

WATERS PACIFIC PTE. LTD.

(Incorporated in Singapore. Registration Number: 200512450H)

ANNUAL REPORT

For the financial year ended 31 December 2018

WATERS PACIFIC PTE. LTD.
(Incorporated in Singapore)

ANNUAL REPORT
For the financial year ended 31 December 2018

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WATERS PACIFIC PTE. LTD.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

The directors present their statement to the member together with the audited financial statements for the financial year ended 31 December 2018.

In the opinion of the directors,

- (a) the financial statements as set out on pages 5 to 36 are as drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Company for the financial year covered by the financial statements; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Mark Tyrell Beaudouin
Yvonne Deborah Talon

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in <u>name of director</u>		Holdings in which a director is deemed to <u>have an interest</u>	
	<u>At</u>	<u>At</u>	<u>At</u>	<u>At</u>
	<u>31.12.2018</u>	<u>1.1.2018</u>	<u>31.12.2018</u>	<u>1.1.2018</u>
Ultimate holding corporation				
- Waters Corporation				
<u>(No. of ordinary shares)</u>				
Mark Tyrell Beaudouin	9,542	10,254	-	-
Yvonne Deborah Talon	291	714	-	-
<u>(No. of unissued ordinary shares under option)</u>				
Mark Tyrell Beaudouin	89,760	123,241	-	-
Yvonne Deborah Talon	15,205	15,205	-	-

WATERS PACIFIC PTE. LTD.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

Share options

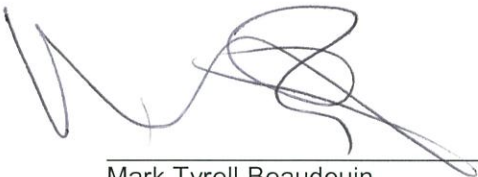
No options were granted during the financial year to subscribe for unissued shares of the Company.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept reappointment.



Mark Tyrell Beaudouin
Director
4 June 2019



Yvonne Deborah Talon
Director

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF
WATERS PACIFIC PTE. LTD.**

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying financial statements of Waters Pacific Pte. Ltd. (the "Company") are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

What we have audited

The financial statements of the Company comprise:

- the statement of comprehensive income for the year ended 31 December 2018;
- the balance sheet as at 31 December 2018;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement but does not include the financial statements and our auditor's report thereon.

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF
WATERS PACIFIC PTE. LTD. (continued)**

Responsibilities of Management and Directors for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 SSAs 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 these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 4 June 2019

WATERS PACIFIC PTE. LTD.

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Revenue	4	440,540	381,917
Cost of sales	6	(201,475)	(176,344)
Gross profit		239,065	205,573
Other income	5(a)	20,726	18,977
Other (losses)/gains	5(b)	(40)	3,784
Expenses			
- Distribution and marketing	6	(74,608)	(64,907)
- Research and development	6	(4,300)	(3,699)
- Administrative	6	(4,356)	(3,674)
Profit before income tax		176,487	156,054
Income tax credit/(expense)	7(a)	632	(1,734)
Profit after income tax		177,119	154,320
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at FVOCI			
- Fair value gains	19	884	-
Available-for-sale financial assets			
- Fair value losses	19	-	(330)
		884	(330)
Other comprehensive income/(loss), net of tax		884	(330)
Total comprehensive income		178,003	153,990

The accompanying notes form an integral part of these financial statements

WATERS PACIFIC PTE. LTD.

BALANCE SHEET

As at 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	115,327	133,005
Trade and other receivables	9	139,176	147,141
Available-for-sale financial assets	12	-	807,529
Financial assets at FVOCI	13	92,775	-
Inventories	10	7,206	4,106
Other current assets	11	514	459
		<u>354,998</u>	<u>1,092,240</u>
Non-current assets			
Property, plant and equipment	14	6,923	4,718
Intangible assets	15	443	507
Investment in a subsidiary	16	1,200	1,200
		<u>8,566</u>	<u>6,425</u>
Total assets		<u>363,564</u>	<u>1,098,665</u>
LIABILITIES			
Current liabilities			
Trade and other payables	17	74,877	65,154
Deferred revenue	4(b)	2,087	2,123
Current income tax liabilities	7(b)	868	310
		<u>77,832</u>	<u>67,587</u>
Non-current liabilities			
Deferred revenue	4(b)	207	452
Deferred income tax liabilities	7(c)	1,339	2,711
		<u>1,546</u>	<u>3,163</u>
Total liabilities		<u>79,378</u>	<u>70,750</u>
NET ASSETS		<u>284,186</u>	<u>1,027,915</u>
EQUITY			
Share capital	18	800	800
Fair value reserve	19	(343)	(1,227)
Retained profits		283,729	1,028,342
Total equity		<u>284,186</u>	<u>1,027,915</u>

The accompanying notes form an integral part of these financial statements

WATERS PACIFIC PTE. LTD.

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

	Notes	Share capital US\$'000	Fair value reserve US\$'000	Retained profits US\$'000	Total equity US\$'000
2018					
Beginning of financial year		800	(1,227)	1,028,342	1,027,915
Profit for the year		-	-	177,119	177,119
Other comprehensive income for the year		-	884	-	884
Total comprehensive income		-	884	177,119	178,003
Dividends paid	20	-	-	(921,732)	(921,732)
End of financial year		800	(343)	283,729	284,186
2017					
Beginning of financial year		800	(897)	878,522	878,425
Profit for the year		-	-	154,320	154,320
Other comprehensive loss for the year		-	(330)	-	(330)
Total comprehensive income		-	(330)	154,320	153,990
Dividends paid	20	-	-	(4,500)	(4,500)
End of financial year		800	(1,227)	1,028,342	1,027,915

The accompanying notes form an integral part of these financial statements

WATERS PACIFIC PTE. LTD.

