WATERCO LIMITED

A.B.N. 62 002 070 733

FINANCIAL REPORT

FOR THE HALF YEAR

ENDED 31ST DECEMBER, 2008

CONTENTS

WATERCO LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The Directors of Waterco Limited have pleasure in submitting herewith the Financial Report of the entity for the half-year ended 31st December, 2008

The directors of the company who held office during or since the end of the half year are:
Soon Sinn Goh
Bruce Leitch
Garry Norman
Ben Hunt

REVIEW OF OPERATIONS

For the six months ended 31 December 2008 (this half-year) Waterco Limited reported a Net Profit After Tax of $1.35 million. This compares with a reported after tax profit of $0.26 million for the previous corresponding period (PCP), the six months ended 31 December 2007.

Earnings Before Interest & Tax for this half-year were $3.22 million (PCP $1.47 million).

Total Revenue was $39.73 million (PCP $41.12 million).

Detailed below is a breakdown of the Total Revenue contribution for this Half-year compared with the PCP:

Waterco Limited – Half Year / Divisional Revenue	Dec 08	Dec 07	% Change
Australia and New Zealand	$ 28,990,825	$ 32,966,875	-12.0%
S E Asia	$ 2,376,601	$ 1,469,995	+61.7%
North America	$ 3,913,279	$ 3,504,555	+11.7%
Other	$ 3,862,467	$ 2,571,885	+50.2%
Unallocated Revenue	$ 586,259	$ 613,929	-4.5%
Total	**$ 39,729,431**	**$ 41,127,239**	**-3.4%**

The table above shows a decline of 3.4% ($1.40 million) in revenue, principally attributable to the Australia and New Zealand divisions, which accounted for $3.98 million, more than the entire decline.

The decline in Sales in Australia is a result of the sale of the Chemical Division business at Bankstown. This division supplied to supermarkets, hardware stores and mass merchants in Australia. Waterco retains its Chemical business supplying independent pool stores and its "Swimart" Franchise network. The remaining core business of this year represents a 2.5% increase on PCP, after allowing for the sale of the Chemical Division.

In terms of our 62-store Swimart franchise group, we are pleased to note that first half revenues were ahead of the PCP by approximately 5.5%.

The decline in sales in New Zealand is a result of the sale of 3 company-owned retail stores, which were franchised as "Swimart" stores. On a wholesale level, business in New Zealand showed a marginal increase on PCP.

DIVISIONAL PERFORMANCE

Detailed below is a breakdown of division EBIT contributions (before tax) for the half year ending Dec 2008:

Divisional EBIT (before consolidation adjustments and unrealised forex gains/(losses) / Half Year – 6 months ending	Dec 08	Dec 07	% Change
Australia and New Zealand	$ 3,603,790	$ 4,477,123	-20%
S E Asia	$ 1,064,806	($ 48,371)	+2,301%
North America	($ 1,859,956)	($ 1,777,531)	-5%
Other	$ 413,476	($ 293,012)	+241%
Unrealised forex gains/(losses)	$ 5,768,429	($ 48,395)	
Reported EBIT (before consolidation adjustments)	**$ 8,990,545**	**$ 2,309,814**	**+289%**
Consolidation adjustments *Intercompany Dividends * Goodwill impairment losses *Unrealised foreign exchange (gains)/losses	 - - ($ 5,768,429)	 ($ 824,497) ($ 66,450) $ 48,395	
Reported EBIT (after consolidation adjustments)	**$ 3,222,116**	**$ 1,467,262**	**+120%**

The half-year EBIT result of $3.22 million includes an EBIT loss of $1.86 million (PCP $1.78 EBIT loss) for our North American operations, whose season is in the second half-year.

Australia Operations

The decline in revenue for this half-year, as a result of the Sale of the Chemical Division business at Bankstown, had a marginal impact on profitability.

Waterco Far East

Waterco Far East is now the Group's principal manufacturing facility for pumps and filters for both, the commercial and the residential sectors. Waterco Far East supplies all major overseas divisions, including Australia.

With the completion of restored premises since the fire and manufacturing activity returning to normal, Waterco Far East recorded a healthy return to profitability. Insurance claims have now been fully resolved, largely to our satisfaction.

