

PHOSLOCK WATER SOLUTIONS LTD

(ABN 88 099 555 290)

Appendix 4D

Half year report

Period Ending 31 December 2007

**The following information constitutes the half year report required under Listing Rule 4.2A and should be read in conjunction with the annual financial report for the period ended 30 June 2007.**

Results for announcement to the market:

Revenues from ordinary activities	down	47%	to	<u>\$A'000</u> 281
Profit (loss) from ordinary activities after tax attributable to members	down	22%	to	(1,691)
Net profit (loss) for the period attributable to members	down	22%	to	(1,691)

The company does not propose to pay any dividends for the half year ended 31 December 2007

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**PHOSLOCK WATER SOLUTIONS LIMITED  
and CONTROLLED ENTITIES  
ABN 88 099 555 290  
CONSOLIDATED FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

**PHOSLOCK WATER SOLUTIONS LIMITED  
and CONTROLLED ENTITIES  
ABN 88 099 555 290  
CONSOLIDATED FINANCIAL REPORT**

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**PHOSLOCK WATER SOLUTIONS LTD  
and CONTROLLED ENTITIES  
ABN 88 099 555 290**

**DIRECTORS' REPORT**

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2007.

**Directors**

The names of directors who held office during or since the end of the half-year unless otherwise stated:

Robert Schuitema  
Dr David Garman  
Russell Brown  
The Hon. Pam Allan (appointed 10/7/2007)

**Operating Results**

The consolidated loss of the economic entity for the half year after providing for income tax was \$(1,691,293).

**Review of Operations**

Total revenues of \$281,246 declined 47% on the previous half year reflecting the delays in converting the significant opportunity pipeline to firm orders. Conversion of key projects in 2008 is expected to generate a sharp increase in revenues and earnings for the year. The loss for the half year of \$1,691,293 is down 22% on the loss recorded in the previous half year. The reduced loss largely reflects the impact of cost containment strategies introduced early in 2007.

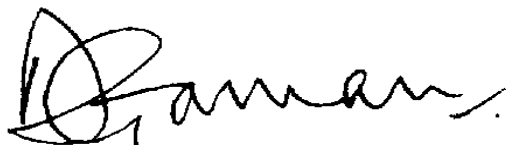
**Auditor's Independence Declaration**

The lead auditor's independence declaration under Section 307C of the Corporations Act is set out on page 2 and forms part of the Directors' report for the half year ended 31 December 2007.

Signed in accordance with a resolution of the Board of Directors on February 22 2008.



Robert Schuitema  
Managing Director



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**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

To the directors of Phoslock Water Solutions Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2007 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



**WHK Horwath**



**Don W. Langdon**  
**Principal**

Signed at Brisbane, 27 February 2008

*Liability limited by a scheme approved under Professional Standards Legislation.*

*Total Financial Solutions*



Horwath refers to Horwath International Association, a Swiss Verein.  
Each member of the Association is a separate and independent legal entity.

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**PHOSLOCK WATER SOLUTIONS LTD  
and CONTROLLED ENTITIES  
ABN 88 099 555 290**

**INCOME STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	ECONOMIC ENTITY	
	31 DECEMBER 2007 \$	31 DECEMBER 2006 \$
Revenues from ordinary activities		
- Sales	239,790	505,721
- Interest received	35,678	23,793
- Other revenues	5,778	25
Total operating revenue	281,246	529,539
Cost of sales	(135,930)	(277,186)
Distribution expenses	(18,369)	
Administrative expenses	(465,484)	(806,231)
Depreciation and amortisation	(215,747)	(217,544)
Employee benefits expense	(971,268)	(842,999)
Marketing expenses	(116,160)	(446,189)
Occupancy expenses	(77,434)	(127,293)
Profit on sale of current assets	-	2,926
Other expenses from ordinary activities	(2,117)	(12,462)
Share of net profits / (losses) of associates accounted for using the equity method	(2,969)	-
Profit/(loss) from ordinary activities before income tax	(1,724,232)	(2,197,439)
Income tax relating to ordinary activities	28,018	-
Loss from ordinary activities after related income tax (expense) / benefit	(1,696,214)	(2,197,439)
Net Loss attributable to outside equity interests	4,921	25,135
Net profit/(loss) attributable to members of the parent entity	(1,691,293)	(2,172,304)
Basic earnings per share (cents per share)	(1.14)	(1.90)
Diluted earnings per share (cents per share)	(1.14)	(1.90)
NTA per share (cents per share)	2.10	3.58

