

WATERCO LIMITED
A.B.N. 62 002 070 733
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR
ENDED 31 DECEMBER, 2023

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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, 2023.

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
Judy Raper
Wayne Beauman

REVIEW OF OPERATIONS

REVENUE AND PROFITABILITY

For the six months ended 31 December 2023 (Half-year), the Group reported a Net Profit After Tax of \$6.954 million (Previous Corresponding Period, or PCP \$4.977 million) and Earnings Before Interest & Tax (EBIT) of \$11.729 million (PCP \$6.495 million). Total Revenue was \$118.808 million (PCP \$70.428 million).

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	Dec 2023	Dec 2022	% Change
	(\$000)	(\$000)	
Australia and New Zealand	9,068	2,101	+332%
Asia	1,913	4,229	-55%
North America and Europe	748	165	+353%
Consolidated Reported EBIT	11,729	6,495	+81%

AUSTRALIA AND NEW ZEALAND (ANZ)

In Australia and New Zealand (ANZ) the 332% increase in EBIT mainly due to the contribution of the four months Davey Business (\$4.902m) to the Group. Davey's contribution was enhanced from streamlining in the operations from the first days of ownership in addition to achieving a few of the many expected synergies since the date of acquisition. The \$A started the year at 69c fell to 63c in mid October only to recover to 68c by the end of December. The fluctuating exchange rates and higher oil prices continued to put pressure on margins for the half year. Since the end of the half year, the \$A has lost 3c against the \$US Dollar.

Sales in this division (taking out Davey's Contribution) increased by 2.3% despite the cost of living pressures brought about by higher interest rates and higher inflation compared to the PCP.

ASIA

In Asia, The sector recorded a 55% decline in EBIT compared to the PCP brought about by 20% decrease in external sales. Construction in the region (especially China) continued to struggle with Evergrande (one of China's Mega Developers) going into liquidation with debts of \$US350 billion. Evergrande's struggle prior to going into liquidation has had a knock on effect in the Asian Region.

NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA, Europe and France a 353% increase in EBIT during the current half year – Waterco USA experienced a 13% increase in sales during the current period reflecting the state of the US Economy. Waterco Europe recorded a 3% drop on last year in line with negative real growth in the UK Economy for 2023. Both entities recorded a healthy improvement in gross margins compared to the PCP. Overall (with Davey's contribution), sales in the region went up by 13%.

The main business season for this Division is in the second half of the financial year. The Group remains cautiously optimistic of a positive contribution in this second half.

PRODUCT DEVELOPMENT AND WATER TREATMENT

In this Half-year, Waterco invested approximately \$1.033m (PCP \$1.105 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 many years.

WORKING CAPITAL

	Dec 2023 (\$000)	Dec 2022 (\$000)
Inventory	100,666	56,976
Debtors	41,523	21,429
Creditors	(40,407)	(18,484)
TOTAL	101,782	59,921

The group's working capital as at December 2023 saw an increase of \$41.861 million, which resulted from an increase in inventory, debtors and creditors following the acquisition of the Davey Business.

DIVIDEND AND OUTLOOK

Based on this Half-year result, the Board declares a fully-franked interim dividend of 7 cents per share payable on 14 June 2024.

Waterco achieved a reduction of \$10m in debt during the half year and is aiming for a further substantial reduction in the second half which will put it well ahead of its banker's loan repayment plan

The Australian Dollar has also fluctuated significantly against the US Dollar during the half year and is expected to improve each quarter up to the end of the financial year.

Davey's contribution which started in September 2023 has exceeded initial expectations and the group is quietly confident this will continue in the second half.

The Board expects the second half-year to be more settled as the Australian Dollar stabilises and worldwide inflation continues to abate (thus taking pressure of input costs and interest rates).

With expectations of a strong recovery in Europe and USA and stability in international shipping, the Board remains confident that the Second Half Year will meet expectations and meet its forecast EBIT of \$22m for the Full Year.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 21.

