PHOSLOCK WATER SOLUTIONS LTD

(ABN 88 099 555 290)

APPENDIX 4E
PRELIMINARY FINAL REPORT
YEAR ENDED 30 JUNE 2007

Previous Corresponding Reporting Period: 30 June 2006

Results for announcement to the market:

				$A'000
Revenues from ordinary activities	up	22%	to	1,033
Profit (loss) from ordinary activities after tax attributable to members	down	19%	to	(4,349)
Net profit (loss) for the period attributable to members	down	19%	to	(4,349)

The company does not propose to pay any dividends for the year ended 30 June 2007.

Annual meeting

The annual meeting will be held as follows:

Place	Aust Technology Park – Eveleigh NSW
Date	29 November 2007
Time	10AM
Approximate date the annual report will be available	23 October 2007

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

		Consolidated Group		Parent Entity	
	Note	2007	2006	2007	2006
		$	$	$	$
Sales Revenue	2	1,033,040	765,139	-	-
Cost of Sales		(590,849)	(438,253)	-	-
Gross Profit		442,191	326,886	-	-
Other income	2	89,794	568,988	-	-
Distribution expenses		(80,446)	(38,086)	-	-
Marketing expenses		(575,556)	(270,636)	-	-
Occupancy expenses		(221,437)	(187,951)	-	-
Administrative expenses		(1,353,048)	(1,004,126)	(100)	(4)
Employee benefits expense		(2,093,772)	(1,547,467)	-	-
Depreciation and amortisation		(423,906)	(531,858)	(110,100)	(52,758)
Loss on sale of plant and equipment		-	(596,455)	-	-
Other expenses		(143,190)	(362,328)	-	-
Finance Costs		(3,429)	-	-	-
Share of net loss of associates		(11,276)	-	-	-
Loss before income tax	3	(4,374,075)	(3,643,033)	(110,200)	(52,762)
Income tax expense	4	-	-	-	-
Loss for the year		(4,374,075)	(3,643,033)	(110,200)	(52,762)
Loss attributable to minority equity interest		24,743	2,713	-	-
Loss attributable to members of the parent entity		(4,349,332)	(3,640,320)	(110,200)	(52,762)
Overall Operations					
Basic earnings per share (cents per share)	7	(3.13)	(3.10)		
Diluted earnings per share (cents per share)	7	(3.13)	(3.10)		

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
BALANCE SHEET AS AT 30 JUNE 2007

		Consolidated Group		Parent Entity	
	Note	2007	2006	2007	2006
		$	$	$	$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	2,176,819	2,077,697	5,243	5,343
Trade and other receivables	9	283,811	985,149	-	-
Inventories	10	1,245,289	960,127	-	-
Other current assets	17	71,358	55,862	-	-
TOTAL CURRENT ASSETS		3,777,277	4,078,835	5,243	5,343
NON-CURRENT ASSETS					
Trade and other receivables	9	400,000	400,000	15,442,843	11,376,124
Investments accounted for using the equity method	11	34,941	-	-	-
Financial assets	13	-	-	4,647,929	4,647,929
Property, plant and equipment	15	843,552	903,002	-	-
Intangible assets	16	3,411,338	3,590,862	1,103,356	1,213,456
TOTAL NON-CURRENT ASSETS		4,689,831	4,893,864	21,194,128	17,237,509
TOTAL ASSETS		8,467,108	8,972,699	21,199,371	17,242,852
CURRENT LIABILITIES					
Trade and other payables	18	772,341	866,665	-	-
Short-term borrowings	19	3,844	-	-	-
Short-term provisions	20	100,182	132,373	-	-
TOTAL CURRENT LIABILITIES		876,367	999,038	-	-
NON-CURRENT LIABILITIES					
Other long-term provisions	20	32,697	32,057	-	-
TOTAL NON-CURRENT LIABILITIES		32,697	32,057	-	-
TOTAL LIABILITIES		909,064	1,031,095	-	-
NET ASSETS		7,558,044	7,941,604	21,199,371	17,242,852
EQUITY					
Issued capital	21	24,458,037	20,572,379	24,458,037	20,572,379
Reserves		864,592	745,652	913,625	732,564
Accumulated losses		(17,916,916)	(13,567,584)	(4,172,291)	(4,062,091)
Parent interest		7,405,713	7,750,447	21,199,371	17,242,852
Minority equity interest		152,331	191,157	-	-
TOTAL EQUITY		7,558,044	7,941,604	21,199,371	17,242,852

