BUILDING SEGMENT

SEGMENT STRUCTURE

BUILDING

TRADING

WHS
Saffer Bathroom & Plumbing
WHD SA Hardware & Tools
Stability Wholesalers
hamilton's The perfect finish
Pro-Max
Roco First in Fittings
Dawn Africa
Dawn Africa S.A.
Dawn Africa Angola
Dawn Africa Tanzania #
Dawn Africa Zambia
Dawn Africa Zimbabwe #
Dawn Africa Mozambique
Dawn Africa Trading Congo

MANUFACTURING

Cobra* A South African Icon
Grohe ■ Dawn Water Technology
Grohe
Vaal* Sanitaryware
Isca*
Apex* Valves South Africa
Plexicor* The best in bathroomware
Libra* Bathrooms
Exipro (Swaziland)*
Bath boutique
Heunis* Steel (Pty) Ltd

* Associates.
\# Joint ventures.

The building segment consists of wholly- or majority-owned building trading businesses, associates and joint ventures. The building trading businesses include WHS, DAWN Kitchen division (DKD), DAWN Africa (DAT), Hamilton's Brushware, Pro-Max Welding Consumables and Business Development, with Boutique Baths as a manufacturing business. Other associates and joint ventures are Grohe DAWN Watertech (GDW), Heunis Steel, DAT Zimbabwe and DAT Tanzania.

OVERVIEW

WHS maintained profitability despite the tough trading conditions experienced. However, meaningful losses in Pro-Max, DAWN Africa, DKD and a loss on the closure of WiiN detracted from this positive performance. This segment was further negatively impacted by the loss incurred by GDW, which also had a knock-on impact on WHS' profitability.

Grohe experienced severe problems with its investment in China and, consequently, did not pay sufficient attention to its South African investment. A funding impasse caused a significant impact on the businesses' supply-chain and factory recoveries. This was further exacerbated by the lack of Grohe-led exports into Europe and Asia, compared to what was initially anticipated.

FINANCIAL CAPITAL

Sales for building trading rose by 38% to R2,5 billion (F2015: R1,8 billion). A 10% price increase was achieved, but volumes declined by 3%, whilst the annualisation from nine months added a notional 31% growth. DAWN's focus on increasing volume over the existing cost base resulted in the acquisition of Hamilton's, together with the distribution rights of the Grass and Gardena brands, in the first half of the year under review.

GDW incurred a substantial R32,2 million loss for DAWN's 49% stake in the business. Lixil, Grohe's parent company, has since intervened and implemented management changes. This, together with a funding solution implemented in July 2016, should result in GDW returning to profits in the second quarter of F2017.

Associate Heunis Steel performed in line with expectations and its contribution to group earnings increased by 3%.

The building segment incurred a net loss after tax, impairments and write-downs of R494,6 million.

OUTLOOK

Trading conditions and gross margins are expected to remain under pressure for the foreseeable future. Limited opportunities for further costs reductions exist in the building segment. Working capital reduction will be a priority in the year ahead. Focus will be on driving an increase in gross margin whilst aiming for a 5% operating profit and six times asset turn. Loss-making entities will be fixed, sold or closed.

At GDW, a new management team was appointed in Q4 F2016 and additional funding was provided by Lixil in July 2016. The supply-chain correction should materialise by Q2 F2017. Intervention by Lixil at the ceramics plant is expected to restore yields to the levels prior to the transaction between Grohe and DAWN.