*The accompanying notes form part of this financial report.*

**PHOSLOCK WATER SOLUTIONS LTD  
and CONTROLLED ENTITIES  
ABN 88 099 555 290**

**BALANCE SHEET  
AS AT 31 DECEMBER 2007**

	ECONOMIC ENTITY	
	31 DECEMBER 2007 \$	30 JUNE 2007 \$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	818,299	2,176,819
Trade and other receivables	217,911	283,811
Inventories	1,448,047	1,245,289
Other current assets	32,000	71,358
<b>TOTAL CURRENT ASSETS</b>	<b>2,516,257</b>	<b>3,777,277</b>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	400,000	400,000
Property, plant, and equipment	767,461	843,552
Intangible assets	3,251,574	3,411,338
Investments	31,972	34,941
<b>TOTAL NON-CURRENT ASSETS</b>	<b>4,451,007</b>	<b>4,689,831</b>
<b>TOTAL ASSETS</b>	<b>6,967,264</b>	<b>8,467,108</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	488,700	772,341
Short-term borrowings	-	3,844
Provisions	111,357	100,182
<b>TOTAL CURRENT LIABILITIES</b>	<b>600,057</b>	<b>876,367</b>
<b>NON-CURRENT LIABILITIES</b>		
Provisions	37,593	32,697
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>37,593</b>	<b>32,697</b>
<b>TOTAL LIABILITIES</b>	<b>637,650</b>	<b>909,064</b>
<b>NET ASSETS</b>	<b>6,329,614</b>	<b>7,558,044</b>
<b>EQUITY</b>		
Issued capital	24,887,835	24,458,037
Reserves	905,740	864,592
Accumulated losses	(19,608,209)	(17,916,916)
Parent Entity Interest	6,185,366	7,405,713
Outside Equity Interest	144,248	152,331
<b>TOTAL EQUITY</b>	<b>6,329,614</b>	<b>7,558,044</b>

*The accompanying notes form part of this financial report.*

**PHOSLOCK WATER SOLUTIONS LTD  
and CONTROLLED ENTITIES  
ABN 88 099 555 290**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	\$ Share Capital	\$ Retained Losses	\$ Exchange Reserve	\$ Options Reserve	\$ Minority Interests	\$ Total
Balance at 1.7.2007	24,458,037	(17,916,916)	(49,033)	913,625	152,331	7,558,044
Shares issued during the year	429,798	-	-	-	-	429,798
Profit attributable to members of the parent entity	-	(1,691,293)	-	-	-	(1,691,293)
Profit attributable to minority shareholders	-	-	-	-	(4,921)	(4,921)
Change in Reserves	-	-	(7,385)	48,533	(3,162)	37,986
Balance at 31.12.2007	<u>24,887,835</u>	<u>(19,608,209)</u>	<u>(56,418)</u>	<u>962,158</u>	<u>144,248</u>	<u>6,329,614</u>
Balance at 1.7.2006	20,572,379	(13,567,584)	13,088	732,564	191,157	7,941,604
Shares issued during the year	2,929,282	-	-	-	-	2,929,282
Profit attributable to members of the parent entity	-	(2,172,304)	-	-	-	(2,172,304)
Profit attributable to minority shareholders	-	-	-	-	(25,135)	(25,135)
Change in Reserves	-	-	(19,596)	44,340	(6,314)	18,430
Balance at 31.12.2006	<u>23,501,661</u>	<u>(15,739,888)</u>	<u>(6,508)</u>	<u>776,904</u>	<u>159,708</u>	<u>8,691,877</u>