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

	Notes	2018 US\$'000	2017 US\$'000
Cash flows from operating activities			
Profit after tax		177,119	154,320
Adjustments for:			
- Income tax (credit)/expense		(632)	1,734
- Depreciation and amortisation		1,730	1,737
- Interest income		(9,275)	(9,445)
- Net loss/(gain) on disposal of financial assets at FVOCI (2017: available-for-sale financial assets)		19	(30)
- Net loss on disposal of property, plant and equipment		1	1
- Unrealized currency translation gains		(36)	(17)
		<u>168,926</u>	<u>148,300</u>
Change in working capital:			
- Trade and other receivables		(64,167)	34,245
- Inventories		(3,100)	1,714
- Other current assets		(55)	32
- Deferred revenue		(281)	34
- Trade and other payables		9,723	7,771
Cash generated from operations		<u>111,046</u>	<u>192,096</u>
Income tax paid		(302)	(976)
Dividends paid		(604,816)	(4,500)
Net cash (used in)/provided by operating activities		<u>(494,072)</u>	<u>186,620</u>
Cash flows from investing activities			
Additions to property, plant and equipment		(3,480)	(514)
Transfer-in from inventory to property, plant and equipment		(398)	(194)
Proceeds from disposal of property, plant and equipment		6	305
Purchases of financial assets at FVOCI (2017: available-for-sale financial assets)		(302,552)	(1,192,663)
Disposal of financial assets at FVOCI (2017: available-for-sale financial assets)		771,436	972,814
Interest received		11,407	8,793
Net cash provided by/(used in) investing activities		<u>476,419</u>	<u>(211,459)</u>
Net decrease in cash and cash equivalents		<u>(17,653)</u>	<u>(24,839)</u>
Beginning of financial year	8	133,005	157,719
Effects of currency translation on cash and cash equivalents		(25)	125
End of financial year	8	<u>115,327</u>	<u>133,005</u>

Significant non-cash transactions

During the financial year, dividends of US\$246,916,000 declared was settled through the transfer of the Company's share in financial assets at FVOCI, and US\$70,000,000 was settled through offsetting of receivables due from ultimate holding corporation.

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The Company is incorporated and domiciled in Singapore. The address of its registered office is 8 Marina Boulevard, #05-02, Marina Bay Financial Centre 1, Singapore 018981.

The principal activities of the Company consist of distribution and marketing of high performance liquid chromatography instruments and related consumables and services and contract manufacturing.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of these financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2018

On 1 January 2018, the Company adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years except for the following:

Adoption of FRS 109 Financial Instruments

The Company has adopted the new standard retrospectively from 1 January 2018, in line with the transition provision permitted under the standards. Comparatives for financial year ended 2017 are not restated and the Company has recognised any difference between the carrying amounts at 31 December 2017 and 1 January 2018 in the opening retained earnings.

The accounting policies for financial instruments under FRS 109 are disclosed in Note 2.11.

Debt instruments reclassified from AFS to FVOCI

Listed securities amounting to \$807,529,000 as at 1 January 2018 previously classified as "available for sale" were reclassified as "FVOCI". The Group's business model on these assets is to collect contractual cash flows and sell these assets. The contractual cash flows of these investments consist solely of payments of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Exemption from preparing consolidated financial statements

These financial statements are the separate financial statements of the Company. The Company is exempted from the preparation of consolidated financial statements as the Company is a wholly-owned subsidiary of Waters Corporation, a company incorporated in the State of Delaware, U.S.A., which produces consolidated financial statements available for public use. The registered office of Waters Corporation where the consolidated financial statements can be obtained is as follows: 34 Maple Street, Milford, Massachusetts, United States 01757.

2.2 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Sales are presented, net of goods and services tax, rebates and discounts. Revenue is recognised as follow:

(a) Sale of goods

Revenue from sale of goods is recognised at a point in time when the Company has delivered the products to the customers and the customers have accepted the products.

(b) Rendering of services

Revenue from rendering of services is recognised over time when the services are rendered.

Revenue from equipment maintenance contracts is recognised on a straight-line basis over the period of the maintenance contract. Deferred revenue relates to unearned maintenance income at the end of the financial year.

(c) Management fees / Research and development fees

Management and research and development fees are recognised when the services are rendered.

(d) Interest income

Interest income is recognised using the effective interest method.

2.3 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.3 Employee compensation (continued)

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

2.4 Operating lease payments

Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

When a lease is terminated before the lease period expires, any payment made by the Company as penalty is recognised as an expense when termination takes place.

2.5 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax is measured at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Current and deferred income taxes are recognised as income or expenses in profit or loss, except to the extent that the tax arises from a transaction which is recognised directly in equity.

2.6 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.7 Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any other costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.7 Property, plant and equipment (continued)

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

Depreciation is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives</u>
Leasehold improvements	5 to 6 years
Plant and equipment	3 to 5 years
Computers	3 years
Furniture and fittings	3 to 10 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

Demo inventory is classified under plant and equipment, and has a useful life of 3 years. Demo inventory is reclassified from inventory to property, plant and equipment after being placed in service for more than 1 calendar year.

