water, the liquid of life

2018 ANNUAL REPORT

The continuous pursuit of reliable solutions for healthy, safe water environments

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Contents

Company Profile

Waterco is involved in the manufacture and distribution of:

- Pool and spa equipment
- Pool and spa chemicals
- Domestic water filters, softeners and purifiers
- Commercial water treatment equipment

Waterco exports its products to over 40 countries via its branches in Australia, New Zealand, China, Malaysia, Singapore, Indonesia, United Kingdom, France, Canada and America.

Distributor to Manufacturer

Waterco commenced business in 1981 as a distributor of PVC pipes for swimming pools and spas. Since then, through a series of acquisitions as well as internal growth, the company has expanded into the manufacture and distribution of a comprehensive range of swimming pool and spa products and water treatment equipment.

Manufacturing Power House

Waterco's research & development team has created an innovative range of award winning products. Waterco delivers high quality products at exceptional value with its efficient manufacturing procedures, advanced fibreglass winding and pioneering plastic moulding.




SWIMART

Australia's pool & spa specialists

Swimart is Australia's premium pool and spa specialist group. With over 30 years' experience and 71 stores and six mobiles across Australia and New Zealand, the vast majority of Swimart stores are owned and operated by independent franchisees. Swimart provides reliable service by highly-trained and experienced technicians, employing a fleet of over 250 reliable mobile service vans.

ZANE

Solar Pool Heating

Zane Solar Systems consists of a 36-strong dealer network throughout Australia. These highly skilled and trained professionals install solar, heat pump and gas pool heating systems for both domestic and commercial applications using Zane's Gulfstream and Gulfpanel solar absorber, Electroheat pool heat pumps and Turbotemp gas pool heaters.

Watershoppe

In certain regions of Malaysia, residents experience water discolouration caused by rust from unlined galvanised pipes. To service this market Waterco has set up a dealer network of 15 Watershoppes selling Waterco's range of water filters and drinking water purifiers.

Group Consolidated Financial Highlights

Financial Year Ended	2018	2017	2016	2015	2014
Operating revenue ($ million)	87.83	85.21	83.97	88.17	77.97
Sales revenue ($ million)	86.26	82.51	81.72	80.89	77.12
Earnings Before Interest and Tax (EBIT) ($ million)	6.73	6.21	5.01	4.56	3.43
EBIT / Sales Revenue	7.8%	7.5%	6.1%	5.6%	4.4%
Profit before income tax ($ million)	5.72	5.33	3.82	3.05	1.93
Net profit after tax ($ million)	3.95	3.71	2.85	1.55	0.97
Total assets ($ million)	116.59	100.78	92.39	97.28	92.98
Equity ($ million)	74.17	64.38	59.31	56.05	50.60
Basic Earnings per share	10.3 cents	9.7 cents	7.6 cents	4.1 cents	2.6 cents
Dividends per share (Interim and Final)	5.0 cents	5.0 cents	5.0 cents	5.0 cents	6.0 cents
Net Tangible Assets per share	$1.99	$1.71	$1.57	$1.54	$1.41
Year-end share price	$2.05	$1.70	$1.28	$1.00	$1.15

Chief Executive Officer's Review Of Operations

SOON SINN GOH
Chairman/Group CEO

REVENUE AND PROFITABILITY

The Group is pleased to report continued growth in Net Profit After Tax (NPAT) and Earnings Before Interest and Tax (EBIT). NPAT grew by 7% to $3.95 million, while EBIT grew by 8% to $6.73 million. NPAT was a touch (4%) below market guidance of $4.10 million, announced in October last year.

The Australian and New Zealand Division, which accounts for a major portion of the Group's profitability and sales, registered an increase in the EBIT of 7%, off the back of a small growth in sales.

The North America and Europe Division continues to undergo restructuring. EBIT losses were cut by 75%, thanks to a strong performance in Europe.

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	FY18 ($000)	FY17 ($000)	% Change
Australia and New Zealand	4,851	4,532	7%
North America and Europe	(239)	(1,000)	75%
Asia	2,094	2,681	(22%)
Consolidated Reported EBIT	**6,730**	**6,213**	**8%**

AUSTRALIA AND NEW ZEALAND (ANZ)

The Australia and New Zealand Division derives its revenue predominantly from the domestic swimming pool industry. In this market, Waterco offers a wide range of products, including chemicals for swimming pool water treatment. Waterco also owns the Swimart franchise, which features more than seventy pool stores in Australia and New Zealand. The success of these stores is built on more than three decades of experience, during which Waterco has developed an extremely good understanding of the factors that drive consumer demand in the after-market. Franchisees benefit from a programme that has been developed and improved on in-house since 1984, when a company-owned pool shop was opened in Sydney. This has since grown into the Swimart Pool and Spa franchising retail system.

Steady market share in the domestic pool sector has underpinned the Division's performance. Anticipating the market appetite for environmentally-friendly swimming pool products, Waterco introduced the water-saving Multicyclone centrifugal filter, energy-saving variable speed pump and Glass Pearls filter media, for improved filtration performance and reduced pool water usage. Customer acceptance of these products has been inspiring.

NORTH AMERICA AND EUROPE

Waterco North America and Europe comprises the Group's operations in the USA, Canada, UK and France.

Waterco USA (WUSA) The US market is the largest in the world. Waterco has invested significantly in this market, through start-up operations, as well as a substantial acquisition of Baker Hydro in March 2005. Our operations in Augusta, Georgia, now distribute a wide range of filters and assemble commercial pumps.

This entity has experienced significant sales growth during the year under review and is expected to further improve revenue in the ensuing year.

This year pool industry retail franchiser Swimart is celebrating 35 years in business.

Swimart was founded by Soon Sinn Goh, starting in 1983 with a single retail store in Killara, NSW. Swimart has steadily grown into a successful franchise with 71 stores and six mobiles across Australia and New Zealand and a fleet of more than 250 mobile service vans.

Waterco's award-winning MultiCyclone uses the most advanced centrifugal technology to capture up to 80 per cent of the incoming dirt load prior to the main filter, which significantly reduces filter cartridge maintenance and saves backwash water.

Compared to gas and electric heaters, Electroheat ECO-V inverter pool heat pumps use a fraction of the energy to generate the same amount of heat and unlike solar heating; there is no reliance on the sun as the latent heat in the air is used.

Waterco Canada (WCI) This Entity was the Group's original centre for the manufacture of heat pumps. Its expertise, developed over more than two decades, with assistance from our Research and Development division in Sydney, has improved performance of our products in both quality and cost. This continues to benefit the Group and enables other manufacturing entities in the Group to produce heat pumps of quality. The manufacturing operations have since been transferred to other manufacturing entities and WCI is now a trading entity with heat pumps as their key product.

WCI has been undergoing a restructure of its operations during the year and, as a result, did not contribute to Group profitability. The entity expects to continue the restructure, going into the new year, and is expected to post improved financial results.

Waterco Europe (WEL) Waterco started up operations in 1999 and subsequently acquired the business of Lacron Ltd in 2003. This Entity, therefore, enjoys a continuous and successful history of almost 40 years in the manufacture of fibreglass filters. The renowned “Lacron” name is synonymous with quality filters and, coupled with Waterco's established progressive manufacturing techniques, this has enabled WEL to bring to the market filters of quality at acceptable prices. Today, both the Lacron and the Waterco brands are well-recognised as quality products in Europe. This recognition continues, even after the manufacturing operations had been transferred to Malaysia and China, because the same high standards have been maintained.

This Entity had consolidated its operations during the economically difficult years in the region and has benefitted from this in the last two years, when sales growth has been significant. This Entity continues to reinforce its interest in commercial filters of high pressure ratings developed for water treatment, in particular, as pre-filtration for seawater desalination. The Group's ability to manufacture filters of such pressure ratings from composites provides an opportunity to enhance our presence into a market that has traditionally used steel to cope with such pressures.

ASIA

Waterco Far East in Malaysia (WFE) was borne out of Waterco's familiarity with the Southeast Asian market. WFE was initially a sales operation designed to service Waterco Australia's Southeast Asian customer base. In 1991 WFE added manufacturing operations to our undertakings in Kuala Lumpur, Malaysia. As well as bringing the Group closer to our markets in Southeast Asia, this also gave cost-efficiency in our manufacturing operations. Since then, WFE has become the principal manufacturing facility for pumps and filters for the Waterco Group. WFE continues to deliver new products to give the Group an edge in our marketing activities.

Waterco's Micron Commercial Fibreglass Filters are made from continuous strands of high quality fibreglass filament wound under controlled tension to create a seamless, impervious vessel.

WFE has achieved ISO9001:2008 certification, the internationally recognised standard for the quality management of businesses, and demonstrates the existence of an effective and well-designed quality management system, which stands up to the rigours of an independent external audit. A key criterion of this standard is that the management system can provide confidence in creating products that meet expectations and requirements.

Local sales in Malaysia posted a small growth, in spite of weak economic conditions and political uncertainty. Increased volume, particularly in labour-intensive large commercial filters, has resulted in an increase in wages above expectation, with more overtime worked. The Entity's capacity has been increased in the new financial year to address this and this is expected to lead to an improvement in financial performance.

Waterco China This entity commenced operations in 2000, delivering advantages of low operational costs and a foothold into the huge China market. The manufacturing of filters primarily for the European and the Australian markets has been relocated to Malaysia, leaving this entity to focus on development of commercial heat pumps and to improve marketing of pool equipment to the commercial pool market in China. In this respect, there was significant success and the Entity recorded significant growth in domestic sales and an improved bottom line.

Electroheat PRO 100kW heat pump commercial grade pool heater is designed to deliver efficient cost effective large pool heating in an easy to operate and install package. The Electroheat PRO 100 is designed to heat pools up to 250,000 litres.

Waterco International in Singapore (WI) focuses on sales in Asian countries, other than Malaysia and China, where we have our own trading entities. WI also provides technical assistance to our Indonesian entity and has been able to contribute to the growth of the latter. Performance during the year was steady.

Waterco has recently launched a cloud version of Poolware, the company's water analysis computer program designed to provide precise chemical recommendations for pool customers.

PRODUCT DEVELOPMENT AND WATER TREATMENT

The Group continues to invest in Research and Development in order to be at the forefront of the industry.

Product innovation and research and development in the water-treatment subsector are considered to be critical to Waterco staying at the forefront of the industry. Waterco considers water-treatment products and systems to be a key revenue driver for the Group. As such, ensuring that our products and systems are appropriately protected is of value and importance.

The array of technology advances and patents will improve Waterco's position in the servicing of swimming pool markets globally and are expected to improve the appeal of the Swimart franchise.

Waterco's energy efficient Britestream LED light and Hydrochlor Mineral chlorinator have both been recognised at the annual Swimming Pool and Spa Association (SPASA) awards, with three chapters of the organisation signalling out the same two products for top honours.

DIVIDEND AND OUTLOOK

The results, with improvement of the NPAT figure, is in line with expectation. This is especially pleasing, as losses in entities in the North America and Europe Division are not tax-effected, accentuating their impact.

The Board will provide a profit guidance at a later stage for the financial year ending 30 June 2019, as more information becomes available during the year.

Waterco declares a final dividend payment of 3 cents per share, payable to shareholders on 14 December 2018. With an interim dividend of 2 cents per share, declared after the announcement of the Half-Year results, this maintains the total dividend for the year at 5 cents per share.

Board of Directors

SOON SINN GOH - B COM FCPA
Chairman/Group CEO

Mr. Goh is the founder of Waterco Limited. He has been a member of the Board since the Company's incorporation in February 1981. Prior to the inception of Waterco, he was the Managing Director of a company specialising in the construction of water and sewage treatment facilities. His extensive experience in the water treatment industry is instrumental to the success of Waterco.

He held no other listed company directorships during the past three financial years.

BRYAN GOH - B ECON
Group Marketing Director

Mr. Goh was appointed to the Board in June 2010.

As the Group Marketing Director, Mr. Goh has overall responsibility for business and product development in Australia and oversees the marketing activities of Waterco's overseas subsidiaries.

Mr. Goh was on the board of directors of The Swimming Pool & Spa Association of New South Wales Ltd (from February 2005 to February 2009), a non-profit organisation dedicated to maintaining and improving standards within the industry for the betterment of consumers, pool builders and suppliers.

He held no other listed company directorships during the past three financial years.

GARRY NORMAN - B COM CA
Non-Executive Director

Mr. Norman was appointed to the Board as a Non-Executive Director in October 1993.

He has been in public practice as a Chartered Accountant since 1990, having been previously employed by Duesburys Chartered Accountants (now Deloitte) for fourteen years before leaving to establish his own Chartered Accounting firm - G R Norman & Co.

He has an extensive background in accounting and taxation matters, having been involved with a wide range of clients in both city and suburban practices – previously in his role as a manager of the Business Services Division of Duesburys and currently in his role as principal of a suburban practice.

