Half yearly report

Name of entity

WATERCO LIMITED

ABN or equivalent company reference	Half yearly *(tick)*	Preliminary final *(tick)*	Half year ('current period')
62002070733	✓		31ST DECEMBER 2006

For announcement to the market

Extracts from this report for announcement to the market (see note 1). $A'000

Revenues *(item 1.1)*	down	12.9%	to	43,188
Profit (loss) after tax attributable to members (*item 1.22*)	down	124.4%	to	(965)
Profit (loss) from extraordinary items after tax attributable to members (*item 2.5(d))*	gain (loss) of			
Net profit (loss) for the period attributable to members *(item 1.11)*	down	124.4%	to	(965)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend *(Preliminary final report only - item 15.4)* Interim dividend *(Half yearly report only - item 15.6)*	-¢	-¢
Previous corresponding period *(Preliminary final report - item 15.5; half yearly report - item 15.7)*	8¢	8¢

+Record date for determining entitlements to the dividend,(in the case of a trust, distribution) *(see item 15.2)*

Brief explanation of any of the figures reported above (see Note 1) and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

If this is a half yearly report it is to be read in conjunction with the most recent annual financial report.

Condensed Income Statement

		Current period - $A'000	Previous corresponding period - $A'000
1.1	Revenues *(see items 1.23 -1.25)*	43,188	49,575
1.2	Expenses (*see items 1.26 & 1.27)*	(43,247)	(44,022)
1.3	Borrowing costs	(1,062)	(827)
1.4	Share of net profits (losses) of associates and joint venture entities (*see item 16.7*)		
1.5	**Profit (loss) before tax**	**(1,121)**	**4,726**
1.6	Income tax *(see note 4)*	(185)	780
1.7	**Profit (loss) after tax**	**(936)**	**3,946**
1.8	Profit (loss) from extraordinary items after tax (*see item 2.5*)	--	--
1.9	**Net profit (loss)**	**(936)**	**3,946**
1.10	Net profit (loss) attributable to minority +equity interests	29	(6)
1.11	**Net profit (loss) for the period attributable to members**	**(965)**	**3,952**
	Non-owner transaction changes in equity		
1.12	Increase (decrease) in revaluation reserves		
1.13	Net exchange differences recognised in equity	(637)	925
1.14	Other revenue, expense and initial adjustments recognised directly in equity (attach details)		
1.15	Initial adjustments from UIG transitional provisions		
1.16	Total transactions and adjustments recognised directly in equity (items 1.12 to 1.15)	(637)	925
1.17	**Total changes in equity not resulting from Transactions with owners as owners**	(1,602)	4,877

		Current period	Previous corresponding Period
	Earnings per security (EPS)		
1.18	Basic EPS	(4.3c)	17.5c
1.19	Diluted EPS	(4.3c)	17.5c

Notes to the condensed income statement

Profit (loss) attributable to members

		Current period - $A'000	Previous corresponding period - $A'000
1.20	Profit (loss) after tax (*item 1.7*)	(936)	3,946
1.21	Less (plus) outside +equity interests	29	(6)
1.22	**Profit (loss) from ordinary activities after tax, attributable to members**	**(965)**	**3,952**

Revenue and expenses - See Annexure A

(see note 15)

		Current period - $A'000	Previous corresponding period - $A'000
1.23	Revenue from sales or services		
1.24	Interest revenue		
1.25	Other relevant revenue		
1.26	Details of relevant expenses		
1.27	Depreciation and amortisation excluding amortisation of intangibles *(see item 2.3)*		
Capitalised outlays			
1.28	Interest costs capitalised in asset values	--	--
1.29	Outlays capitalised in intangibles (unless arising from an +acquisition of a business)	--	--

Consolidated retained profits

		Current period - $A'000	Previous corresponding period - $A'000
1.30	Retained profits (accumulated losses) at the beginning of the financial period	11,873	11,521
1.31	Net profit (loss) attributable to members (*item 1.11*)	(965)	3,952
1.32	Net transfers from (to) reserves *(details if material)*		
1.33	Net effect of changes in accounting policies		
1.34	Dividends and other equity distributions paid or payable	(2,034)	(2,034)
1.35	**Retained profits (accumulated losses) at end of financial period**	**8,874**	**13,439**

Intangible and extraordinary items

		Consolidated - current period			
		Before tax $A'000 (a)	Related tax $A'000 (b)	Related outside +equity interests $A'000 (c)	Amount (after tax) attributable to members $A'000 (d)
2.1	Amortisation of goodwill	--	--	--	--
2.2	Amortisation of other intangibles	6	--	--	6
2.3	**Total amortisation of intangibles**	6	--	--	6
2.4	Extraordinary items (details)				
2.5	**Total extraordinary items**	--			

Comparison of half year profits

(Preliminary final report only)

		Current year - $A'000	Previous year - $A'000
3.1	Consolidated profit (loss) from ordinary activities after tax attributable to members reported for the *1st* half year (item 1.22 in the half yearly report)		
3.2	Consolidated profit (loss) from ordinary activities after tax attributable to members for the *2nd* half year		