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "other gains and losses".

2.8 Intangible assets – customer relationships

Customer relationships acquired are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Customer relationships are amortised to profit or loss using the straight-line method over their estimated useful lives of 10 years.

The amortisation period and amortisation method of intangible assets – customer relationships are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

2.9 Investment in subsidiaries

Investment in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.10 Impairment of non-financial assets

Property, plant and equipment, intangible assets and investments in subsidiaries are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.10 Impairment of non-financial assets (continued)

For the purpose of impairment testing of assets, recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

If the recoverable amount of the asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of accumulated depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss.

2.11 Financial assets

(a) The accounting for financial assets before 1 January 2018 under FRS 39 are as follows:

- (i) Loans and receivables
Cash and cash equivalents
Trade and other receivables
Other current assets

Cash and cash equivalents, trade and other receivables, and deposits within other current assets are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method, less accumulated impairment losses.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

These assets are presented as current assets except for those that are expected to be realised later than 12 months after the balance sheet date, which are presented as non-current assets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.11 Financial assets (continued)

- (a) The accounting for financial assets before 1 January 2018 under FRS 39 are as follows: (continued)

(ii) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and subsequently carried at fair value. Changes in fair values are recognised in other comprehensive income and accumulated in the fair value reserve within equity.

These financial assets are recognised on the date which the Company commits to purchase the asset. They are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

The Company assesses at each balance sheet date whether there is objective evidence that these financial assets are impaired. Significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.

If there is objective evidence of impairment, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss. The amount of cumulative loss that is reclassified is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. The impairment losses recognised as an expense for an equity security are not reversed through profit or loss in subsequent period.

On disposal, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

- (b) The accounting for financial assets from 1 January 2018 under FRS 109 are as follows:

The Company classifies its financial assets into the following measurement categories:

- Amortised cost; and
- Fair value through other comprehensive income (FVOCI).

The classification of debt instruments depends on the Company's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.11 Financial assets (continued)

- (b) The accounting for financial assets from 1 January 2018 under FRS 109 are as follows: (continued)

The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

(i) At initial recognition

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(ii) At subsequent measurement

Debt instrument

Debt instruments of the Company mainly comprise of cash and cash equivalents, trade and other receivables, deposits within other current assets and debt securities.

There are three prescribed subsequent measurement categories, depending on the Company's business model in managing the assets and the cash flow characteristic of the assets:

- **Amortised cost:** Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.
- **FVOCI:** Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in Other Comprehensive Income (OCI) and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and presented in "other gains and losses". Interest income from these financial assets is recognised using the effective interest rate method and presented in "interest income".

(iii) Impairment

The Company assesses on forward looking basis the expected credit losses associated with its debt instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

2. Significant accounting policies (continued)

2.11 Financial assets (continued)

- (b) The accounting for financial assets from 1 January 2018 under FRS 109 are as follows: (continued)

(iii) Impairment (continued)

For trade receivable, the Company applied the simplified approach permitted by the FRS 109, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other receivables, cash and cash equivalents, deposits within other current assets and debt securities the general 3-stage approach is applied. Credit loss allowance is based on 12-month expected credit loss if there is no significant increase in credit risk since initial recognition of the assets. If there is a significant increase in credit risk since initial recognition, lifetime expected credit loss will be calculated and recognised.

2.12 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

2.13 Provisions for other liabilities and charges

Provisions for other liabilities and charges are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value.

2.15 Currency translation

The financial statements are presented in United States Dollar, which is the functional currency of the Company.

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS*For the financial year ended 31 December 2018***2. Significant accounting policies (continued)****2.16 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.17 Dividends

Dividends to the Company's shareholder are recognised when the dividends are approved for payment.

2.18 Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Company will comply with all the attached conditions. Government grants are recognised over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income. Government grants relating to assets are deducted against the carrying amount of the assets.

3. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Income taxes

The Company was granted an initial 5-year pioneer status by the Singapore Economic Development Board ("EDB"), which expired on 31 March 2011. Subsequently, the Company has been granted by EDB a 5-year extension of its pioneer status, which has expired on 31 March 2016 (Note 7). The Company was granted an additional 5-year extension of its pioneer status by EDB which will expire on 31 March 2021. The Company will need to meet all stipulated conditions for the extended pioneer status period within certain timelines.

During the Company's pioneer status period, income derived from the Company's pioneer activities is taxed at zero rate and other income, if any, is taxed at the Singapore standard rate of income tax.

The Company recognises the income tax liabilities on the basis that it will qualify for the pioneer tax incentives (Note 7).

4. Revenue from contracts with customers**(a) Disaggregation of revenue from contracts with customer**

	Point in time US\$'000	Over time US\$'000	Total US\$'000
2018			
Sale of goods	436,686	-	436,686
Rendering of services	-	3,854	3,854
	<u>436,686</u>	<u>3,854</u>	<u>440,540</u>

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

4. Revenue from contracts with customers (continued)

(a) Disaggregation of revenue from contracts with customer (continued)

	Point in time US\$'000	Over time US\$'000	Total US\$'000
2017			
Sale of goods	378,118	-	378,118
Rendering of services	-	3,799	3,799
	<u>378,118</u>	<u>3,799</u>	<u>381,917</u>

The Company has initially applied FRS 115 using the modified retrospective method. Under this method, the comparative information is not restated.