Mr. Norman is the Chairman of the Audit Committee and a member of the Remuneration Committee.

He held no other listed company directorships during the past three financial years.

BEN HUNT - PHD (ANU)

Non-Executive Director

Dr. Hunt was appointed to the Board as a Non-Executive Director in June 1998. He has held academic appointments as the Head of the Graduate School of Business, Associate Dean of the Faculty of Business and Associate Professor of Finance at the University of Technology, Sydney (UTS).

He has a doctorate from the Australian National University. Although Dr Hunt has written extensively on Australian financial markets (he is the co-author of the text Australian Institutions and Markets, 7th Ed.), his knowledge extends to the South East Asian region. He is a regular presenter of financial seminars in Hong Kong and Singapore for the UK publishing and training company Euromoney.

Dr Hunt is the Chairman of the Remuneration Committee and a member of the Audit Committee.

He held no other listed company directorships during the past three financial years.

RICHARD CHENG FAH LING - B COM CA

Non-Executive Director

Mr. Ling was appointed to the Board as a Non-Executive Director in May 2009. He holds a Bachelor of Commerce degree from the University of Newcastle, Australia. He is a member of Chartered Accountants Australia and New Zealand and the Malaysian Institute of Accountants. He has experience in total logistics and corporate finance in capital markets. Mr. Ling is currently a Non-Executive Director of Tiong Nam Logistics Holdings Berhad, a public company listed on Bursa Malaysia (Malaysian Stock Exchange). He is a member of the Remuneration and Nomination Committee and Chairman of the Audit Committee of Tiong Nam Logistics Holdings Berhad.

Mr. Ling is a member of the Audit Committee and the Remuneration Committee of Waterco Limited.

He held no other listed company directorships during the past three financial years.

Statement of Corporate Governance Practices

This statement explains how Waterco Limited ACN 002 070 733 (**Waterco** or **Company**) has complied with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations – 3rd Edition, published 27 March 2014 (**ASX Recommendations**), during the financial year ended 30 June 2018 (**Reporting Period**).

All Waterco charter, codes and policy documents referred to in this statement are available in the Corporate Governance section of the Company's website, www.waterco.com.

This statement has been adopted by the Board as current as of 23 August 2018.

Principle 1: Lay solid foundations for management and oversight

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
1.1	**Role of Board and management**	The Board Charter sets out the roles and responsibilities of the Board. The Board is ultimately responsible for the growth, strategic direction and success of the Company and has set out specific matters reserved for its decision and matters delegated to the management.
1.2	**Information regarding election and re-election of director candidates**	The Company has in place a policy for nomination and appointment of directors. Before appointing a director, the Company will undertake appropriate checks on a candidate for directorship and will provide all material information in its possession to its shareholders to make a decision on whether or not to elect or re-elect a director. When considering the re-election of an incumbent director or election of a new director, the Board takes into account the following: • business experience, particularly in respect of the industries in which the company operates; • standing in the community; • educational qualifications; • checks against the person's character, criminal record and bankruptcy history; • availability and other directorships; • the possession of particular skills such as finance, marketing or risk management; • whether the appointment or re-appointment will contribute positively to the skill set and diversity of the Board as a whole; and • gender diversity policy of the Company.

1.3 Written appointment

In addition to being set out in the Board Charter, the letters of appointment executed with all directors describe the key duties and responsibilities of each member of Board, and further include the terms of appointment, remuneration, time commitment envisaged, expectations regarding committee work, the requirement to disclose directors' interests and confidentiality obligations.

Mr Soon Sinn Goh has an employment agreement with the Company as the Group Chief Executive Officer. As Mr Goh spends a majority of his time developing and enhancing manufacturing capabilities in Malaysia and sales in various entities other than Australia and New Zealand, he also has a letter of employment with Waterco (Far East) Sdn Bhd setting out his role in Malaysia and a letter of employment with Waterco International Pte Ltd for his role in Singapore.

Key Management Personnel have written employment agreements setting out a description of key duties and responsibilities, reporting lines, remuneration and termination rights.

1.4 Company Secretary

The Company Secretary is appointed by and accountable to the Board and has particular responsibility for:

- advising the board and its committees on governance matters;
- monitoring whether board and committee policy and procedure are being followed;
- coordinating timely completion of board and committee papers;
- ensuring that business conducted at board and committee meetings are accurately recorded in the minutes; and
- helping to organise the induction and professional development of directors.

The Board Charter explicitly reflect this delegation by the Board to the Company Secretary.

1.5 Diversity

The Board recognises diversity and equity as strengths and adopted a Diversity & Equity Policy for the Company which includes an express requirement for the Board to set measurable objectives for achieving gender diversity.

The Diversity & Equity Policy is available in the Corporate Governance section of the Company's website, www.waterco.com. In accordance with the Diversity & Equity Policy, the Board set objectives for achieving gender diversity across its organisation. The objectives for the Reporting Period were:

	Measurable objective %
Women on the Board	0%
Women in senior executive positions (excluding Board Members)	15%
Women employees in the company	25%

The Board assessed the progress towards these objectives during the Reporting Period by reviewing the relative proportion or women and men in the Company's workforce at all levels. At the end of the Reporting Period women represented 27.74% of the overall workforce. Women made up 33.33% of senior executives (defined by the company as the Key Management Personnel). At the Board level, there were no female directors. However gender diversity will be considered at any time of Board renewal or additions.

1.6	**Board reviews**	The Board is committed to an ongoing internal process of performance evaluation of the Board, its committees and individual directors to ensure the diligent and effective discharge of responsibilities and a consistent mind set in improving corporate governance practices. The Board has undertaken an evaluation on the performance of the Board, its committees and individual directors for the Reporting Period.
1.7	**Management reviews**	The Company is committed to an ongoing internal process of performance evaluation of Key Management Personnel to ensure the diligent and effective discharge of their responsibilities The CEO has undertaken a performance evaluation review of Key Management Personnel for the Reporting Period.

Principle 2: Structure the Board to add value

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
2.1	**Nominations committee**	The Company has not established a nomination committee. The ASX Recommendations acknowledge that such committees may not be required for smaller boards. The Board is of the opinion that it is appropriate for a company the size of Waterco for matters that come under the purview of a nomination committee to be undertaken by the Board through the Remuneration Committee. Furthermore, the Board has established processes in place to raise and address issues that would otherwise be considered by a nomination committee. The Board comprises an executive Chairman who is also the Group Chief Executive Officer (CEO), an Executive Director and three Non-Executive Directors. The Board views each of the three Non-Executive directors as being independent. The Board's membership is reviewed periodically to ensure that it maintains an appropriate mix of skills, qualifications and experience. In particular the Board has identified skills and experience in corporate finance, international trade and international business environment, marketing and accounting and technical and industry knowledge in the water treatment and pool industries to be important. Although currently all male, the Board composition represents diversity in age, ethnicity and background. At each Annual General Meeting (AGM), one third of the directors (excluding the CEO) and any director appointed to fill a casual vacancy since the previous AGM must retire but may stand for re-election. The Company achieved its preferred Board composition of at least five directors during the Reporting Period, with a majority of Non-Executive (and, where possible, independent) Directors.

2.2	**Board skills matrix**	Below is the matrix of skills and attributes that Waterco is aiming to achieve across its Board membership. This matrix was adopted by the Board on 23 June 2015. The Board is conscious of the need to improve in some areas, such as legal and engineering experience and female representation, and is considering addressing these shortcomings by attracting new candidates.

General	Governance
Executive and Non-Executive	Governance committee
Leadership	Risk management
Strategic thinking	Ethical and fiduciary duties
Industry experience	Environment and sustainability

Technical	Diversity
Legal	Female
Financial	Male
Engineering	Different ethnicities and cultures
Human resources	Languages other than English

2.3 Disclose independence and length of service

The names of the independent directors in office during the Reporting Period are:

- Garry Norman;
- Ben Hunt; and
- Richard Ling.

The Company's assessment of the materiality of a director's interest is considered on a case by case basis by the Board. Where an entity associated with a Director provides services to the Company, the Board uses a threshold of $100,000 in fees in a financial year as a guideline. However the Board does not follow an inflexible set of criteria but considers whether the relationship in question is reasonably likely to interfere with that Director's independent judgement. Further details of the directors' skills, experience, expertise and lengths of service are set out in the Board of Directors' section of the Company's Annual Report.

2.4 Majority of directors independent

A majority of the Board - Garry Norman, Ben Hunt and Richard Ling are independent directors, taking into account the factors relevant to "independence" under the ASX guidelines.

2.5 Independent Chair

The roles of Chairperson and Group CEO are both held by Mr Soon Sinn Goh. The Board believes that Mr Goh brings a vital level of industry experience to the operations of the Company. Also, as the major shareholder of the Company, Mr Goh's commitment to the success of the Company is unquestionable. Therefore, it is the Board's opinion that it is appropriate in the Company's circumstances that the two roles be combined. With the majority of the Directors being independent, and with Independent Directors chairing the Audit and the Remuneration Committees, the Board is also of the opinion that it is not necessary that the office of Chairperson be held by an Independent Director.

2.6 Induction and professional development

All new directors undergo an induction to familiarise them with the business of the Company, the Company's internal control and risk management practices and policies and procedures. The Company also seeks to provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

Principle 3: Act ethically and responsibly

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
3.1	**Code of conduct**	The Board has established a Code of Conduct for directors, key management personnel and employees

Principle 4: Safeguard integrity in corporate reporting

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
4.1	**Audit committee**	The Audit Committee operates under the Audit Committee Charter. The role of the Audit Committee is to assist the Board with its oversight of the integrity of the financial statements, including overseeing the existence and maintenance of internal controls, accounting systems, and the financial reporting process. The Committee also nominates external auditors, reviews existing audit arrangements and co-ordinates external and internal auditing functions. In addition, the Audit Committee examines any other matters referred to it by the Board. Throughout the Reporting Period the Audit Committee consisted of 3 Independent Non-Executive Directors and was headed by an Independent Chairperson not holding the position of Chairperson of the Board. The members of the Audit Committee during the Reporting Period were: • Garry Norman - Chairman; • Ben Hunt; and • Richard Ling. The number of Audit Committee meetings and details of Committee members' attendance are included in the Directors' Report section of the Company's Annual Report.
4.2	**CEO and CFO certification of financial statements**	The Board has received a written statement from its Group CEO and Chief Financial Officer (CFO) which includes a declaration under section 295A of the Corporations Act 2001 (Cth) advising that: • in their opinion the Company's financial reports have been properly maintained and have complied with the appropriate accounting standards and give a true and fair view of the Company's financial position and performance; and • the opinion has been formed on the basis of a system of risk management and internal control adopted by the Board, and that this system is operating efficiently.
4.3	**External auditor at AGM**	The external auditor attends the AGM for the purpose of answering shareholder questions regarding the conduct of the audit and the preparation and content of the audit report.

Principle 5: Make timely and balanced disclosure

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
5.1	**Disclosure and Communications Policy**	The Company's Continuous Disclosure Policy sets out the rules and responsibilities for Waterco's officers and employees to ensure compliance with ASX Listing Rules and promote factual and timely disclosure of all material matters concerning the Company.

Principle 6: Respect the rights of security holders

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
6.1	**Information on website**	Waterco keeps investors informed by publishing information on the Company's website. All disclosures made to the ASX and all information provided to analysts or the media during briefings are promptly posted on the Company's website after they have been released to the ASX.
6.2	**Investor relations programs**	The Company's Shareholder Communication Policy details the mechanisms put in place to ensure that the rights of shareholders are respected and to facilitate the effective exercise of those rights. The Shareholder Communication Policy contains information on persons whom shareholders can contact in relation to procedures at shareholders meetings, matters being considered at shareholders meetings and other issues. It also indicates the predominant sources for investors to engage with the Company at general meetings of the Company.
6.3	**Facilitate participation at meetings of security holders**	Shareholders who are unable to attend any of the Company's meetings are encouraged to vote on the proposed motions by appointing a proxy. Proxy forms are included with meeting notices which also provides details on how proxy forms should be completed and submitted.
6.4	**Facilitate electronic communications**	The Company recognises the benefits of the use of electronic communications. Shareholders have the option of selecting to receive the following information electronically from the share registry: dividend statements; annual reports; notices of meetings and proxy forms and the ability to vote online; and other general company communications. With this in place, shareholders can log into their account to make changes to their communication preferences. The share registry can also be contacted via email or telephone. Contact details can be found on the Company's website.

