

WATERCO LIMITED
A.B.N. 62 002 070 733
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR
ENDED 31 DECEMBER, 2018

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WATERCO LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors of Waterco Limited have pleasure in submitting herewith the Interim Financial Report of the consolidated group for the half-year ended 31st December, 2018

The directors of the company who held office during or since the end of the half-year are:

Soon Sinn Goh
Bryan Goh
Garry Norman
Ben Hunt
Richard Ling

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%
Consolidated Reported EBIT	4,050	5,122	-20.9%

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 (\$000)	Dec 2017 (\$000)
Inventory	39,633	33,841
Debtors	17,043	17,354
Creditors	(18,172)	(15,729)
TOTAL	38,504	35,466

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.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 16.

This report is signed in accordance with a resolution of the Board of Directors.



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Soon Sinn Goh
Chairman
Waterco Limited
22 February 2019

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2018	31/12/2017
	\$000	\$000
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)
Profit before income tax	3,483	4,644
Income tax expense	(1,110)	(1,301)
Profit for the period	2,373	3,343
Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation increment (net of tax and reversals)	539	421
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	1,283	1,006
Other comprehensive income for the period	1,822	1,427
Total comprehensive income for the period	4,195	4,770
Profit attributable to:		
Members of the parent entity	2,320	3,264
Non-controlling interest	53	79
	2,373	3,343
Total comprehensive income for the period attributable to:		
Members of the parent entity	4,142	4,691
Non-controlling interest	53	79
Total comprehensive income for the period	4,195	4,770
Earnings per share		
Basic earnings per share (cents per share)	6.3	8.7
Diluted earnings per share (cents per share)	6.3	8.7

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2018	30/6/2018
	\$000	\$000
Current Assets		
Cash and cash equivalents	4,193	4,291
Trade and other receivables	17,043	12,636
Inventories	39,633	37,590
Other current assets	846	832
Total Current Assets	61,715	55,349
Non-Current Assets		
Property, plant & equipment	62,022	60,696
Intangible assets	177	189
Deferred tax assets	541	352
Total Non-Current Assets	62,740	61,237
Total Assets	124,455	116,586
Current Liabilities		
Trade and other payables	18,172	10,040
Borrowings	10,346	12,786
Current tax liabilities	417	277
Short-term provisions	1,914	2,132
Total Current Liabilities	30,849	25,235
Non-Current Liabilities		
Borrowings	10,732	11,039
Deferred tax liabilities	5,968	5,932
Long-term provisions	213	211
Total Non-Current Liabilities	16,913	17,182
Total Liabilities	47,762	42,417
Net Assets	76,693	74,169
Equity		
Issued capital	38,182	38,590
Reserves	22,757	20,936
Retained earnings	15,002	13,944
Parent interest	75,941	73,470
Non-controlling interest	752	699
Total Equity	76,693	74,169

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

Consolidated Group	Issued Capital Ordinary \$000	Retained Earnings \$000	Capital Profits Reserve \$000	Asset Revaluation Reserve \$000	Foreign Currency Translatio n Reserve \$000	Non- controlling Interest \$000	Total \$000
Balance at 30/6/17	39,333	11,959	211	19,547	(7,266)	595	64,379
Comprehensive income							
Profit for the period		3,264				79	3,343
Exchange differences on translation of foreign controlled entities					1,006		1,006
Other comprehensive income				421			421
Total comprehensive income/(loss) for the period		3,264		421	1,006	79	4,770
Transactions with owners in their capacity as owners and other transfers							
Cancellation of shares under Waterco Share Buy Back	(614)						(614)
Dividends paid		(1,119)					(1,119)
Total transactions with owners and other transfers	(614)	(1,119)					(1,733)
Balance at 31/12/17	38,719	14,104	211	19,968	(6,260)	674	67,416
Balance at 30/6/18	38,590	13,944	211	24,643	(3,918)	699	74,169
Adjustment for change in accounting policy (note 1)	-	(154)	-	-	-	-	(154)
Balance at 30/6/18- restated	38,590	13,790	211	24,643	(3,918)	699	74,015
Comprehensive income							
Profit for the period		2,320				53	2,373
Exchange differences on translation of foreign controlled entities					1,282		1,282
Other comprehensive income				539			539
Total comprehensive income/(loss) for the period		2,320		539	1,282	53	4,194
Transactions with owners in their capacity as owners and other transfers							
Cancellation of shares under Waterco Share Buy Back	(408)						(408)
Dividends paid		(1,108)					(1,108)
Total transactions with owners and other transfers	(408)	(1,108)					(1,516)
Balance at 31/12/18	38,182	15,002	211	25,182	(2,636)	752	76,693

The accompanying notes form part of this financial report.