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 2024

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Note	Consolidated Group	
		31/12/2023 \$000	31/12/2022 \$000
Sales revenue	3	116,613	68,463
Other revenue	3	2,195	1,965
Changes in inventories of finished goods and work in progress		(24,570)	(5,060)
Raw Materials and consumables used		(35,577)	(29,040)
Employee benefits expense		(24,459)	(15,061)
Depreciation and amortisation expense		(4,915)	(3,043)
Finance costs		(1,707)	(208)
Advertising expense		(2,223)	(1,350)
Discounts allowed		(204)	(439)
Outward freight expense		(3,733)	(1,205)
Rent expense		(592)	(546)
Research and development		(1,033)	(1,105)
Insurance general		(932)	(661)
Contracted staff expense		(130)	(162)
Warranty expense		(1,046)	(214)
Commission expense		(170)	(285)
Other expenses		(7,425)	(5,735)
Profit before income tax		10,092	6,314
Income tax benefit/(expense)	7	(3,138)	(1,337)
Profit for the period		6,954	4,977
Other comprehensive income			
Items that will not be classified subsequently to profit or loss			
Property revaluation increment (net of tax and reversals)		(160)	141
Items that maybe reclassified to profit or loss			
Exchange differences on translation of foreign controlled entities		(1,202)	1,149
Other comprehensive income for the period		(1,362)	1,290
Total comprehensive income for the period		5,592	6,267
Profit attributable to:			
Members of the parent entity		6,982	4,989
Non-controlling interest		(28)	(12)
		6,954	4,977
Total comprehensive income for the period attributable to:			
Members of the parent entity		5,620	6,279
Non-controlling interest		(28)	(12)
Total comprehensive income for the period		5,592	6,267
Earnings per share			
Basic earnings per share (cents per share)		19.8	14.1
Diluted earnings per share (cents per share)		19.8	14.1

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Note	Consolidated Group	
		31/12/2023	30/6/2023
		\$000	\$000
Current Assets			
Cash and cash equivalents		21,874	12,337
Trade and other receivables		41,523	17,106
Inventories		100,666	50,145
Other current assets		2,628	2,643
Total Current Assets		166,691	82,231
Non-Current Assets			
Property, plant & equipment		69,855	65,874
Right of use assets		21,328	17,001
Intangible assets		2,338	1,170
Deferred tax assets		5,192	1,675
Total Non-Current Assets		98,713	85,720
Total Assets		265,404	167,951
Current Liabilities			
Trade and other payables		37,738	12,353
Contract liabilities		-	2,552
Borrowings		16,484	6,765
Current tax liabilities		1,918	595
Short-term provisions		10,035	3,394
Total Current Liabilities		66,175	25,659
Non-Current Liabilities			
Borrowings		64,054	14,566
Deferred tax liabilities		7,049	6,254
Long-term provisions		3,100	238
Total Non-Current Liabilities		74,203	21,058
Total Liabilities		140,378	46,717
Net Assets		125,026	121,234
Equity			
Issued capital	4	33,595	33,643
Reserves		23,553	24,909
Retained earnings		67,538	62,314
Parent interest		124,686	120,866
Non-controlling interest		340	368
Total Equity		125,026	121,234

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

Consolidated Group	Issued Capital Ordinary	Retained Earnings	Capital Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Share options reserve	Non- controlling Interest	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 30/6/22	34,847	54,992	211	26,444	(6,004)	13	507	111,010
Comprehensive income								
Profit for the period	-	4,989					(12)	4,977
Exchange differences on translation of foreign controlled entities	-				1,147			1,147
Other comprehensive income				140		7		147
Total comprehensive income/(loss) for the period	-	4,989		140	1,147	7	(12)	6,271
Transactions with owners in their capacity as owners and other transfers								
Cancellation of shares under Waterco Share Buy Back	(941)							(941)
Dividends paid		(1,763)					(97)	(1,860)
Total transactions with owners and other transfers	(941)	(1,763)					(97)	(2,801)
Balance at 31/12/22	33,906	58,218	211	26,584	(4,857)	20	398	114,480
Balance at 30/6/23	33,643	62,314	211	30,689	(6,017)	26	368	121,234
Comprehensive income								
Profit for the period	-	6,982					(28)	6,954
Exchange differences on translation of foreign controlled entities	-				(1,204)			(1,204)
Other comprehensive income				(161)		8		(153)
Total comprehensive income/(loss) for the period	-	6,982		(161)	(1,204)	8	(28)	5,597
Transactions with owners in their capacity as owners and other transfers								
Cancellation of shares under Waterco Share Buy Back	(47)							(47)
Dividends paid		(1,758)						(1,758)
Total transactions with owners and other transfers	(47)	(1,758)						(1,805)
Balance at 31/12/23	33,596	67,538	211	30,528	(7,221)	34	340	125,026

The accompanying notes form part of this financial report.