Principle 7: Recognise and manage risk

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
7.1	**Risk committee**	The Company has not established a Risk Committee. The functions of the Risk Committee are performed by the Audit Committee who reports to the Board on the effectiveness of the risk management and internal control processes of the Company regularly by circulation of Minutes of Meetings to the directors and through other means of formal and informal reporting. Further details regarding the Audit Committee, its membership and the number of meetings held during the Reporting Period are set out in response to Recommendation 4.1.
7.2	**Annual risk review**	The Board reviews the risk management framework of the Company periodically as and when necessary to meet the operational requirements of the Company and changes in the law through the Audit Committee. The Board has performed the review for the Reporting Period.
7.3	**Internal audit**	The Company reviews and continually improves the effectiveness of its risk management and internal control processes. Further details regarding audit functions are set out in response to Recommendation 4.1.
7.4	**Sustainability risks**	The Board considers that the Company is not materially exposed to economic, environmental and social sustainability risks.

Principle 8: Remunerate fairly and responsibly

RECOMMENDATION		WATERCO'S COMPLIANCE WITH ASX RECOMMENDATIONS
8.1	**Remuneration committee**	The Remuneration Committee is responsible for making recommendations to the Board on remuneration packages and policies for the Executive Directors and the Key Management Personnel. The Remuneration Committee Charter is published on the Company's website. During the Reporting Period, the Remuneration Committee consisted of three independent Non-Executive Directors and was headed by an independent Chairperson not holding the position of Chairperson of the Board. The members of the Remuneration Committee during the year were: • Ben Hunt – Chairman; • Garry Norman; and • Richard Ling. The number of Remuneration Committee meetings and details of Committee members' attendance during the Reporting Period are set out in the Directors' Report section of the Company's Annual Report.
8.2	**Disclosure of Executive and Non-Executive Director remuneration policy**	Remuneration of the Company's Non-Executive Directors operates on different principles to the remuneration of Executive Directors. Non-Executive Directors receive fixed fees, and are not entitled to any retirement benefits other than statutory superannuation. The Remuneration Report at the Directors' Report section of the Annual Report sets out: • information about the Remuneration Policy developed by the Remuneration Committee and adopted by the Board; and • details of remuneration of the directors (executive and non-executive) and Key Management Personnel.
8.3	**Policy on hedging equity incentive schemes**	The Company did not offer an equity-based remuneration scheme during the Reporting Period.

Directors' Report

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2018.

Directors

The names of directors in office during and since the end of the financial year are:

- Soon Sinn Goh
- Bryan Goh
- Garry Norman
- Ben Hunt
- Richard Ling

All directors have been in office since the start of the financial year.

For details of the directors' qualifications and experience, refer to the section titled "Board of Directors" which is to be read as part of this report.

Company Secretaries

The following persons held the position of Joint Company Secretary throughout the financial year:

- Bee Hong Leo
  Mrs Leo was appointed Company Secretary on 3 March 1983. She has been employed by Waterco since March 1981 performing management roles in the administration and legal divisions.

- Gerard Doumit FCPA JP
  Mr Doumit was appointed Joint Company Secretary on 22 July 1991. He has been employed by Waterco since January 1987 as an Accountant and is currently Chief Accountant and Joint Company Secretary.

Principal Activities

The principal activities of the consolidated Group during the financial year were:

- wholesale, export and manufacture of equipment and accessories in the swimming pool, spa pool, spa bath, rural pump and water treatment industries;
- manufacture and sale of solar heating systems for swimming pools and pre-heat industrial solar systems;
- franchise of retail outlets for swimming pool equipment and accessories; and
- formulating, packing and distribution of swimming pool chemicals to independent pool stores and stores in its Swimart franchise network.

There were no significant changes in the nature of the consolidated Group's principal activities during the financial year.

Consolidated Results

The consolidated profit of the Group after providing for income tax and eliminating non controlling interests amounted to $3.846 million.

Dividends

Dividends paid or declared for payment are as follows:

- Final ordinary dividend of 3 cents per share paid on 14 December 2017 as recommended in last year's report - $1.119 million
- Interim dividend of 2 cents per share paid on 15 June 2018 as declared in the half yearly report - $0.742m
- Final ordinary dividend of 3 cents per share declared by the directors to be paid on 14 December 2018 - $1.113 million.

All dividends paid or declared since the end of the previous financial year were fully franked.

Review of Operations

A review of operations of the Consolidated Group during the financial year and of the results of those operations together with likely developments in the operations of the consolidated Group and the expected results of those operations are set out in the Chief Executive Officer's Review of Operations.

Financial Position

The net assets of the Consolidated Group have increased by $9.79 million from $64.38 million in June 2017 to $74.17 million in June 2018.

The change has largely resulted from:

- Net increase in the asset revaluation reserve of group companies of $5.1 million;
- Upward movement in profits less dividends paid of $1.99 million;
- Net increase in non-controlling Interests of $0.1 million and
- Foreign currency translation gain of $3.34 million;

and offset by a decrease in:

- the share capital of $0.74 million from the Waterco Share Buy-Back.

The Group's working capital being current assets less current liabilities decreased from $31.28 million in 2017 to $30.11 million in 2018.

The Directors believe that the Group is in a strong and stable financial position.

Significant Changes in State of Affairs

The Directors are not aware of any significant changes in the state of affairs of the Consolidated Group that occurred during the financial year which have not been covered elsewhere in this report.

After Balance Date Events

Since the end of the reporting period, the Board resolved to pay a final dividend of 3 cents per share fully franked.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Group, the results of those operations, or the state of affairs of the Consolidated Group in future financial years.

Future Developments, Prospects and Business Strategies

Information as to future developments, prospects and business strategies in the operations of the Consolidated Group are included in the Chief Executive Officer's Review of Operations. Other possible developments have not been included in this report as such inclusions would, in the opinion of the Directors, prejudice the interests of the Consolidated Group.

Environmental Issues

The Consolidated Group's operations are subject to some environmental regulations, particularly with regard to the storage of chemicals and waste management. The Consolidated Group has adequate systems in place for the management of its environmental requirements. The Directors are not aware of any breaches of the environmental regulations during the financial year.

Directors' Shareholdings

Details of the Directors' shareholdings are contained in Note 7 to the Financial Statements.

Meetings of Directors

During the financial year, 12 meetings of directors (including Audit and Remuneration Committees) were held. Attendances are set out below:

Director	Directors' Meeting		Audit Committee Meeting		Remuneration Committee Meeting	
	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended
Soon Sinn Goh	5	5	-	-	-	-
Bryan Goh	5	5	-	-	-	-
Garry Norman	5	5	5	5	2	2
Ben Hunt	5	5	5	5	2	2
Richard Ling	5	5	5	5	2	2

Indemnifying Officers or Auditor

During and since the financial year, the Company has paid premiums to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred by such an officer or auditor.

Directors' Benefits

No director has received or become entitled to receive, during or since the financial year, a benefit arising from a contract made by the parent entity, or a related body corporate with a director, a firm of which a director is a member or a director or an entity in which a director has a substantial financial interest other than:

i. Sales made by a controlled entity to Asiapools (M) Sdn Bhd of which Mr Soon Sinn Goh is a director and shareholder.

ii. Payments made for rental of warehouses and offices to Mint Holdings Pty Ltd of which Mr Soon Sinn Goh is a director and shareholder.

iii. Management fee charged to Mint Holdings Pty Ltd for rent, administration and secretarial services.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the Company's accounts or the fixed salary of a full time employee of the parent entity, controlled entity or related body corporate.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-Audit Services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

• all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

• the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and is included in the directors' report.

ASIC Corporations (rounding in Financial/Directors Reports) Instruments 2016/191

The amounts in the financial reports and directors' report have been rounded to the nearest thousand dollars in accordance with ASIC Corporations Instruments 2016/191.

Remuneration Report

Introduction

This report provides remuneration policy and payment details applying in the financial year for persons who were members of Key Management Personnel of the Company.

2018 Remuneration Policy

The Remuneration Committee governs the Company's Remuneration Policy. The Committee comprises Independent Non-Executive Directors.

It has the following objectives:

- attract, retain and motivate management of the appropriate calibre to further the success of the business;
- align management reward with shareholder value;
- ensure that total remuneration is reasonable and comparable with market standards;
- ensure that remuneration should realistically reflect the responsibilities of the executives;
- ensure that incentive schemes reward superior company performance and be clearly linked to appropriate performance benchmarks based on improved company performance; and
- ensure that the remuneration costs are disclosed in accordance with the requirements of law and relevant accounting standards.

The remuneration structure for Key Management Personnel of the Waterco Group comprises:

- Fixed remuneration. This consists of base salary and the full costs of other benefits; and
- Incentives. The level varies with performance. It consists of an annual incentive plan.

The Remuneration Committee reviews market data and the performance of the Group CEO. The Committee then recommends the fixed remuneration and annual incentive payment of the Group CEO for approval by the Board.

The Group CEO recommends Key Management Personnel's fixed remuneration and annual incentive payments to the Remuneration Committee. Fixed remuneration for Key Management Personnel is reviewed annually and determined by reference to appropriate benchmark information of comparable companies, taking into account their responsibility, performance, qualifications, experience and potential. Adjustments are made only if there is the prospect of fixed remuneration levels falling behind market levels.

The remuneration of Non-Executive Directors is fixed and does not change according to the performance of the company. They do not participate in any incentive plans available to managers. Non-Executive Directors are paid fees based on the nature of their work and their responsibilities. The Company makes superannuation guarantee (SG) payments, in addition to those fees. The level and structure of fees is based upon the need for the Company to be able to attract and retain Non-Executive Directors of an appropriate calibre, the demands of the role and prevailing market conditions.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

There has been an increase of 3% in the Non-Executive Director fees for the 2018/2019 financial year. The total fees are now at an aggregate of $179,576 plus Superannuation Guarantee Charge.

The Remuneration Committee seeks independent external advice when required.

Performance–based Remuneration policy, and its relationship with Company performance

There is an annual incentive plan in place for all Key Management Personnel. This is a payment that varies with performance measured over a twelve-month period.

There have been no changes in performance based remuneration policy compared with the prior reporting period.

Maximum payments are capped.

In the case of the Group CEO, the Remuneration Committee sets the performance requirements; in the case of other Key Management Personnel, the Group CEO recommends performance requirements for consideration by the Remuneration Committee.

The annual incentive performance criteria relate to the employee's responsibilities. If requirements are achieved, there will be an improvement in shareholder value.

The key performance requirements for an incentive payment are Net Profit After Tax (NPAT).

This provides a clear alignment between the interests of shareholders and the level of reward for eligible employees.

Performance criteria are tabulated below

Key Management Personnel with annual incentives	Summary of Performance Condition FY 18	Why Chosen
Soon Sinn Goh – Group CEO	Budgeted NPAT for the Waterco Group.	Encourage Group CEO to improve the performance levels of the Group as a whole and thereby increase shareholder wealth.
Key Management Personnel	Budgeted NPAT for the Waterco Group.	The performance of other Key Management Personnel can have a Group impact, so targets are based on Group performance.

The satisfaction of the performance conditions of the annual incentive is based on a review of the audited financial statements of the Group.

If the Group's performance, as a whole does not reach the relevant target levels, then no annual incentive payments are made.

None of the Company's Key Management Personnel achieved their performance targets in the year-ended 30 June 2018.

The following table shows the Sales Revenue, Net Profit Before Tax (NPBT), Net Profit After Tax (NPAT), Earnings Per Share (EPS), dividends and year-end share price in the financial year just ended and the previous four financial years for the consolidated Group.

Year ended	June 18	June 17	June 16	June 15	June 14
Sales Revenue ($million)	86.26	82.51	81.72	80.89	77.12
NPBT ($million)	5.72	5.33	3.82	3.05	1.93
EPS (cents)	10.3	9.7	7.6	4.1	2.6
Dividends per share paid (cents)	5.0	5.0	5.0	5.0	6.0
Year end share price ($)	2.05	1.70	1.28	1.00	1.15
NPAT ($million)	3.95	3.71	2.85	1.55	0.97

Please see commentary on performance on page 22.

Employment Details of Key Management Personnel

The following table provides employment details for the financial year for Key Management Personnel. The table also illustrates the proportion of remuneration that was performance and non-performance based.

			Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
	Position held as at 30 June 2018 and any change during the year	Contract details (duration & termination)	Non-salary cash-based incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/ Fees %	Total %
Key Management Personnel							
S S Goh	Chairman & Group CEO	No fixed term; may be terminated on 6 months' notice by either party	-	-	-	100	100
B Goh	Group Marketing Director - Executive	No fixed term; may be terminated on 2 months' notice by either party	-	-	-	100	100
G Norman	Director - Non-Executive	No fixed term, but subject to member confirmation every 3 years after AGM when first appointed.	-	-	-	100	100
B Hunt	Director - Non-Executive	No fixed term, but subject to member confirmation every 3 years after AGM when first appointed.	-	-	-	100	100
R Ling	Director - Non-Executive	No fixed term, but subject to member confirmation every 3 years after AGM when first appointed.	-	-	-	100	100
S T Lim	Chief Financial Officer	No fixed term, may be terminated on 2 months' notice by either party	-	-	-	100	100
B H Leo	Joint Company Secretary	No fixed term, may be terminated on 2 months' notice by either party	-	-	-	100	100
G Doumit	Chief Accountant/ Joint Company Secretary	No fixed term, may be terminated on 2 months' notice by either party	-	-	-	100	100

Changes in Directors and Key Management Personnel Subsequent to Year-end

There have been no changes in Directors and Key Management Personnel subsequent to year-end.