(b) Deferred revenue

	31 December 2018 US\$'000	1 January 2018 US\$'000
Equipment maintenance services	<u>2,294</u>	<u>2,575</u>

(i) *Revenue recognized in relation to deferred revenue*

	2018 US\$'000
<i>Revenue recognised in current period that was included in the deferred revenue balance at the beginning of the financial year</i>	<u>2,125</u>

(ii) *Unsatisfied performance obligations*

	31 December 2018 US\$'000	1 January 2018 US\$'000
Aggregate amount of transaction price allocated to contracts that are partially or fully unsatisfied as at 31 December	<u>2,294</u>	<u>- #</u>

As permitted under the transitional provision in the FRS 115, the transaction price allocated to partially or fully unsatisfied performance obligation as of 1 January 2018 is not disclosed.

The revenue expected to be recognised in the future relating to performance obligations that were unsatisfied (or partially unsatisfied) at the statement of financial position date.

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

4. Revenue from contracts with customers (continued)

(b) Deferred revenue (continued)

(ii) *Unsatisfied performance obligations* (continued)

US\$'000

For financial year ending 31 December 2019	2,087
For financial year ending 31 December 2020	201
For financial year ending 31 December 2021	6
	<u>2,294</u>

5. Other income and other (losses)/gains

2018
US\$'000

2017
US\$'000

(a) Other income

Interest income from financial assets at FVOCI (2017:
available-for-sale financial assets) and bank deposits

9,275 9,445

Income from related corporations

- Management fee

5,893 4,415

- Research and development fee

4,062 3,885

- Service fee (net)

1,416 1,132

Income from a subsidiary

- Service fee (net)

80 100

20,726 18,977

(b) Other (losses)/gains

Net currency exchange (losses)/gains

(20) 3,755

Net loss on disposal of property, plant and equipment

(1) (1)

Net losses on disposal of financial assets at FVOCI

(19) -

Net gains on disposal of available-for-sale financial assets

- 30

(40) 3,784

WATERS PACIFIC PTE. LTD.**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2018***6. Expenses**

The following expenses have been included in arriving at profit before tax:

	2018 US\$'000	2017 US\$'000
(a) <u>Expenses by nature</u>		
Purchases of inventories	203,355	173,596
Warranty expense	1,220	1,033
Depreciation of property, plant and equipment (Note 14)	1,666	1,672
Amortisation of intangible assets (Note 15)	64	65
Employee compensation (Note 6(b))	8,489	7,739
Rental expense on operating leases	965	803
Royalties expense	55,140	48,502
Changes in inventories	(3,100)	1,714
Commission expense	5,572	4,302
Service fee	425	158
Freight expense	2,695	2,372
Travel expense	1,042	1,204
Other expenses	7,206	5,464
Total cost of sales, distribution and marketing costs, research and development fee and administrative expenses	<u>284,739</u>	<u>248,624</u>
(b) <u>Employee compensation</u>		
Wages and salaries	7,262	6,395
Employer's contribution to Central Provident Fund	717	629
Other benefits	510	715
	<u>8,489</u>	<u>7,739</u>

7. Income tax

The Company was granted an initial 5-year pioneer status by the Singapore Economic Development Board ("EDB"), which expired on 31 March 2011. Subsequently, the Company has been granted by EDB a 5-year extension of its pioneer status, which has expired on 31 March 2016. In 2015, the Company was granted an additional 5-year extension of its pioneer status by EDB, which will expire on 31 March 2021. The Company will need to meet all stipulated conditions for the extended pioneer status period within certain timelines.

During the Company's pioneer status period, income derived from the Company's pioneer activities is taxed at zero rate and other income, if any, is taxed at the Singapore standard rate of income tax.

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

7. Income tax (continued)

(a) Income tax (credit)/expense

	2018 US\$'000	2017 US\$'000
Tax (credit)/expense attributable to profit is made up of:		
- Current income tax	421	232
- Deferred income tax (Note 7(c))	734	1,485
	<u>1,155</u>	<u>1,717</u>
(Over)/under provision in prior financial years		
- Current income tax	446	17
- Deferred income tax (Note 7(c))	(2,233)	-
	<u>(632)</u>	<u>1,734</u>

Over provision of prior year deferred income tax liabilities is due to unremitted foreign interest income receivables from the financial assets at FVOCI (2017: available-for-sale financial assets) being received directly by the ultimate holding corporation instead of being remitted to the Company upon disposal or maturity of the investments. As such, a portion of prior years interest income earned are not expected to be taxable as the interest income will not be received in Singapore.