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Minority Equity Interests	Total
Consolidated Group	$	$	$	$	$	$
Balance at 1 July 2005	16,773,215	(9,927,264)	(5,369)	301,434	178,698	7,320,714
Loss attributable to members of parent entity	-	(3,640,320)	-	-	-	(3,640,320)
Loss attributable to minority shareholders	-	-	-	-	2,713	2,713
Shares Issued during the year	3,885,318	-	-	-	-	3,885,318
Transaction costs	(86,154)	-	-	-	-	(86,154)
Adjustments from translation of foreign controlled entities	-	-	18,457	-	9,746	28,203
Option reserve on recognition of employee options expense	-	-	-	321,008	-	321,008
Option reserve on recognition of other issue of options	-	-	-	110,122	-	110,122
Balance at 30 June 2006	20,572,379	(13,567,584)	13,088	732,564	191,157	7,941,604
Shares issued during the year	4,033,500	-	-	-	-	4,033,500
Transaction costs	(147,842)	-	-	-	-	(147,842)
Losses attributable to members of parent entity	-	(4,349,332)	-	-	-	(4,349,332)
Losses attributable to minority shareholders	-	-	-	-	(24,743)	(24,743)
Adjustments from translation of foreign controlled entities	-	-	(62,121)		(14,083)	(76,204)
Option reserve on recognition of employee options expense	-	-	-	122,714	-	122,714
Option reserve on recognition of other issue of options	-	-	-	58,347	-	58,347
Balance at 30 June 2007	24,458,037	(17,916,916)	(49,033)	913,625	152,331	7,558,044

	Issued Share Capital	Accumulated Losses	Foreign Currency Translation	Option Reserve	Minority Equity Interests	Total
Parent Entity	$	$	$	$		
Balance at 1 July 2005	16,773,215	(4,009,329)	-	301,434	-	13,065,320
Losses attributable to members of parent entity	-	(52,762)	-	-	-	(52,762)
Shares issued during the year	3,885,318	-	-	-	-	3,885,318
Transaction costs	(86,154)	-	-	-	-	(86,154)
Option reserve on recognition of employee options expense	-	-	-	321,008	-	321,008
Option reserve on recognition of other isue of options	-	-	-	110,122	-	110,122
Balance at 30 June 2006	20,572,379	(4,062,091)	-	732,564	-	17,242,852
Losses attributable to members of parent entity	-	(110,200)	-	-	-	(110,200)
Shares issued during the year	4,033,500	-	-	-	-	4,033,500
Transaction costs	(147,842)	-	-	-	-	(147,842)
Option reserve on recognition of employee options expense	-	-	-	122,714	-	122,714
Option reserve on recognition of other issue of options	-	-	-	58,347	-	58,347
Balance at 30 June 2007	24,458,037	(4,172,291)	-	913,625	-	21,199,371

The accompanying notes form part of these financial statements.

PHOSLOCK WATER SOLUTIONS LIMITED ABN: 88 099 555 290 AND CONTROLLED ENTITIES
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,395,116	510,204	-	-
Interest received		87,785	27,044	-	-
Payments to suppliers and employees		(5,219,031)	(3,481,416)	(100)	(4)
Finance costs		(4,087)	86,713	-	-
Net cash provided by (used in) operating activities	25	(3,740,217)	(2,857,455)	(100)	(4)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		387,255	1,597,366	-	-
Proceeds from sale of investments		-	489,785	-	-
Purchase of property, plant and equipment		(261,705)	(459,089)	-	-
Purchase of investments		-	-	-	(2)
Purchase of other non-current assets		(146,438)	(581,459)	-	(470,000)
Payment for subsidiary, net of cash acquired		-	(50,713)	-	(50,713)
Net cash provided by (used in) investing activities		(20,888)	995,890	-	(520,715)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		4,033,500	2,365,237	4,033,500	2,365,237
Repayment of borrowings		-	-	(3,888,194)	(1,749,662)
Capital raising costs		(145,306)	(89,513)	(145,306)	(89,513)
Net cash provided by (used in) financing activities		3,888,194	2,275,724	-	526,062
Net increase in cash held		127,089	414,159	(100)	5,343
Cash at beginning of financial year		2,077,697	1,631,192	5,343	-
Effect of exchange rates on cash holdings in foreign currencies		(31,811)	32,346	-	-
Cash at end of financial year	8	2,172,975	2,077,697	5,243	5,343

The accompanying notes form part of these financial statements.

Note 1 Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated group of Phoslock Water Solutions Limited and controlled entities, and Phoslock Water Solutions Limited as an individual parent entity. Phoslock Water Solutions Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Phoslock Water Solutions Limited and controlled entities, and Phoslock Water Solutions Limited as an individual parent entity complies with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity Phoslock Water Solutions Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note Note 14 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Phoslock Water Solutions Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2004. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. .

(d) Property, Plant and Equipment

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

Plant and equipment

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

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

Depreciation

The depreciable amount of all fixed assets is depreciated on a written down value basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	10 - 30 %
Office Equipment	15 - 33 %
Office Furniture	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.
Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.
Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments
These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets
Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

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

Impairment
At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

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

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

(h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post acquisition reserves of its associates.

(i) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Phoslock Licence Patents and trademarks

Licences, patents and trademarks are recognised at cost of acquisition. All intellectual property has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. Licences, patents and trademarks are amortised over their useful lives representing the term of the intellectual property till 2017.

Research and development

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

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

(j) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

Exchange differences arising on translation of foreign operations are transferred directly to the groups foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(k) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

The group operates an employee share option arrangement. The bonus element over the exercise price of the employee services rendered in exchange for the grant of options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(l) Provisions

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

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(n) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

(o) Borrowing Costs

Borrowing costs are recognised in income in the period in which they are incurred.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

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

(q) Comparative Figures

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

Critical accounting estimates and judgments

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

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No provision for impairment of goodwill or intangibles was recognised during the year.