Remuneration Details

The following table provides remuneration details for the 2018 and 2017 financial years for Key Management Personnel.

		Short-term benefits			Post-employment benefits	Long-term benefits	
		Renumeration incl Salary, fees and leave	Profit share and bonus (3)	Non-monetary (2)	Pension and super-annuation	LSL	Total
		$	$	$	$	$	$
Key Management Personnel							
Soon Sinn Goh(1)	2018	404,564	-	-	14,001	2,967	421,532
	2017	392,516	25,000	-	11,689	2,814	432,019
Bryan Goh	2018	229,522	-	-	20,049	6,546	256,117
	2017	218,935	12,500	-	19,616	6,236	257,287
Garry Norman	2018	58,115	-	-	5,521	-	63,636
	2017	56,423	-	-	5,360	-	61,783
Ben Hunt	2018	58,115	-	-	5,521	-	63,636
	2017	56,423	-	-	5,360	-	61,783
Richard Ling	2018	58,115	-	-	5,521	-	63,636
	2017	56,423	-	-	5,360	-	61,783
Sze Tin Lim	2018	234,424	-	-	20,049	7,882	262,355
	2017	227,596	12,500	-	19,616	7,528	267,240
Bee Hong Leo	2018	195,840	-	-	19,436	7,399	222,675
	2017	191,386	8,750	-	18,182	7,081	225,399
Gerard Doumit	2018	172,859	-	22,349	17,013	6,055	218,276
	2017	171,705	8,750	16,023	16,490	5,787	218,755

(1) S S Goh's Remuneration of $421,532 is made up of $143,978 paid/payable by Waterco Ltd, $138,777 paid by Waterco (Far East) Sdn Bhd (a subsidiary) and $138,777 paid by Waterco International Pte Ltd (a subsidiary).

(2) Non-monetary benefits are made up of Company vehicle benefits.

(3) Bonus was paid to Key Management Personnel in December 2017.

Securities Received that are not Performance Related

No Key Management Personnel are entitled to receive securities which are not performance based as part of their remuneration package.

Cash incentives, Performance-related Bonus and Share-based Payments

No options or other share based payments were granted in the 2018 financial year.

Maximum cash incentives expressed as a percentage of fixed remuneration and the maximum value that could have been earned in 2017/2018 if stretch performance targets were achieved are tabulated below:

Position	Maximum possible incentive as a percentage of fixed pay	Maximum possible incentive $
Key Management Personnel		
Group CEO, Waterco Limited	24%	$100,000
Group Marketing Director, Waterco Limited	20%	$50,000
CFO, Waterco Limited	19%	$50,000
Joint Company Secretary, Waterco Limited	16%	$35,000
Chief Accountant/Joint Company Secretary, Waterco Limited	16%	$35,000

The percentage of cash incentives payable and forfeited for the year to key management personnel.

Key Management Personnel	Short term incentive in respect of 2018 financial year	
	Payable %	Forfeited %
S S Goh	0%	100%
B Goh	0%	100%
S T Lim	0%	100%
B H Leo	0%	100%
G Doumit	0%	100%

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors:

Soon Sinn Goh
Chairman

Dated at Sydney this 12 September 2018

Auditor's Independence Declaration

RSM

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Waterco Limited for the year ended 30 June 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 audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS

D Talbot

D Talbot
Partner

Sydney, NSW
Dated: 12 September 2018

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Consolidated Financial Report

for the year ended 30 June 2018

Consolidated Statement of Profit or Loss and other Comprehensive Income

For The Year Ended 30 June 2018

	Note No.	Consolidated Group 2018 $000	2017 $000
Revenues	3	87,832	85,205
Changes in inventories of finished goods and work in progress		(5,784)	1,096
Raw materials and consumables used		(37,368)	(44,397)
Employee benefits expense		(18,607)	(17,166)
Depreciation and amortisation expense	4	(1,577)	(1,452)
Finance costs	4	(1,000)	(980)
Advertising expense		(1,706)	(1,897)
Discounts allowed		(145)	(149)
Outward freight expense		(1,576)	(1,424)
Rent expense	4	(2,662)	(2,667)
Research and development		(1,582)	(1,224)
Insurance – general		(798)	(796)
Contracted staff expense		(234)	(183)
Warranty expense		(706)	(641)
Commission expense		(260)	(184)
Increased cost of working – Rydalmere fire		-	(411)
Other expenses		(8,106)	(7,401)
Profit before income tax expense		5,721	5,329
Income tax expense	6	(1,771)	(1,622)
Profit for the year		3,950	3,707
Other comprehensive income			
Items that will not be classified subsequently to profit or loss			
Property revaluation increment (net of tax)		5,096	6,294
Items that maybe reclassified to profit or loss			
Exchange translation differences		3,348	(2,816)
Other comprehensive income for the year		8,444	3,478
Total comprehensive income for the year		12,394	7,185
Profit attributable to :			
Members of the parent entity		3,846	3,635
Non-controlling interest		104	72
		3,950	3,707
Total comprehensive income for the year attributable to:			
Members of the parent entity		12,290	7,113
Non-controlling interest		104	72
Total comprehensive income for the year		12,394	7,185
Earnings per share			
Basic earnings per share (cents per share)	29	10.3	9.7
Diluted earnings per share (cents per share)	29	10.3	9.7

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As At 30 June 2018

	Note No.	Consolidated Group 2018 $000	2017 $000
ASSETS			
Current Assets			
Cash and cash equivalents	8	4,291	4,634
Trade and other receivables	9	12,636	12,861
Inventories	10	37,590	29,775
Other current assets	11	832	667
Total Current Assets		55,349	47,937
Non-Current Assets			
Property, plant & equipment	13	60,696	52,344
Intangible assets	14	189	135
Deferred tax assets	17	352	361
Total Non-Current Assets		61,237	52,840
Total Assets		116,586	100,777
LIABILITIES			
Current Liabilities			
Trade and other payables	15	10,040	11,461
Borrowings	16	12,786	2,388
Current tax liabilities	17	277	690
Short term provisions	18	2,132	2,120
Total Current Liabilities		25,235	16,659
Non-Current Liabilities			
Borrowings	19	11,039	15,805
Deferred tax liabilities	17	5,932	3,734
Long-term provisions	20	211	200
Total Non-Current Liabilities		17,182	19,739
Total Liabilities		42,417	36,398
Net Assets		74,169	64,379
EQUITY			
Issued capital	21	38,590	39,333
Reserves	22	20,936	12,492
Retained earnings	23	13,944	11,959
Parent interest		73,470	63,784
Non-controlling interest		699	595
Total Equity		74,169	64,379

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

		Ordinary Shares	Retained Earnings	Capital Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Non-Controlling Interests	Total
Consolidated Group	**Note No.**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Balance at 30/6/16		39,582	10,194	211	13,253	(4,450)	523	59,313
Comprehensive income								
Profit for the year		-	3,635	-	-	-	72	3,707
Other comprehensive income for the year		-	-	-	6,294	(2,816)	-	3,478
Total comprehensive income for the year		-	3,635	-	6,294	(2,816)	72	7,185
Transactions with owners, in their capacity as owners and other transfers								
Issue of shares under Waterco DRP		732	-	-	-	-	-	732
Cancellation of shares under Waterco Share Buyback		(981)	-	-	-	-	-	(981)
Dividends paid	28	-	(1,870)	-	-	-	-	(1,870)
Total transactions with owners and other transfers		(249)	(1,870)	-	-	-	-	(2,119)
Balance at 30/6/17		39,333	11,959	211	19,547	(7,266)	595	64,379
Comprehensive income								
Profit for the year		-	3,846	-	-	-	104	3,950
Other comprehensive income for the year		-	-	-	5,096	3,348	-	8,444
Total comprehensive income for the year		-	3,846	-	5,096	3,348	104	12,394
Transactions with owners, in their capacity as owners and other transfers								
Cancellation of shares under Waterco Share Buyback		(743)	-	-	-	-	-	(743)
Dividends paid	28	-	(1,861)	-	-	-	-	(1,861)
Total transactions with owners and other transfers		(743)	(1,861)	-	-	-	-	(2,604)
Balance at 30/6/18		38,590	13,944	211	24,643	(3,918)	699	74,169

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For The Year Ended 30 June 2018

	Consolidated Group	
	2018 $000	2017 $000
Cash Flows from Operating Activities		
Receipts from customers	92,478	86,822
Payments to suppliers and employees	(94,276)	(77,838)
Interest received	22	96
Other Income	1,544	2,600
Finance costs	(1,000)	(980)
Income tax paid	(1,808)	(1,069)
Net cash (used in) / provided by operating activities (note 32)	(3,040)	9,631
Cash Flows from Investing Activities		
Dividend received	1	-
Payment for property, plant & equipment	(3,410)	(3,316)
Payment for intangibles	-	(81)
Proceeds from sale of property, plant & equipment	138	143
Net cash (used in) investing activities	(3,271)	(3,254)
Cash Flows from Financing Activities		
Proceeds from bank borrowings	9,595	-
Repayment of bank borrowings	(4,763)	(3,696)
Proceeds from issue of shares	-	732
Share buyback	(743)	(981)
Payment of hire purchase creditors	(114)	(160)
Payment of lease liabilities	(305)	(181)
Dividends paid	(1,861)	(1,870)
Net cash provided by / (used in) financing activities	1,809	(6,156)
Net (decrease) / increase in cash held	(4,502)	221
Cash at beginning of the year	4,634	4,518
Effects of exchange rate changes on balance of cash held in foreign currencies	3,287	(105)
Cash and cash equivalents the end of the year (Note 8)	**3,419**	**4,634**

The accompanying notes form part of these financial statements.

Note 1: Statement of Significant Accounting Policies

These consolidated financial statements and notes represent those of Waterco Limited and controlled entities, ("Group").

Waterco Limited (a for-profit entity) is a listed public company, incorporated and domiciled in Australia.

The separate financial statements of the parent entity, Waterco Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 12 September 2018.

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Waterco Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 12. All subsidiaries have a 30 June financial year end except for Waterco Guangzhou Ltd, Waterco (C) Ltd, and PT Waterco Indonesia which have a 31 December financial year end. The reason for this is local company regulation.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Note 1: Statement of Significant Accounting Policies (continued)

b. Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific 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.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

c. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

d. Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a standard cost basis. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Net realisable value is determined as the estimated selling price less costs to sell.

e. Income Tax

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Note 1: Statement of Significant Accounting Policies (continued)

e. Income Tax (continued)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Waterco Limited and its wholly-owned Australian Subsidiaries have formed a consolidated group for the purposes of the tax consolidation provisions of the Income Tax Assessment Act 1997. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the "stand-alone taxpayer" approach to allocation. All of the deferred tax assets and liabilities of the subsidiary members have become part of the deferred assets and liabilities of Waterco Ltd. Each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the consolidated group. The group notified the ATO on 20 January 2005 that it had formed an income tax consolidated group to apply from 1 July 2003.

f. Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of comprehensive income. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

Note 1: Statement of Significant Accounting Policies (continued)

g. Employee Benefits

Provision for employee benefits, which include long service leave, and annual leave are computed to cover expected benefits at balance date.

Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. (see note 18)

Employee benefits (long service leave) payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

Contributions are made by the consolidated group to an employee superannuation fund and are charged as expenses when incurred. The consolidated group has no legal obligation to cover any shortfall in the funds obligations to provide benefits to employees on retirement.

h. Deferred Expenditure

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

i. Acquisition of Assets

The cost method of accounting has been used for acquisition of all assets (including shares). Cost is defined as the fair value of the assets given up at the date of acquisition plus costs incidental to acquisition. Where goodwill arises, it is brought to account.

j. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Property

Land and buildings are measured on a fair value basis being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction.

The value of the land and buildings owned by the consolidated group are based on the following independent valuations:

Land & Buildings	Date of Valuation	Amount
Rydalmere NSW	27 April 2018	AUD 21,700,000
Malaysia	13 April 2017	AUD 18,165,854 (MYR 60,000,000)
China	8 June 2018	AUD 9,621,952 (RMB 47,039,800)
USA	12 February 2016	AUD 2,145,086 (USD 1,650,000)

Increases (net of deferred taxes) in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Note 1: Statement of Significant Accounting Policies (continued)

j. Property, Plant and Equipment (continued)

Property (continued)

On 27 April 2018, Waterco Ltd revalued its Rydalmere property resulting in an increase in the value of the property from $A16,000,000 to $A21,700,000.