Balance Sheet

		At end of current period $A'000	As shown in last annual report $A'000	As in last half yearly report $A'000
	Current assets			
4.1	Cash	1,379	2,011	3,087
4.2	Receivables	17,767	13,173	20,287
4.3	Investments	--	--	--
4.4	Inventories	31,457	30,977	31,636
4.5	Tax assets	--	--	--
4.6	Other (provide details if material)	931	858	997
4.7	**Total current assets**	**51,534**	**47,019**	**56,007**
	Non-current assets			
4.8	Receivables	376	1, 410	1,450
4.9	Investments (equity accounted)	--	--	--
4.10	Other investments	--	--	--
4.11	Inventories	--	--	--
4.12	Exploration and evaluation expenditure capitalised *(see para .71 of AASB 1022)*	--	--	--
4.13	Development properties (+mining entities)	--	--	--
4.14	Other property, plant and equipment (net)	31,610	30,859	26,286
4.15	Intangibles (net)	2,542	2,808	2,867
4.16	Tax assets	2,258	1,068	1,773
4.17	Other (provide details if material)	420	230	65
4.18	**Total non-current assets**	**37,206**	**36,375**	**32,441**
4.19	**Total assets**	**88,740**	**83,394**	**88,448**
	Current liabilities			
4.20	Payables	15,363	9,758	15,853
4.21	Interest bearing liabilities	4,242	2,056	1,240
4.22	Tax liabilities	345	100	1,563
4.23	Provisions exc. tax liabilities	2,004	1,591	1,936
4.24	Other (provide details if material)	--	--	--
4.25	**Total current liabilities**	**21,954**	**13,505**	**20,592**
	Non-current liabilities			
4.26	Payables	--	--	--
4.27	Interest bearing liabilities	28,318	28,850	25,393
4.28	Tax liabilities	1,492	1,520	1,468
4.29	Provisions exc. tax liabilities	295	284	314
4.30	Other (provide details if material)	--	--	--
4.31	**Total non-current liabilities**	**30,105**	**30,654**	**27,175**

Condensed Balance Sheet continued

4.32	**Total liabilities**	**52,059**	**44,159**	**47,767**
4.33	**Net assets**	**36,681**	**39,235**	**40,681**

	Equity			
4.34	Issued capital	24,500	23,448	23,448
4.35	Reserves	3,004	3,641	3,490
4.36	Retained profits (accumulated losses)	8,874	11,873	13,439
4.37	**Parent entity interest**	**36,378**	**38,962**	**40,377**
4.38	Minority equity interest	303	273	304
4.39	**Total equity**	**36,681**	**39,235**	**40,681**

4.40	Preference capital included as part of 4.37			

Notes to the Balance Sheet

Exploration and evaluation expenditure capitalised

(To be completed only by entities with mining interests if amounts are material. Include all expenditure incurred.)

		Current period $A'000	Previous corresponding period - $A'000
5.1	Opening balance	--	
5.2	Expenditure incurred during current period		
5.3	Expenditure written off during current period		
5.4	Acquisitions, disposals, revaluation increments, etc.		
5.5	Expenditure transferred to Development Properties		
5.6	**Closing balance as shown in the consolidated balance sheet** *(item 4.12)*		

Development properties

(To be completed only by entities with mining interests if amounts are material)

		Current period $A'000	Previous corresponding period - $A'000
6.1	Opening balance	--	
6.2	Expenditure incurred during current period		
6.3	Expenditure transferred from exploration and evaluation		
6.4	Expenditure written off during current period		
6.5	Acquisitions, disposals, revaluation increments, etc.		
6.6	Expenditure transferred to mine properties		
6.7	**Closing balance as shown in the consolidated balance sheet** *(item 4.13)*		

Condensed consolidated statement of cash flows

		Current period $A'000	Previous corresponding period - $A'000
	Cash flows related to operating activities		
7.1	Receipts from customers	41,440	45,302
7.2	Payments to suppliers and employees	(39,815)	(43,890)
7.3	Other Income	454	242
7.4	Other dividends received	--	--
7.5	Interest and other items of similar nature received	57	72
7.6	Interest and other costs of finance paid	(1,062)	(826)
7.7	Income taxes paid	(787)	(1,280)
7.8	Other (provide details if material)	--	--
7.9	**Net operating cash flows**	**286**	**(381)**
	Cash flows related to investing activities		
7.10	Payment for purchases of property, plant and equipment	(1,875)	(5,011)
7.11	Proceeds from sale of property, plant and equipment	67	148
7.12	Payment for business	--	--
7.13	Proceeds from sale of business	--	--
7.14	Payment for intantibles	177	(157)
7.15	Dividends receeived	1	1
7.16	Other (provide details if material)	--	--
7.17	**Net investing cash flows**	**(1,630)**	**(5,019)**
	Cash flows related to financing activities		
7.18	Proceeds from issues of +securities (shares, options, etc.)	1,052	--
7.19	Proceeds from borrowings	2,483	3,790
7.20	Repayment of borrowings	(127)	(53)
7.21	Dividends paid	(2,034)	(2,034)
7.22	Proceeds from issue of shares to minority interests	--	146
7.23	**Net financing cash flows**	**1,374**	**1,849**
7.24	**Net increase (decrease) in cash held**	30	(3,551)
7.25	Cash at beginning of period *(see Reconciliation of cash)*	156	4,332
7.26	Exchange rate adjustments to item 7.25.	(831)	1,306
7.27	**Cash at end of period** *(see Reconciliation of cash)*	(645)	2,087

Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows.
(If an amount is quantified, show comparative amount.)

During the period, the economic entity acquired plant and equipment amounting to $162,946 (2005 $143,061) by means of finance leases and This financing activity is not reflected in the statement of cashflows.

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current period $A'000	Previous corresponding period - $A'000
8.1 Cash on hand and at bank	1,379	3,087
8.2 Deposits at call	--	--
8.3 Bank overdraft	(974)	--
8.4 Other (commercial bills)	(1,050)	(1,000)
8.5 Total cash at end of period *(item 7.27)*	**(645)**	**2,087**

Other notes to the condensed financial statements

Ratios	Current period	Previous corresponding Period
9.1 **Profit before tax / revenue** Profit (loss) before tax (*item 1.5*) as a percentage of revenue (*item 1.1*)	(2.59%)	9.53%
9.2 **Profit after tax / +equity interests** Profit (loss) after tax attributable to members (*item 1.11*) as a percentage of equity (similarly attributable) at the end of the period (*item 4.37*)	(2.65%)	9.79%

Earnings per security (EPS)

10. Details of basic and diluted EPS reported separately in accordance with paragraph 9 and 18 of *AASB 1027: Earnings Per Share* are as follows.