**CONSOLIDATED CASHFLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

	Consolidated Group	
	31/12/2023	31/12/2022
	\$000	\$000
<u>Cash Flows from Operating Activities</u>		
Receipts from customers	119,695	70,117
Payments to suppliers and employees	(100,825)	(68,806)
Interest received	69	27
Other income	396	658
Finance costs	(1,707)	(208)
Income tax	(2,088)	(2,818)
Net cash (used in)/provided by operating activities	<u>15,540</u>	<u>(1,030)</u>
<u>Cash Flows from Investing Activities</u>		
Dividends received	1	1
Payment for property, plant & equipment	(1,032)	(2,142)
Payment for intangibles	(880)	-
Proceeds from sale of property, plant & equipment	105	45
Payment for business	(54,037)	(520)
Proceeds from sale of business	154	-
Net cash (used in) investing activities	<u>(55,689)</u>	<u>(2,616)</u>
<u>Cash Flows from Financing Activities</u>		
Proceeds from borrowings	64,608	3,787
(Repayment) of borrowings	(10,037)	(45)
Payment of rou liabilities	(2,022)	(160)
Share buyback	(47)	(941)
Dividends paid	(1,758)	(1,861)
Net cash provided by/(used in) financing activities	<u>50,744</u>	<u>780</u>
Net (decrease)/increase in cash held	<u>10,595</u>	<u>(2,866)</u>
Cash and cash equivalents at the beginning of period	12,337	11,946
Effects of exchange rate changes on balance of cash and cash equivalents held in foreign currencies	(1,058)	288
Cash and cash equivalents at the end of period	<u><u>21,874</u></u>	<u><u>9,368</u></u>

The accompanying notes form part of this financial report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
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 2023 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 2023 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 2023 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	
	31/12/2023	31/12/2022
	\$000	\$000
Dividends paid		
Final fully franked dividend declared on 25 th August 2023 of 5c (2022:5c) per share franked at the tax rate of 30% (2022 30%)	1,758	1,763
Dividend paid by Waterco Indonesia to minority shareholders	-	97
	<u>1,758</u>	<u>1,860</u>

Note 3: Revenue

Timing of revenue recognition

- Goods transferred at a point in time	116,613	68,463
- Services transferred over time	2,195	1,965
	<u>118,808</u>	<u>70,428</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 4: Issued capital	31/12/2023	30/6/2023
Ordinary shares are classified as equity.		
35,184,767 ordinary shares fully paid at beginning of the year (2022: 35,493,146)	33,643	34,847
On 31 October 2023, 11,759 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	(47)	-
On 31 July 2022, 100,885 shares were purchased at \$3.74 and cancelled under Waterco Ltd Share-buyback Scheme	-	(377)
On 31 August 2022, 14,424 shares were purchased at \$3.74 and cancelled under Waterco Ltd Share-buyback Scheme		(55)
On 30 September 2022, 67,485 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	-	(270)
On 31 October 2022, 47,002 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	-	(188)
On 30 November 2022, 8,104 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	-	(32)
On 31 December 2022, 4,517 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	-	(18)
On 31 January 2023, 18,513 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme		(74)
On 28 February 2023, 2,969 shares were purchased at \$3.95 and cancelled under Waterco Ltd Share-buyback Scheme	-	(12)
On 31 March 2023, 248 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	-	(1)
On 30 April 2023, 3,721 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	-	(15)
On 31 May 2023, 4,722 shares were purchased at \$4.00 and cancelled under Waterco Ltd Share-buyback Scheme	-	(19)
On 30 June 2023, 35,789 shares were purchased at \$3.60 and cancelled under Waterco Ltd Share-buyback Scheme	-	(143)
35,173,008 ordinary shares fully paid at the end of the year (2023: 35,184,767)	33,596	33,643