On 8 June 2018, Waterco (C) Ltd revalued its property resulting in an increase in the value of the property from RMB46,459,800 ($A8,923,080) to RM47,039,800 ($A9,621,952).

However, on translation, the Australian Dollar amount was much higher as the Chinese Renminbi was stronger compared to the previous period.

Both of the above valuations were performed by independent valuers.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(m) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated over their useful lives commencing from the time the asset is ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in operating profit before income tax of the consolidated group in the year of disposal.

Depreciation where applicable has been charged in the accounts so as to write off each asset over the estimated useful life of the asset concerned. Either the diminishing value or straight line method, as considered appropriate, is used. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate		
Buildings	1.50%	-	2.50%
Plant and equipment	6.00%	-	33.33%
Hire Purchase Assets	10.00%	-	20.00%
Leased plant and equipment	13.00%	-	20.00%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are recognised in the profit and loss in the period in which they arise.

Note 1: Statement of Significant Accounting Policies (continued)

k. Revenue and Other Income

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.

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.

All revenue is stated net of the amount of goods and services tax (GST).

l. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cashflows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

m. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

n. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within twelve months at the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment (see 1 m.)

o. Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

p. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

q. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position.

Note 1: Statement of Significant Accounting Policies (continued)

r. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

s. Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or, when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Note 1: Statement of Significant Accounting Policies (continued)

s. Financial Instruments (continued)

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

t. Current and non-current classifications

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when:

i. it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle;

ii. it is held primarily for the purpose of trading;

iii. it is expected to be realised within 12 months after the end of the reporting period; or

iv. the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

i. it is either expected to be settled in the consolidated entity's normal operating cycle;

ii. it is held primarily for the purpose of trading;

iii. it is due to be settled within 12 months after the end of the reporting period; or

iv. there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

u. Rounding of Amounts

The amounts in the financial statements and directors' report have been rounded off to the nearest $1,000 in accordance with ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191.

v. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates

(i) Inventory Classification

Included in inventory are certain inventory items held to service existing products and various components used in the manufacturing process. The nature of these items may require them to be included in inventory for more than one year. Management have evaluated these inventory items and do not consider the carrying value of these items as material. All inventory items have therefore been classified as current.

(ii) Inventory Obsolescence

Management review inventory reports on a regular basis to determine slow-moving or obsolescence.
Appropriate provisions are carried for impairment of slow-moving items. Obsolete items are disposed of as and when identified.

(iii) Impairment-General

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Note 1: Statement of Significant Accounting Policies (continued)

w. Revenue from Contracts with Customers AASB 15

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The core principle of this standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard will require:

i. contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract;

ii. determination of the transaction price, adjusted for the time value of money excluding credit risk;

iii. allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or

iv. estimation approach if no distinct observable prices exist; and

v. recognition of revenue when each performance obligation is satisfied.

For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be 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. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018.

The Consolidated Group's two main sources of revenue are sales of goods and services and franchise income.

Since Waterco provided warranty to its customers, this gives rise to a separate performance obligation. As a result of this, under the new standard, Waterco will defer an element of sales revenue and recognise it over the warranty period. We have calculated (if applied this year) this to be a reduction of approximately 0.3% of sales revenue for the year and a reduction of approximately 3.4% of net assets as at balance date. Under the new standard, we are not expecting a material change in relation to franchise income.

Notes To The Financial Statements

For the year ended 30 June 2018

Note 1: Statement of Significant Accounting Policies (continued)

x. New Accounting Standards for Application in Future Periods or Current Financial Reporting Period

New standards and interpretations issued but not yet effective

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
AASB 9	Financial Instruments	This Standard will be applicable retrospectively and includes revised requirements for the classification of and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting. New impairment provisions will use an "expected credit loss" ('ECL') model to recognise an allowance.	1 January 2018	Minimal impact
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	Consequential amendments arising from the issuance of AASB 9	1 January 2018	Minimal impact
AASB 2015-8	Amendments to Australian Accounting Standards arising from AASB 15 Effective date of AASB15	Deferral of application of AASB15 and ammendments to 1 January 2018 Consequential amendments arising from the issuance of AASB 15.	1 January 2018	Minimal impact
AASB 16	Leases	This standard replaces AASB 117 and introduces a single lease accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes included a) the recognition of right to use assets for all leases and the depreciation of those assets b) Variable lease assets that depend on an index or a rate that are included in the initial measurement of a lease liability	1 January 2019	Minimal impact
AASB2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	The Standard is applicable to annual reporting periods beginning on or after 1 January 2018 and provides guidance on the treatment of vesting conditions in a cash-settled share-based payment arrangement. Since the entity does not have a policy of awarding such payments, AASB2016-5 is not expected to impact the Group's financial statements.	1 January 2018	Disclosures only

Note 1: Statement of Significant Accounting Policies (continued)

x. New Accounting Standards for Application in Future Period or the Current Financial Reporting Period

New standards and interpretations issued and applicable in the current financial reporting period

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
2016-1	Amendments to Australian accounting Standards – Recognised to Deferred tax Assets for Unrealised Losses	This standard amends AASB 112 Income Taxes (July 2004) and AASB Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debts instruments measured at fair value	1 January 2017	Minimal impact
2016-2	Amendments to Australian accounting Standards – Disclosure Initiatives : Amendment to AASB 107	This standards amends AASB 107 Statement of Cash flow (August 2015 to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enables users of financial statement to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	Disclosures only

y. Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Notes To The Financial Statements

For the year ended 30 June 2018

Note 2: Parent Information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with accounting standards.

STATEMENT OF FINANCIAL POSITION

	2018 $000	2017 $000
ASSETS		
Current Assets	19,698	17,814
TOTAL ASSETS	84,848	73,418
LIABILITIES		
Current Liabilities	20,473	15,508
TOTAL LIABILITIES	32,688	26,709
EQUITY		
Issued capital	38,590	39,333
Capital profits reserve	180	180
Asset revaluation reserve	11,132	6,858
Retained earnings	2,258	338
TOTAL EQUITY	52,160	46,709

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2018 $000	2017 $000
Total profit after tax	3,779	(726)
Total comprehensive income	8,054	4,905

Guarantees

At 30th June 2018, Waterco Ltd has provided guarantees up to RM11,150,000 and USD1,000,000 (AUD5,089,968) (2017: RM11,150,000 and USD1,000,000 (AUD4,675,873)) to two Malaysian Banks for loans provided to a subsidiary, Waterco (Far East) Sdn Bhd.

Contingent Liabilities

At 30th June 2018, Waterco Ltd has provided guarantees of $6,464,995 (2017: $8,587,531) to landlords for leases of premises subleased to its Swimart Franchisees.

Contractual Commitments

At 30th June 2018, Waterco Ltd has not entered any contractual commitments for the acquisition of any property, plant and equipment. (2017: nil).

	Consolidated Group	
	2018 $000	2017 $000
Note 3: Revenue and Other Income		
Revenue from Continuing Operations		
Sales revenue		
• Sale of goods	86,265	82,508
Other revenue		
• Interest received 3(a)	22	96
• Rent	223	211
• Insurance compensation	-	1,682
• Other	1,322	708
Total Revenue	87,832	85,205
(a) Interest received or receivable from		
• Other persons	22	96
Total interest revenue	22	96
Other Income		
Net gain on disposal of non-current assets		
• Property, plant and equipment	19	22

Insurance Compensation

As a result of the fire at its Rydalmere Head Office on 7 January 2015, Waterco Ltd made a claim with its insurance company for compensation for losses resulting from the fire.

As at 30 June 2018, the amount of claim comprises:

	2018	2017
Building reinstatement	-	(3,254)
Plant & equipment replaced	-	1,682
Increased cost of working	-	411
Plant & equipment at carrying value	-	(934)
		(2,095)
Insurance receivable brought forward	-	3,166
	-	1,071
Less:		
Insurance receipts	-	1,071
Insurance receivable at year end (see note 9)	-	-

	Consolidated Group	
	2018	2017
	$000	$000
Note 4: Profit for the Year		
Profit for the year has been determined after:		
(a) Expenses:		
Cost of Sales	44,026	43,316
Finance costs:		
• Borrowings	968	952
• Hire purchase expense	2	9
• Finance charges on finance leases	30	19
	1,000	980
Depreciation of non-current assets :		
• Buildings	527	328
• Plant & equipment	824	801
• Hire purchase assets	45	61
• Capitalised leased assets	161	141
	1,557	1,331
Amortisation of non-current assets:		
• Land use rights	16	16
• Goodwill on acquisition	4	5
• Expenditure carried forward	-	100
	20	121
Total depreciation and amortisation	1,577	1,452
Bad and doubtful debts		
• Trade debtors	115	126
Rental expense on Operating leases		
• Minimum lease payments	2,662	2,667

	Consolidated Group	
	2018 $000	2017 $000

(b) Rydalmere Fire–Reinstatement of assets

On 7 January 2015, a fire occurred at the head office of Waterco Ltd located in Rydalmere NSW.

On 23 September 2016, Waterco moved back into the Rydalmere Office/Warehouse on completion of the new building.

The Rydalmere Property was reinstated following the completion of the building.

	2018 $000	2017 $000
Property		
Asset revaluation reserve	-	1,432
Building (reinstatement)	-	3,254
	-	4,686

Note 5: Auditors' Remuneration

	2018 $000	2017 $000
Remuneration of the auditor of the parent entity for:		
• Audit or reviewing the financial report	168	154
Remuneration of other auditors of subsidiaries for:		
• Auditing or reviewing the financial report of subsidiaries	133	136

	Consolidated Group	
	2018 $000	2017 $000
Note 6: Income Tax Expense		
(a) The components of tax expense comprise:		
• Current tax	1,557	1,758
• Deferred tax	275	(136)
• Recoupment of prior year tax losses	(61)	-
	1,771	1,622
(b) The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax	5,721	5,329
Prima facie tax payable on profit before income tax at 30% (2017: 30%)	1,716	1,599
Add		
Tax effect of:		
• Depreciation of buildings	52	27
• Foreign controlled entities tax losses not tax effected	487	646
• Unrealised foreign exchange losses	8	-
• Non deductible expenses	76	-
• Other	27	51
Less		
Tax effect of:		
• Research and development	140	102
• Effects of lower rates in overseas countries	286	268
• Unrealised foreign exchange gains	-	44
• Exempt income	73	-
• Overprovision for tax in prior years	88	44
• Reinvestment allowance	-	241
• Other	8	2
Income tax expense attributable to entity	1,771	1,622
The applicable weighted average effective tax rates are as follows:	31%	30%

Note 7: Key Management Personnel Compensation

(a) Key Management Personnel (KMP) Compensation

The total remuneration paid to KMP of the company and the Group during the year are as follows:

	Consolidated Group	
	2018	2017
	$000	$000
Short-term employee benefits	1,434	1,455
Post-employment benefits	107	102
Other long term benefits	31	29
	1,572	1,586

Refer to the remuneration report contained in the directors' report for remuneration paid or payable to each KMP for the year ended 30 June 2018

(b) Shareholdings

Number of Shares held by Key Management Personnel

2018

Key Management Personnel	Balance 1.7.2017	Received as Remuneration	Net Change Other	Balance 30.6.2018
Mr S S Goh	21,705,978	-	15,875	21,721,853
Mr B Goh	540,121	-	-	540,121
Mr G Norman	155,114	-	-	155,114
Mr B Hunt	370,223	-	-	370,223
Mr R Ling	-	-	-	-
Mr S T Lim	102,817	-	-	102,817
Mrs B H Leo	6,000	-	-	6,000
Mr G Doumit	71,300	-	-	71,300

2017

Key Management Personnel	Balance 1.7.2016	Received as Remuneration	Net Change Other	Balance 30.6.2017
Mr S S Goh	21,303,723	-	402,255	21,705,978
Mr B Goh	540,065	-	56	540,121
Mr G Norman	154,027	-	1,087	155,114
Mr B Hunt	362,345	-	7,878	370,223
Mr R Ling	-	-	-	-
Mr S T Lim	102,817	-	-	102,817
Mrs B H Leo	66,361	-	(60,361)	6,000
Mr G Doumit	71,300	-	-	71,300

Note 7: Key Management Personnel Compensation (continued)

(c) Compensation Practices

In constructing, reviewing and determining the remuneration policy for Executive Directors and the senior executive team, the Board and Remuneration Committee have considered a number of factors including:

- the importance of attracting, retaining and motivating management of the appropriate calibre to further the success of the business;
- linking pay to performance by rewarding effective individual achievement as well as business performance; and
- the mix within the package which is designed to align personal reward with enhanced shareholder value over both the short and long-term.

The Executive Directors' and the senior executive team's package consists of two general components:

- fixed remuneration component consisting of base salary which executives may "salary sacrifice" and other benefits; and
- variable or "at risk" component consisting of an annual short term incentive plan for executives.