Note 2 **Revenue**

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Sales Revenue					
— sale of goods		1,033,040	765,139	-	-
Total Sales Revenue		1,033,040	765,139	-	-
Other Revenue					
— interest received	2(a)	87,931	25,749	-	-
— royalties		25	54,815	-	-
Other Income	2(b)	1,838			
Total Other Revenues		89,794	80,564	-	-
Total Sales Revenue and Other Revenue		1,122,834	845,703	-	-
(a) Interest revenue from:					
— other persons		87,931			
(b) Other Income					
— gain on disposal of property, plant and equipment		1,466	-	-	-
— gains on disposal of non-current investments		-	488,424	-	-
— other income		372	-	-	-
Total Other Income		1,838	488,424	-	-

Note 3 **Profit/(Loss) before Income Tax for the Year**

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
(a) Expenses				
Cost of sales	590,849	438,253	-	-
Finance costs:				
— Other persons	3,429	-	-	-
Impairment of non-current investments to recoverable amount	-	342,584	-	-
Foreign currency translation losses	12,717	-	-	-
Bad and doubtful debts:				
— trade receivables	8,234	4,000	-	-
Total bad and doubtful debts	8,234	4,000	-	-
Rental expense on operating leases				
— minimum lease payments	221,437	187,951	-	-
— contingent rentals	-	-	-	-
— rental expense for sublease	-	-	-	-
Gain on disposal of property, plant and equipment	1,466	-	-	-
Depreciation of property plant and equipment	119,806	59,255	-	-
Amortisation of non-current assets				
- bentonite mine	-	206,757	-	-
- research and development expenditure	7,000	6,839	-	-
- phoslock licence, patents and trademarks	319,567	259,007	110,100	52,758
Total amortisation	326,567	472,603	110,100	52,758
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
Contingent rentals on finance leases	-	-	-	-
Exploration expenditure	-	-	-	-
Write-off of capitalised exploration expenditure	-	-	-	-
Research and development costs	-	212,801	-	-
Early termination of foreign currency hedge	-	-	-	-
Write-down of inventories to net realisable value	-	20,621	-	-

(b) Significant Revenue and Expenses

The following significant revenue and expense items are relevant in explaining the financial performance:

Sale of Bentonite Mining Tenements

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Consideration on disposal	-	2,471,326	-	-
Carrying amount of net assets sold	-	3,066,534	-	-
Net loss on disposal	-	(595,208)	-	-

Sale of Puda Share Investment

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Consideration on disposal		489,523		
Carrying amount of net assets sold		1,099		
Net gain on disposal	-	488,424	-	-

Note 4 **Income Tax Expense**

		Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
(a)	Prima facie tax payable on loss from ordinary activities before income tax at 30% (2006: 30%)				
	— consolidated group	(1,312,222)	(1,092,910)		
	— parent entity			(33,060)	(15,829)
	Add:				
	Tax effect of:				
	— non-deductible depreciation and amortisation	89,130	134,026	33,030	15,828
	— other non-allowable items	3,128	959	-	-
	— write-downs to recoverable amounts	-	102,775	-	-
	— share options expensed during year	35,651	96,302	-	-
	— other items	-	38,129	-	-
	— FITB's not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur	1,199,950	740,323	30	20,609
		15,637	19,604	-	20,608
	Less:				
	Tax effect of:				
	— share of net profits of associates and joint venture entities netted directly	(3,383)	-	-	-
	— Other tax concessions & deductible amounts	19,020	19,604	-	20,608
	Income tax attributable to entity	-	-	-	-
(b)	Potential future income tax benefits attributable to tax losses carried forward not brought to account	4,398,469	3,256,534	145,087	145,057

Note 5 Key Management Personnel Compensation

(a) Names and positions held of consolidated group and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Dr David Garman	Chairman - Non Executive
Mr Robert Schuitema	Managing Director
Mr Russell Brown	Director - Non Executive
Mr Brett Crowley (Retired 9/1/2007)	Managing Director
Mr Colin Upcroft	Chief Financial Officer and Company Secretary
Mr Nigel Traill	Regional Manager Europe, Africa and The Middle East
Mr Eddie Edmunds	Chief Operating Officer
Mr Andrew Winks	Group Operations Manager

(b) **Options and Rights Holdings**

Number of Options Held by Key Management Personnel

2007	Balance 1.07.2006	Granted as Compensation	Options Exercised*	Net Change Other*	Balance 30.06.2007	Total Vested 30.06.2007	Total Vested & Exercisable 30.06.2007	Total Vested & Unexercisable 30.06.2007
Dr David Garman	900,000	-	-	-	900,000	900,000	900,000	-
Mr Robert Schuitema	7,000,000	-	-	-	7,000,000	5,000,000	5,000,000	-
Mr Russell Brown	500,000	-	-	-	500,000	500,000	500,000	-
Mr Brett Crowley (Retired 9/1/2007)	7,500,000	-	3,500,000	-	4,000,000	4,000,000	4,000,000	-
Mr Colin Upcroft	1,500,000	-	10,000	-	1,490,000	1,490,000	1,490,000	-
Mr Nigel Traill	1,800,000	-	-	-	1,800,000	1,800,000	1,800,000	-
Mr Eddie Edmunds	-	2,350,000	-	-	2,350,000	2,350,000	2,350,000	-
Mr Andrew Winks	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
	20,700,000	2,350,000	3,510,000	-	19,540,000	17,540,000	17,540,000	-

The net change other column above includes those options that have been forfeited by holders as well as options issued during the year under review.