	Current Period $A'000	Previous corresponding Period $A'000
Profit/(Loss) from continuing operations	(936)	3,946
Profit/(Loss) attributable to minority interests	29	(6)
Earnings used in calculation of basic EPS	(965)	3,952
Weighted average number of ordinary shares	22,625	22,600

NTA backing *(see note 7)*	Current period	Previous corresponding Period
11.1 Net tangible asset backing per +ordinary security	$1.48	$1.67

Discontinuing Operations

(Entities must report a description of any significant activities or events relating to discontinuing operations in accordance with paragraph 7.5 (g) of AASB 1029: Interim Financial Reporting, or, the details of discontinuing operations they have disclosed in their accounts in accordance with AASB 1042: Discontinuing Operations (see note 17).)

12.1 Discontinuing Operations

--

Control gained over entities having material effect

13.1	Name of entity (or group of entities)	--
13.2	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was +acquired	$
13.3	Date from which such profit has been calculated	
13.4	Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	$

Loss of control of entities having material effect

14.1	Name of entity (or group of entities)	--
14.2	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	$
14.3	Date to which the profit (loss) in item 14.2 has been calculated	
14.4	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	$
14.5	Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control	$

Dividends (in the case of a trust, distributions)

15.1	Date the dividend (distribution) is payable	
15.2	+Record date to determine entitlements to the dividend (distribution) (ie, on the basis of proper instruments of transfer received by 5.00 pm if +securities are not +CHESS approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if +securities are +CHESS approved)	
15.3	If it is a final dividend, has it been declared? *(Preliminary final report only)*	

Amount per security

		Amount per security	Franked amount per security at % tax (see note 4)	Amount per security of foreign source dividend
15.4	*(Preliminary final report only)* **Final dividend:** Current year	¢	¢	¢
15.5	Previous year	¢	¢	¢
15.6	*(Half yearly and preliminary final reports)* **Interim dividend:** Current year	-¢	-¢	¢
15.7	Previous year	8¢	8¢	¢

Total dividend (distribution) per security (interim *plus* final)

(Preliminary final report only)

	Current year	Previous year
15.8 +Ordinary securities	¢	¢
15.9 Preference +securities	¢	¢

Half yearly report - interim dividend (distribution) on all securities *or* Preliminary final report - final dividend (distribution) on all securities

	Current period $A'000	Previous corresponding period - $A'000
15.10 +Ordinary securities *(each class separately)*		
15.11 Preference +securities *(each class separately)*		
15.12 Other equity instruments *(each class separately)*		
15.13 Total		

The +dividend or distribution plans shown below are in operation.

The last date(s) for receipt of election notices for the +dividend or distribution plans

Any other disclosures in relation to dividends (distributions). *(For half yearly reports, provide details in accordance with paragraph 7.5(d) of AASB 1029 Interim Financial Reporting)*

Details of aggregate share of profits (losses) of associates and joint venture entities

Group's share of associates' and joint venture entities':	Current period $A'000	Previous corresponding period - $A'000
16.1 Profit (loss) from ordinary activities before tax	--	
16.2 Income tax on ordinary activities		
16.3 Profit (loss) from ordinary activities after tax		
16.4 Extraordinary items net of tax		
16.5 Net profit (loss)		
16.6 Adjustments		
16.7 Share of net profit (loss) of associates and joint venture entities		

Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities. *(If the interest was acquired or disposed of during either the current or previous corresponding period, indicate date of acquisition ("from dd/mm/yy") or disposal ("to dd/mm/yy").)*

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss) (*item 1.9*)	
17.1 Equity accounted associates and joint venture entities	Current period	Previous corresponding period	Current period $A'000	Previous corresponding period - $A'000
--				
17.2 Total				
17.3 Other material interests				
17.4 Total				

Issued and quoted securities at end of current period

(Description must include rate of interest and any redemption or conversion rights together with prices and dates)

	Category of +securities	Total number	Number quoted	Issue price per security (see note 14) (cents)	Amount paid up per security (see note 14) (cents)
18.1	**Preference +securities** *(description)*				
18.2	Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions				
18.3	**+Ordinary securities**	23,002,634	23,002,634		
18.4	Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks	402,984	402,984	$2.61	$2.61
18.5	**+Convertible debt securities** *(description and conversion factor)*	--			
18.6	Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				
18.7	**Options** *(description and conversion factor)*	--		*Exercise price*	*Expiry date (if any)*
18.8	Issued during current period				
18.9	Exercised during current period				
18.10	Expired during current period				
18.11	**Debentures** *(description)*	--			
18.12	Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				
18.13	**Unsecured notes** *(description)*	--			
18.14	Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted				

Segment reporting - See Annexure B

(Information on the business and geographical segments of the entity must be reported for the current period in accordance with *AASB 1005: Segment Reporting* and for half year reports, *AASB 1029: Interim Financial Reporting*. Because entities employ different structures a pro forma cannot be provided. Segment information in the layout employed in the entity's +accounts should be reported separately and attached to this report.)

Comments by directors - See Annexure C

(Comments on the following matters are required by ASX or, in relation to the half yearly report, by *AASB 1029: Interim Financial Reporting*. The comments do not take the place of the directors' report and statement (as required by the Corporations Act) and may be incorporated into the directors' report and statement. For both half yearly and preliminary final reports, if there are no comments in a section, state NIL. If there is insufficient space to comment, attach notes to this report.)

