

WATERCO LIMITED
A.B.N. 62 002 070 733
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR
ENDED 31 DECEMBER, 2021

CONTENTS

Directors' Report	2
Consolidated Statement of Profit or Loss and Other Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Cash Flow Statement.....	8
Notes to the Financial Statements	9
Directors' Declaration	16
Independent Review Report	17
Auditor's Independence Declaration	19

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,2021.

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

Soon Sinn Goh
Bryan Goh
Ben Hunt
Richard Ling
Judy Raper

REVIEW OF OPERATIONS

REVENUE AND PROFITABILITY

For the six months ended 31 December 2021 (Half-year), the Group reported a Net Profit After Tax of \$4.059 million (Previous Corresponding Period, or PCP \$10.456 million) and Earnings Before Interest & Tax (EBIT) of \$5.635 million (PCP \$7.286 million).

Total Revenue was \$63.765 million (PCP \$64.26 million).

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	Dec 2021	Dec 2020	% Change
	(\$000)	(\$000)	
Australia and New Zealand	4,320	2,822	+53%
Asia	1,625	2,488	-35%
North America and Europe	(310)	1,976	-116%
Consolidated Reported EBIT	5,635	7,286	-23%

AUSTRALIA AND NEW ZEALAND (ANZ)

In Australia and New Zealand (ANZ) the 53% improvement in EBIT was on the back of an increase in sales on the PCP. This is despite trading margins thinning due to unexpected increase in landed cost due to huge uplift in sea freight and some significant increase in component costs which we are unable to pass on to the market.

Sales increased by 7.4% compared to the PCP reflecting

- i) the contribution from the Autopool Acquisition to the business for a full half year, and
- ii) general restriction on travel for most of the half year as consumers unable to travel due to Covid 19 continued to spend their travel money on home improvements including new pools and updating existing pools and
- iii) the carrying of higher stock levels to cater for expected new customers unable to purchase pool equipment from other suppliers due to industry shortages and shipping delays.

ASIA

In Asia, a 35% reduction in EBIT compared to the PCP was brought about by a 22% reduction in external sales, arising mainly from project delays and a drop in sales of equipment for commercial pools, during the Covid-19 Pandemic.

The bulk of the reduction was in Malaysia which saw a 26% drop in local sales compared to the PCP.

Similarly, China saw a drop of 46% in local sales compared to the PCP, due to project delays and a drop in sales during the Covid-19 Pandemic

In Waterco Far East, the level of manufacturing operations in Asia showed a 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 recorded a significant drop in EBIT for the current period – sales fell during the current period with Waterco Europe recording a 21% drop whereas Waterco USA experienced a 2% drop .

The easing of restrictions in both countries (earlier than Australia) meant the boom in sales (brought about by expenditure on home improvements) in the PCP did not repeat itself in the current period. The loss in Sales was also due to non-availability of stock caused by shortage of container space from Asia to North America and Europe. Some of the sales meant to be fulfilled by Christmas had to be postponed to the Second Half Year especially in Europe.

In Europe, Waterco Europe saw a drop in Gross Margins of 8% as the company tried to absorb the increased cost of product brought about by a general increase in component costs and huge increase in shipping costs. Added to this was a forex turnaround from a gain in the PCP to a loss in the current period
 In USA, Gross Margins also fell but only by 4% due to increased cost of product. In addition, a Government Covid Business Subsidy in the PCP was not repeated in the current year. The company also saw a 141% increase in outward freight expenses and forex turnaround from a profit to a loss thus putting the entity in a loss situation.

The main business season for this Division is in the second half of the financial year. The Group remains cautiously optimistic that this Division will make up some of the ground it lost in the first half.

PRODUCT DEVELOPMENT AND WATER TREATMENT

In this Half-year, Waterco invested approximately \$0.76 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 2021 (\$000)	Dec 2020 (\$000)
Inventory	43,563	36,500
Debtors	19,461	19,117
Creditors	(19,745)	(20,407)
TOTAL	43,279	35,210

The group's working capital as at December 2021 saw an increase of \$8.069 million, which resulted from an increase in inventory and debtors and decrease in creditors.