Waterco North America

Waterco North America, incorporating the group's operations in USA and Canada, reported an EBIT loss for the six months of $1.86 million which is not a material variance to the loss of $1.78 million from the PCP. The main business season for North America is in the second half of the financial year. Currently, the financial turmoil in the USA has made trading conditions uncertain.

The US Market is the largest in the world and Waterco has made a substantial investment through its acquisition of Baker Hydro in March 2005. Our operations in Augusta, Georgia, 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 provide a return. Management considers the outlook for commercial filters in the USA and Canada as positive.

Accreditation for our commercial filters has been sought from the National Sanitation Foundation (NSF). The NSF is an organisation that demands high standards of the products it endorses. Customers for our commercial filters require NSF approval, which we anticipate we would obtain by the last quarter of the financial year. With the approval, we anticipate strong growth in the sales of our commercial filters, bringing to fruition the efforts we have invested in marketing the products. Simultaneously, we are installing a new filament-winding machine, so that production of commercial filters in the USA would be enhanced by end of this financial year

The global demand for heat pumps that are manufactured in Canada is growing and our improvement of the manufacturing operations and product quality has seen the return of confidence of our customers, particularly in Canada, showing good improvement in forward orders received over the last 3 months of this half-year.

Waterco Europe

Key distribution relationships remain in place and we are experiencing trends of growing product acceptance and increased ranging with wholesalers.

Forward orders received and timely delivery has contributed to a positive result for Waterco Europe in this half-year. However, repeat business for the second half is uncertain, due to the global financial crisis, which has affected Europe considerably.

Waterco New Zealand

Waterco NZ reported a positive EBIT for this half-year. This was an improvement over PCP. As in Australia, there has been an anticipated decline in the pool-building sector. However, the maintenance sector, which was expected to underpin our growth, was not affected materially, by the global financial crisis.

PRODUCT DEVELOPMENT & WATER TREATMENT

In this half-year, Waterco spent approximately $0.37 million 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 to our customers innovative, durable and energy efficient products.

WORKING CAPITAL

	DEC 07	**DEC 08**
TOTAL$	**34,627,635**	**$ 34,364,936**
INVENTORY	$ 24,435,607	$ 31,693,429
DEBTORS	$ 22,810,040	$ 15,325,202
CREDITORS	-$ 12,619,012	-$ 12,653,695

The group’s working capital position as at December 2008 has no material variance over the previous corresponding period.

Group Inventory level was increased by $7.26 million on the previous corresponding period. This increase was mainly because the anticipated improvement in Sales in Australia and New Zealand, at the time of placing the orders at the beginning of the financial year, did not materialize. The Group has since implemented inventory-reduction measures to reduce the inventory level to a more reasonable level by the financial year-end.

DIVIDEND

Based on the half-year results, your directors are pleased to declare a fully-franked interim dividend of 2 cents per share, payable on 29 May 2009 to shareholders on our register at 8 May 2009.

OUTLOOK

The board of Waterco considers this half-year's results as satisfactory, reflecting a slow return to profitabily, but acceptable in view of the current global financial crisis. The core business of Waterco, at the time of this report, has not been materially affected adversely. Although budget sales revenue has not been achieved, the sales revenue when compared to PCP, has been maintained.

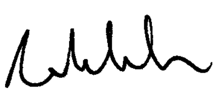
The board recognizes that there are uncertainties ahead in the second half-year. Precautions are being taken to insulate the company as much as possible from adverse events in the coming Half-year.