The tax on profit before tax differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

	2018 US\$'000	2017 US\$'000
Profit before tax	<u>176,487</u>	<u>156,054</u>
Tax calculated at a tax rate of 17% (2017: 17%)	30,003	26,529
Effects of :		
- Income not subject to tax	(668)	-
- (Over)/under provision of tax from prior years	(1,787)	17
- Income exemption under pioneer tax incentive	(28,180)	(24,812)
Tax charge	<u>(632)</u>	<u>1,734</u>

(b) Movements in current income tax liabilities

	2018 US\$'000	2017 US\$'000
Beginning of financial year	310	1,002
Income tax paid	(302)	(976)
Under provision in prior financial years	446	17
Tax payable on profit for current financial year	421	232
Currency translation differences	(7)	35
End of financial year	<u>868</u>	<u>310</u>

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

7. Income tax (continued)

(c) Deferred income taxes

	Unremitted foreign interest income <u>receivables</u> US\$'000	Fair value losses on financial assets at FVOCI (2017: available-for- sale financial <u>assets</u>) US\$'000	<u>Total</u> US\$'000
2018			
Beginning of financial year	2,963	(252)	2,711
(Credited)/charged to:			
- Profit or loss (Note 7(a))	(1,499)	-	(1,499)
- Equity (Note 19)	-	181	181
Currency translation difference	(54)	-	(54)
End of financial year	1,410	(71)	1,339
2017			
Beginning of financial year	1,339	(185)	1,154
Charged/(credited) to:			
- Profit or loss (Note 7(a))	1,485	-	1,485
- Equity (Note 19)	-	(67)	(67)
Currency translation difference	139	-	139
End of financial year	2,963	(252)	2,711

Deferred income tax liabilities to be settled from the balance sheet date as follows:

	2018 US\$'000	2017 US\$'000
Deferred income tax liabilities		
To be settled after one year	1,339	2,711

8. Cash and cash equivalents

	2018 US\$'000	2017 US\$'000
Cash at bank and on hand	91,788	77,754
Short-term bank deposits	23,539	55,251
	115,327	133,005

Short-term bank deposits at the balance sheet date have an average maturity of 6 months (2017: 5 months) and have a weighted average effective interest rate of 2.1% per annum (2017: 0.48% per annum).

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

9. Trade and other receivables

	2018 US\$'000	2017 US\$'000
Trade receivables		
- Non-related parties	18,378	13,782
- Related corporations	97,122	115,414
	<u>115,500</u>	<u>129,196</u>
Less: Allowance for impairment of receivables		
- Non-related parties	(34)	(3)
Trade receivables - net	<u>115,466</u>	<u>129,193</u>
Non-trade receivables		
- Non-related parties	155	102
- Related corporations	23,056	15,215
Accrued interest receivable	499	2,631
	<u>139,176</u>	<u>147,141</u>

The non-trade receivables are unsecured, interest-free and repayable on demand.

10. Inventories

	2018 US\$'000	2017 US\$'000
Finished goods	<u>7,206</u>	<u>4,106</u>

The cost of inventories recognised as an expense and included in "cost of sales" amounted to US\$200,255,000 (2017: US\$175,310,000).

11. Other current assets

	2018 US\$'000	2017 US\$'000
Deposits	401	373
Prepayments	113	86
	<u>514</u>	<u>459</u>

12. Available-for-sale financial assets

	2018 US\$'000	2017 US\$'000
Beginning of financial year	807,529	588,047
Reclassification at 1 January 2018 (Note 2.1)	(807,529)	-
Additions	-	1,192,663
Disposals	-	(972,784)
Fair value losses recognised in other comprehensive income (Note 19)	-	(397)
End of financial year	<u>-</u>	<u>807,529</u>

WATERS PACIFIC PTE. LTD.**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2018***12. Available-for-sale financial assets (continued)**

Available-for-sale financial assets are analysed as follows:

	2018 US\$'000	2017 US\$'000
Listed securities		
- Agency bonds and discounts	-	54,464
- Treasury bill	-	7,957
- Treasury notes	-	143,108
- Corporate debt securities	-	583,704
- Sovereign Government	-	6,952
- Yankee	-	11,344
	<u>-</u>	<u>807,529</u>

13. Financial assets at FVOCI

	2018 US\$'000	2017 US\$'000
Beginning of financial year	-	-
Reclassification at 1 January 2018 (Note 2.1)	807,529	-
Additions	302,552	-
Disposals	(1,018,371)	-
Fair value gains recognised in other comprehensive income (Note 19)	1,065	-
End of financial year	<u>92,775</u>	<u>-</u>

Financial asset at FVOCI are analysed as follows:

	2018 US\$'000	2017 US\$'000
Listed securities		
- Treasury notes	11,836	-
- Corporate debt securities	76,231	-
- Yankee	4,708	-
	<u>92,775</u>	<u>-</u>

During the financial year ended 31 December 2018, the Company disposed certain listed debt investment as payment of dividends to ultimate holding corporation and redemption on maturity of investment. These investments had a fair value of US\$1,018,371,000 at the date of disposal. The cumulative loss on disposal of US\$19,000 was reclassified from fair value reserve to profit or loss.

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

14. Property, plant and equipment

	<u>Leasehold improvements</u> US\$'000	<u>Plant and equipment</u> US\$'000	<u>Computers</u> US\$'000	<u>Furniture and fittings</u> US\$'000	<u>Total</u> US\$'000
2018					
<u>Cost</u>					
Beginning of financial year	1,704	10,607	770	331	13,412
Additions	762	2,581	99	38	3,480
Disposals	-	(46)	(14)	(40)	(100)
Transfer	-	553	-	-	553
End of financial year	2,466	13,695	855	329	17,345
<u>Accumulated depreciation</u>					
Beginning of financial year	561	7,230	709	194	8,694
Depreciation charge (Note 6(a))	286	1,246	88	46	1,666
Disposals	-	(39)	(14)	(40)	(93)
Transfer	-	155	-	-	155
End of financial year	847	8,592	783	200	10,422
<u>Net book value</u>					
End of financial year	1,619	5,103	72	129	6,923
2017					
<u>Cost</u>					
Beginning of financial year	1,703	10,500	752	361	13,316
Additions	1	477	32	4	514
Disposals	-	(638)	(14)	(34)	(686)
Transfer	-	268	-	-	268
End of financial year	1,704	10,607	770	331	13,412
<u>Accumulated depreciation</u>					
Beginning of financial year	300	6,225	620	183	7,328
Depreciation charge (Note 6(a))	261	1,263	103	45	1,672
Disposals	-	(332)	(14)	(34)	(380)
Transfer	-	74	-	-	74
End of financial year	561	7,230	709	194	8,694
<u>Net book value</u>					
End of financial year	1,143	3,377	61	137	4,718