Basis of financial report preparation

19.1 *If this report is a half yearly report, it is a general purpose financial report prepared in accordance with the listing rules and AASB 1029: Interim Financial Reporting.* ***It should be read in conjunction with the last +annual report and any announcements to the market made by the entity during the period.*** *The financial statements in this report are "condensed financial statements" as defined in AASB 1029: Interim Financial Reporting. This report does not include all the notes of the type normally included in an annual financial report.* [Delete if preliminary final report.]

19.2 Material factors affecting the revenues and expenses of the economic entity for the current period. In a half yearly report, provide explanatory comments about any seasonal or irregular factors affecting operations.

19.3 A description of each event since the end of the current period which has had a material effect and which is not already reported elsewhere in this Appendix or in attachments, with financial effect quantified (if possible).

19.4 Franking credits available and prospects for paying fully or partly franked dividends for at least the next year.

19.5 Unless disclosed below, the accounting policies, estimation methods and measurement bases used in this report are the same as those used in the last annual report. Any changes in accounting policies, estimation methods and measurement bases since the last annual report are disclosed as follows. (Disclose changes and differences in the half yearly report in accordance with *AASB 1029: Interim Financial Reporting*. Disclose changes in accounting policies in the preliminary final report in accordance with *AASB 1001: Accounting Policies-Disclosure*).

19.6 Revisions in estimates of amounts reported in previous interim periods. For half yearly reports the nature and amount of revisions in estimates of amounts reported in previous +annual reports if those revisions have a material effect in this half year.

19.7 Changes in contingent liabilities or assets. For half yearly reports, changes in contingent liabilities and contingent assets since the last + annual report.

Additional disclosure for trusts

20.1	Number of units held by the management company or responsible entity or their related parties.	
20.2	A statement of the fees and commissions payable to the management company or responsible entity. Identify: • initial service charges • management fees • other fees	

Annual meeting

(Preliminary final report only)

The annual meeting will be held as follows:

Place	
Date	
Time	
Approximate date the +annual report will be available	

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 (see note 12).

Identify other standards used	

2 This report, and the +accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed (see note 2).

4 This report is based on +accounts to which one of the following applies.
(Tick one)

☐	The +accounts have been audited.	☑	The +accounts have been subject to review.
☐	The +accounts are in the process of being audited or subject to review.	☐	The +accounts have *not* yet been audited or reviewed.

5 If the audit report or review by the auditor is not attached, details of any qualifications are attached/will follow immediately they are available* *(delete one). (Half yearly report only - the audit report or review by the auditor must be attached to this report if this report is to satisfy the requirements of the Corporations Act.)*

6 The entity has formally constituted audit committee.

Sign here Date: 27th February,2007.
(Managing Director)

Print name: Soon Sinn Goh.

Notes

1. **For announcement to the market** The percentage changes referred to in this section are the percentage changes calculated by comparing the current period's figures with those for the previous corresponding period. Do not show percentage changes if the change is from profit to loss or loss to profit, but still show whether the change was up or down. If changes in accounting policies or procedures have had a material effect on reported figures, do not show either directional or percentage changes in profits. Explain the reason for the omissions in the note at the end of the announcement section. Entities are encouraged to attach notes or fuller explanations of any significant changes to any of the items in page 1. The area at the end of the announcement section can be used to provide a cross reference to any such attachment.

2. **True and fair view** If this report does not give a true and fair view of a matter (for example, because compliance with an Accounting Standard is required) the entity must attach a note providing additional information and explanations to give a true and fair view.

3. **Condensed Income Statement**

Item 1.1 The definition of "revenue" and an explanation of "ordinary activities" are set out in *AASB 1004: Revenue*, and *AASB 1018: Statement of Financial Performance*.

Item 1.6 This item refers to the total tax attributable to the amount shown in item 1.5. Tax includes income tax and capital gains tax (if any) but excludes taxes treated as expenses from ordinary activities (eg, fringe benefits tax).

4. **Income tax** If the amount provided for income tax in this report differs (or would differ but for compensatory items) by more than 15% from the amount of income tax *prima facie* payable on the profit before tax, the entity must explain in a note the major items responsible for the difference and their amounts. The rate of tax applicable to the franking amount per dividend should be inserted in the heading for the column "Franked amount per security at % tax" for items 15.4 to 15.7.

5. **Condensed Balance Sheet**

Format The format of the consolidated statement of financial position should be followed as closely as possible. However, additional items may be added if greater clarity of exposition will be achieved, provided the disclosure still meets the requirements of *AASB 1029: Interim Financial Reporting*, and *AASB 1040: Statement of Financial Position*. Also, banking institutions, trusts and financial institutions may substitute a clear liquidity ranking for the Current/Non-Current classification.

Basis of revaluation If there has been a material revaluation of non-current assets (including investments) since the last +annual report, the entity must describe the basis of revaluation adopted. The description must meet the requirements of *AASB 1010: Accounting for the Revaluation of Non-Current Assets*. If the entity has adopted a procedure of regular revaluation, the basis for which has been disclosed and has not changed, no additional disclosure is required.

6. **Condensed consolidated statement of cash flows** For definitions of "cash" and other terms used in this report see *AASB 1026: Statement of Cash Flows*. Entities should follow the form as closely as possible, but variations are permitted if the directors (in the case of a trust, the management company) believe that this presentation is inappropriate. However, the presentation adopted must meet the requirements of *AASB 1026*.

7. **Net tangible asset backing** Net tangible assets are determined by deducting from total tangible assets all claims on those assets ranking ahead of the +ordinary securities (ie, all liabilities, preference shares, outside +equity interests etc). +Mining entities are *not* required to state a net tangible asset backing per +ordinary security.

