
WATLINGTON WATERWORKS LIMITED

CONSOLIDATED Financial Statements

For the 6 months ended

JUNE 30, 2020

(Unaudited)

Watlington Waterworks Limited
Consolidated Statement of Financial Position (unaudited)
As at June 30, 2020
(Expressed in Bermuda Dollars)

	June 30, 2020	Dec 31, 2019
Assets		
Property, plant, and equipment (note 4)	\$ 18,675,442	\$ 19,100,392
Intangible assets (note 5)	41,776	67,067
Investment property (note 6)	-	-
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Total non-current assets	<u>18,717,218</u>	<u>19,167,459</u>
Other assets (note 12)	2,820	13,666
Inventories (note 7)	1,255,999	1,272,331
Trade and other receivables (note 8)	883,127	900,209
Prepayments	281,227	151,110
Investments	8,918,967	6,838,174
Cash and cash equivalents	6,541,167	7,785,674
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Total current assets	<u>17,883,307</u>	<u>16,961,164</u>
Total assets	<u>\$ 36,600,525</u>	<u>\$ 36,128,623</u>
	=====	=====
Liabilities and equity		
Share capital	\$ 1,068,620	\$ 1,067,280
Share premium	1,594,218	1,565,569
Reserves	8,000,000	8,000,000
Retained earnings	24,943,457	24,475,054
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Total equity	<u>35,606,295</u>	<u>35,107,903</u>
Liabilities		
Equipment deposits	2,034	1,971
Trade payables	992,196	1,018,749
	<hr/>	<hr/>
Total current liabilities	<u>994,230</u>	<u>1,020,720</u>
Total liabilities and shareholders' equity	<u>\$ 36,600,525</u>	<u>\$ 36,128,623</u>
	=====	=====

Watlington Waterworks Limited
Consolidated Statement of Comprehensive Income (unaudited)
For the six months ended June 30, 2020
(Expressed in Bermuda Dollars)

	June 2020 \$	June 2019 \$
Revenue (note 3)	5,444,273	5,620,237
Production costs	(1,237,215)	(1,298,676)
Gross profit	4,307,058	4,321,561
Administrative expenses	(1,789,974)	(1,664,642)
Distribution expenses	(1,375,891)	(1,409,430)
Total profit before finance income	1,041,193	1,247,489
Finance income	67,846	53,615
Profit and total comprehensive income for the period	\$ 1,109,039	\$ 1,301,104
Profit attributable to:		
Owners of the Company	\$ 1,109,039	\$ 1,301,104
Earnings per share		
Basic earnings per share	\$ 1.04	\$ 1.22

Watlington Waterworks Limited
Consolidated Statement of Changes in Equity (unaudited)
For the six months ended June 30, 2020
(Expressed in Bermuda Dollars)

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2019 (restated)	\$1,064,870	\$1,516,460	\$7,000,000	\$1,000,000	\$22,383,485	\$32,964,815
Net income for 6 months (Jan – June 2019)		-	-	-	1,301,104	1,301,104
Dividends paid	-	-	-	-	(596,596)	(596,596)
Issuance of shares	1,490	25,524				27,014
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at June 30, 2019	\$1,066,360	\$1,541,984	\$7,000,000	\$1,000,000	\$23,087,993	\$ 33,696,337
Net income for 6 months (July – December 2019)		-	-	-	1,888,615	1,888,615
Dividends paid	-	-	-	-	(501,554)	(501,554)
Issuance of shares	920	23,585	-	-	-	24,505
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance Dec 31, 2019	\$1,067,280	\$1,565,569	\$7,000,000	\$1,000,000	\$24,475,054	\$ 35,107,903
Net income for 6 months (Jan – June 2020)	-	-	-	-	1,109,039	1,109,039
Dividends paid	-	-	-	-	(640,636)	(640,636)
Issuance of shares	1,340	28,649	-	-		29,989
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at June 30, 2020	\$1,068,620	\$1,594,218	\$7,000,000	\$1,000,000	\$24,943,457	\$ 35,606,295
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Watlington Waterworks Limited
Consolidated Statement of Cash Flows (Unaudited)
For the six months ended June 30, 2020
(Expressed in Bermuda Dollars)