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

**Note 5: 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 valued based on market interest rates.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of the economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where is a direct nexus between the incurrence of the liability and the operations of the segment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 5: Operating Segments (continued)

Geographical Segments

	2023				
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA &EUROPE	ELIMINATION	CONSOLIDATED GROUP
	31/12/2023	31/12/2023	31/12/2023	31/12/2023	31/12/2023
	\$000	\$000	\$000	\$000	\$000
Revenue					
Sales to customers outside the economic entity	97,210	6,707	12,696		116,613
Intersegment sales	4,233	19,588	250	(24,071)	-
Unallocated revenue					
Total revenue	<u>101,443</u>	<u>26,295</u>	<u>12,946</u>	<u>(24,071)</u>	<u>116,613</u>
Segment result	9,652	1,842	794		12,288
Unallocated expenses net of unallocated revenue					<u>(2,196)</u>
Profit before income tax					10,092
Income tax benefit/(expense)					<u>(3,138)</u>
Profit after income tax					<u>6,954</u>
Segment assets	<u>281,228</u>	<u>75,781</u>	<u>17,976</u>	<u>(109,581)</u>	<u>265,404</u>
Segment liabilities	<u>147,251</u>	<u>37,537</u>	<u>12,352</u>	<u>(56,762)</u>	<u>140,378</u>
	2022				
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA &EUROPE	ELIMINATION	CONSOLIDATED GROUP
	31/12/2022	31/12/2022	31/12/2022	31/12/2022	31/12/2022
	\$000	\$000	\$000	\$000	\$000
Revenue					
Sales to customers outside the economic entity	48,845	8,418	11,200		68,463
Intersegment sales	485	23,603	345	(24,433)	-
Unallocated revenue					
Total revenue	<u>49,330</u>	<u>32,021</u>	<u>11,545</u>	<u>(24,433)</u>	<u>68,463</u>
Segment result	3,918	4,173	188		8,279
Unallocated expenses net of unallocated revenue					<u>(1,965)</u>
Profit before income tax					6,314
Income tax benefit/(expense)					<u>(1,337)</u>
Profit after income tax					<u>4,977</u>
Segment assets	<u>134,772</u>	<u>76,317</u>	<u>6,605</u>	<u>(51,414)</u>	<u>166,280</u>
Segment liabilities	<u>53,228</u>	<u>39,987</u>	<u>10,828</u>	<u>(52,243)</u>	<u>51,800</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 6: 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 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

**Note 6: 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 2023			
	Note	Level 1	Level 2	Level 3	Total
		\$000	\$000	\$000	\$000

Recurring fair value measurements

Non-financial assets

Freehold land

Freehold buildings

-	-	23,512	23,512
-	-	31,593	31,593

**Total non-financial assets
recognised at a fair value
on a recurring basis**

-	-	55,105	55,105
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**Total non-financial assets
recognised at a fair value
on a recurring basis**

-	-	55,105	55,105
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		30 June 2023			
	Note	Level 1	Level 2	Level 3	Total
		\$000	\$000	\$000	\$000

Recurring fair value measurements

Non-financial assets

Freehold land

Freehold buildings

-	-	23,671	23,671
-	-	32,148	32,148

**Total non-financial assets
recognised at fair value
on a recurring basis**

-	-	55,819	55,819
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**Total non-financial assets
recognised at a fair value
on a recurring basis**

-	-	55,819	55,819
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 6: Fair Value Measurements (continued)

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

Description	Fair Value at 31 December 2023	Valuation Technique(s)	Inputs Used
	\$000		
<i>Non-financial assets</i>			
Freehold land ⁽ⁱ⁾	23,512	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⁾	31,593	Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology	Price per square metre; market borrowing rate
	55,105		

(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 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 7 Income tax expense