With the next half-year more dependent on the Northern Hemisphere business, namely Europe and North America, the board has taken a view that the company may not perform to the same extent as the PCP. The uncertainties make forecast of the full year's result difficult. The last review of the forecast indicated a Profit Before Tax of $3.2 million. The board believes that this forecast is achievable based on latest information on hand.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 20 for the half-year ended 31 December 2008

This report is signed in accordance with a resolution of the Board of Directors



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Soon Sinn Goh
Chairman
Waterco Limited
19 February 2009

INCOME STATEMENT FOR THE HALF YEAR ENDED 31ST DECEMBER 2008
WATERCO LIMITED AND CONTROLLED ENTITIES

	Consolidated Group	
	31/12/2008	31/12/2007
	$	$
Revenues	39,729,431	41,127,239
Changes in inventories of finished goods and work in progress	(5,917,866)	949,043
Raw Materials and consumables used	(17,217,459)	(24,129,857)
Employee benefits expense	(6,773,765)	(6,672,883)
Depreciation and impairment expense	(740,995)	(1,062,406)
Finance costs	(934,850)	(1,280,449)
Advertising expense	(945,372)	(805,348)
Discounts allowed	(119,351)	(684,926)
Outward freight expense	(995,777)	(1,289,959)
Rent expense	(1,329,579)	(1,755,612)
Contracted staff expense	(309,754)	(373,119)
Warranty expense	(426,893)	(553,476)
Commission expense	(175,604)	(304,322)
Other expenses	(1,554,900)	(2,977,112)
Profit /(loss)before income tax expense	2,287,266	186,813
Income tax expense/(benefit)	941,854	(75,362)
Profit/(loss) for the year	1,345,412	262,175
Profit/(loss) attributable to minority equity interest	(25,131)	7,023
Profit /(loss) attributable to members of the parent entity	1,370,543	255,152
Overall Operations		
Basic earnings per share (cents per share)	4.8	1.0
Diluted earnings per share (cents per share)	4.8	1.0

The accompanying notes form part of this financial report.

BALANCE SHEET AS AT 31ST DECEMBER 2008
WATERCO LIMITED AND CONTROLLED ENTITIES

	Consolidated Group	
	31/12/2008	**30/6/2008**
	$	**$**
Current Assets		
Cash and cash equivalents	1,481,334	2,253,863
Trade and other receivables	15,325,202	14,344,430
Inventories	31,693,429	22,476,760
Other current assets	793,783	632,927
Total Current Assets	49,293,748	39,707,980
Non-Current Assets		
Trade and other receivables	-	-
Financial assets	-	-
Property, plant & equipment	36,824,406	30,401,164
Intangible assets	127,534	180,893
Deferred tax assets	1,477,166	1,222,698
Other non-current assets	287,612	249,519
Total Non-Current Assets	38,716,718	32,054,274
Total Assets	88,010,466	71,762,254
Current Liabilities		
Trade and other payables	12,653,695	8,053,255
Financial liabilities	2,336,840	1,422,706
Current tax liabilities	763,502	361,540
Short-term provisions	1,955,831	1,576,689
Total Current Liabilities	17,709,868	11,414,190
Non-Current Liabilities		
Trade and other Payables	-	-
Financial liabilities	21,112,658	20,884,305
Deferred tax liabilities	2,047,360	1,914,033
Long-term provisions	293,023	282,014
Total Non-Current Liabilities	23,453,041	23,080,352
Total Liabilities	41,162,909	34,494,542
Net Assets	46,847,557	37,267,712
Equity		
Issued capital	30,521,326	30,107,181
Reserves	9,471,462	794,804
Retained earnings	6,505,279	5,991,106
Parent interest	46,498,067	36,893,091
Minority equity interest	349,490	374,621
Total Equity	46,847,557	37,267,712

The accompanying notes form part of this financial report.