	June 2020 \$	June 2019 \$
Operating activities		
Profit for the period	1,109,039	1,301,104
Adjustments for:		
Depreciation of property, plant and equipment	841,322	822,092
Amortization of intangible assets	25,292	19,973
Depreciation of investment property	-	-
Finance income	<u>(67,846)</u>	<u>(53,615)</u>
	1,907,807	2,089,554
<u>Changes in:</u>		
Inventories	16,332	(76,282)
Trade and other receivables	17,082	(80,282)
Prepayments	(130,117)	(59,484)
Trade and other payables	(26,553)	(119,793)
Equipment deposits	63	194
Other assets	10,846	(10)
Net cash from operating activities	<u>1,795,460</u>	<u>1,753,897</u>
Investing activities		
Interest received	67,846	53,615
Acquisition of property, plant and equipment	(416,373)	(1,058,016)
Investments – term deposits	(2,080,793)	(1,614,245)
Net cash used in investing activities	<u>(2,429,320)</u>	<u>(2,618,646)</u>
Financing activities		
Proceeds from shares issued	29,989	27,014
Dividends paid	(640,636)	(596,596)
Net cash used in financing activities	<u>(610,647)</u>	<u>(569,582)</u>
Net increase (decrease) in cash and cash equivalents	(1,244,507)	(1,434,331)
Cash and cash equivalents at beginning of period	7,785,674	7,226,823
Cash and cash equivalents at end of period	<u>6,541,167</u> =====	<u>5,792,492</u> =====

1. Nature of business

Watlington Waterworks Limited (“The Company”) and Bermuda Waterworks Limited (“the Subsidiary”) (note 2(b)) are incorporated under the laws of Bermuda and are primarily engaged in the production and distribution of water and purification of drinking water for sale at the retail and wholesale level. The group is also engaged in the provision of customer services, plumbing supplies and the supply of coolers for sale and rental.

2. Significant accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The significant accounting policies adopted by the Company are as follows:

(a) Basis of presentation

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bermuda Waterworks Limited. All significant intercompany transactions and balances are eliminated on consolidation.

(c) Water sales

Water sales comprise wholesale water and bottled water sales. Wholesale water sales are based on consumption recorded by meter readings taken monthly during the period.

(d) Other operating revenues

Other operating revenues comprise income from sales of plumbing supplies, sales and rental of water coolers and related equipment and utility connection fees.

(e) Property, plant and equipment

Freehold land is stated at cost and is not depreciated. Property, plant and equipment other than freehold land are being depreciated on a straight-line basis over their estimated useful lives, which generally vary from 3 to 40 years.

(f) Investment property

Investment property is stated at cost and depreciated over its estimated useful life of 40 years.

(g) Intangible assets

Application software is stated at cost less accumulated amortization and is amortized on a straight line basis over a useful life of three years.

(h) Inventories

Inventories which comprise essential utility parts, plumbing supplies and bottled water supplies are carried at the lower of average cost and net realisable value.

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2020

(i) Fair values of financial instruments

Fair values of financial instruments are disclosed in the notes to the financial statements when they differ from the carrying values. Where amounts receivable and payable are subject to normal credit terms, their carrying values are used as an approximation of their fair values.

(j) Cash and cash equivalents

Cash and cash equivalents include deposits having a maturity of less than three months from the date of purchase.

(k) Pension plan

The Company sponsors a defined contribution pension plan (the "Plan") covering all eligible employees. The cost of the Plan is expensed as related benefits are earned by the employees. The Company makes monthly contributions in accordance with the Plan Agreement to the employees' individual accounts, which are administered by an insurance company pursuant to and in accordance with the National Pension Scheme (Occupational Pensions) Act.

3. Revenue

	<u>June</u> <u>2020</u>	<u>June</u> <u>2019</u>
Water sales	5,058,019	5,175,727
Other operating revenues	367,558	373,597
Connection fees	18,696	40,913
Rental income	<u>0</u>	<u>30,000</u>
Total revenue	\$ 5,444,273 =====	\$5,620,237 =====