Consolidated Group	
31/12/2023	31/12/2022
\$000	\$000

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

Profit before income tax	10,092	6,314
Prima facie tax payable on profit before income tax at 30% (2022: 30%)	3,028	1,894
Add		
Tax effect of:		
• Depreciation of buildings	75	58
• Foreign controlled entities tax losses not tax effected	99	60
• Unrealised foreign exchange losses		
• ROU assets		
• Non deductible expenses	17	-
• Underprovision for tax in prior years	344	-
• Other	33	19
Less		
Tax effect of:		
• Research and development	78	66
• ROU assets	-	54
• Effects of lower rates in overseas countries	229	355
• Unrealised foreign exchange gains	124	61
• Exempt income	-	-
• Overprovision for tax in prior years	-	158
• Reinvestment allowance	-	-
• Foreign controlled entities tax losses not tax effected	-	-
• Other	27	-
Income tax expense attributable to entity	3,138	1,337
The applicable weighted average effective tax rates are as follows:	31%	21%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

Note 8: Business Combinations

Acquisition of Davey Water Products Pty Ltd

On 1 September 2023, Waterco Ltd completed the purchase of 100% of the Davey Group from GUD Holdings Ltd. The purchase of Davey Group comprises Davey Water Products Pty Ltd and its fully owned subsidiaries (Davey Water Products NZ Ltd (based in New Zealand) and Davey Water Products SAS (based in France)).

Assets acquired and liabilities assumed at the date of acquisition

Business combinations, including acquisitions of subsidiaries, are initially accounted for on a provisional basis. The Group is permitted to retrospectively adjust the provisional amounts recognised and also may recognise additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the date of acquisition. The measurement period ends on either the earlier of: (i) 12 months from the date of acquisition; or (ii) when the Group receives all the information possible to determine the fair value.

The fair value of (company acquired) net assets acquired and the resulting goodwill and tax balances have been measured provisionally. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the requirements of the Australian Accounting Standards permits the acquisition values to be revised. This acknowledges the time required to gain access to and consolidate information for both entities and to make certain valuations as at the acquisition date. Any changes to these provisional values will be reported within the next 12 months.

The amounts in the table below have been measured on a provisional basis

The fair values of the identifiable assets and liabilities of Davey as at the date of acquisition were:

Assets

Cash	5,015
Trade debtors	19,028
Provision for doubtful debts	(95)
Other debtors	1,619
Prepayments	999
Inventory	48,872
Plant & equipment	28,614
Accumulated Depreciation - p&e	(23,860)
Future income tax benefit	2,862
	83,054

Liabilities

Trade creditors	(12,065)
Other creditors	(7,003)
Provision for employee benefits-current	(1,723)
Provision for employee benefits-non current	(2,795)
Provision for tax(in debit)	316
Deferred tax liability	(729)
	(23,999)

Total identifiable net assets at fair value

59,055

Goodwill arising on acquisition (provisional)

1,247

Purchase consideration transferred**

60,302

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2023
WATERCO LIMITED AND CONTROLLED ENTITIES**

**Note 8: Business Combinations (continued)
Acquisition of Davey Water Products Pty Ltd**

The acquisition was funded by Bank Facilities provided by Westpac Banking Corporation and a Vendor Delayed Payment Arrangement

	\$m
Westpac Loans	59,052
Vendor delayed payment	1,250

Total consideration	60,302

From the date of acquisition, Davey has contributed \$48.029m of revenue and \$4.844m to the net profit before tax from the continuing operations of the Group. If the acquisition had taken place at the beginning of the financial year, revenue from continuing operations would have been \$136.713m and net profit before tax from continuing operations of the group would have been \$9.406m

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Davey with those of the Waterco Group. The goodwill is not deductible for income tax purposes.

Transaction costs of approximately \$390,000 have been expensed and are included in expenses from ordinary activities in the statement of profit and loss and are part of operating cashflows in the statement of cash flows.

Reconciliation of goodwill

The value of the Group's balance of goodwill (on consolidation) at 30 June 2023 was \$249,000. As a result of the acquisition, the Group has recognised additional goodwill (on consolidation) of \$1.247m during the period, and accordingly, the closing balance of goodwill (on consolidation) at 31 December 2023 was \$1.496m

Note 9 Events Subsequent to Reporting Date

There are no material subsequent events since the half year ended 31 December 2023.

**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 4 to 17 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 2023 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 2024

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 2023, 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 2023 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 2023 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 AUSTRALIA PARTNERS



C J Hume
Partner

Sydney, NSW

Dated: 23 February 2024

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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 2023, 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 2024