(c) **Shareholdings**

Number of Shares held by Key Management Personnel

2007	Balance 1.07.2006	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.2007
Key Management Personnel					
Dr David Garman	400,000	-	-	-	400,000
Mr Robert Schuitema	2,400,000	-	-	-	2,400,000
Mr Russell Brown	-	-	-	-	-
Mr Brett Crowley (Retired 9/1/2007)	459,000	-	3,500,000	3,959,000	-
Mr Colin Upcroft	-	-	10,000	-	10,000
Mr Nigel Traill	2,300,529	-	-	-	2,300,529
Mr Eddie Edmunds	-	-	-	-	-
Mr Andrew Winks	-	-		-	-
	5,559,529	-	3,510,000	3,959,000	5,110,529

* Net change other refers to shares purchased or sold during the financial year.

Note 6 Auditors' Remuneration

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	53,675	25,474	-	-
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	7,492	3,148	-	-

Note 7 **Earnings per Share**

	Consolidated Group 2007 $	Consolidated Group 2006 $
(a) Reconciliation of earnings to profit or loss		
Profit / (Loss)	(4,374,075)	(3,643,033)
Profit / (Loss) attributable to minority equity interest	24,743	2,713
Earnings used to calculate basic EPS	(4,349,332)	(3,640,320)
Earnings used in the calculation of dilutive EPS	(4,349,332)	(3,640,320)
(b) Reconciliation of earnings to profit or loss from continuing operations		
Profit / (Loss) from continuing operations	(4,374,075)	(3,643,033)
Profit / (Loss) attributable to minority equity interest in respect of continuing operations	24,743	2,713
Earnings used to calculate basic EPS from continuing operations	(4,349,332)	(3,640,320)
Earnings used in the calculation of dilutive EPS from continuing operations	(4,349,332)	(3,640,320)
	No.	No.
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic and dilutive EPS	138,962,332	117,260,231

(d) Classification of securities
The 28,437,913 options remaining unconverted at year-end are not included in basic and dilutive EPS as the exercise of the options is contingent upon future events. As at reporting date, conditions which would result in the exercise of the options and issue of shares had not been met.

Note 8 **Cash and Cash Equivalents**

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Cash at bank and in hand		2,080,697	2,013,120	5,243	5,343
Short-term bank deposits		96,122	64,577	-	-
		2,176,819	2,077,697	5,243	5,343

The effective interest rate on short-term bank deposits was 5.5% (2006: 5.5%); these deposits have an average maturity of 90 days.

Reconciliation of cash
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Cash and cash equivalents		2,176,819	2,077,697	5,243	5,343
Bank overdrafts	19	(3,844)	-	-	-
		2,172,975	2,077,697	5,243	5,343

Note 9 **Trade and Other Receivables**

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
CURRENT				
Trade receivables	89,736	397,221	-	-
Provision for impairment of receivables	(8,000)	(8,000)	-	-
	81,736	389,221	-	-
Other receivables	202,075	595,928	-	-
	283,811	985,149	-	-
NON-CURRENT				
Other receivables	400,000	400,000	-	-
Amounts receivable from:				
— wholly-owned entities	-	-	15,442,843	11,376,124
	400,000	400,000	15,442,843	11,376,124

Note 10 **Inventories**

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
CURRENT				
At cost				
Raw materials and stores	100,453	122,502	-	-
Finished goods	1,144,836	837,625	-	-
	1,245,289	960,127	-	-

Note 11 Investments Accounted for Using the Equity Method

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Associated companies	12(a)	34,941	-	-	-
		34,941	-	-	-

Note 12 Associated Companies

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest 2007 %	Ownership Interest 2006 %	Carrying Amount of Investment 2007 $	Carrying Amount of Investment 2006 $
Unlisted:							
Phoslock Africa Pty Ltd	Phoslock sales	South Africa	Ord	50	-	34,491	-
						34,491	-

(a) **Movements during the Year in Equity Accounted Investments in Associated Companies**

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Balance at beginning of the financial year		-	-	-	-
Add: New investments during the year		46,217	-	-	-
(b) Equity accounted profits of associates are broken down as follows:					
Share of associate's loss before income tax expense		(11,276)			
Share of associate's income tax expense		-			
Share of associate's loss after income tax		(11,276)	-	-	-
(c) Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates					
Current assets		75,016		-	-
Non-current assets		-		-	-
Total assets		75,016	-	-	-
Current liabilities		6,034		-	-
Non-current liabilities		-		-	-
Total liabilities		6,034	-	-	-
Net assets		68,982	-	-	-
Revenues		26,352	-	-	-
Profit / (Loss) after income tax of associates		(22,553)	-	-	-

(d) Ownership interest in Phoslock Africa Pty Ltd at that company's balance date was 50% of ordinary shares. The reporting date of Phoslock Africa Pty Ltd is 28 February.