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2020

4. Property, plant and equipment

	<u>Land & buildings</u>	<u>Plant & equipment</u>	<u>Fixtures & fittings</u>	<u>Under construction</u>	<u>Total</u>
Cost					
At January 1, 2019	\$ 6,004,784	\$ 32,945,149	\$ 527,328	\$ 1,038,320	\$ 40,515,581
Additions	–	113,974	7,673	1,293,345	1,414,992
Fully depreciated assets	(589,799)	(2,283,883)	(246,416)	–	(3,120,098)
Transfers	<u>1,298,300</u>	<u>218,652</u>	<u>19,042</u>	<u>(1,535,994)</u>	<u>–</u>
At December 31, 2019	<u>\$ 6,713,285</u>	<u>\$ 30,993,892</u>	<u>\$ 307,627</u>	<u>\$ 795,671</u>	<u>\$ 38,810,475</u>
At January 1, 2020	\$ 6,713,285	\$ 30,993,892	\$ 307,627	\$ 795,671	\$ 38,810,475
Additions	–	33,149	1,182	382,041	416,372
Transfers	–	233,268	–	(233,268)	–
Disposals	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At June 30, 2020	<u>\$ 6,713,285</u>	<u>\$ 31,260,309</u>	<u>\$ 308,809</u>	<u>\$ 944,444</u>	<u>\$ 39,226,847</u>
Depreciation					
At January 1, 2019	\$ 1,802,899	\$ 18,998,137	\$ 381,545	\$ –	\$ 21,182,581
Depreciation	374,306	1,239,577	33,717	–	1,647,600
Disposals	<u>(589,799)</u>	<u>(2,283,883)</u>	<u>(246,416)</u>	<u>–</u>	<u>(3,120,098)</u>
At December 31, 2019	<u>\$ 1,587,406</u>	<u>\$ 17,953,831</u>	<u>\$ 168,846</u>	<u>\$ –</u>	<u>\$ 19,710,083</u>
At January 1, 2020	\$ 1,587,406	\$ 17,953,831	\$ 168,846	\$ –	\$ 19,710,083
Depreciation	187,154	631,474	22,694	–	841,322
Disposals	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At June 30, 2020	<u>\$ 1,774,560</u>	<u>\$ 18,585,305</u>	<u>\$ 191,540</u>	<u>\$ –</u>	<u>\$ 20,551,405</u>
Carrying amounts					
At December 31, 2019	<u>\$ 5,125,879</u>	<u>\$ 13,040,061</u>	<u>\$ 138,781</u>	<u>\$ 795,671</u>	<u>\$ 19,100,392</u>
At June 30, 2020	<u>\$ 4,938,725</u>	<u>\$ 12,675,004</u>	<u>\$ 117,269</u>	<u>\$ 944,444</u>	<u>\$ 18,675,442</u>

**Watlington Waterworks Limited,
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2020**

5. Intangible assets

Cost	Application software
Balance at January 1, 2019	\$ 645,523
Acquisitions	36,322
Removal of fully depreciated assets	(530,722)
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Balance at December 31, 2019	\$ 151,123
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Balance at January 1, 2020	\$ 151,123
Acquisitions	-
Disposals	-
	<hr/>
Balance at June 30, 2019	\$ 151,123
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<u>Amortization and impairment losses</u>	
Balance at January 1, 2019	\$ 574,190
Amortization for the year	40,588
Removal of fully depreciated assets	(530,722)
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Balance at December 31, 2019	\$ 84,056
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Balance at January 1, 2020	\$ 84,056
Amortization for the period January to June 2020	<u>25,292</u>
Balance at June 30, 2020	\$ 109,348
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<u>Carrying amounts</u>	
At December 31, 2019	\$ 67,067
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At June 30, 2020	\$ 41,775
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Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2020

6. Investment property

Cost	Investment Property
December 31, 2017, 2018 and 2019	\$ 330,153 =====
 <u>Depreciation</u>	
Balance at December 31, 2017, 2018 and 2019	\$ 330,153 =====
Balance at June 30, 2017, 2018, 2019 and 2020	\$ 330,153 =====
 <u>Carrying amounts</u>	
At December 31, 2017, 2018 and 2019	\$ - =====
At June 30, 2020	\$ - =====

The property was valued by an independent appraiser on June 8, 2020 at a value of \$1,150,000. The property is leased at a monthly rental of \$5,000.00 as of January 2017 till December 31 2019. As of July 15, 2020 the property is leased at a monthly rental of \$5,000.

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2020

7. Inventories

	June 2020	Dec 2019
	\$	\$
Spares and production parts	883,179	906,668
Goods for resale	435,041	414,169
Water bottling supplies	31,962	45,677
Inventory provision	(94,183)	(94,183)
	1,255,999	1,272,331

The cost of inventories recognized as an expense and included in production costs and distribution expenses is \$467,277 (June 2019 - \$462,885).

8. Trade and other receivables

	June 2020	Dec 2019
	\$	\$
Accounts receivable	1,094,526	1,054,896
Allowance for doubtful debts	(211,399)	(154,687)
	883,127	900,209

9. Share capital and share premium

	June 2020	Dec 2019
	\$	\$
Authorised – 2,000,000 shares of the par value of \$1.00 each	2,000,000	2,000,000
Issued and fully paid – 1,068,620(Dec 2019 – 1,067,280) shares of the par value of \$1.00 each	1,068,620	1,067,280

The net asset value attributable to each share, calculated on the basis of the book value as disclosed in the Company's consolidated balance sheet as at June 30, 2020 was \$33.31 (December 31,2019 - \$ 32.89).