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31ST DECEMBER 2008
WATERCO LIMITED AND CONTROLLED ENTITIES

Economic Entity	Note No.	Issued Capital Ordinary	Retained Earnings	Capital Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Minority Equity Interests	Total
Balance at 30/6/07		23,126,616	7,225,114	210,562	5,514,302	(1,728,008)	313,678	34,662,264
Profit/(loss) attributable to members of parent entity			206,757					206,757
Profit/(loss) attributable to minority shareholders							7,023	7,023
28 September 2007 Issue of 5,750,659 shares at $1.20 each under Waterco Rights Issue		6,900,791						6,900,791
Expenses of share issue		(268,761)						(268,761)
18 December 2007 Issue of shares under Waterco DRP		315,760						315,760
Adjustment for translation of foreign controlled entities						49,103		49,103
Employee share loan repayments		31,965						31,965
Sub-total		30,106,371	7,431,871	210,562	5,514,302	(1,678,905)	320,701	41,904,902
Dividends paid		-	(575,066)					(575,066)
Balance at 31/12/07 As reported in financial report for the half year ended 31/12/07		**30,106,371**	**6,856,805**	**210,562**	**5,514,302**	**(1,678,905)**	**320,701**	**41,329,836**
Adjustment relating to AASB121 (refer to note 6)			48,395			(48,395)		-
Restated balance at 31/12/07		30,106,371	6,905,200	210,562	5,514,302	(1,727,300)	320,701	41,329,836
Balance at 30/6/08 (as reported in the financial report for year ended 30/6/08)		30,107,181	3,092,270	210,562	5,514,302	(2,031,224)	374,621	37,267,712
Adjustment relating to AASB121 (refer to note 6)			2,898,836			(2,898,836)		-
Restated Balance at 30/6/08		30,107,181	5,991,106	210,562	5,514,302	(4,930,060)	374,621	37,267,712
Profit /(loss) attributable to members of parent entity			1,370,543					1,370,543
Profit/(loss) attributable to minority shareholders							(25,131)	(25,131)
7 July 2008 cancellation of 500,000 shares issued previously at $2.35 each under the CEO Plan		(1,175,000)						(1,175,000)
18 December 2008 Issue of 594,030 shares at $0.68 each under Waterco DRP		403,940						403,940
Adjustment for translation of foreign controlled entities						8,676,658		8,676,658
Employee share loan repayments		1,185,205						1,185,205
Sub-total		30,521,326	7,361,649	210,562	5,514,302	3,746,598	349,490	47,703,927
Dividends paid			(856,370)					(856,370)
Balance at 31/12/08		**30,521,326**	**6,505,279**	**210,562**	**5,514,302**	**3,746,598**	**349,490**	**46,847,557**

The accompanying notes form part of this financial report.

CASHFLOW STATEMENT FOR THE HALF YEAR ENDED 31ST DECEMBER 2008
WATERCO LIMITED AND CONTROLLED ENTITIES

	Consolidated Group	
	2008	**2007**
	$	**$**
Cash Flows from Operating Activities		
Receipts from customers	36,251,240	40,516,704
Payments to suppliers and employees	(37,188,299)	(36,125,583)
Interest received	23,476	46,569
Other income	133,897	448,805
Finance costs	(934,850)	(1,280,449)
Income tax paid	(661,033)	(307,728)
Net cash provided by/(used in) operating activities	(2,375,569)	3,298,318
Cash Flows from Investing Activities		
Dividends received	-	180
Payment for property, plant & equipment	(10,142,859)	(1,065,824)
Proceeds from sale of property, plant & equipment	282,403	2,098,163
Proceeds from sale of business (net of cash)	81,404	-
Payments for intangibles	(1,327)	(41,445)
Net cash provided by/(used in) investment activities	(9,780,379)	991,074
Cash Flows from Financing Activities		
Proceeds from/(repayment of) borrowings	86,655	(7,893,986)
Proceeds from issue of shares	403,940	6,947,790
Payment of lease liabilities	(107,869)	(116,563)
Dividends paid	(856,370)	(575,066)
Employee share plan repayments	10,205	31,965
Net cash provided by/(used in) financing activities	(463,439)	(1,605,860)
Net increase/(decrease) in cash held	(12,619,387)	2,683,532
Cash at 1st July 2008	964,122	(444,160)
Effects of exchange rate changes on balances of assets and liabilities held in foreign currencies	11,045,125	(136,232)
Cash at 31st December 2008	(610,140)	2,103,140

The accompanying notes form part of this financial report.

Note 1: Basis of Preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134:Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Waterco Limited and Controlled Entities during the half-year in accordance with any continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2008 financial report.

The half-year report, does not include full disclosures of the type normally included in an annual financial report.

Reporting Basis and Conventions
The half-year report has been prepared on and 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 Waterco Limited has the power to control the financial and operating policies of so as to obtain the benefits from its activities.

All controlled entities have a June financial year-end.

All intercompany balances and transactions between entities in the economic entity, 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 economic entity 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 change for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet 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 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 tax legislation and the anticipation that the economic entity will derive sufficient assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the legislation.