Note 13 Financial Assets

	Note	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
NON CURRENT					
Available-for-sale financial assets	13(a)	-	-	4,647,929	4,647,929
		-	-	4,647,929	4,647,929
(a) Available-for-sale financial assets Comprise:					
NON CURRENT					
Unlisted investments, at cost					
— shares in controlled entities		-	-	4,647,929	4,647,929
Total non-current available-for-sale financial assets		-	-	4,647,929	4,647,929

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

Note 14 Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)* 2007	Percentage Owned (%)* 2006
Parent Entity:			
Phoslock Water Solutions Limited	Australia		
Subsidiaries of Phoslock Water Solutions Limited :			
Phoslock Pty Ltd	Australia	100	100
Yunnan Jinxingyan Environmental Conservational Consultative Co Ltd	China	100	100
IETC Environmental Protection Technology (Kunming) Ltd	China	71	71
Phoslock Water Solutions UK (Co) Ltd	UK	100	0
Phoslock Technologies Pty Ltd	Australia	100	100
Subsidiaries of Phoslock Pty Ltd			
Purezza Marketing Inc	USA	100	100

Note 15 **Property, Plant and Equipment**

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	1,235,128	1,071,483	-	-
Accumulated depreciation	(345,749)	(168,481)	-	-
Exchange differences	(45,827)	-		
Total plant and equipment	843,552	903,002	-	-

(a) **Movements in Carrying Amounts**

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment $	Total $
Economic Entity:		
Balance at 30 June 2006	903,002	903,002
Additions	226,001	226,001
Disposals	(55,368)	(55,368)
Depreciation expense	(184,256)	(184,256)
Exchange differences	(45,827)	(45,827)
Balance at 30 June 2007	843,552	843,552

Note 16 **Intangible Assets**

	Consolidated Group 2007 $	Consolidated Group 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
Goodwill				
Cost	401,977	401,977	-	-
Accumulated impairment losses	(342,584)	(342,584)	-	-
Net carrying value	59,393	59,393	-	-
Phoslock patents, trademarks and licences				
Cost	4,060,018	3,906,314	1,266,214	1,266,214
Accumulated amortisation	(773,061)	(453,494)	(162,858)	(52,758)
Exchange differences	(12,621)	-	-	-
Net carrying value	3,274,336	3,452,820	1,103,356	1,213,456
Development costs				
Cost	323,740	317,780	-	-
Accumulated amortisation and impairment	(246,131)	(239,131)	-	-
Net carrying value	77,609	78,649	-	-
Total intangibles	3,411,338	3,590,862	1,103,356	1,213,456

Consolidated Group:	Goodwill $	Trademarks & Licences $	Development Costs $	Total $
Year ended 30 June 2006				
Balance at the beginning of year	-	2,228,153	85,488	2,313,641
Additions	401,977	1,483,674		1,885,651
Amortisation charge		(259,007)	(6,839)	(265,846)
Impairment losses	(342,584)			(342,584)
Closing carrying value at 30 June 2006	59,393	3,452,820	78,649	3,590,862
Year ended 30 June 2007				
Balance at the beginning of year	59,393	3,452,820	78,649	3,590,862
Additions	-	153,704	5,960	159,664
Amortisation charge	-	(319,567)	(7,000)	(326,567)
Exchange differences	-	(12,621)	-	(12,621)
Closing carrying value at 30 June 2007	59,393	3,274,336	77,609	3,411,338

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges in respect of intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

Note 17 Other Assets

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
CURRENT				
Prepayments	71,358	55,862	-	-
	71,358	55,862	-	-

Note 18 Trade and Other Payables

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
CURRENT				
Unsecured liabilities				
Trade payables	534,425	473,682	-	-
Sundry payables and accrued expenses	237,916	392,983	-	-
	772,341	866,665	-	-

Note 19 Borrowings

	Note	Consolidated Group		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
CURRENT					
Bank overdrafts	19(a)	3,844	-	-	-

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
(a) Total current and non-current secured liabilities:				
Bank overdraft	3,844	-	-	-

Note 20 Provision for Long-term Employee Benefits

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
CURRENT	$	$	$	$
Employee Entitlements				
Balance at end of the year	100,182	132,373	-	-

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
NON CURRENT	$	$	$	$
Employee Entitlements				
Balance at end of the year	32,697	32,057	-	-

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

Note 21 Issued Capital

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
148,233,784] (2006: 130,323,784) fully paid ordinary shares	24,458,037	20,572,379	24,458,037	20,572,379