8. **Gain and loss of control over entities** The gain or loss must be disclosed if it has a material effect on the +accounts. Details must include the contribution for each gain or loss that increased or decreased the entity's consolidated profit (loss) from ordinary activities and extraordinary items after tax by more than 5% compared to the previous corresponding period.

9. **Rounding of figures** This report anticipates that the information required is given to the nearest $1,000. If an entity reports exact figures, the $A'000 headings must be amended. If an entity qualifies under ASIC Class Order 98/0100 dated 10 July 1998, it may report to the nearest million dollars, or to the nearest $100,000, and the $A'000 headings must be amended.

10. **Comparative figures** Comparative figures are to be presented in accordance with *AASB 1018* or *AASB 1029 Interim Financial Reporting* as appropriate and are the unadjusted figures from the latest annual or half year report as appropriate. However, if an adjustment has been made in accordance with an accounting standard or other reason or if there is a lack of comparability, a note explaining the position should be attached. For the statement of financial performance, *AASB 1029 Interim Financial Reporting* requires information on a year to date basis in addition to the current interim period.

11. **Additional information** An entity may disclose additional information about any matter, and must do so if the information is material to an understanding of the reports. The information may be an expansion of the material contained in this report, or contained in a note attached to the report. The requirement under the listing rules for an entity to complete this report does not prevent the entity issuing reports more frequently. Additional material lodged with the +ASIC under the Corporations Act must also be given to ASX. For example, a director's report and declaration, if lodged with the +ASIC, must be given to ASX.

12. **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if one exists) must be complied with.

13. **Corporations Act financial statements** This report may be able to be used by an entity required to comply with the Corporations Act as part of its half-year financial statements if prepared in accordance with Australian Accounting Standards.

14. **Issued and quoted securities** The issue price and amount paid up is not required in items 18.1 and 18.3 for fully paid securities.

15 **Details of expenses** *AASB 1018* requires disclosure of expenses from ordinary activities according to either their nature or function. For foreign entities, there are similar requirements in other accounting standards accepted by ASX. *AASB ED 105* clarifies that the disclosures required by *AASB 10*18 must be either *all* according to nature or *all* according to function. Entities must disclose details of expenses using the layout (by nature or function) employed in their +accounts.

Relevant Items *AASB 1018* requires the separate disclosure of specific revenues and expenses which are not extraordinary but which are of a size, nature or incidence that disclosure is *relevant* in explaining the financial performance of the reporting entity. The term "relevance" is defined in *AASB 1018*. There is an equivalent requirement in *AASB 1029: Interim Financial Reporting*. For foreign entities, there are similar requirements in other accounting standards accepted by ASX.

16 **Dollars** If reporting is not in A$, all references to $A must be changed to the reporting currency. If reporting is not in thousands of dollars, all references to "000" must be changed to the reporting value.

17. **Discontinuing operations**

Half yearly report

All entities must provide the information required in paragraph 12 for half years beginning on or after 1 July 2001.

Preliminary final report

Entities must either provide a description of any significant activities or events relating to discontinuing operations equivalent to that required by paragraph 7.5 (g) of *AASB 1029: Interim Financial Reporting*, or, the details of discontinuing operations they are required to disclose in their +accounts in accordance with *AASB 1042 Discontinuing Operations*.

18. **Format**

This form is a Word document but an entity can re-format the document into Excel or similar applications for submission to the Companies Announcements Office in ASX.

WATERCO LIMITED AND CONTROLLED ENTITIES

ANNEXURE A

1.24 REVENUE AND EXPENSES

	Economic Entity	
	31/12/2006 $	31/12/2005 $
Revenue	43,187,986	49,574,693
Changes in inventories of finished goods and work in progress	(3,354,326)	(3,954,766)
Raw Materials and consumables used	(20,532,308)	(19,910,154)
Employee benefits expense	(7,649,032)	(7,525,092)
Depreciation and amortisation expense	(955,676)	(1,033,852)
Borrowing costs expense	(1,062,399)	(826,901)
Advertising expense	(1,188,132)	(1,006,647)
Discounts allowed	(769,440)	(748,235)
Outward freight expense	(1,328,451)	(1,074,575)
Rent expense	(1,553,278)	(1,454,801)
Contracted staff expense	(254,820)	(437,241)
Warranty expense	(484,794)	(391,678)
Commission expense	(148,327)	(310,948)
Other expenses	(5,027,725)	(6,173,568)
Profit before income tax expense	(1,120,722)	4,726,235
Income tax expense	(185,064)	779,868
Profit from continuing operations	(935,658)	3,946,367
Profit/(loss) attributable to minority equity interests	29,572	(5,837)
Profit attributable to members of the parent entity	(965,230)	3,952,204

ANNEXURE B
SEGMENT REPORTING

a)Industry Segments

The economic entity operates predominantly in one industry ,being the manufacture and wholesale of swimming pool chemicals, accessories and equipment, manufacture and sale of solar pool heating systems and as a franchisor of swimming pool outlets retailing swimming pool accessories and equipment.

b)Geographical Segments

2006

	AUSTRALIA	S.E.ASIA	NEW ZEALAND	NORTH AMERICA	OTHER	ELIMINATION	ECONOMIC ENTITY
	31/12/2006	31/12/ 2006	31/12/2006	31/12/2006	31/12/2006	31/12/2006	31/12/2006
REVENUE	$	$	$	$	$	$	$
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	31,492,890	1,889,015	3,106,248	3,413,708	2,708,006		42,609,867
INTERSEGMENT SALES	981,140	5,036,818	310,553	1,583,591	1,934,854	(9,846,956)	-
UNALLOCATED REVENUE							578,119
TOTAL REVENUE	32,474,030	6,925,833	3,416,801	4,997,299	4,642,860	(9,846,956)	43,187,986
SEGMENT RESULT	1,870,251	93,333	123,162	(2,612,070)	49,171	(66,450)	(542,603)
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE							(578,119)
PROFIT BEFORE INCOME TAX							(1,120,722)
INCOME TAX EXPENSE							185,064
PROFIT AFTER INCOME TAX							(935,658)