EARNINGS PER SHARE

The Earnings used in calculating the basic earnings per share of 29.2c in the previous corresponding period had included a positive tax adjustment of \$4.985m related to the profit on sale of Waterco C in the prior financial year. If we exclude the positive tax adjustment of \$4.985m from Earnings, the Adjusted Earnings for PCP would be \$5.499m and adjusted basic earnings per share would be 15.3c

Earnings per Share	Dec 2021 (\$000)	Dec 2020 (\$000)
Earnings used in calculation of basic EPS	4,106	10,484
Weighted average number of ordinary shares	35,721	35,943
Basic earnings per share	11.5c	29.2c
Earnings used in calculation of basic EPS	4,106	10,484
Income tax adjustment related to sale of Waterco C in prior year	-	4,985
Adjusted Earnings used in calculation of basic EPS (before tax adjustment)	4,106	5,499
Adjusted basic EPS	11.5c	15.3c

DIVIDEND AND OUTLOOK

Based on this Half-year result, the Board declares a fully-franked interim dividend of 3 cents per share payable on 15 June 2022.

This Half-year has been a challenging one, with the building industry downturn in China, China's ongoing trade issues with Australia and the USA, political instability in Malaysia and the continuing effects of the Covid-19 Pandemic especially on North America, Europe and Asia. The Australian Dollar has also fluctuated significantly against the US Dollar.

The Board expects the second half-year to be more settled as overseas borders begin to open and the Covid-19 vaccines number move above 90%

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page19.

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



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Soon Sinn Goh
Chairman
Waterco Limited
23 February 2022

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2021	31/12/2020
	\$000	\$000
Sales revenue	61,735	61,400
Other revenue	2,030	2,859
Changes in inventories of finished goods and work in progress	(9,503)	(3,075)
Raw Materials and consumables used	(21,409)	(28,229)
Employee benefits expense	(13,554)	(12,629)
Depreciation and amortisation expense	(3,287)	(3,594)
Finance costs	(113)	(227)
Advertising expense	(1,176)	(1,007)
Discounts allowed	(222)	(212)
Outward freight expense	(1,508)	(1,183)
Rent expense	(518)	(592)
Research and development	(756)	(817)
Insurance general	(670)	(578)
Contracted staff expense	(203)	(126)
Warranty expense	(219)	(300)
Commission expense	(155)	(248)
Other expenses	(4,938)	(4,367)
Profit before income tax	5,534	7,075
Income tax benefit/(expense)	(1,475)	3,381
Profit for the period	4,059	10,456
Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation increment (net of tax and reversals)	261	(565)
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	1,570	(2,541)
Other comprehensive income for the period	1,831	(3,106)
Total comprehensive income for the period	5,890	7,350
Profit attributable to:		
Members of the parent entity	4,106	10,484
Non-controlling interest	(47)	(28)
	4,059	10,456
Total comprehensive income for the period attributable to:		
Members of the parent entity	5,937	7,378
Non-controlling interest	(47)	(28)
Total comprehensive income for the period	5,890	7,350
Earnings per share		
Basic earnings per share (cents per share)	11.5	29.2
Diluted earnings per share (cents per share)	11.5	29.2

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2021	30/6/2021
	\$000	\$000
Current Assets		
Cash and cash equivalents	12,554	11,694
Trade and other receivables	19,461	13,719
Inventories	43,563	34,716
Other current assets	681	1,022
Total Current Assets	<u>76,259</u>	<u>61,151</u>
Non-Current Assets		
Property, plant & equipment	59,498	58,822
Right of use assets	16,479	12,883
Intangible assets	1,148	1,200
Deferred tax assets	1,737	1,364
Total Non-Current Assets	<u>78,862</u>	<u>74,269</u>
Total Assets	<u>155,121</u>	<u>135,420</u>
Current Liabilities		
Trade and other payables	19,745	11,487
Borrowings	6,783	5,054
Current tax liabilities	1,658	982
Short-term provisions	4,865	3,868
Total Current Liabilities	<u>33,051</u>	<u>21,391</u>
Non-Current Liabilities		
Borrowings	12,794	9,022
Deferred tax liabilities	4,428	4,347
Long-term provisions	226	212
Total Non-Current Liabilities	<u>17,448</u>	<u>13,581</u>
Total Liabilities	<u>50,499</u>	<u>34,972</u>
Net Assets	<u>104,622</u>	<u>100,448</u>
Equity		
Issued capital	35,299	35,590
Reserves	20,274	18,442
Retained earnings	48,522	45,842
Parent interest	104,095	99,874
Non-controlling interest	527	574
Total Equity	<u>104,622</u>	<u>100,448</u>