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

15. Intangible assets

Customer relationships

	2018 US\$'000	2017 US\$'000
<i>Cost</i>		
Beginning and end of financial year	648	648
<i>Accumulated amortisation</i>		
Beginning of financial year	141	76
Amortisation charge	64	65
End of financial year	205	141
Net book value	443	507

16. Investment in a subsidiary

	2018 US\$'000	2017 US\$'000
<i>Equity investments at cost</i>		
Beginning and end of financial year	1,200	1,200

At the balance sheet date, the details of the subsidiary are as follows:

<u>Name</u>	<u>Principal activities</u>	<u>Country of business / incorporation</u>	<u>Equity holding</u>	
			2018 %	2017 %
Waters Analytical Instruments Sdn. Bhd.	Distribution and marketing of high performance liquid chromatography instruments and related consumables and services and contract manufacturing	Malaysia	100	100

17. Trade and other payables

	2018 US\$'000	2017 US\$'000
Trade payables to:		
- Non-related parties	15,804	12,655
- Related corporations	37,960	38,135
	53,764	50,790
Non-trade payables to:		
- Related corporations	17,898	11,623
Other accruals for operating expenses	3,215	2,741
	74,877	65,154

The non-trade payables are unsecured, interest-free and repayable on demand.

WATERS PACIFIC PTE. LTD.**NOTES TO THE FINANCIAL STATEMENTS***For the financial year ended 31 December 2018***18. Share capital**

The Company's share capital comprise fully paid-up 102 (2017: 102) ordinary shares with no par value, amounting to a total of US\$800,100 (2017: US\$800,100).

19. Fair value reserve

	2018 US\$'000	2017 US\$'000
Beginning of financial year	(1,227)	(897)
Available-for-sale financial assets		
- Fair value losses (Note 12)	-	(397)
- Tax on fair value changes (Note 7(c))	-	67
	-	(330)
Financial assets at FVOCI		
- Fair value gains (Note 13)	1,065	-
- Tax on fair value changes (Note 7(c))	(181)	-
	884	-
End of financial year	(343)	(1,227)

Fair value reserve is non-distributable.

20. Dividends

	2018 US\$'000	2017 US\$'000
<i>Ordinary dividends proposed and paid</i>		
Interim dividend paid in respect of current financial year of US\$9,036,587 (2017: US\$44,118) per share	921,732	4,500

At the Directors' Board meeting on 7 January 2019, an interim dividend of US\$50,000,000 was declared and paid out in respect of the year ending 31 December 2019. At a subsequent Directors' Board meetings on 4 February 2019, 14 February 2019 and 5 April 2019, interim dividend of US\$95,000,000 in total were declared in respect of the year ending 31 December 2019. These dividends were paid out by 8 April 2019. These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2019.

In addition to cash dividends paid and offsetting of intercompany receivables from ultimate holding corporation during the year, the Company has also declared and distributed dividend in specie in shares of financial assets at FVOCI. This is accounted for as a disposal of financial assets at FVOCI at fair value of US\$246,916,000 (Note 13) on the date of transfer.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

21. Commitments

Operating lease commitments – where the Company is a lessee

The Company leases office space, office equipment and motor vehicles under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payable under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	2018 US\$'000	2017 US\$'000
Not later than one year	1,955	1,604
Between one and five years	3,071	2,952
	<u>5,026</u>	<u>4,556</u>

22. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and capital risk.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Company. The management team then establishes detailed policies such as risk identification and measurement, exposure limits and hedging strategies. Financial risk management is carried out by control treasury department (Corporate Treasury) of the ultimate holding corporation.

Corporate Treasury measures actual exposures against the limits set and prepares regular reports for the review of the management team and the Board of Directors. The information presented below is based on information received by the management team.

(a) Market risk

(i) Currency risk

The Company's business is exposed to Singapore Dollar ("SGD"), Euro ("EUR") and South-Korean Won ("KRW") as certain transactions are denominated in these currencies.