Remuneration of the company's Non-Executive Directors is determined by the Board, based on the nature of their work, responsibilities and market comparisons. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders.

CURRENT ASSETS
Note 8: Cash and cash equivalents

	Consolidated Group	
	2018 $000	2017 $000
Cash at bank and in hand (1)	4,291	4,634
Reconciliation of cash		
Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	4,291	4,634
Bank overdraft (note 16)	(872)	-
	3,419	4,634

(1) Includes $962,499 (2017:$769,829) in advertising levies held by Waterco Ltd in its capacity as the franchisor of the Swimart network and included in other creditors (see note 15). Amounts are held in a separate bank account at year end and are subject to restrictions in accordance with the franchise agreement and are therefore not available for general use by Waterco Ltd.

Note 9: Trade and other receivables

	2018 $000	2017 $000
Trade receivables	11,285	11,826
Less: provision for impairment of receivables	(431)	(422)
	10,854	11,404
Other receivables		
Sundry receivables	1,782	1,457
	1,782	1,457
	12,636	12,861

Provision for Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of sale. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Note 9: Trade and other receivables (continued)

Movements in the provision for impairment of receivables are as follows:

	Opening Balance 1.7.2016	Charge for the Year	Amounts Written Off	Closing Balance 30.6.2017
	$000	$000	$000	$000
Consolidated Group				
Current trade receivables	333	126	(37)	422

	Opening Balance 1.7.2017	Charge for the Year	Amounts Written Off	Closing Balance 30.6.2018
	$000	$000	$000	$000
Consolidated Group				
Current trade receivables	422	115	(106)	431

There are $2,370,000 (2017: $3,316,000) within trade and other receivables that are not impaired and are past due. It is expected these balances will be received in full. Impaired receivables are provided for in full.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			< 30	31–60	61–90	> 90	
	$000	$000	$000	$000	$000	$000	$000
Consolidated Group							
2018							
Trade and term receivables	11,285	431	948	528	894	-	8,484
Other receivables	1,783	-	-	-	-	-	1,783
Total	13,068	431	948	528	894	-	10,267
2017							
Trade and term receivables	11,826	422	1,709	784	823	-	8,088
Other receivables	1,457	-	-	-	-	-	1,457
Total	13,283	422	1,709	784	823	-	9,545

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

	Consolidated Group	
	2018	2017
	$000	$000
Note 10: Inventories		
Raw materials and stores at cost	11,280	9,249
Work in progress at cost	3,080	918
Finished goods at cost	23,381	20,043
Goods in transit at cost	1,726	1,740
Provision for inventory write-down	(1,877)	(2,175)
	37,590	29,775
Note 11: Other current assets		
Prepayments	832	667
	832	667

NON CURRENT ASSETS
Note 12: Interests in Subsidiaries

	Country of incorporation	Carries on business in	% owned 2018	2017
Parent Entity				
Waterco Limited	Australia	Australia	-	-
Controlled Entities of Waterco Limited:				
Swimart Pty Ltd	Australia	Australia	100	100
Zane Solar Systems Australia Pty Ltd	Australia	Australia	100	100
Swimart Network Pty Ltd	Australia	Australia	100	100
Waterco USA Inc	USA	USA	100	100
Waterco Engineering Sdn Bhd	Malaysia	Malaysia	100	100
Waterco (Far East) Sdn Bhd	Malaysia	Malaysia	100	100
Watershoppe (M) Sdn Bhd	Malaysia	Malaysia	100	100
Baker Hydro (Far East) Sdn Bhd	Malaysia	Malaysia	100	100
Waterco Engineering Services Sdn Bhd*	Malaysia	Malaysia	-	100
Waterco (NZ) Ltd	New Zealand	New Zealand	100	100
Swimart (NZ) Ltd	New Zealand	New Zealand	100	100
Waterco (Guangzhou) Ltd	China	China	100	100
Waterco (C) Ltd	China	China	100	100
Waterco (Europe) Ltd	United Kingdom	United Kingdom	100	100
Waterco Canada Inc	Canada	Canada	100	100
PT Waterco Indonesia	Indonesia	Indonesia	51	51
Waterco International Pte Ltd	Singapore	Singapore	100	100
Waterco France	France	France	100	100
Beijing Waterco Trading Co Ltd**	China	China	100	-
Guangzhou Waterco Trading Co Ltd***	China	China	100	-
Shanghai Waterco Trading Co Ltd****	China	China	100	-

* Waterco Engineering Services Sdn Bhd (a dormant company) was placed into members voluntary winding up by shareholders on 16 May 2017 which was completed on 31 May 2018.

** Beijing Waterco Trading Co Ltd was incorporated on 15 March 2018 and is a fully owned subsidiary of Waterco (Guangzhou) Ltd

*** Guangzhou Waterco Trading Co Ltd was incorporated on 7 February 2018 and is a fully owned subsidiary of Waterco (Guangzhou) Ltd

**** Shanghai Waterco Trading Co Ltd was incorporated on 31 May 2018 and is a fully owned subsidiary of Waterco (C) Ltd

	Consolidated Group 2018 $000	Consolidated Group 2017 $000
Note 13: Property, plant & equipment		
Freehold land at independent valuation	17,442	14,987
Land use rights	5,004	4,352
Less: accumulated amortisation	(81)	(64)
	4,923	4,288
Freehold buildings at independent valuation	31,378	26,370
Less: accumulated depreciation	(791)	(609)
	30,587	25,761
Plant & equipment at cost	30,048	26,250
Less: accumulated depreciation	(22,970)	(19,820)
	7,078	6,430
Hire purchase assets	-	432
Less: accumulated depreciation	-	(147)
	-	285
Leased plant & equipment at cost	855	712
Less: accumulated depreciation	(189)	(119)
	666	593
Total written down value	60,696	52,344

Movements in Carrying Amounts

2018	Freehold Land $000	Buildings $000	Land use rights $000	Plant & Equipment $000	Leased Plant & Equipment $000	Hire Purchase Plant & Equipment $000	Total $000
Consolidated Group:							
Balance at the beginning of year	14,987	25,761	4,288	6,430	593	285	52,344
Effects of exchange rate changes	1,045	1,136	43	349	(6)	-	2,567
Additions		15	-	1,997	348	-	2,360
Revaluation	1,410	4,222	642	-	-	-	6,274
Disposals				(130)	(109)	(240)	(479)
Depreciation expense*		(547)	(50)	(1,568)	(160)	(45)	(2,370)
Carrying amount at the end of year	17,442	30,587	4,923	7,078	666	-	60,696

*Depreciation expense that is absorbed into the cost of manufactured inventory is $739,334.

2017	Freehold Land $000	Buildings $000	Land use rights $000	Plant & Equipment $000	Leased Plant & Equipment $000	Hire Purchase Plant & Equipment $000	Total $000
Consolidated Group:							
Balance at the beginning of year	13,298	16,739	4,544	5,659	399	345	40,984
Effects of exchange rate changes	(959)	(1,085)	(240)	(367)	-	-	(2,651)
Additions	-	364	-	2,953	393	-	3,710
Revaluation	2,648	5,569	-	-	-	-	8,217
Reinstatement	-	4,686	-	-	-	-	4,686
Disposals	-	-	-	(141)	(58)	-	(199)
Depreciation expense*	-	(512)	(16)	(1,674)	(141)	(60)	(2,403)
Carrying amount at the end of year	14,987	25,761	4,288	6,430	593	285	52,344

*Depreciation expense that is absorbed into the cost of manufactured inventory is $1,072,000.

	Consolidated Group 2018 $000	Consolidated Group 2017 $000
Note 13: Property, Plant & Equipment (continued)		
If Land & Buildings were stated at historic cost, amounts would be as follows:		
Cost	28,367	26,637
Less: Accumulated depreciation	(6,091)	(5,358)
Net book value	22,276	21,279

The Group's land and buildings were revalued as per the disclosures in note 1(j). The directors consider the carrying value of the land and buildings to be a fair reflection of their market value.

Note 14: Intangible assets

	2018 $000	2017 $000
Goodwill	78	81
Less: accumulated impairment	(4)	(1)
	74	80
Product development costs	115	55
less: accumulated amortisation	-	-
	115	55
	189	135

Movements in Carrying Amounts

	Goodwill $000	Deferred expenditure $000	Total $000
Consolidated Group:			
Balance at the beginning of year	80	55	135
Additions	-	60	60
Disposals	-	-	-
Effects of exchange rate changes	(2)	-	(2)
Impairment/amortisation expense	(4)	-	(4)
Carrying amount at the end of year	74	115	189

Notes To The Financial Statements

For the year ended 30 June 2018

	Consolidated Group 2018 $000	2017 $000
CURRENT LIABILITIES		
Note 15: Trade and other payables - unsecured		
Trade creditors	6,381	7,045
Sundry creditors and accrued expenses (1)	3,659	4,416
	10,040	11,461
(1) Included in sundry creditors are advertising levies collected of $962,499 (2017:$769,829) and held by Waterco Ltd in its capacity as the franchisor of the Swimart network. These amounts are held in a separate bank account at year end (see Note 8).		
Note 16: Borrowings		
Bank loans - secured (refer Note 19)	11,691	2,095
Bank overdraft	872	-
Hire purchase creditors	-	116
Unexpired interest	-	(2)
Lease liability	223	179
	12,786	2,388
Note 17: Taxes		
a) Liabilities		
Current		
Income Tax	277	690
Non Current Deferred tax liability comprises:		
Tax allowances relating to property, plant & equipment	1,172	1,036
Revaluation adjustments taken direct to equity	5,525	3,647
Other	(245)	(295)
	6,452	4,388
Parent entity DTA netted off against DTL	(520)	(654)
Consolidated DTL	5,932	3,734
b) Assets		
Current		
Income Tax	-	-
Deferred tax assets comprises:		
Provisions	742	828
Attributable to tax losses	-	18
Tax allowances relating to property, plant & equipment	(217)	(186)
Other	347	355
	872	1,015
Parent entity DTA netted off against DTL	(520)	(654)
Consolidated DTA	352	361

Notes To The Financial Statements

For the year ended 30 June 2018

	Consolidated Group	
	2018 $000	2017 $000
Note 17: Taxes (continued)		
c) Reconciliations		
i. Gross Movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	(3,373)	(866)
Credit/(Charge) to statement of comprehensive income	(70)	173
Credit/(Charge) to equity	(2,136)	(2,680)
Closing Balance	(5,579)	(3,373)
ii. Deferred Tax Liability		
The movement in deferred tax liability for each temporary difference during the year is as follows:		
Tax allowances relating to property, plant & equipment		
Opening balance	1,036	1,732
Transfer to deferred tax asset	-	(760)
Credit/(Charge) to statement of comprehensive income	136	64
Closing balance	1,172	1,036
Property revaluation adjustments taken direct to equity		
Opening balance	3,647	910
Net revaluations during current period taken direct to equity	1,878	2,737
Net revaluation during current period charged to statement of comprehensive income	-	-
Closing balance	5,525	3,647
Other		
Opening balance	(295)	(123)
Credit/(charge) to statement of comprehensive income	50	(172)
Closing balance	(245)	(295)
iii. Deferred Tax Assets		
The movement in deferred tax asset for each temporary difference during the year is as follows:		
Provisions		
Opening balance	828	843
Credit/(Charge) to statement of comprehensive income	(86)	(15)
Closing balance	742	828
Income tax losses		
Opening balance	-	61
Credit/(Charge) to statement of comprehensive income	-	(60)
Credit/(Charge) to equity	-	(1)
Closing balance	-	-
Capital tax losses		
Opening balance	18	18
Credit/(charge) to statement of comprehensive income	(18)	-
Closing balance	-	18
Tax allowances relating to Property plant & equipment		
Opening balance	(186)	650
Transfer from deferred tax liability	-	(758)
Credit/(Charge) to statement of comprehensive income	(31)	(78)
Closing balance	(217)	(186)
Other		
Opening balance	353	81
Credit/(charge) to statement of comprehensive income	(6)	274
Closing balance	347	355

	Consolidated Group	
	2018	2017
	$000	$000
Note 17: Taxes (continued)		
d) Deferred tax assets not brought to account the benefits of which can only be realised in if the conditions for deductibility set out in note 1e occur - tax losses		
- Operating losses	5,338	7,297
	5,338	7,297
Note 18: Short-term provisions		
Employee Benefits (see note 1g)		
Opening Balance	2,120	1,691
Additional provisions	1,171	1,186
Amounts used	(1,159)	(757)
Closing Balance	2,132	2,120
NON-CURRENT LIABILITIES		
Note 19: Borrowings		
Bank loans - secured (1)	10,683	15,448
Bank overdraft	-	-
Lease liability	356	357
	11,039	15,805

(1) Bank facilities of the group are secured by a first ranking general security interest over all the assets and undertakings of the parent entity (including a first registered mortgage over the Rydalmere Property), and corporate guarantees from the parent entity to the banks of an overseas subsidiary. That part of the facilities that are payable or subject to an annual review within 12 months are classified as current.