**CONSOLIDATED CASHFLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2018	31/12/2017
	\$000	\$000
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	47,701	46,864
Payments to suppliers and employees	(41,612)	(45,750)
Interest received	16	15
Other income	553	379
Finance costs	(582)	(493)
Income tax	(1,059)	(1,061)
Net cash (used in)/provided by operating activities	5,017	(46)
<u>Cash Flows from Investing Activities</u>		
Dividends received	1	1
Payment for property, plant & equipment	(1,897)	(1,530)
Proceeds from sale of property, plant & equipment	4	108
Net cash (used in) investing activities	(1,892)	(1,421)
<u>Cash Flows from Financing Activities</u>		
Proceeds from borrowings	-	4,183
(Repayment) of borrowings	(3,389)	(500)
Proceeds from issue of shares	-	-
Share buyback	(408)	(614)
Payment of lease liabilities	(128)	(202)
Payment of hire purchase creditors	-	(83)
Dividends paid	(1,108)	(1,119)
Net cash provided by/(used in) financing activities	(5,033)	1,665
Net (decrease)/increase in cash held	(1,908)	198
Cash and cash equivalents at the beginning of period	3,419	4,634
Effects of exchange rate changes on balance of cash and cash equivalents held in foreign currencies	(1,103)	1,014
Cash and cash equivalents at the end of period	2,614	5,846

The accompanying notes form part of this financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 1: Summary of Significant Accounting Policies

a) Basis of Preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The condensed interim financial report is intended to provide users with an update on the latest annual financial statements of Waterco Ltd and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018 together with any public announcements made during the following half-year.

b) Accounting Policies

The same accounting policies and methods of computation have been followed in the interim financial report as were applied in the 30 June 2018 financial statements except for the policies stated below.

c) New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period

For the half-year reporting period to 31 December 2018, a number of new and revised Accounting Standard requirements became mandatory for the first time, some of which are relevant to the Group.

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2018 was a reduction in retained profits of \$153,769. The impact on the current year result is the recognition of a contract liability of \$343,454 and reduction in revenue of \$123,784. The expected Credit Loss Model has not resulted in a material change.

Revenue recognition

Revenue from contracts with customers

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 1: Summary of Significant Accounting Policies

**c) New and Revised Accounting Requirements Applicable to the Current Half-year Reporting Period
(continued)**

AASB 15 Revenue from Contracts with Customers (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Franchise fee income is invoiced and recognised as revenue on a monthly basis.

Initial franchise fees and franchise renewal fees are recognised over the period of the franchise agreement.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 2: Dividends

	Consolidated Group	
	31/12/2018	31/12/2017
	\$000	\$000
Dividends paid		
Final fully franked dividend declared on 23rd August 2018 of 3c (2017:3c) per share franked at the tax rate of 30% (2017 30%)	1,108	1,119
	<u>1,108</u>	<u>1,119</u>

Note 3: 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 different 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. The Board has decided to combine all entities in the Asian Region under one segment to reflect the nature of the business and similar customer base of all these entities. The Board has also decided to combine North America and Europe into one segment to reflect the similar nature of the business and customer base in these entities.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 3: Operating Segments (continued)

Segment Information

Inter-segment transactions

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 value 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 there is a direct nexus between the incurrence of the liability and the operations of the segment.