2005

	AUSTRALIA	S.E.ASIA	NEW ZEALAND	NORTH AMERICA	OTHER	ELIMINATION	ECONOMIC ENTITY
	31/12/2005	31/12/ 2005	31/12/2005	31/12/2005	31/12/2005	31/12/2005	31/12/2005
REVENUE	$	$	$	$	$	$	$
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	32,847,919	1,784,371	3,221,515	8,384,902	2,817,947		49,056,654
INTERSEGMENT SALES	1,377,128	6,976,127	392,530	1,098,166	1,643,039	(11,486,990)	-
UNALLOCATED REVENUE							518,039
TOTAL REVENUE	34,225,047	8,760,498	3,614,045	9,483,068	4,460,986	(11,486,990)	49,574,693
SEGMENT RESULT	5,295,655	898,871	212,093	(1,310,177)	330,932	(183,100)	5,244,274
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE							(518,039)
PROFIT BEFORE INCOME TAX							4,726,235
INCOME TAX EXPENSE							(779,868)
PROFIT AFTER INCOME TAX							3,946,367

WATERCO LIMITED AND CONTROLLED ENTITIES

ANNEXURE C

COMMENTS BY DIRECTORS

Revenue and Profitability

For the six months ending 31 December 2006 Waterco Limited reported a Net Loss After Tax of $0.96 million. The reported net loss was after allowing for unrealized foreign exchange losses totalling $1.17 million.

The result is consistent with Waterco's announcement to the ASX on 18 January 2007, that the half year result represented a break even after tax (before Foreign Exchange adjustments). The actual after tax profit (before Foreign Exchange adjustments) was $.0.234m.

The result compares with a reported after tax profit of $3.08 million (after Foreign Exchange gains of $869,741) for the previous corresponding period being the six months ending Dec05.

Earnings Before Interest & Tax (excluding FX adjustments) for the period were $1.11million (Half Year Dec05 $4.68 million).

Total Revenue was $43.2 million (Half Year Dec05 $49.6 million).

Detailed below is a breakdown of the Total Revenue contribution for the Dec Half compared to previous Dec05 Half Year:

Waterco Limited - Half Year Divisional Revenue		Dec 06 Actual		Dec05 Actual	% Change
Australia	$	31,492,890	$	32,847,919	-4.1%
S E Asia	$	1,889,015	$	1,784,371	5.9%
North America	$	3,413,708	$	8,384,902	-59.3%
New Zealand	$	3,106,248	$	3,221,515	-3.6%
Other	$	2,708,006	$	2,817,947	-3.9%
Unallocated Revenue	$	578,119	$	518,039	11.6%
Total	**$**	**43,187,986**	**$**	**49,574,693**	**-12.9%**

The table above highlights the 12.9% ($6.39 million) revenue decline was principally attributable to the USA and Canada which represented 78% ($4.97 million) of the total revenue decline against the previous year.

Our sales of product in the Northern Hemisphere, reflecting the back end of the summer season, were below expectations. In the USA sales were impacted by the loss of the Waterpik (USA) business and timing delays in the re-order by existing customers. As a result we were unable to replace this lost business prior to year end Dec06, however forward orders currently on hand are higher than this time last year.

In the European markets our sales results were impacted by a delay in the volume of early purchase orders by distributors in Europe and key customers in Canada and USA. Distributors, six months earlier in the Northern Hemisphere summer, had experienced an unseasonally cool summer and had been left with surplus stock, leaving our first half year revenue results below expectation.

Waterco Canada sales were down on last year caused by lower production volumes as a result of product quality issues. This issue is being addressed with the restructuring of production of heat pumps with part of the production line in Canada relocated to Waterco Far East in the second half.

Sales in Australia declined approx. 4.1% over the previous period due to an unseasonally cool summer and a reduction in sales of our chemical business. Delays in the delivery of heat pumps from our Canadian operation which was budgeted to boost sales in Australia, also impacted negatively on sales revenue.

In terms of our 58 store Swimart franchise group, we were pleased to note that first half revenues were ahead of the previous 6 month corresponding period by approx. 3%. In the first half, Waterco product sales in Australia were represented by 24.% to Swimart stores with the balance represented by major retail and trade sales.

Divisional Performance

Detailed below is a division breakdown of divisional EBIT contributions (before forex) for the half year ending Dec 2006:

Divisional EBIT (before Forex)	**Dec 06 Actual**	**Dec05 Actual**	**% Change**
Half Year – 6 months ending			
Australia	$ 3,539,179	$4,943,767	-30%
SE Asia.	$199,521	$790,030	-75%
North America	-$2,663,186	-$1,312,183	-103%
NZ	$107,307	$191,810	-44%
Other	-$4,943	$136,421	-104%
Reported EBIT (before Forex)	**$1,177,878**	**$4,749,845**	**-75%**
Consolidation adjustments	**-$66,450**	**-$66,450**	
Unrealised Forex Gains / (Losses)	-$1,169,751	$869,741	
Reported EBIT	**-$58,323**	**$5,553,136**	

The half year EBIT result (before foreign exchange adjustments) of $1.17 million reflected the impact of USA and Canada which recorded EBIT losses of $2.66 million as against the previous period's losses of $1.3 million. Compounding this position was a $1.4m deterioration (before foreign exchange adjustments) in the Australian EBIT result.