	Consolidated Group		Parent Entity	
(a) **Ordinary Shares**	2007	2006	2007	2006
	No.	No.	No.	No.
At the beginning of reporting period	130,323,784	104,659,494	130,323,784	104,659,494
Shares issued during year				
— 6 October 2005		2,997,915		2,997,915
— 7 December 2005		9,500,000		9,500,000
— 16 December 2005		3,700,000		3,700,000
— 3 January 2006		2,071,823		2,071,823
— 20 March 2006		5,137,802		5,137,802
— 30 March 2006		2,256,750		2,256,750
— 14 December 2006	500,000		500,000	
— 19 December 2006	12,800,000		12,800,000	
— 19 January 2007	480,000		480,000	
— 7 February 2007	520,000		520,000	
— 8 February 2007	500,000		500,000	
— 13 February 2007	1,000,000		1,000,000	
— 21 February 2007	500,000		500,000	
— 7 March 2007	100,000		100,000	
— 12 March 2007	500,000		500,000	
— 19 April 2007	500,000		500,000	
— 24 April 2007	500,000		500,000	
— 27 June 2007	10,000		10,000	
At reporting date	148,233,784	130,323,784	148,233,784	130,323,784

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

(b) **Options**

(i) For information relating to the Phoslock Water Solutions Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note Note 26: Share-based Payments.

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note Note 26: Share-based Payments.

Note 22 Reserves

(a) **Foreign Currency Translation Reserve**
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary

(b) **Option Reserve**
The option reserve records items recognised as expenses on valuation of employee share options

Note 23 Capital and Leasing Commitments

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
(a) **Operating Lease Commitments**	$	$	$	$
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable — minimum lease payments				
— not later than 12 months	237,701	178,227	-	-
— between 12 months and 5 years	391,739	219,497	-	-
— greater than 5 years	70,833	70,833	-	-
	700,273	468,557	-	-

Lease 1 is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the higher of CPI or 4% per annum. An option exists to renew the lease at the end of the three-year term for an additional term of three years. The lease allows for subletting of all lease areas.

Lease 2 is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the higher of CPI or 4% per annum. An option exists to renew the lease at the end of the three-year term for an additional term of three years. The lease allows for subletting of all lease areas.

Lease 3 is a non-cancellable lease with an eight-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased annually by negotiation. Renewal options are available by negotiation. The lease does not allow for subletting of all lease areas.

Lease 4 is cancellable with a four month notice period required. Rent is payable monthly in advance. No renewal option exists.

Lease 5 is a non-cancellable lease with a thirty nine month term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the higher of CPI or 4% per annum. An option exists to renew the lease at the end of the initial term for an additional term of three years. The lease allows for subletting of all lease areas.

Note 24 Segment Reporting

	Environmental Technologies		Bentonite Mining		Consolidated Group	
	2007	2006	2007	2006	2007	2006
	$	$	$	$	$	$
Primary Reporting — Business Segments						
REVENUE						
External Sales	1,033,040	760,339	25	59,615	1,033,065	819,954
Total sales revenue	1,033,040	760,339	25	59,615	1,033,065	819,954
Unallocated revenue					89,794	25,749
Total revenue					1,122,859	845,703
RESULT						
Segment result	(3,299,116)	(2,911,982)	25	(244,398)	(3,299,091)	(3,156,380)
Unallocated expenses net of unallocated revenue					(1,074,984)	(486,653)
Finance Costs					3,429	-
Share of net profits of associates and joint venture entities					(11,276)	(2,713)
Profit before income tax					(4,374,075)	(3,640,320)
Income tax expense					-	-
Profit after income tax					(4,374,075)	(3,640,320)
ASSETS						
Segment assets	7,974,866	8,484,338	404,252	400,000	8,379,118	8,884,338
Unallocated assets					87,990	88,361
Total assets					8,467,108	8,972,699
LIABILITIES						
Segment liabilities	749,169	880,618	-	73,301	749,169	953,919
Unallocated liabilities					159,896	77,176
Total liabilities					909,065	1,031,095
OTHER						
Investments accounted for using the equity method	34,941	-	-	-	34,941	-
Acquisitions of non-current segment assets	385,665	1,839,126	-	-	385,665	1,839,126
Depreciation and amortisation of segment assets	438,968	378,864	-	206,757	438,968	585,621

Secondary Reporting — Geographical Segments	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-current Segment Assets	
	2007	2006	2007	2006	2007	2006
	$	$	$	$	$	$
Geographical location:						
Australia	644,000	308,193	7,204,297	7,278,792	283,391	1,513,256
China	-	-	1,068,034	1,456,213	48,746	254,669
United States of America	-	271,096	-	-	-	-
United Kingdom	128,146	14,955	163,517	197,155	32,823	28,185
Europe	229,000	56,000	31,260	40,539	20,705	43,016
Other Countries	31,894	169,710	-	-	-	-
	1,033,040	819,954	8,467,108	8,972,699	385,665	1,839,126

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses and provisions.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length. These transfers are eliminated on consolidation.

Business and Geographical Segments

Business segments

The consolidated group has the following business segments:

— The Environmental Technology segment is responsible for the development, manufacture and sale of environmental technology products. The major products are a water treatment technology known as Phoslock and an evaporation retardent product distributed as Watesavr.