Geographical Segments

	2018				
	AUSTRALIA & NEW ZEALAND 31/12/2018 \$000	ASIA 31/12/2018 \$000	NORTH AMERICA &EUROPE 31/12/2018 \$000	ELIMINATION 31/12/2018 \$000	CONSOLIDATED GROUP 31/12/2018 \$000
Revenue					
Sales to customers outside the economic entity	34,306	7,664	7,084		49,054
Intersegment sales	432	15,208	248	(15,888)	
Unallocated revenue					694
Total revenue	<u>34,738</u>	<u>22,872</u>	<u>7,332</u>	<u>(15,888)</u>	<u>49,748</u>
Segment result	4,731	1,366	(437)	(1,607)	4,053
Unallocated expenses net of unallocated revenue					(570)
Profit before income tax					3,483
Income tax expense					(1,110)
Profit after income tax					<u>2,373</u>
Segment assets	<u>100,843</u>	<u>66,774</u>	<u>15,717</u>	<u>(58,879)</u>	<u>124,455</u>
Segment liabilities	<u>44,875</u>	<u>33,843</u>	<u>36,393</u>	<u>(67,350)</u>	<u>47,761</u>
	2017				
	AUSTRALIA & NEW ZEALAND 31/12/2017 \$000	ASIA 31/12/2017 \$000	NORTH AMERICA &EUROPE 31/12/2017 \$000	ELIMINATION 31/12/2017 \$000	CONSOLIDATED GROUP 31/12/2017 \$000
Revenue					
Sales to customers outside the economic entity	34,130	7,818	5,416		47,364
Intersegment sales	760	14,203	485	(15,448)	
Unallocated revenue					395
Total revenue	<u>34,890</u>	<u>22,021</u>	<u>5,901</u>	<u>(15,448)</u>	<u>47,759</u>
Segment result	4,133	1,718	(493)	(319)	5,039
Unallocated expenses net of unallocated revenue					(395)
Profit before income tax					4,644
Income tax expense					(1,301)
Profit after income tax					<u>3,343</u>
Segment assets	<u>88,164</u>	<u>59,281</u>	<u>12,773</u>	<u>(48,371)</u>	<u>111,847</u>
Segment liabilities	<u>38,578</u>	<u>28,980</u>	<u>31,563</u>	<u>(54,690)</u>	<u>44,431</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 4: Contingent Liabilities

	Consolidated Group	
	31/12/2018	31/12/2017
	\$000	\$000
Estimate of the maximum amount of contingent liabilities that may become payable:		
Guarantee of leases of premises subleased to franchisees	8,909	7,344
	<u>8,909</u>	<u>7,344</u>

Note 5: Fair Value Measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

-freehold land and buildings;

The Group subsequently measures some items of freehold land and buildings at fair value on a non recurring basis.

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

a) Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The evaluation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2018
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 5: Fair Value Measurements (continued)

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

		31 December 2018			
	Note	Level 1	Level 2	Level 3	Total
		\$000	\$000	\$000	\$000

Recurring fair value measurements

Non-financial assets					
Freehold land		-	-	17,691	17,691
Freehold buildings		-	-	31,375	31,375
Total non-financial assets recognised		-	-	49,066	49,066
Total non-financial assets recognised		-	-	49,066	49,066

		30 June 2018			
	Note	Level 1	Level 2	Level 3	Total
		\$000	\$000	\$000	\$000

Recurring fair value measurements

Non-financial assets					
Freehold land		-	-	17,442	17,442
Freehold buildings		-	-	30,587	30,587
Total non-financial assets recognised		-	-	48,029	48,029
Total non-financial assets recognised		-	-	48,029	48,029

b. Valuation Techniques and Inputs Used to Measure Level 3 Fair Values

Description	Fair Value at 31 December 2018	Valuation Technique(s)	Inputs Used
	\$000		

Non-financial assets

Freehold land ⁽ⁱ⁾	17,691	Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology	Price per hectare; market borrowing rate
Freehold buildings ⁽ⁱ⁾	31,375	Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology	Price per square metre; market borrowing rate
	49,066		

(i) The fair value of freehold land and buildings is determined at least every three years based on valuations from independent valuers. At the end of each intervening period, the directors review the independent valuation and, when appropriate, update the fair value measurement to reflect current market conditions using a range of valuation techniques, including recent observable market data and/or discounted cash flow methodologies.

There were no changes during the period in the valuation techniques used by the Group to determine Level 3 fair values.

Note 6 Events Subsequent to Reporting Date

There are no material subsequent events since the half year ended 31 December 2018.

**WATERCO LIMITED ABN 62 002 070 733
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

The directors of Waterco Limited hereby declare that:

- 1) the financial statements and notes, as set out on pages 5 to 12 are in accordance with the Corporations Act 2001, including:
 - a) complying with the Accounting Standard AASB 134:Interim Financial Reporting and
 - b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half- year ended on that date.
- 2) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Soon Sinn Goh
Chief Executive Officer

Dated at SYDNEY this 22nd day of February 2019

RSM Australia Partners

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INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
WATERCO LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Waterco Limited which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Waterco Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Waterco Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Waterco Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

RSM

RSM AUSTRALIA PARTNERS

David Talbot

David Talbot
Partner

Sydney, NSW

Dated: 22 February 2019



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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Waterco Limited for the half year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM

RSM AUSTRALIA PARTNERS

David Talbot

David Talbot
Partner

Sydney, NSW
Dated: 22 February 2019