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
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 30/6/20	35,982	35,234	211	20,153	(4,953)	634	87,261
Comprehensive income							
Profit for the period	-	10,484	-	-	-	(28)	10,456
Exchange differences on translation of foreign controlled entities	-	-	-	-	(2,540)	-	(2,540)
Other comprehensive income	-	-	-	(565)	-	-	(565)
Total comprehensive income/(loss) for the period	-	10,484	-	(565)	(2,540)	(28)	7,351
Transactions with owners in their capacity as owners and other transfers							
Cancellation of shares under Waterco Share Buy Back	(161)	-	-	-	-	-	(161)
Dividends paid	-	(1,074)	-	-	-	-	(1,074)
Total transactions with owners and other transfers	(161)	(1,074)	-	-	-	-	(1,235)
Balance at 31/12/20	35,821	44,644	211	19,588	(7,493)	606	93,377
Balance at 30/6/21	35,590	45,842	211	25,768	(7,536)	574	100,449
Comprehensive income							
Profit for the period	-	4,106	-	-	-	(47)	4,059
Exchange differences on translation of foreign controlled entities	-	-	-	-	1,570	-	1,570
Other comprehensive income	-	-	-	261	-	-	261
Total comprehensive income/(loss) for the period	-	4,106	-	261	1,570	(47)	5,890
Transactions with owners in their capacity as owners and other transfers							
Cancellation of shares under Waterco Share Buy Back	(291)	-	-	-	-	-	(291)
Dividends paid	-	(1,426)	-	-	-	-	(1,426)
Total transactions with owners and other transfers	(291)	(1,426)	-	-	-	-	(1,717)
Balance at 31/12/21	35,299	48,522	211	26,029	(5,966)	527	104,622

The accompanying notes form part of this financial report.

**CONSOLIDATED CASHFLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2021	31/12/2020
	\$000	\$000
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	60,899	56,566
Payments to suppliers and employees	(58,014)	(53,980)
Interest received	12	16
Other income	517	2,843
Finance costs	(113)	(227)
Income tax	(1,091)	(874)
Net cash (used in)/provided by operating activities	2,210	4,344
<u>Cash Flows from Investing Activities</u>		
Dividends received	1	1
Payment for property, plant & equipment	(1,959)	(376)
Proceeds from sale of property, plant & equipment	65	72
Payment for business	(520)	(1,426)
Consideration from sale of business	-	27,402
Net cash (used in) investing activities	(2,413)	25,673
<u>Cash Flows from Financing Activities</u>		
Proceeds from borrowings	2,005	-
(Repayment) of borrowings	(97)	(19,598)
Payment of rou liabilities	(1,071)	(2,394)
Share buyback	(291)	(160)
Dividends paid	(1,426)	(1,074)
Net cash provided by/(used in) financing activities	(880)	(23,226)
Net (decrease)/increase in cash held	(1,083)	6,791
Cash and cash equivalents at the beginning of period	11,694	8,312
Effects of exchange rate changes on balance of cash and cash equivalents held in foreign currencies	1,943	(2,472)
Cash and cash equivalents at the end of period	12,554	12,631

The accompanying notes form part of this financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
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 2021 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. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS134 "Interim Financial Reporting".

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 2021 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 2021 financial statements except for the policies stated below.

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

The company had adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the half year.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2: Dividends

	Consolidated Group	
	31/12/2021	31/12/2020
	\$000	\$000
Dividends paid		
Final fully franked dividend declared on 26 th August 2021 of 4c (2020:3c) per share franked at the tax rate of 30% (2020 30%)	1,426	1,074
	<u>1,426</u>	<u>1,074</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

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.

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 3: Operating Segments (continued)

Geographical Segments

	2021				
	AUSTRALIA & NEW ZEALAND 31/12/2021 \$000	ASIA 31/12/2021 \$000	NORTH AMERICA &EUROPE 31/12/2021 \$000	ELIMINATION 31/12/2021 \$000	CONSOLIDATED GROUP 31/12/2021 \$000
Revenue					
Sales to customers outside the economic entity	47,222	5,100	9,413		61,735
Intersegment sales	729	19,580	336	(20,645)	
Unallocated revenue					
Total revenue	<u>47,951</u>	<u>24,680</u>	<u>9,749</u>	<u>(20,645)</u>	<u>61,735</u>
Segment result	6,167	1,733	(336)		7,564
Unallocated expenses net of unallocated revenue					<u>(2,030)</u>
Profit before income tax					5,534
Income tax benefit/(expense)					<u>(1,475)</u>
Profit after income tax					<u>4,059</u>
Segment assets	<u>128,513</u>	<u>58,522</u>	<u>17,928</u>	<u>(49,842)</u>	<u>155,121</u>
Segment liabilities	<u>48,332</u>	<u>28,069</u>	<u>24,750</u>	<u>(50,652)</u>	<u>50,499</u>
	2020				
	AUSTRALIA & NEW ZEALAND 31/12/2020 \$000	ASIA 31/12/2020 \$000	NORTH AMERICA &EUROPE 31/12/2020 \$000	ELIMINATION 31/12/2020 \$000	CONSOLIDATED GROUP 31/12/2020 \$000
Revenue					
Sales to customers outside the economic entity	43,960	6,546	10,894		61,400
Intersegment sales	596	16,981	248	(17,825)	
Unallocated revenue					
Total revenue	<u>44,556</u>	<u>23,527</u>	<u>11,142</u>	<u>(17,825)</u>	<u>61,400</u>
Segment result	4,836	2,683	2,415		9,934
Unallocated expenses net of unallocated revenue					<u>(2,859)</u>
Profit before income tax					7,075
Income tax benefit/(expense)					<u>3,381</u>
Profit after income tax					<u>10,456</u>
Segment assets	<u>105,962</u>	<u>50,170</u>	<u>16,943</u>	<u>(39,604)</u>	<u>133,471</u>
Segment liabilities	<u>34,728</u>	<u>22,648</u>	<u>24,693</u>	<u>(41,975)</u>	<u>40,094</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 4: 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 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 5: Fair Value Measurements (continued)
a) Fair Value Hierarchy (continued)

