248  | (15,888)                           |  |
| Unallocated revenue                                |   |                             |  |                                    | 694  |
| <b>Total revenue</b>                               | <b>34,738</b>                                     | <b>22,872</b>               | <b>7,332</b>                                       |                                    | <b>49,748</b>                                |
| Segment result                                     | 4,731   | 1,366                       | (437)  | (1,607)                            | 4,053  |
| Unallocated expenses net of<br>unallocated revenue |   |                             |  |                                    | (570)  |
| Profit before income tax                           |   |                             |  |                                    | 3,483  |
| Income tax expense                                 |   |                             |  |                                    | (1,110)                                      |
| Profit after income tax                            |   |                             |  |                                    | 2,373  |
| Segment assets                                     | 100,843   | 66,774                      | 15,717   | (58,879)                           | 124,455                                      |
| Segment liabilities                                | 44,875  | 33,843                      | 36,393   | (67,350)                           | 47,761                                       |

**2017**

|  | AUSTRALIA &<br>NEW ZEALAND<br>31/12/2017<br>\$000 | ASIA<br>31/12/2017<br>\$000 | NORTH<br>AMERICA<br>&EUROPE<br>31/12/2017<br>\$000 | ELIMINATION<br>31/12/2017<br>\$000 | CONSOLIDATED<br>GROUP<br>31/12/2017<br>\$000 |
|--|---|-----------------------------|--|------------------------------------|--|
| Revenue  |   |                             |  |                                    |  |
| Sales to customers outside<br>the economic entity  | 34,130  | 7,818                       | 5,416  |                                    | 47,364                                       |
| Intersegment sales                                 | 760   | 14,203                      | 485  | (15,448)                           |  |
| Unallocated revenue                                |   |                             |  |                                    | 395  |
| <b>Total revenue</b>                               | <b>34,890</b>                                     | <b>22,021</b>               | <b>5,901</b>                                       | <b>(15,448)</b>                    | <b>47,759</b>                                |
| Segment result                                     | 4,133   | 1,718                       | (493)  | (319)                              | 5,039  |
| Unallocated expenses net of<br>unallocated revenue |   |                             |  |                                    | (395)  |
| Profit before income tax                           |   |                             |  |                                    | 4,644  |
| Income tax expense                                 |   |                             |  |                                    | (1,301)                                      |
| Profit after income tax                            |   |                             |  |                                    | 3,343  |
| Segment assets                                     | 88,164  | 59,281                      | 12,773   | (48,371)                           | 111,847                                      |
| Segment liabilities                                | 38,578  | 28,980                      | 31,563   | (54,690)                           | 44,431                                       |

## WATERCO LIMITED AND CONTROLLED ENTITIES

### Half Yearly Report for the Period Ended 31<sup>st</sup> December 2018

#### ANNEXURE C

#### REVIEW OF OPERATIONS

##### REVENUE AND PROFITABILITY

For the six months ended 31 December 2018 (Half-year), the Group reported a Net Profit After Tax of \$2.37 million (Previous Corresponding Period, or PCP \$3.34 million) and Earnings Before Interest & Tax (EBIT) of \$4.05 million (PCP \$5.12 million).

Total Revenue was \$49.62 million (PCP \$47.76 million).

##### DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

|                                   | Dec 2018     | Dec 2017     |               |
|-----------------------------------|--------------|--------------|---------------|
|                                   | (\$000)      | (\$000)      | % Change      |
| Australia and New Zealand         | 3,052        | 3,787        | -19.4%        |
| Asia                              | 1,489        | 1,813        | -17.9%        |
| North America and Europe          | (491)        | (478)        | -2.7%         |
| <b>Consolidated Reported EBIT</b> | <b>4,050</b> | <b>5,122</b> | <b>-20.9%</b> |

##### AUSTRALIA AND NEW ZEALAND (ANZ)

In Australia and New Zealand (ANZ), Sales were steady throughout the Half-year. The weakening of the Australian Dollar against the US Dollar has increased costs and reduced EBIT.

##### ASIA

In Asia, sales registered a significant reduction from PCP, arising mainly from an easing in building rates in China. This has partly been as a result of the difficult trade negotiations that China is having with the United States of America.

The level of manufacturing operations in Asia showed modest growth and continue to provide excellent support for the Group.

##### NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA and Europe – sales encouragingly registered significant growth, compared with PCP. The main business season for this Division is in the second half of the financial year. The ground-work we have done in the USA in the past eighteen months are beginning to bear fruit, though we do not underestimate the effort needed to build on this.

##### PRODUCT DEVELOPMENT AND WATER TREATMENT

In This Half-year, Waterco invested approximately \$0.84 million on research and development, which was fully expensed. The Group continues to respond to market demands for innovative, durable and energy-efficient products, with 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.

##### WORKING CAPITAL

|              | Dec 2018<br>(\$000) | Dec 2017<br>(\$000) |
|--------------|---------------------|---------------------|
| Inventory    | 39,633              | 33,841              |
| Debtors      | 17,043              | 17,354              |
| Creditors    | (18,172)            | (15,729)            |
| <b>TOTAL</b> | <b>38,504</b>       | <b>35,466</b>       |

The group's working capital as at December 2018 saw an increase of \$3.04 million, with increase in inventory and creditors

#### DIVIDEND AND OUTLOOK

Based on this Half-year result, the Board declares a fully-franked interim dividend of 2 cents per share payable on 14 June 2019.

This Half-year has been a challenging one, with the business sentiments in China becoming uncertain, in view of their trade negotiations with the USA. The Australian Dollar has also fluctuated significantly against the US Dollar.

The Board expects the second half-year to be more settled.