Waterco Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Waterco Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the ATO on 20 January 2005 that it had formed an income tax consolidated group to apply from 1 July 2003. The tax consolidated group have entered into 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 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 a standard cost basis.

(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 or impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic , but at least triennial , valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders equity. Decreases that offset previous increases of the same asset are charged against the fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount in restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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 economic entity includes the cost of materials, direct labour, borrowing costs and an appropriated portion 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 including building and capitalised leased assets but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Assets	Depreciation Rate
Buildings	2.5%
Plant & Equipment	6.0%-33.33%
Leased Plant & Equipment	13.0%-20%

The assets useful lives are reviewed , and adjusted if appropriate, at each balance 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 economic entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of 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 their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease.

Lease payments for operating expenses , 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, the 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 requirement of AASB139:Recognition and Measurement of Financial Instruments. Realised and unrealised gains and losses arising form 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.

Financial Liabilities

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

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired.

(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 asset's carrying value. Any excess of the asset's 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 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) 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 acquisition of subsidiaries is included in intangible assets. 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 related to the entity sold.

(h) Intangibles (continued)

Patents and trademarks
Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging from 15 to 20 years.

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.

(i) 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 year-end 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 form 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
- Retained profits 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 group's 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.

(j) 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.

(k) 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.

(l) Cash and Cash Equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-terms borrowings in current liabilities in the balance sheet.

(m) 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.

Dividend revenues is recognised when the right to receive a dividend has been established.

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

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

(n) Borrowing Costs
Borrowing costs directly attributable to the acquisition , construction or production of assets than necessarily take a substantial period of time to prepare for their intended use or sale , are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.
All other borrowing costs are recognised in income in the period in which they are incurred.

(o) 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 Taxation 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.

(o) Comparative Figures
When required by Accounting Standards, comparative figures have been adjusted to confirm to changes in presentation for the current financial year.

Note 2: CONTINGENT LIABILITIES
There has been no material change in contingent liabilities since the last annual reporting date.

	Economic Entity	
	31/12/2008	**31/12/2007**
	$	**$**
Note 3: DIVIDENDS		
Final fully franked dividend franked at the tax rate of 30% paid	856,370	575,066
	856,370	575,066

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31ST DECEMBER 2008

Note 4: STATEMENT OF OPERATIONS BY SEGMENTS

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

2008

	AUSTRALIA & NEW ZEALAND 31/12/2008 $	S.E.ASIA 31/12/ 2008 $	NORTH AMERICA 31/12/2008 $	OTHER 31/12/2008 $	ELIMINATION 31/12/2008 $	ECONOMIC ENTITY 31/12/2008 $
REVENUE						
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	28,990,825	2,376,601	3,913,279	3,862,467	(13,077,357)	39,143,172
INTERSEGMENT SALES	1,233,521	8,472,397	632,737	2,738,702	(13.077,357)	
UNALLOCATED REVENUE						586,259
TOTAL REVENUE	30,224,346	10,848,998	4,546,016	6,601,169		39,729,431
SEGMENT RESULT	8,913,443	1,169,171	(1,860,000)	419,340	(5,768,429)	2,873,525
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE						(586,259)
PROFIT BEFORE INCOME TAX						2,287,266
INCOME TAX EXPENSE						(941,854)
PROFIT AFTER INCOME TAX						1,345,412

2007

	AUSTRALIA & NEW ZEALAND 31/12/2007 $	S.E.ASIA 31/12/ 2007 $	NORTH AMERICA 31/12/2007 $	OTHER 31/12/2007 $	ELIMINATION 31/12/2007 $	ECONOMIC ENTITY 31/12/2007 $
REVENUE						
SALES TO CUSTOMERS OUTSIDE THE ECONOMIC ENTITY	32,966,875	1,469,995	3,504,555	2,571,885	(7,638,178)	40,513,310
INTERSEGMENT SALES	1,768,738	3,299,894	549,086	2,020,460		
UNALLOCATED REVENUE						613,929
TOTAL REVENUE	34,735,613	4,769,889	4,053,641	4,592,345	(7.638.178)	41,127,239
SEGMENT RESULT	4,448,929	77,596	(1,773,111)	(285,623)	(1,667,049)	800,742
UNALLOCATED EXPENSES NET OF UNALLOCATED REVENUE						(613,929)
PROFIT BEFORE INCOME TAX						186,813
INCOME TAX EXPENSE						75,362
PROFIT AFTER INCOME TAX						262,175

Note 4: STATEMENT OF OPERATIONS BY SEGMENTS

c)The pricing of intersegment transactions is at rates comparative with amounts charged to parties outside the economic entity after taking into account the value and terms of these transactions.