Valuation techniques (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 2021			
	Note	Level 1	Level 2	Level 3	Total
		\$000	\$000	\$000	\$000

Recurring fair value measurements

Non-financial assets					
<i>Freehold land</i>		-	-	19,464	19,464
Freehold buildings		-	-	31,721	31,721
Total non-financial assets recognised at a fair value on a recurring basis		-	-	51,185	51,185
Total non-financial assets recognised at a fair value on a recurring basis		-	-	51,185	51,185

		30 June 2021			
	Note	Level 1	Level 2	Level 3	Total
		\$000	\$000	\$000	\$000

Recurring fair value measurements

Non-financial assets					
<i>Freehold land</i>		-	-	19,138	19,138
Freehold buildings		-	-	31,715	31,715
Total non-financial assets recognised at fair value on a recurring basis		-	-	50,853	50,853
Total non-financial assets recognised at a fair value on a recurring basis		-	-	50,853	50,853

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 5: Fair Value Measurements (continued)

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

Description	Fair Value at 31 December 2021	Valuation Technique(s)	Inputs Used
	\$000		
<i>Non-financial assets</i>			
Freehold land ⁽ⁱ⁾	19,464	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⁾	31,721	Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology	Price per square metre; market borrowing rate
	51,185		

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2021
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 6 Income tax expense

Consolidated Group	
31/12/2021	31/12/2020
\$000	\$000

The prima facie tax on profit before income tax is reconciled to the income tax as follows:

Profit before income tax	5,534	7,075
Prima facie tax payable on profit before income tax at 30% (2020: 30%)	1,660	2,123
Add		
Tax effect of:		
• Depreciation of buildings	61	51
• Foreign controlled entities tax losses not tax effected	121	-
• Unrealised foreign exchange losses		322
• ROU assets	70	-
• Non deductible expenses		
• Asset Revaluation Reserve of controlled entity sold		
• Other	5	11
Less		
Tax effect of:		
• Research and development		
• ROU assets	-	13
• Effects of lower rates in overseas countries	119	436
• Unrealised foreign exchange gains	27	
• Exempt income		
• Overprovision for tax in prior years	55	4,991
• Reinvestment allowance	241	323
• Foreign controlled entities tax losses not tax effected		90
• Other		35
Income tax expense attributable to entity	1,475	(3,381)
The applicable weighted average effective tax rates are as follows:	27%	(48%)

Note 7 Events Subsequent to Reporting Date

There are no material subsequent events since the half year ended 31 December 2021.

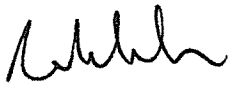
**WATERCO LIMITED ABN 62 002 070 733
AND CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

The directors of Waterco Limited hereby declare that:

- 1) the financial statements and notes, as set out on pages 5 to 15 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 2021 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 23rd day of February 2022

RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001

T +61 (0) 2 8226 4500
F +61 (0) 2 8226 4501

www.rsm.com.au

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 2021, 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 2021 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 2021 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*.

A handwritten signature in cursive script that reads "RSM".

RSM AUSTRALIA PARTNERS

A handwritten signature in cursive script that reads "C J Hume".

C J Hume
Partner

Sydney, NSW

Dated: 23 February 2022

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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 2021, 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 AUSTRALIA PARTNERS



C J Hume
Partner

Sydney, NSW
Dated: 23 February 2022