



ACN 122 726 283

28 January 2011

Attention: Public Announcements Officer  
Australian Securities Exchange  
Exchange Centre  
20 Bridge Street  
SYDNEY NSW 2000

**Hydrotech International Limited  
(‘Hydrotech’ or ‘the Company’)**

**Update for the Quarter ended December 2010**

A sense of corporate excitement continues to grow as business momentum accelerates with an increasing number of proposals being issued for both MPS and Coatings opportunities. We are continuing to build strong relationships with an increasing number of blue chip customers and our success is evident by the repeat business we are beginning to win. In the Coatings Division we are developing a niche market for water tank linings; this will continue to grow and with referrals we are confident that a successful business model will emerge.

Timing of MPS projects in China is still an ongoing and tedious problem with delays to 3 large contracts. However several villa projects have been identified with the installations due to commence in March. The initial development of a smaller MPS Control Unit specifically for the luxury residential villa market has been completed with 10 prototypes being delivered into Hong Kong in March for installation into projects for performance monitoring.

We have been approached by a major high performance coating supplier who would like Hydrotech to be their agent in Hong Kong and Macau. This opportunity will allow us to further expand our offering to develop our business into industrial coatings, linings and flooring opportunities.

**Specific MPS Opportunities**

**Hong Kong**

During the past quarter, the Company was awarded contracts to install the MPS System in the basement of the Hong Kong Club and the Miramar Hotel; both of these contracts have commenced and are expected to be completed by early Q4. China Light and Power have confirmed the installation of the MPS system at their substation at Ocean Terminal with work to commence in late January.

Discussions are ongoing with several major developers and government institutions in Hong Kong; the Hong Kong Housing Authority are planning to complete the second phase of the Oi Man Estate before the 31<sup>st</sup> March, with the third phase due to commence in April 2011. New World Development’s sister company, Hip Hing Construction, have issued a letter of intent to install the MPS system into a basement structure in Kowloon and Jones Lang La Salle have issued a tender incorporating the MPS system for a



residential building in Hong Kong. In addition, The Hong Kong Architectural Services Department have identified a possible installation into brick arch structures for their Monument and Antiquities division.

Several Property Managers have identified areas within their portfolio where the MPS system could be used; quotations have been forwarded for these areas and it is hoped that several of these contracts will be undertaken in the next financial year.

### **China**

In China, the MPS installation in a Guangzhou Metro station is complete and has been commissioned. Various metro operators were invited to the commissioning and discussions are taking place concerning other opportunities within the metro sector in China.

The award of contracts for the Wuhan Steel Plant and the utility tunnel in Dalian continue to be plagued by delays; discussions are ongoing and we have been assured by our respective agents that the award of these projects is imminent and that both will commence immediately after the Chinese New Year.

A major Hong Kong developer has installed the MPS System to a podium roof at one of their projects in Shanghai. A pre-contractual agreement has been made with the developer confirming that on the success of the initial sample the total area will be treated with the MPS System. The initial area will be commissioned in early January with the review planned for early April.

We are continuing to develop the residential villa market in China with four installations due to commence in various cities around China over the next six months.

### **United Kingdom**

Following the specification of the MPS System by London Underground at Great Portland Street, we are currently in contract negotiations with the Main Contractor for the installation and we have been informed that works will commence in February. In addition, further to the first phase of an MPS installation to a UK high profile residential development in Central London, further meetings are being held to discuss the roll out of the system to other parts of the development.

### **Coatings**

Momentum continues to grow in the coatings division with the award of further projects at the ATL Logistics Centre, the Hong Kong Club, the Hong Kong Jockey Club and a number of residential developments.

Submissions for the Cathay Cargo facility are ongoing and a site demonstration is being held for representatives from the project team. The size of the project is believed to be approximately 17,000m<sup>2</sup> and is the largest waterproofing opportunity in Hong Kong at the moment. On approval of Hydrotech's waterproofing systems, works are due to commence in June and July of 2011.

Several meetings have been held with the Urban Group, a large independent building management organisation in Hong Kong; one project was recently awarded for a residential development roof re-waterproofing with two or three further projects due to be awarded in January. The Urban Group are very keen to use our Polyurea Systems for relining Potable water tanks and have confirmed a project



which will commence in early March. If this project is successful they will recommend Hydrotech's Polyurea systems for all residential water tanks within their building portfolio.

### **Ongoing Business Strategy**

The impetus developed over the past six months has been maintained with contracts being awarded to Hydrotech by several new and blue chip clients. There are several major MPS and coatings opportunities which will be awarded in the first quarter of 2011. These projects will significantly enhance the market awareness of Hydrotech in both the Hong Kong and China markets providing a further stimulant to our business development.

Our ongoing strategy is to continue to raise the brand awareness of Hydrotech and increase sales activities in our target markets of Hong Kong and China. To do this it is imperative that we secure the major projects as mentioned above and provide our prospective customers with further confidence in the Hydrotech offerings.

Furthermore, we maintain our commitment and efforts to ensure perfect job execution and customer satisfaction. Developing a viable proposition for the luxury villa market in China is also a priority as we envisage a rapid growth phase emerging in this sector over the next 12-18 months. The Company is currently contemplating appropriate resource plans to cope with this envisaged business growth.

### **Hong Kong**

The Hong Kong construction market is going through a significant growth period. The HK Government has an annual capital works budget exceeding A\$6.5bn a year, with 4 major rail projects in award or early construction stages and a further 4 turnkey water treatment projects that were awarded in December - all of these projects offer major opportunities to Hydrotech. We are presently in contact with key personnel within these projects and our medium term focus is to ensure that our offer fully meets the project's requirements.