The Company's currency exposure to SGD, EUR and KRW is as follows:

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

22. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	<u>SGD</u> US\$'000	<u>EUR</u> US\$'000	<u>KRW</u> US\$'000
2018			
Financial assets			
Cash and cash equivalents	3,402	-	-
Trade and other receivables	4,832	20,538	-
	<u>8,234</u>	<u>20,538</u>	<u>-</u>
Financial liability			
Trade and other payables	<u>(1,638)</u>	<u>(425)</u>	<u>(233)</u>
Currency exposure of net financial assets/(liabilities)	<u>6,596</u>	<u>20,113</u>	<u>(233)</u>
2017			
Financial assets			
Cash and cash equivalents	3,792	-	-
Trade and other receivables	3,602	31,587	-
	<u>7,394</u>	<u>31,587</u>	<u>-</u>
Financial liability			
Trade and other payables	<u>(1,339)</u>	<u>(168)</u>	<u>(141)</u>
Currency exposure of net financial assets/(liabilities)	<u>6,055</u>	<u>31,419</u>	<u>(141)</u>

If the SGD, EUR and KRW change against the USD by 1%, 1% and 1% (2017: 1%, 1% and 1%) respectively, with all other variables held constant, the effects arising from the net financial asset/liability position will be as follows:

	<u>Increase/(decrease)</u> <u>profit after tax</u>	
	2018	2017
	US\$'000	US\$'000
SGD against USD		
- strengthened	55	50
- weakened	(55)	(50)
EUR against USD		
- strengthened	167	261
- weakened	(167)	(261)
KRW against USD		
- strengthened	(2)	(1)
- weakened	<u>2</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

22. Financial risk management (continued)

(a) Market risk (continued)

(ii) *Price risk*

The Company is exposed to price risk arising from financial assets at FVOCI (Note 13) (2017: available-for-sale financial assets (Note 12)). The management of price risk is carried out by the Corporate Treasury of the ultimate holding corporation.

As at 31 December 2018, if prices for securities increased/decreased by 1% (2017: 1%) with all other variables including tax rate being held constant, the Company's equity would have been US\$928,000 (2017: US\$8,075,000) higher/lower.

(iii) *Interest rate risk*

The Company has cash balances placed with reputable banks and financial institutions and financial assets at FVOCI (2017: available-for-sale financial assets) which generate interest income for the Company. The Company manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

The Company has no significant financial assets or liabilities other than cash and bank balances (Note 8) and financial assets at FVOCI (Note 13) (2017: available-for-sale financial assets (Note 12)) that are exposed to interest rate risks. The exposure to interest rate risk from fixed deposits placed with banks and financial assets at FVOCI is not significant.

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligation, resulting in financial loss to the Company.

(i) *Risk management*

The Company's major classes of financial assets are cash and bank balances, trade and other receivables, deposits within other receivables, financial assets at FVOCI and available-for-sale financial assets.

For trade receivables, the Company adopts the policy of dealing only with related corporations and customers of appropriate credit standing and history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Company adopts the policy of dealing with financial institutions and other counterparties with high credit ratings.

As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

Credit exposure to an individual customer is restricted by the credit limit approved by the credit controller. Customers' payment profile and credit exposure are continuously monitored by the credit controller and reported to the management and Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

22. Financial risk management (continued)

(b) Credit risk (continued)(i) *Risk management* (continued)

The Company's trade receivables include five debtors (2017: five debtors) that individually represented 7 – 11% (2017: 8 – 16%) of trade receivables at balance sheet date.

(ii) *Impairment of trade and other receivables*

The Company has applied the simplified approach by using the provision matrix to measure the lifetime expected credit losses for trade receivables. For non-trade receivables, the Company applies either a 12-month expected credit losses or lifetime expected credit losses, depending on the internal credit risk rating for these financial assets.

To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and days past due. In calculating the expected credit loss rates, the Company considers historical loss rates for each category of customers, and adjusts for forward-looking macroeconomic data. The Company has identified the Gross Domestic Product ("GDP") of the countries in which it sell its goods to be the most relevant factor. There are no adjustments to historical loss rates based on expected changes in the factor.

Receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Company. Where receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

The Company's credit risk exposure in relation to trade receivables from non-related parties as at 31 December 2018 are set out in the provision matrix as follows:

<u>31 December 2018</u>	Current US\$'000	Past due				Total US\$'000
		Within 90 days US\$'000	90 to 180 days US\$'000	180 to 365 days US\$'000	More than 365 days US\$'000	
Trade receivables	9,975	4,748	2,242	1,314	99	18,378
Loss allowances	-	-	-	(33)	(1)	(34)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

22. Financial risk management (continued)

(b) Credit risk (continued)(ii) *Impairment of trade and other receivables* (continued)

Movement in credit loss allowance for financial assets are set out as follows:

	Total US\$'000
Balances as at 31 December 2017 and 1 January 2018 under FRS39 and FRS109	3
Loss allowance recognised in profit or loss during the year on:	
- Asset originated	34
- Reversal of unutilised amount	(3)
	31
Balances as at 31 December 2018	34

Trade receivables from related corporations and other receivables are subjected to immaterial credit loss.

In 2017, the impairment of the financial assets was assessed based on the incurred loss impairment model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet identified.

Financial assets that are neither past due nor impaired

Bank deposits and financial assets classified as available-for-sale are mainly deposits/securities with banks and financial institutions with high credit-ratings as determined by international credit-rating agencies. Trade and other receivables that are neither past due nor impaired are substantially companies with good collection track records with the Company.

Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables that are past due but not impaired is as follows:

	2017 US\$'000
Past due 0 to 3 months	72,423
Past due 3 to 6 months	14,146
Past due over 6 months	391
	<u>86,960</u>

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

22. Financial risk management (continued)

(b) Credit risk (continued)(ii) *Impairment of trade and other receivables* (continued)

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	2017 US\$'000
Gross amount	32
Less: Allowance for impairment	(3)
	<u>29</u>
Beginning of financial year	2
Allowance made	3
Allowance utilised	(2)
End of financial year (Note 9)	<u>3</u>

The impaired trade receivables arise mainly from sales to customers with long outstanding balances that remain unpaid as at the balance sheet date.