Bank loan amount of AUD12,000,000 relates to the parent entity and bears interest at 2.835% - 3.635% repayable by quarterly instalments with a maturity date of 27 November 2021. Bank loan amount of AUD10,374,000 relates to a subsidiary and bears interest at 4.80%-5.10% repayable by monthly instalments with maturity dates of December 2021 and June 2031.

	2018	2017
Note 20: Long-term provisions		
Employee Benefits (see note 1g)		
Opening balance	200	184
Additional provisions	11	16
Amounts used	-	-
Closing balance	211	200
a) Aggregate employee entitlement liability	2,343	2,320
b) Number of employees at year end	661	593

	Consolidated Group	
	2018 $000	2017 $000
Note 21: Issued capital		
Ordinary shares are classified as equity.		
Incremental costs directly attributable to the issue of new shares or options are shown in equity as deduction, net of tax from proceeds.		
37,494,704 ordinary shares fully paid at beginning of the year (2017: 37,637,066)	39,333	39,582
On 31 July 2017, 112,117 shares were purchased at $1.70 and cancelled under Waterco Ltd Share-buyback Scheme	(191)	-
On 31 August 2017, 35,679 shares were purchased at $1.70 and cancelled under Waterco Ltd Share-buyback Scheme	(61)	-
On 30 September 2017, 9,535 shares were purchased at $1.64 and cancelled under Waterco Ltd Share-buyback Scheme	(16)	-
On 31 October 2017, 18,459 shares were purchased at $1.64 and cancelled under Waterco Ltd Share-buyback Scheme	(30)	-
On 30 November 2017, 151,105 shares were purchased at $1.84 and cancelled under Waterco Ltd Share-buyback Scheme	(278)	-
On 31 December 2017, 19,850 shares were purchased at $1.96 and cancelled under Waterco Ltd Share-buyback Scheme	(39)	-
On 31 January 2018, 15,164 shares were purchased at $1.99 and cancelled under Waterco Ltd Share-buyback Scheme	(30)	-
On 28 February 2018, 21,642 shares were purchased at $2.00 and cancelled under Waterco Ltd Share-buyback Scheme	(43)	-
On 31 March 2018, 7,135 shares were purchased at $2.00 and cancelled under Waterco Ltd Share-buyback Scheme	(14)	-
On 30 April 2018, 5,661 shares were purchased at $2.00 and cancelled under Waterco Ltd Share-buyback Scheme	(11)	-
On 31 May 2018, 10,012 shares were purchased at $2.00 and cancelled under Waterco Ltd Share-buyback Scheme	(20)	-
On 30 June 2018, 4,940 shares were purchased at $2.00 and cancelled under Waterco Ltd Share-buyback Scheme	(10)	-
On 31 July 2016, 86,509 shares were purchased at $1.2173 and cancelled under Waterco Ltd Share-buyback Scheme	-	(107)
On 31 August 2016, 86,386 shares were purchased at $1.2961 and cancelled under Waterco Ltd Share-buyback Scheme	-	(112)
On 30 September 2016, 112,542 shares were purchased at $1.4998 and cancelled under Waterco Ltd Share-buyback Scheme	-	(169)
On 31 October 2016, 15,000 shares were purchased at $1.48 and cancelled under Waterco Ltd Share-buyback Scheme	-	(22)
On 30 November 2016, 46,699 shares were purchased at $1.46 and cancelled under Waterco Ltd Share-buyback Scheme	-	(68)
On 15 December 2016, 530,691 shares were issued at $1.38 each under the Waterco Ltd DRP	-	732
On 31 December 2016, 10,000 shares were purchased at $1.50 and cancelled under Waterco Ltd Share-buyback Scheme	-	(15)
On 31 January 2017, 35,028 shares were purchased at $1.45 and cancelled under Waterco Ltd Share-buyback Scheme	-	(51)
On 28 February 2017, 180,398 shares were purchased at $1.50 and cancelled under Waterco Ltd Share-buyback Scheme	-	(270)
On 31 March 2017, 12,061 shares were purchased at $1.56 and cancelled under Waterco Ltd Share-buyback Scheme	-	(19)
On 30 April 2017, 5,134 shares were purchased at $1.64 and cancelled under Waterco Ltd Share-buyback Scheme	-	(9)
On 31 May 2017, 57,865 shares were purchased at $1.65 and cancelled under Waterco Ltd Share-buyback Scheme	-	(96)
On 30 June 2017, 25,431 shares were purchased at $1.70 and cancelled under Waterco Ltd Share-buyback Scheme	-	(43)
37,083,405 ordinary shares fully paid at the end of the year (2017: 37,494,704)	38,590	39,333

Note 21: Issued Capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and, upon a poll, each share shall have one vote.

Share buy-back

On 7 April 2016, the company announced the buyback of $1,000,000 worth of shares (maximum number of 925,925) commencing on 7 April 2016 and ending on 7 April 2017 (or earlier if the $1,000,000 is purchased before then). During the current year, the company purchased and cancelled nil shares (2017:584,623) costing $nil (2017:$833,629). This Share buyback expired on 7 April 2017.

On 21 April 2017, the company announced a second share buyback of $2,000,000 worth of shares (approximately 1,234,567 shares) commencing on 24 April 2017 and ending on 23 April 2018 (or earlier if the $2,000,000 is purchased before then). During the current year, the company purchased and cancelled 396,347(2017:88,430) shares costing $712,978 (2017$147,284). This Share buyback expired on 23 April 2018.

On 23 April 2018, the company announced a third share buyback of $2,500,000 worth of shares (approximately 1,250,000 shares) commencing on 24 April 2018 and ending on 23 April 2019 (or earlier if the $2,500,000 is purchased before then). During the current year, the company purchased and cancelled 15,952 shares costing $29,904.

Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains between 30% and 70%. The gearing ratios for the year ended 30 June 2018 and 30 June 2017 are as follows:

	Consolidated Group	
	2018 $000	2017 $000
Total borrowings	23,825	18,193
Less cash and cash equivalents	(4,291)	(4,634)
Net debt	19,534	13,559
Total equity	74,169	64,379
Total capital	93,703	77,938
Gearing ratio	26%	21%

		Consolidated Group	
	Note No.	2018 $000	2017 $000
Note 22: Reserves			
a) Capital profits		211	211
The capital profits reserve relates to non taxable profits on sale of property.			
b) Foreign currency translation		(3,918)	(7,266)
The foreign currency translation reserve records exchange differences on translation of foreign controlled subsidiaries			
c) Asset revaluation reserve			
Balance at the beginning of the year		19,547	13,253
Property revaluation increment (net of tax and reinstatement)		5,096	6,294
Balance at the end of the year		24,643	19,547
The asset revaluation reserve records the revaluation of non-current assets			
		20,936	12,492

	Note No.	2018 $000	2017 $000
Note 23: Retained earnings			
Opening retained earnings		11,959	10,194
Net profit attributable to the members of the parent entity		3,846	3,635
Dividends paid	28	(1,861)	(1,870)
Closing retained earnings		13,944	11,959

	Note No.	Consolidated Group 2018 $000	Consolidated Group 2017 $000
Note 24: Lease and hire purchase commitments			
Finance leases			
Lease expenditure contracted and provided for:			
not later than one year		246	202
later than one year but not later than five years		371	376
Total minimum lease commitments		617	578
Less: future finance charges		(38)	(42)
Lease liability		579	536
Current portion	16	223	179
Non-current portion	19	356	357
		579	536
Hire Purchase commitments			
HP Expenditure contracted and provided for:			
not later than one year		-	116
later than one year but not later than five years		-	-
Total minimum HP commitments		-	116
Future interest charges		-	(2)
Hire Purchase creditors		-	114
Current portion	16	-	114
Non-current portion	19	-	-
		-	114

Finance leases and hire purchase agreements of 3 or 4 years are taken out on motor vehicles, forklifts and IT equipment with an option to purchase the asset at the end of the lease term at a residual of 30% to 45% depending on the asset.

		2018 $000	2017 $000
Operating lease payable:			
Non-cancellable operating leases contracted but not capitalised in the financial statements			
not later than one year		1,894	1,941
later than one year but not later than five years		4,063	4,307
		5,957	6,248

	Consolidated Group	
	2018	2017
	$000	$000
Note 25: Contingent Liabilities		
Estimate of the maximum amount of contingent liabilities that may become payable		
Guarantees provided to banks on behalf of a subsidiary	5,090	4,676
Guarantees of leases of premises subleased to franchisees	10,465	8,588
	15,555	13,264
Note 26: Related Parties		
Transactions with director related parties		
i) Sales made to Asiapools (M) Sdn Bhd. Mr S S Goh, a shareholder has significant influence over Asiapools (M) Sdn Bhd.	153	155
(ii) Payments made to Mint Holdings Pty Ltd for rental of warehouses and offices. Mr S S Goh is a director and shareholder of Mint Holdings Pty Ltd	645	638
(iii) Management fee charged to Mint Holdings Pty Ltd for administration and secretarial services.	57	51

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 27: 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 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.

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.

Unallocated items
The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

– other revenues

Note 27: Operating Segments (continued)

Geographical Segments

	2018			
	AUSTRALIA & NEW ZEALAND	**ASIA**	**NORTH AMERICA & EUROPE**	**CONSOLIDATED GROUP**
	$000	**$000**	**$000**	**$000**
REVENUE				
Sales to customers outside the consolidated group	58,165	14,073	14,027	86,265
Intersegment sales	1,384	27,125	935	29,444
Total segment revenue	59,549	41,198	14,962	115,709
Reconciliation of segment revenue to group revenue				
Other revenue				1,567
Intersegment elimination				(29,444)
Total group revenue				87,832
SEGMENT NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX	5,553	1,907	(172)	7,288
Reconciliation of segment result to group net profit/(loss) before tax				
Unallocated items				
- other				(1,567)
Net profit/(loss) before tax from continuing operations				5,721
SEGMENT ASSETS	89,227	62,616	(12,263)	139,580
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				(22,994)
Total group assets				116,586
CAPITAL EXPENDITURE	1,147	1,132	81	2,360
SEGMENT LIABILITIES	35,121	31,390	7,040	73,551
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(31,134)
Total group liabilities				42,417

Note 27: Operating Segments (continued)

Geographical Segments

	2017			
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA & EUROPE	CONSOLIDATED GROUP
	$000	$000	$000	$000
REVENUE				
Sales to customers outside the consolidated group	56,626	12,364	13,518	82,508
Intersegment sales	1,280	23,159	969	25,408
Total segment revenue	57,906	35,523	14,487	107,916
Reconciliation of segment revenue to group revenue				
Other revenue				2,697
Intersegment elimination				(25,408)
Total group revenue				85,205
SEGMENT NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAX	6,437	2,535	(946)	8,026
Reconciliation of segment result to group net profit/(loss) before tax				
Unallocated items				
- other				(2,697)
Net profit/(loss) before tax from continuing operations				5,329
SEGMENT ASSETS	77,835	53,715	(13,188)	118,362
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				(17,585)
Total group assets				100,777
CAPITAL EXPENDITURE	1,782	1,804	124	3,710
SEGMENT LIABILITIES	29,320	25,855	4,978	60,153
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(23,755)
Total group liabilities				36,398

	Consolidated Group	
	2018 $000	2017 $000
Note 28: Dividends Paid or Proposed		
Dividends are recognised when declared during the financial year and no longer at the discretion of the company.		
Final fully franked ordinary dividend of 3c per share (2017:3c) franked at the tax rate of 30% paid	1,119	1,119
Interim fully franked ordinary dividend of 2c per share (2017:2c) franked at the tax rate of 30% paid	742	751
	1,861	1,870
Proposed final fully franked ordinary dividend of 3 per share (2017: 3c) franked at the tax rate of 30%	1,113	1,122
Balance of franking account at year end adjusted for franking credits arising from payment of income tax payable, payment of proposed dividends and franking credits not available for distribution	5,667	5,105
Note 29: Earnings Per Share		
Basic earnings per share Basic earnings per share is calculated by dividing the profit (after tax) attributable to members of Waterco Ltd by the weighted average number of ordinary shares outstanding during the financial year adjusted for any share issues and share buybacks that have taken place during the year.		
Diluted earnings per share Diluted earnings per share adjusts the figures used in the calculation of the basic earnings per share after income tax effect of interest and other financing costs associated with the dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.		
Reconciliation of Earnings to Net Profit		
Net Profit	3,950	3,707
Net Profit attributable to outside equity interest	104	72
Earnings used in the calculation of basic EPS	3,846	3,635
Earnings used in the calculation of diluted EPS	3,846	3,635
a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	37,227	37,565
b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	37,227	37,565
Note 30: Events Subsequent to Reporting Date		
There were no reportable events subsequent to balance date.		