— The mining segment divested its interest in bentonite mining tenements last year but continues to receive deferred settlement payment royalties based on tons sold from the resource.

Geographical segments

The consolidated group's business segments are located in Australia, China, UK, Europe and the USA. Management and administration are based in Australia with manufacturing operations located in China. The company operates sales from Australia, UK and Europe.

Note 25 **Cash Flow Information**

	Consolidated Group		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax				
Loss after income tax	(4,374,075)	(3,643,033)	(110,200)	(52,762)
Cash flows excluded from loss attributable to operating activities				
Non-cash flows in loss				
Amortisation	331,047	472,603	110,100	52,758
Depreciation	179,775	113,018		
Net loss on disposal of property, plant and equipment	1,466	596,455		
Net gain on disposal of investments		(488,424)		
Share options expensed	181,061	321,008		
Impairment loss	-	342,584		
Share of associated companies net loss after income tax and dividends	11,276	-		
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	309,678	(377,734)		
(Increase)/decrease in prepayments	3,971	86,283		
(Increase)/decrease in inventories	(78,698)	(750,024)		
Increase/(decrease) in trade payables and accruals	(286,560)	423,072		
Increase/(decrease) in provisions	(19,158)	46,737		
Cash flow from operations	(3,740,217)	(2,857,455)	(100)	(4)

(b) Acquisition of Entities

During the prior year 51% of the controlled entity IETC (Kunming) Ltd was acquired. Details of this transaction are:

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Purchase consideration	-	400,414	-	400,414
Cash consideration	-	100,000	-	100,000
Cash outflow	-	100,000	-	100,000
Assets and liabilities held at acquisition date:				
Receivables	-	33,240	-	33,240
Inventories	-	171,956	-	171,956
Property, plant and equipment	-	388,257	-	388,257
Other assets	-	289,192	-	289,192
Payables	-	(213,976)	-	(213,976)
	-	668,669	-	668,669
Goodwill on consolidation	-	59,393	-	59,393
Minority equity interests in acquisition	-	(327,648)	-	(327,648)
	-	400,414	-	400,414

(c) Non-cash Financing and Investing Activities

(i) Options issue

500,000 options were issued in December 2006 as consideration for capital raising related management services. The options have an exercise price of $0.23 and expire in November 2007.

Note 26 **Share-based Payments**

The following share-based payment arrangements existed at 30 June 2007:

During the year share options were granted to employees as remuneration incentives. The options hold no voting or dividend rights and are not transferable. Details of the options issues are as follows:

Number of Options	Grant date	Exercise Price	Expiry date
50,000	15.08.2006	$ 0.20	30.06.2008
100,000	15.08.2006	$ 0.20	31.12.2008
350,000	15.08.2006	$ 0.20	31.12.2008
1,150,000	10.01.2007	$ 0.50	30.06.2009
1,000,000	10.01.2007	$ 0.60	30.06.2010
100,000	30.05.2007	$ 0.50	31.12.2009
100,000	30.05.2007	$ 0.50	31.12.2010
50,000	23.06.2007	$ 0.50	31.12.2009

All options granted to key management personnel are ordinary shares in Phoslock Water Solutions Limited which confer a right of one ordinary share for every option held when exercised.

	Consolidated Group				Parent Entity			
	2007		2006		2007		2006	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	30,147,913	0.25	9,700,000	0.21	30,147,913	0.25	9,700,000	0.21
Granted	3,400,000	0.45	23,447,913	0.27	3,400,000	0.45	23,447,913	0.27
Exercised	(5,110,000)	0.21	-	0.00	(5,110,000)	0.21	-	0.00
Expired	-	0.00	(3,000,000)	0.20	-	0.00	(3,000,000)	0.20
Outstanding at year-end	28,437,913	0.28	30,147,913	0.25	28,437,913	0.28	30,147,913	0.25
Exercisable at year-end	23,440,000	0.28	19,250,000	0.22	23,440,000	0.28	19,250,000	0.22

There were 5,110,000 options exercised during the year ended 30 June 2007. These options had a weighted average share price of $0.41 at exercise date.

The options oustanding at 30 June 2007 had a weighted average exercise price of $0.28 and a weighted average remaining contractual life of 2.1 years. Exercise prices range from $0.20 to $0.60 in respect of options outstanding at 30 June 2007

The weighted average fair value of the options granted during the year was$0.05.
This price was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$0.45
Weighted average life of the option	2.1 years
Underlying share price	$0.34
Expected share price volatility	30%
Risk free interest rate	5%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is $122,714 (2006:$321,008), and relates, in full, to equity-settled share-based payment transactions.

Included under administration expense in the income statement is $58,347 representng the fair value of 500,000 options issued in December 2006 as consideration for capital raising related management services. The options have an exercise price of $0.23 and expire in November 2007.

Note 27 **Events After the Balance Sheet Date**

The financial report was authorised for issue on 30 August 2007 by the board of directors.

No other events occurred after the balance date which require disclosure in the financial report.

Note 28 **Financial Instruments**

(a) **Financial Risk Management**

The group's financial instruments consist mainly of deposits with banks, accounts receivable and accounts payable.