In general terms the poor EBIT performance was caused by a combination of lower than anticipated sales revenue and lower gross margins. The groups relatively fixed cost structure (both in terms of manufacturing and sales & admin overhead) meant that declines in revenue and gross margin flowed through directly to EBIT.

The Foreign Exchange adjustment at the half year totalled $1.17million after tax loss. The Foreign Exchange loss has no impact on cash flow. The unrealized losses relate to inter-company loans of A$29.47 million from the parent entity to overseas subsidiaries in order to fund growth and working capital. The loans are denominated and repayable in various foreign currencies in the controlled entities' accounts and are translated to an Australian Dollar equivalent at each reporting date. The changes in the valuation are reported as unrealized foreign exchange losses or gains. In the last six months the A$ appreciated to US$0.79 as of 31 December 2006, causing the unrealized loss. In the event the A$ were to return to US$0.74 then the losses would be reversed.

Australian Operations

The decline in our revenue of approx 4% or $1.4 million for the half was caused by lower sales of product to our Swimart outlets and in particular chemicals. Revenues from product sales to trade and retail remained flat. The lower revenues from Swimart related product sales was caused by some franchisees taking advantage of select product discounts available from other suppliers in the market. This issue is being addressed.

The decline in reported EBIT of approx. $1.4 million as against the previous corresponding period reflected a combination of the revenue decline and gross margin decline of approx. 3% as compared to the previous period.

The unseasonal weather and its impact on lower than forecast revenue had the effect of causing suppliers to discount margins on our key product categories. As a result we were forced to meet the market in terms of pricing, reflected in our lower gross margins.

During the six months 2 new Swimart stores were opened.

Waterco Far East

Waterco Far East is now the groups principal manufacturing facility for pumps and filters (commercial and residential). Waterco Far East supplies all major overseas divisions, including Australia.

Over the last 2 years Waterco has invested in expanding the manufacturing capacity of Waterco Far East in anticipation of increased order volumes from USA, Canada and Europe.

In the last six months the lower than anticipated sales volumes from USA, Canada and Europe adversely affected Waterco Far East with manufacturing output lower than budgeted. Whilst the reported Sales Revenue actually showed a slight increase over the Half, this excluded inter-company sales. If the inter-company sales volumes are taken into account the decline (as against the Dec05 half year) was much more substantial and accounted for the drop in reported EBIT of approx. $0.5m.

Waterco North America

Waterco North America represents the Groups operations in USA and Canada. Waterco North America reported an EBIT loss for the six months of $2.66 million which was a variance from the previous corresponding period of $1.35 million.

For Waterco USA (WUSA), the negative EBIT result was caused by a decline in sales revenue of nearly $3 million caused by the loss of a major customer – Waterpik – and the shifting purchasing pattern of our customers caused by weather conditions. The customers we now have are dealers, (unlike Waterpik which was a manufacturer) who delayed their orders as a result of holding higher than expected inventories. Higher operating expenses - predominantly rent and fixed overhead also impacted on profitability.

The US market is the largest in the world and Waterco has a made a substantial investment through its acquisition of Baker Hydro in March 2005. Our operations in Augusta, GA manufacture larger filters and assemble commercial pumps. All indications are that our core products are competitively priced for the US market and will, in time, reach acceptable sales levels sufficient to cover our operating costs. Obviously we are addressing the cost structure of our US operations to ensure this occurs as soon as possible.

The previously foreshadowed turnaround plan for Waterco Canada failed to materialize as expected. As a result, Waterco Canada reported an EBIT loss of $1.769 million for the six months.

Material items that contributed to the Waterco Canada operating loss included a $2m decline in revenue (compared to the previous corresponding period); prior warranty commitments of $177,871 (excluding labour services) and write downs of stock totalling $208,557. Labour and overhead recoveries were low, resulting in a loss of $240,024. The decline is sales revenue was caused by a combination of lower orders and an inability to supply due to poor manufacturing capability from the previous summer

We had previously expected that the manufacture of the smaller heat pumps would be relocated from Waterco Canada to Waterco Far East. This did not occur in the last six months and as a result the required reduction in overhead did not materialize and production volumes were less than anticipated. It is however currently being addressed as a priority.

The global demand for heat pumps that will be manufactured by our Far East and Canadian operations is growing and despite the production problems and quality issues the product remains accepted by wholesalers in Europe, USA and Australia. Confidence of our customers has returned, demonstrated by a larger 'early buy' which will be delivered in the second half.

Waterco Europe

Revenue from our European division was negatively impacted by the same Northern Hemisphere unseasonal weather 6 months ago that affected the purchasing pattern of our distributors.

The lower level of production of commercial filters translated into poor overhead and labour recoveries which affected UK profitability resulting in a negative EBIT result for the six months. The result was particularly disappointing given the turnaround in profitability that had been achieved in the previous 12 months.

Arrangements are in place to relocate manufacturing of commercial filters to Waterco Far East. Waterco Europe, despite reporting a negative EBIT contribution at the half year, remains profitable and is expected to improve on the previous year full year result of $0.4 million, before restructuring costs. Our cost reduction measures would further enhance this entity's profitability for the next financial year. Key distribution relationships remain in place and trends are that product acceptance and ranging with wholesalers are growing. We are also focused on reducing fixed overhead to ensure profitability at lower sales volumes in the future.

Waterco New Zealand

Waterco NZ reported a positive EBIT of $106,686 for the six months. Waterco NZ was similarly affected (like Australia) with unseasonal weather. The lower than forecast sales subsequently translated into a lower gross profit contribution which accounted for the entire decline in profitability of $90,000 relative to the previous corresponding period.

Waterco NZ owns 4 Swimart outlets outright as corporate stores. The performance of these stores in the first half was less than satisfactory with both revenue and profitability below comparable franchised outlets. Each company owned store reported losses of average $62,000 due to excessive overtime and low accountability of their time sheets. Waterco expects that most of the corporate stores will be franchised by June07, with one of the stores already franchised on 1 Feb07.