Note 31: Financial Risk Management

The Audit Committee (AC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The AC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The AC meets on a bi-monthly basis and minutes of the AC are reviewed by the Board.

The AC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

The main risks the group is exposed to through its financial instruments are interest rate risk, credit risk, foreign currency risk, liquidity risk and price risk.

(a) Interest Rate Risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities.

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk is managed through maintenance of procedures in relation to approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers. Such monitoring is used in assessing receivables for impairment. Depending on the subsidiary, credit terms are generally 30 days from invoice month.

Credit risk for derivative financial instruments arises from the potential failure by counter parties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts and interest rate swaps is the net fair value of these contracts as disclosed in (c).

The Group has no single concentration of credit risk with any single debtor or group of debtors. However, on a geographical basis, the group has significant credit exposure to Australia, New Zealand and Canada given the substantial operations in those regions.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed in Note 9.

(c) Foreign Currency Risk

The parent entity is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods in currencies other than the group's measurement currency.

The parent entity has forward contracts in place at balance date relating to highly probable forecast transactions. These contracts commit the group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates.

Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimised.

The following table summarises the notional amounts of the Group (and parent entity) commitments in relation to forward exchange contracts.

	Notional Amounts		Average Exchange Rate	
	2018 $000	2017 $000	2018 $000	2017 $000
Consolidated Group (and Parent Entity)				
Buy USD/Sell AUD				
- Less than 6 months	4,470	2,625	0.8052	0.7618

Note 31: Financial Risk Management (continued)

d) Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Financial liability and financial asset maturity analysis

Consolidated Group	Within 1 Year		1 to 5 Years		Over 5 years		Total	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Financial Assets								
Cash	4,291	4,634	-	-	-	-	4,291	4,634
Receivables	12,636	12,861	-	-	-	-	12,636	12,861
Total anticipated inflows	16,927	17,495	-	-	-	-	16,927	17,495
Financial Liabilities								
Bank overdraft	872	-	-	-	-	-	872	-
Bank loans	11,691	2,095	10,683	15,448	-	-	22,374	17,543
Trade and other payable	10,040	11,461	-	-	-	-	10,040	11,461
Hire purchase creditors	-	114	-	-	-	-	-	114
Lease Liabilities	223	179	356	357	-	-	579	536
Total contractual outflows	22,826	13,849	11,039	15,805	-	-	33,865	29,654
Less bank overdrafts	872	-	-	-	-	-	872	-
Total expected outflows	21,954	13,849	11,039	15,805	-	-	32,993	29,654
Net (outflow)/ inflow on financial instruments	(5,027)	3,646	(11,039)	(15,805)	-	-	(16,066)	(12,159)

Note 31: Financial Risk Management (continued)

e) Price Risk

Price risk relates to the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

Net Fair Values

The net fair value of bank overdrafts, bank loans and lease liabilities is determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value. Their net fair value is adjusted for any costs involved in settling the instrument.

	2018		2017	
	Carrying Amount $000	Net Fair Value $000	Carrying Amount $000	Net Fair Value $000
Financial Assets				
Cash at bank and in hand	4,291	4,291	4,634	4,634
Receivables	12,636	12,636	12,861	12,861
	16,927	16,927	17,495	17,495
Financial Liabilities				
Bank overdraft	872	881	-	-
Bank loans	22,374	22,598	17,543	17,718
Hire purchase creditors	-	-	114	120
Lease liabilities	579	608	536	563
	23,825	24,087	18,193	18,401

For financial assets and other liabilities, the net fair value approximates their carrying value. Financial assets where the carrying amount exceeds the net fair values have not been written down as the consolidated group intends to hold these assets to maturity.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. The sensitivity assumes the movement in a particular variable is independent to other variables.

	Consolidated Group	
	Profit $000	Equity $000
Year ended 30 June 2018		
+/- 2% in interest rates	+/-500	+/-500
+/- 5% in $A/$US	+/-999	+/-999
Year ended 30 June 2017		
+/- 2% in interest rates	+/-500	+/-500
+/- 5% in $A/$US	+/-897	+/-897

	Consolidated Group	
	2018 $000	2017 $000
Note 32: Cash Flow Information		
a) Reconciliation of cash flows from operations with profit after income tax.		
Profit after income tax	3,950	3,707
Non-cash flows in profit		
Depreciation	2,251	2,387
Impairment and amortisation	20	22
(Profit) on sale of non current assets	(7)	(2)
Changes in Assets and Liabilities:-		
Trade debtors	542	(1,256)
Provision for doubtful debts	9	89
Other debtors	(326)	(340)
Inventories	(7,815)	1,099
Prepayments	(165)	109
Deferred tax assets	143	638
Expenditure carried forward	(61)	201
Trade creditors	(664)	1,478
Other creditors	(758)	1,140
Provision for employee benefits	22	445
Provision for tax	(412)	459
Provision for deferred tax	232	(545)
Cashflow – Non Operating Activities:		
Dividends Received	(1)	-
Cash Flows (used in) /provided by operations	(3,040)	9,631

b) Non Cash Financial and investment activities
1) Property, Plant and Equipment
During the year, the consolidated group acquired plant and equipment with an aggregate fair value of $347,782 (2017:$392,639) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

c) Financing Facilities
The following lines of credit were available at balance date:

	2018	2017
Fully Drawn Advance Facilities	29,735	29,228
Master lease facilities	1,844	1,883
	31,579	31,111
Amount utilised	19,585	13,814
Amount unutilised	11,994	17,297

The Fully Drawn Advance Facilities of the parent entity are due to expire on 27 November 2021 (refer to note 16). The parent entity expects to renew these facilities on expiry date.

The Fully Drawn Advance Facilities of the controlled entity are due to expire on 31 December 2021 and 30 June 2031. The controlled entity expects to renew these facilities on expiry date.

Note 33: Fair Value Measurements

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

- derivative financial instruments;

- 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. They can be categorised 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. A change in those inputs might result in a significantly higher or lower fair value measurement. 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.

Note 33: 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:

			30 June 2018		
	Note No	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Recurring fair value measurements					
Non-financial assets					
Freehold land	13	-	-	17,442	17,442
Freehold buildings	13	-	-	30,587	30,587
Total non-financial assets recognised at fair value on a recurring basis		-	-	48,029	48,029
Total non-financial assets recognised at fair value		-	-	48,029	48,029

			30 June 2017		
	Note No	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Recurring fair value measurements					
Non-financial assets					
Freehold land	13	-	-	14,987	14,987
Freehold buildings	13	-	-	25,761	25,761
Total non-financial assets recognised at fair value on a recurring basis		-	-	40,748	40,748
Total non-financial assets recognised at fair value		-	-	40,748	40,748

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

Description	Fair Value at 30 June 2018 $000	Valuation Technique(s)	Inputs Used
Non-financial assets			
Freehold land(i)	17,442	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)	30,587	Market approach using recent observable market data for similar properties; income approach using discounted cash flow methodology	Price per square metre; market borrowing rate
	48,029		

(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 33: Fair Value Measurements (continued)

c. Disclosed Fair Value Measurements

The following assets and liabilities are not measured at fair value in the statement of financial position, but their fair values are disclosed in the notes:

- lease liability;
- bank debt;

The following table provides the level of the fair value hierarchy within which the disclosed fair value measurements are categorised in their entirety and a description of the valuation technique(s) and inputs used:

Description	Note	Fair Value Hierarchy Level	Valuation Technique(s)	Inputs Used
Liabilities				
Lease liability	31	2	Income approach using discounted cash flow methodology	Current commercial borrowing rates for similar instruments
Bank debt	31	2	Income approach using discounted cash flow methodology	Current commercial borrowing rates for similar instruments

There has been no change in the valuation technique(s) used to calculate the fair values disclosed in the notes to the financial statements.

Note 34: Company Details

The registered office of the company is:
Waterco Limited
36 South Street
Rydalmere NSW 2116

Directors' Declaration

In accordance with a resolution of the directors of Waterco Limited, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 34 to 78 are in accordance with the Corporations Act 2001 and:

   a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS);

   b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the consolidated group; and

   c. that the opinion has been formed on the basis of a sound system of risk management and internal control adopted by the Board, and that this system is operating efficiently;

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; and

3. the directors have been given the declarations required by s295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

Soon Sinn Goh
Chief Executive Officer

Dated at Sydney this 12 September 2018

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INDEPENDENT AUDITOR'S REPORT
To the Members of Waterco Limited

Opinion

We have audited the financial report of Waterco Limited (the Company), and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

RSM

Key Audit Matter	How our audit addressed this matter
Recognition of Revenue Refer to Note 1 (k) in the financial statements	
We focused on this area due to the significant value of revenue for the Group, $87.8 million (2017: $85.2 million), the risk of revenues being recognised in the incorrect periods through cut-off errors and the risk of management override of the revenue recognition process leading to inappropriate timing or amount of revenue recognised.	We have: • Assessed whether the Group's revenue recognition policies were in compliance with Australian Accounting Standards • Tested the operating effectiveness of controls over the timing and validity of revenue recognition, • Performed detailed testing on a sample of sales transactions from origination through to the general ledger and in the reverse direction to ensure that revenue recognised was complete and was recorded in the appropriate period to address the risk of cut off errors. • Performed cut-off testing on deliveries before and after year end to ensure that revenue is recognised in the correct period.
Provision for Inventory Write Down Refer to Note 1 (d) in the financial statements	
As at 30 June 2018, the Group held gross inventories of $39.5 million against which there was a provision for impairment of $1.9 million. The Group's inventory balance consists primarily of finished goods held either for resale or to meet warranty obligations. The provision for inventory write down was considered a key audit matter due to the materiality of the balance and the significant judgement involved in the quantification of the provision, including the risks of product obsolescence or changing future market conditions.	We have: • Reviewed, recalculated and assessed the level of inventory provisioning for reasonableness, including consideration of the inventory ageing, and both historical and post year end performance and inventory turnover. • Tested the net realisable value of inventory held through review of post year end sales transactions. • Assessed aged and obsolete inventory when attending inventory counts.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

RSM

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 30 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Waterco Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS

D Talbot

D TALBOT

Partner

Sydney, NSW

Dated: 12 September 2018

Shareholder Information

For the year ended 30 June 2018

(a) Distribution of Shareholders as at 24 August 2018

Range			Total Holders	Options
1	-	1,000	234	-
1,001	-	5,000	196	-
5,001	-	10,000	71	-
10,001	-	100,000	78	-
100,001	-	and over	28	-
			607	

(b) Marketable Parcel

29 shareholders hold less than a marketable parcel.

(c) Substantial Shareholders

The following information is extracted from the company's register as at 24 August 2018

Name	Number of shares
S S Goh Group	21,721,853
Redbrook Nominees Pty Ltd	3,114,529
Acres Holdings Pty Ltd	2,964,883

(d) Voting Rights

For all shares, voting rights are one vote per member on a show of hands and one vote per share on a poll.

(e) Twenty Largest Shareholders

The twenty largest shareholders hold 89.69% of the total shares issued.

	Name	Number of shares	%
1	Mr Soon Sinn Goh	18,921,853	51.14
2	Redbrook Nominees Pty Ltd	3,114,529	8.42
3	Acres Holdings Pty Ltd	2,964,883	8.01
4	Goh Lai Huat & Sons Sdn Bhd	2,500,000	6.76
5	Mr Soon Leong Goh	681,384	1.84
6	Mr Swee Kheong Goon	562,717	1.52
7	Mrs Christine Goh	500,000	1.35
8	Mrs Janet Swee Nyet Goh	447,112	1.21
9	Leitch Pty Ltd (Leitch Super Fund A/C)	404,000	1.09
10	Mr Benjamin Francis Hunt (B F Hunt Super Fund A/C)	370,223	1.00
11	Mr Chu Shien Chang	340,281	0.92
12	GWK Corporation Pty Ltd	334,387	0.90
13	Deuteronomy Pty Ltd (Dennis Hambleton SF A/C)	310,070	0.84
14	GSS Holdings Sdn Bhd	300,000	0.81
15	Brazil Enterprises Pty Ltd	295,173	0.80
16	S G Corporation Pty Limited	281,739	0.76
17	Mr Tiow Lip Lee	245,386	0.66
18	Ms May-Yin Goh	225,267	0.61
19	Mr Bryan Weng Keong Goh	200,734	0.54
20	Mr Shane Goh	188,607	0.51
	TOTAL	**33,188,345**	**89.69**

(f) Stock Exchange Listing

The shares of Waterco Limited are listed on the Australian Stock Exchange under the trade symbol WAT.

Corporate Directory

Directors
Soon Sinn Goh
Bryan Goh
Garry Norman
Ben Hunt
Richard Ling

Secretaries
Bee Hong Leo
Gerard Doumit

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water, the liquid of life

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