(ii) **Financial Risks**

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

Interest rate risk

For details on interest rate risk refer to Note 28 (b) (ii)..

Foreign currency risk

The group is exposed to fluctuations in foreign currencies, particularly the USD $ arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. This risk is managed by the maintenance of a USD $ denominated bank account.

Liquidity risk

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

Credit risk

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

(b) **Financial Instruments**

(ii) **Interest Rate Risk**

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

	Weighted Average Effective Interest Rate %		Floating Interest Rate $		Fixed Interest Rate Maturing Within Year $		Fixed Interest Rate Maturing 1 to 5 years $	
	2007	2006	2007	2006	2007	2006	2007	2006
Financial Assets:								
Cash and cash equivalents	4.95	4.83	2,080,697	2,013,120	96,122	64,577	-	-
Receivables								
Total Financial Assets			2,080,697	2,013,120	96,122	64,577	-	-
Financial Liabilities:								
Bank loans and overdrafts			3,844	-	-	-	-	-
Trade and sundry payables			-	-	-	-	-	-
Total Financial			3,844	-	-	-	-	-

	Fixed Interest Rate Maturing Over 5 Years $		Non-interest Bearing $		Total $	
	2007	2006	2007	2006	2007	2006
Financial Assets:						
Cash and cash equivalents	-	-	-	-	2,176,819	2,077,697
Receivables	-	-	683,811	1,385,149	683,811	1,385,149
Total Financial Assets	-	-	683,811	1,385,149	2,860,630	3,462,846
Financial Liabilities:						
Bank loans and overdrafts	-	-	-	-	3,844	-
Trade and sundry payables	-	-	772,341	866,665	772,341	866,665
Total Financial Liabilities	-	-	772,341	866,665	776,185	866,665

(iii) **Net Fair Values**

The net fair values of other assets and other liabilities approximate their carrying value. No financial assets or liabiliites are readily tradable on organised markets in standardised form. The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the balance sheet and in the notes to the financial statements.

Note 29 **Company Details**

The registered office and principal place of business of the company is:
Phoslock Water Solutions Limited
3/81 Frenchs Forest Road Frenchs Forest NSW 2086

NTA BACKING	Current period	Previous corresponding period
Net tangible asset backing per ordinary security (cents per share)	2.8	3.3

Commentary on results:

Sales and earnings results for the year reflect the provision of resources necessary to support the projected significant revenue growth of the Company.

Revenues recorded for the year at $1,030k represent a 22% increase over the prior year of $846k.

Phoslock Water Solutions Ltd (PWS) loss of $4.3m for Financial Year 06/07 includes significant marketing and licensee development costs, research & development (which is fully expensed each year), amortization costs associated with the company's Intellectual Property portfolio and a large one-off termination payment for a senior employee. People costs represent approx 40% of total expenditure. PWS is building a business in which it expects to sell 20,000 – 30,000 tons per annum (sales revenue of A$40m –A$60m; EBIT of A$15-25m) of Phoslock products on a sustainable basis. The up front costs of developing a global business are expected to be recouped quickly as the Phoslock business grows with more applications. Over the next 12 months, PWS is scheduled to undertake some major projects already in our pipeline. Success on these projects will be the catalyst to opening up these markets for a large number of future projects.

To improve the economic entity's earnings performance and maximize shareholder value, the following developments are intended to be implemented:

(i) conversion of the sales pipeline into near term sales. PWS has built up an extensive pipeline of potential sales around the world. Most of PWS and its licensee customers are governmental organizations. PWS has undertaken various pilot projects with potential customers to demonstrate the effectiveness of Phoslock. Customers generally have different internal processes to be completed before a purchase order is provided to PWS or its licensee. In many instances customers are currently progressing the Phoslock purchase, having been satisfied on technical issues, through its internal approval system.

(ii) increased targeted marketing by PWS and its licensees using results of past applications to demonstrate the effectiveness of the product. The current sales cycle for larger water bodies is 6-24 months. As more applications are completed it is expected that the sales cycle period will be significantly reduced.

(iii) when demand justifies additional production capacity, PWS proposes to construct a second Phoslock manufacturing plant, most likely in China. A second plant will also mitigate the risks associated with a single production source.

(iv) continued focus on the aquaculture sector. The amount of aquaculture products coming from aquaculture ponds is increasing each year. Within these closed systems there is significant water quality problems which affect the health, size, and mortality rate of the species in the ponds. Work to date by PWS indicates that the environmental qualities of Phoslock add significant value to the yield from the ponds.

(v) evaluation and development of other water treatment products which could be added to PWS's product range.

These developments, together with current strategies, are expected to assist in the achievement of the economic entity's short and long-term goals and development of new business opportunities.

The Company finished the year in a strong liquidity position, having cash reserves of $2.2m, inventory of $1.2m and receivables of $0.7m.

Compliance statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

2 This report, and the accounts upon which the report is based, use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on accounts, which are in the process of being audited.

6 The entity does have a formally constituted audit committee.

Sign here . Date: 31 / 08 / 2007
(Company Secretary)

Print name: Colin Upcroft