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2020

9. Share capital and share premium

(a) Employee share purchase plan

In June 1999, the Company introduced an employee share purchase plan whereby employees with a minimum of one year's continuous service may subscribe to purchase a maximum of 1,000 common shares in any one calendar year. The purchase price of the common shares is 85% of the market price on the plan's subscription date. The shares purchased are issued from authorized, unissued share capital. Employees are restricted from selling the shares for a period of one year from the issuance date.

During the 6 months ended June 30, 2020, 1,340 shares were purchased by employees for consideration of \$29,989 (Dec 2019 – 2,410 shares \$ 43,790). The excess of the purchase price over the par value of the shares is recorded as share premium.

(b) Share premium

The share premium balance relates to the excess of the purchase price over par value of shares of the Company.

10. Reserves

Capital reserve

The amount maintained in capital reserve represents the Company's investment in infrastructure renovations and improvements, including pipelines and reservoirs, in order to maintain the permanent capital of the Company and has been approved by the Board of Directors.

11. General reserve

General reserve is an appropriation from retained earnings as a contingency for unexpected future expenditures and has been approved by the Board of Directors.

12. Other assets

The Company participates in a defined contribution plan on behalf of its employees with a third party insurer. As at June 30, 2020 the Company has a pension surplus of \$ 2,820 (Dec 2019 \$13,666) which is included in other assets on the consolidated statement of financial position. The pension surplus arises from contributions made by the Company for former employees who left the pension plan prior to the vesting date, and can be offset against the Company's future pension contributions payable.

13. Financial instruments

The estimated fair values of the Company's cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities and deposits held approximate their carrying values.

Financial instruments which potentially subject the Company to concentrations of credit risk consists of cash and cash equivalents, investments and accounts receivable.

Cash and cash equivalents and investments consist mainly of cash deposits. The Company has deposited the cash and cash equivalents and investments with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company's credit risk with respect to its accounts receivable is minimized by the Company's large customer base, which covers consumer and business sectors in Bermuda. The Company follows a programme of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses and any such losses to date have been within management's expectations.

Commitments

During 2010 the Company entered into a Memorandum of Understanding with the Bermuda Government to extend its pipeline from Lighthouse Road, Southampton westwards towards Somerset and the West End. At June 30, 2016 capital expenditure totaling \$4,531,906 had been incurred on this project and our obligation has been fulfilled.

As at June 30, 2020, the Company had capital commitments in respect of plant and equipment of \$104,749 (June 2019 - \$ 165,000). These commitments will be met from operations.

14. Capital disclosures

The Company's objectives in managing capital are to ensure sufficient liquidity to enable the internal financing of capital projects and working capital needs, thereby facilitating its expansion, to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to provide an adequate return to shareholders.

The Company's capital is comprised of shareholders' equity. The Company's primary uses of capital are to fund increases in non-cash working capital, along with capital expenditure for new production processes and distribution networks. The Company currently funds these requirements out of its internally generated cash flow. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders. The Company is not subject to any externally imposed capital requirements.

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2020

15. Summaries of the last 6 six month financial periods ended June 30

	2020 \$	2019 \$	2018 \$	2017 \$	2016 \$
Revenue (including interest)	5,512,119	5,673,852	5,798,295	5,983,738	4,780,052
Net earnings	1,109,039	1,301,104	1,413,110	1,648,653	853,797
Dividends	640,636	596,596	829,387	637,330	408,314
Equity	35,606,295	33,696,337	31,976,300	30,156,265	28,037,632
Total assets	36,600,525	34,598,492	32,901,613	30,900,141	28,775,567
Per share amounts					
Net earnings	1.04	1.22	1.33	1.55	0.80
Dividends	0.60	0.56	0.78	0.60	0.38
Equity	33.31	31.60	30.06	28.38	26.41

16. Directors share interests and service contracts

Pursuant to Regulation 6.8(3) of Section 11B of the Bermuda Stock Exchange Listing Regulations, the total interest of all directors and officers of the Company as at June 30, 2020 was 122,261 (June 2019 – 121,411) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the management staff who qualifies under the employee share purchase plan.

There are no contracts with the Company in which a director has a material interest, either directly or indirectly.