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Working Capital & Gearing

Working Capital	Dec 05 Actual	Dec 06 Actual
Total	**$36,070,179**	**$33,861,465**
Inventory	$31,635,873	$31,456,979
Debtors	$20,286,799	$17,767,406
Creditors	-$15,852,493	-$15,362,920

The groups working capital position as at Dec06 has shown a slight decrease over the previous corresponding period. However the majority of the improvement was not reflected in inventories, which remained unchanged.

The level of inventory at 30 June 2006 ($30.98m.) was considered high, mainly due to a poor Northern Hemisphere summer six months ago when Waterco USA, Waterco Canada and Waterco Europe stocked up in anticipation of a normal season. The Northern summer starts in April07 and management will work towards achieving an inventory reduction.

At the half year end Dec06 Waterco reported a total (net) debt position of $32m which reflected a gearing ratio of approx. 87.5%. During the period and subsequently, Waterco has received funding support from a major shareholder GSS Holdings Pty Limited and other parties in the form of unsecured bridging loans of $4.5 million at commercial rates to finance working capital, while plans are made to increase the company's share capital.

Product Development & Water Treatment

In the six months ending Dec06 Waterco spent approx. $600,000 on research & development which was fully expensed. This level of expenditure is consistent with previous years and underpins the strong company culture we have towards delivering our customers innovative, durable and energy efficient products.

New product initiatives include an improved version of our commercial composite pumps, launching a range of stainless steel pumps and re-introducing our electro-coagulation machine for recycling of grey water after completion of an extensive user manual.

Planned Cost and Production Restructuring

A restructure of our organization – in particular Canada and USA has commenced, with part of the restructure taking effect in March 2007. The restructuring program is expected to be completed by July 2007.

Detailed below is a summary of the key cost and restructuring initiatives planned by Waterco:

Cost and Restructuring Initiatives	Date	Expected Savings Annualised
Relocation of manufacturing facilities in UK, Canada, and USA to Waterco Far East	March – June 07	$ 600,000
Reduce manufacturing overhead in Australia	Feb - Sept 07	$ 250,000
Reduction in Waterco Canada overhead	July 2007	$ 400,000
Reduce overhead costs USA	July 2007	$ 400,000
Reduction in Group wages & on costs	July 2007	$ 400,000
Total Savings (per annum)		**$ 2,050,000**

Most of our manufacturing facilities in Australia, UK, USA and Canada will be consolidated into our Malaysian manufacturing plant, Waterco Far East (WFE). This will have the effect of reducing our group overhead cost by approx. A$2.0 million on an annualized basis (refer table above).

In addition, Waterco will accelerate its program of franchising out its 5 company owned stores, whose turnover has been increasing in the last 2 years. Conversion of the stores to franchises is expected to recoup in excess of $300,000 in goodwill expenses.

Waterco proposes to implement centralized stock control and new order management processes aimed at ensuring an alignment between forward orders and production volume. This should reduce working capital (inventories). Overhead costs in Europe and USA / Canada will be substantially reduced and better aligned to existing sales revenue.

A product review has commenced to ensure achievability of budgeted gross margins and product costings.

In Australia, Waterco intends to increase product sales to Swimart franchisees through improved store merchandising and ensuring that external sourcing of product by franchisees is minimized. This should lead to improved sales volumes and margins in FY08. Waterco is also reducing the overhead cost structure in Australia by relocating production and assembly to Malaysia.

The planned restructuring of the business will involve the relocation of assembly activities from various centres. It should have no adverse effects on trading. Retrenchment costs will be approximately \$250,000 incurred in the second half.

Second Half Review / Full Year Forecast

As a result of the various factors outlined in our ASX announcement, the downturn in our first half results is expected to have a direct impact on the full year forecast result.

With the lower than anticipated sales revenue and gross margins reported at the half year, Waterco has instituted a full review of sales and operating budgets for Australia and offshore entities for the remainder of the FY07 period.

The year end June 07 forecast, at this stage, is expected to reflect a \$0.75 million profit before tax and Foreign Exchange adjustment. This compares with the initial year end estimates of \$3m after tax. The major variations to the forecast year end position (including retrenchment / restructuring costs) are as follows:

- Waterco Canada – downgraded second half profitability by \$1.3 million as a result of lower trading margins caused by higher than expected overhead and lower than expected labour recovery rates. Our revenue estimates for the second half remain unchanged at this stage.

- Waterco Far East – downgraded second half profitability as a result of lower inter-company sales (Europe and USA) forecasts. Both Europe and USA had high inventory levels from the previous year, hence the more conservative revenue estimates and lower production volumes for Waterco Far East.

- Waterco China – we have lowered the second half profitability by \$0.3 million due to the requirement to write-off pre-operating costs related to the opening of the new building in 2006, instead of capitalizing the expenditure.

- Waterco Europe – we have revised the profitability for the second half downward by \$0.95 million due to lower sales forecasts and under-recoveries of labour and overhead costs. The entity will be profitable by year end June 2007, after absorbing one-off costs of restructuring in relocating manufacturing activities to Waterco Far East.

The positive impact of the restructuring initiatives is not expected to be felt until FY08.

Dividend

Your directors have decided to not declare a final dividend in view of the disappointing half year result. This position will be reviewed again at the time of release of the full year results.

Outlook

The board of Waterco recognizes that the revised forecast for year end June 07 is extremely disappointing. However steps have been taken to reduce overhead costs, consolidate manufacturing operations and improve manufacturing margins. Subject to these initiatives being executed within established timeframes and sales revenue holding at current levels – an improvement in profitability is expected in the FY08 period.