We have also established a strong customer base in the building management sector which has major opportunities for growth. Our focus here is to continue to service this customer base and identify new opportunities in the building maintenance sector whilst positioning our business offer to maximise opportunities in the major infrastructure projects about to commence.

### **China**

Our focus over the past 6 months has been to develop strategic business partners throughout the major conurbations within China. Our Shanghai business partner remains very active with 5 MPS opportunities either underway or due to commence in the coming months; their focus has changed from major civil infrastructure projects to residential villas with several developers looking at incorporating the MPS system within their projects.

In North East China, our focus remains strongly on the opportunity to install the MPS System in a utility cable tunnel in Dalian; if we secure this project over the next month it will require significant investment in time and resources to ensure a successful application however it will provide a major opportunity to secure more projects in the North Eastern China region.

**UK**

We will closely monitor the installation at Great Portland Street and arrange further visits in April to explore further opportunities within London Underground.

**Conclusion**

Our business profile has radically and dramatically improved over the last six months notwithstanding frustrating delays which seem to be inevitable in our business for the time being. For example, we now have five MPS projects going on at the same time – which is more than we have ever had in the company’s entire history, while our list of potential Hong Kong customers with whom we are currently negotiating reads like the proverbial “Who’s Who” of the Infrastructure/Construction/Property Management space. It should also be noted in passing that if the Dalian contract we have been anxiously waiting for, for many months, comes to fruition that it could well be the largest electro-osmosis installation in the world to-date.

Our diversification into coatings, although still early days, can be deemed as an unqualified success. For example, sales for the last 6 months were nearly 4x the preceding 6 months whilst work in progress to be invoiced in the two months of January and February could be half that of the previous 6 months, or 3 times of that on an annualised basis.

However cash flow issues continue to haunt us, partly because of working capital requirements associated with a rapidly growing coatings business, especially the need to finance rising stock levels against a background of inevitable time lag between paying for raw materials and receiving payment from clients. In addition, as I have explained in previous reports, we have had no option but to increase our burn rate which was unsustainable given the surge in enquiries, long negotiating meetings, preparation of detailed proposals, site management and the like. This burn rate is likely to increase further as more enquiries and business comes in.

All in all our corporate mood swings from jubilation to frustration – so close in one sense but not close enough in another. Fortunately the latter does not impact on our hard-working and dedicated team who remain undaunted and enthusiastic -on behalf of Shareholders, I heartily thank them.

Yours sincerely



Philip Gray  
Chairman

# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

HYDROTECH INTERNATIONAL LIMITED

ABN

42 122 726 283

Quarter ended ("current quarter")

31<sup>st</sup> DECEMBER 2010

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	121	344
1.2 Payments for		
(a) staff costs	-186	-361
(b) advertising and marketing	-2	-8
(c) research and development	0	0
(d) leased assets	0	0
(e) other working capital	-259	-584
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	5	12
1.5 Interest and other costs of finance paid	0	0
1.6 Income taxes paid	0	0
1.7 Other (provide details if material)		
<b>Net operating cash flows</b>	<b>-321</b>	<b>-597</b>

+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	<b>-321</b>	<b>-597</b>
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:	0	0
(a) businesses (item 5)	0	0
(b) equity investments	0	0
(c) intellectual property	0	0
(d) physical non-current assets	0	0
(e) other non-current assets	0	0
1.10 Proceeds from disposal of:	0	0
(a) businesses (item 5)	0	0
(b) equity investments	0	0
(c) intellectual property	0	0
(d) physical non-current assets	0	0
(e) other non-current assets	0	0
1.11 Loans to other entities	0	0
1.12 Loans repaid by other entities	0	0
1.13 Other (provide details if material)	0	0
<b>Net investing cash flows</b>	<b>0</b>	<b>0</b>
<b>1.14 Total operating and investing cash flows</b>	<b>-321</b>	<b>-597</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	0	0
1.16 Proceeds from sale of forfeited shares	0	0
1.17 Proceeds from borrowings	0	0
1.18 Repayment of borrowings	0	0
1.19 Dividends paid	0	0
1.20 Other (provide details if material)	0	0
<b>Net financing cash flows</b>	<b>0</b>	<b>0</b>
<b>Net increase (decrease) in cash held</b>	<b>-321</b>	<b>-597</b>
1.21 Cash at beginning of quarter/year to date	762	1,038
1.22 Exchange rate adjustments to item 1.20	0	0
1.23 <b>Cash at end of quarter</b>	<b>441</b>	<b>441</b>

+ See chapter 19 for defined terms.

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	75
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Non Executive Directors Parent Company	-	\$A'000	-	57
Executive Directors	-	\$A'000	-	18

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

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**Financing facilities available**

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	0	0
3.2	Credit standby arrangements	0	0

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+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

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**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	441	762
4.2 Deposits at call	0	0
4.3 Bank overdraft	0	0
4.4 Other (provide details)	0	0
<b>Total: cash at end of quarter (item 1.23)</b>	441	762

**Acquisitions and disposals of business entities**

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	0	0
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

**Compliance statement**

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

3 Sign here:



(Director)

4 Date: 28 January 2011

Print name: PHILIP GRAY

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+ See chapter 19 for defined terms.

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. **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 any) must be complied with.

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+ See chapter 19 for defined terms.