Business Segments and Geographical Segments

Business Segments
The economic entity has two business segments:
-Manufacturing division manufactures pool and spa equipment and chemicals as well as water treatment equipment.
-Distribution division wholesales a wide range of pool and spa equipment, chemicals and water treatment equipment and is a franchisor of pools shops.

Geographical Segments
The economic entity's business segments are located in Australia with the manufacturing and distribution divisions also having operations in Malaysia, China, United Kingdom, USA and Canada. The economic entity also has distribution divisions in New Zealand and Indonesia.

Note 5 EVENTS SUBSEQUENT TO REPORTING DATE

There are no material subsequent events since the half year ended 31 December 2008

Note 6: PRIOR PERIOD ADJUSTMENT

The following prior period adjustments relate to exchange differences arising at period end in relation to the foreign currency intercompany loans receivable from overseas subsidiaries which are more correctly included as part of the Parent Entity's net investment in foreign operations. Consequently, in accordance with AASB 121, such foreign exchange differences are recognised separately in equity on consolidation.

At 31 December 2007 an unrealised foreign exchange loss of $48,395 was recognised in the Income Statement. This resulted in the foreign currency translation reserve being overstated by $48,395 and conversely the retained earnings attributable to members of the parent entity was understated by $48,395. This adjustment has resulted in profit after tax at 31 December 2007 increasing by $48,395 to $255,152. Due to this adjustment, basic and diluted earnings per share at 31 December 2007 have increased from 0.8 cents per share to 1.0 cents per share.

At 30 June 2008 an unrealised foreign exchange loss of $2,898,836 was recognised in the Income Statement. This resulted in the foreign currency translation reserve being overstated by $2,898,836 and conversely the retained earnings attributable to members of the parent entity was understated by $2,898,836. This adjustment has resulted in the loss after tax at 30 June 2008 decreasing by $2,898,826 to $658,942. Due to this adjustment, basic and diluted earnings per share at 30 June 2008 have increased from (12.9) cents per share to (2.4) cents per share.
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WATERCO LIMITED ABN 62 002 070 733
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors of Waterco Limited hereby declare that:

1. the financial statements and notes, as set out on pages 6 to 16

(a) comply with the Accounting Standard AASB 134 :Interim Financial Reporting and the Corporations Regulations; and

(b) give a true and fair view of the economic entity's financial position as at 31 December 2008 and it performance for the half- year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay it's debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Soon Sinn Goh
Chief Executive Officer

Dated at SYDNEY this 19th day of February 2009

RSM Bird Cameron Partners
Chartered Accountants

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF

WATERCO LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Waterco Limited and Controlled Entities ("the consolidated entity") which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, accompanying notes to the financial statements and the directors' declaration. The consolidated entity comprises both Waterco Limited (the company) and the entities it controlled during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing 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 half-year financial report based on our review. We conducted our review in accordance with Auditing Standard 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 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 2008 and its performance for the half-year ended on that date; and

- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of Waterco Limited and Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial 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 Auditing 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 matter that makes us believe that the half-year financial report of Waterco Limited and Controlled Entities is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 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*.

RSM Bird Cameron

RSM BIRD CAMERON PARTNERS
Chartered Accountants

W E Beauman
Partner

Sydney, NSW
Dated: 19th February 2009

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Chartered Accountants

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Waterco Limited and Controlled Entities for the half year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

RSM Bird Cameron

RSM BIRD CAMERON PARTNERS
Chartered Accountants

W E Beauman
Partner

Sydney, NSW
Dated: 19th February 2009

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