(iii) *Financial assets, at FVOCI*

As disclosed in Notes 12 and 13, financial assets, at FVOCI comprise of listed securities. These are considered "low credit risk" as follows:

- Listed securities are of investment grade credit rating with major rating agencies.

Hence, the loss allowance recognised on these assets are measured at the 12-month expected credit losses.

Credit risk exposure and significant credit risk concentration

The Company uses external credit ratings determined by credit rating agencies such as Standard & Poor, Moody's and Fitch, so as to determine the appropriate expected credit loss rates. The Company has determined that financial assets at FVOCI are subjected to immaterial credit loss.

(c) Liquidity risk

The Company manages liquidity risk by maintaining cash and money market funds, and available funding through an adequate amount of committed credit facilities sufficient to enable it to meet its operational requirements.

The maturity profile of the Company's financial liabilities based on contractual undiscounted cash flows are less than 1 year (2017: 1 year).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

22. Financial risk management (continued)

(d) Capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve optimal capital structure, the Company may issue or redeem additional equity and debt instruments when necessary.

Total capital of the Company as at 31 December 2018 is represented by "Total equity" as presented on the balance sheet.

The Company is not subject to any externally imposed capital requirements.

(e) Fair value measurements

The table below presents assets and liabilities measured and carried at fair value and classified by level of the following fair value measurement hierarchy:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	<u>Level 2</u> US\$'000	<u>Total</u> US\$'000
As at 31 December 2018		
Financial assets at FVOCI	<u>92,775</u>	<u>92,775</u>
As at 31 December 2017		
Available-for-sale financial assets	<u>807,529</u>	<u>807,529</u>

The fair values of the Company's financial assets at FVOCI (2017: available-for-sale financial assets) are determined through market and other observable sources and have been classified as Level 2. These assets have been initially valued at the transaction price and subsequently valued, typically utilising third-party pricing services. The pricing services use many inputs to determine value, including reportable trades, benchmark yields, and credit spreads, broker/dealer quotes, current spot rates and other industry and economic events. The Company validates the prices provided by third-party pricing services by reviewing their pricing methods and obtaining market values from other pricing sources. After completing these validation procedures with satisfactory outcomes, the Company did not adjust or override any fair value measurements provided by third-party pricing services as of 31 December 2018 and 2017.

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate to their fair values.

WATERS PACIFIC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

22. Financial risk management (continued)

(e) Fair value measurements (continued)

The carrying amounts of financial assets measured at fair value are as disclosed on the face of the balance sheet and in Note 12 and Note 13 to the financial statements.

The aggregate carrying amounts of loan and receivables, financial assets and financial liabilities at amortised cost are as follows:

	2018 US\$'000	2017 US\$'000
Financial assets at amortised cost	254,904	-
Loans and receivables	-	280,519
Financial liabilities at amortised cost	74,877	65,154

23. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Company and related parties at terms agreed between the parties:

(a) Sales and purchase of goods and services

	2018 US\$'000	2017 US\$'000
Sales to related corporations	367,979	317,519
Sales to a subsidiary	37	-
Purchases of inventories from related corporations	64,347	50,940
Purchases of fixed assets from related corporations	1,844	176
Inventories returned to related corporations	628	254
Freight expenses charged by related corporations	188	179
Payments made on behalf of related corporations	3,391	2,784
Payments made on behalf of a subsidiary	30	32
Expenses recharged by related corporations	5,285	4,294
Expenses recharged to related corporations	135	69
Expenses recharged to a subsidiary	4	7
Commission expense charged by a related corporation	5,572	4,302
Royalties expense charged by a related corporation	55,140	48,502

Outstanding balances with related parties at the balance sheet date are unsecured and receivable/payable within 12 months from balance sheet date and are disclosed in Notes 9 and 17 respectively.

(b) Key management personnel compensation

There was no compensation paid to key management personnel of the Company as key management personnel have employment contracts with and are remunerated by the ultimate holding corporation.

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

24. Immediate and ultimate holding corporation

The Company's immediate holding corporation is Waters Asia Limited, incorporated in the State of Delaware, U.S.A. The ultimate holding corporation is Waters Corporation, incorporated in the State of Delaware, U.S.A.

25. Subsequent event

From 27 January 2019, the Company obtained the ownership of the Asian Distribution Centre from a related corporation, and started deriving handling fee income from it. There were no transfer of assets, employees or contracts in respect to the change of ownership, and no separate payments made to the related corporation.

26. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Company's accounting periods beginning on or after 1 January 2019 and which the Company has not early adopted:

FRS 116 *Leases* (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

Some of the company's commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under FRS 116.

As at the reporting date, the Company has non-cancellable operating lease commitments of US\$5,026,000, see Note 21. Of these commitments, approximately US\$26,000 relate to short-term leases and US\$73,000 to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Company expects to recognise right-of-use assets and lease liabilities of approximately US\$4,724,000 on 1 January 2019. Net current assets will be US\$1,949,000 lower due to the presentation of a portion of the liability as a current liability.

The Company expects that net profit before tax will decrease by approximately US\$55,000 for 2019 as a result of adopting FRS116. Operating cash flows will increase and financing cash flows decrease by approximately US\$1,763,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The new standard also introduces expanded disclosure requirements and changes in presentation.

27. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Waters Pacific Pte. Ltd. on 4 June 2019.