*The accompanying notes form part of this financial report.*



**PHOSLOCK WATER SOLUTIONS LTD  
and CONTROLLED ENTITIES  
ABN 88 099 555 290**

**CASH FLOW STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	ECONOMIC ENTITY	
	31 DECEMBER 2007 Inflows (Outflows)	31 DECEMBER 2006 Inflows (Outflows)
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	260,659	425,281
Payments to suppliers and employees	(2,076,955)	(2,534,661)
Interest received	32,003	24,335
Tax (payments)/receipts	29,657	(11,291)
Interest paid	(1,235)	-
Other income	5,953	21,681
Net Cash from Operating Activities	<u>(1,749,918)</u>	<u>(2,074,655)</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Payments for property, plant & equipment	(37,227)	(221,617)
Payments for intellectual property	(15,518)	(88,366)
Payments for sale of assets	11,707	400,000
Net Cash from Investing Activities	<u>(41,038)</u>	<u>90,017</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from share issues	435,100	3,057,500
Payment of listing costs	(5,302)	(126,960)
Net Cash from Finance Activities	<u>429,798</u>	<u>2,930,540</u>
Net Increase (Decrease) in Cash Held	(1,361,158)	945,902
Cash at Beginning of the Financial Period	2,172,976	2,077,697
Exchange rate adjustments	6,481	(4,975)
Cash at the End of the Financial Period	<u>818,299</u>	<u>3,018,624</u>

*The accompanying notes form part of this financial report.*

**PHOSLOCK WATER SOLUTIONS LTD  
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ABN 88 099 555 290**

**NOTES TO AND FORMING PART OF THE ACCOUNTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

**NOTE 1 - BASIS OF PREPARATION**

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting and AASB Interpretations.

The consolidated interim financial report does not include full disclosures of the type normally included in an annual financial report. It is recommended that the interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2007.

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The consolidated interim financial report was authorised for issue by the directors on 22 February 2008.

**NOTE 2 - CASH and CASH EQUIVALENTS**

	31 December 2007	31 December 2006
Cash at bank and on hand	\$ 720,614	\$ 2,953,152
Cash on Deposit	97,685	65,472
	<u>818,299</u>	<u>3,018,624</u>

**NOTE 3 - SEGMENT INFORMATION**

The Company operates wholly within the Environmental Technologies business segment.

**NOTE 4 - PROPERTY, PLANT, EQUIPMENT and INTELLECTUAL PROPERTY**

During the half year ended 31 December 2007 the Company acquired assets at a cost of \$30,983 (2006 \$190,944)  
No assets were disposed of during the reporting period.

**NOTE 5 - ISSUED CAPITAL**

On the 31st August 2007 the Company issued 100,000 ordinary shares at \$0.25 as consideration for consultancy services.

On the 29th November 2007 the Company issued 1,700,000 ordinary shares at \$0.227 raising \$385,900 following the exercise by employees of Company options.

On the 29th November 2007 the Company issued 500,000 ordinary shares at \$0.23 to raise \$115,000 by way of exercise of options granted as consideration for consulting services.

**NOTE 6 - CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last annual reporting date.

**NOTE 7 - EVENTS SUBSEQUENT TO REPORTING DATE**

On the 18th February 2008 the Company issued converting notes to sophisticated investors to raise \$1m in additional working capital.  
There have been no other events subsequent to reporting date which have had a material effect on the financial position of the company.

**PHOSLOCK WATER SOLUTIONS LTD  
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**DIRECTORS' DECLARATION**

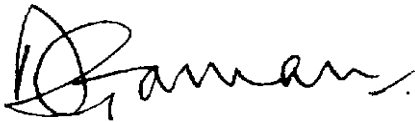
The directors of the company declare that:

- (a) the financial statements and notes set out on pages 3 to 7:
  - (i) comply with Accounting Standard AASB 134 : Interim Financial Reporting and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the financial position of the economic entity's financial position as at 31 December 2007 and its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
- (b) in the directors opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors on 22 February 2008.



Robert Schuitema  
Managing Director



Dr David Garman  
Non Executive Chairman

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Phoslock Water Solutions Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phoslock Water Solutions Limited and controlled entities (the consolidated entity) which comprises the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, a statement on the accounting policies, other selected explanatory notes and the directors' declaration. The consolidated entity comprises both Phoslock Water Solutions Limited and the entities it controlled during the year.

### The Responsibility of the Directors for the Half -Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the consolidated half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standards on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have not become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. As the auditor of Phoslock Water Solutions Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Accounting Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### Conclusion

Based on our review, which is not an audit, we have not become aware of any significant matter that makes us believe that the half-year financial report of Phoslock Water Solutions Limited is not in accordance with the *Corporations Act 2001* including:"

- (a) giving a true and fair view of the company's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



WHK Horwath



Don W. Langdon  
Principal

Signed at Brisbane, 27 February 2008

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#### Member Horwath International

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Each member of the Association is a separate and independent legal entity.