

# Results for announcement to the market

**HYDROTECH INTERNATIONAL LIMITED  
ABN: 42 122 726 283  
AND ITS CONTROLLED ENTITIES**

**FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2010**

This half-year financial report is to be read in  
conjunction with the financial report for the  
year ended  
30 June, 2010

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**HYDROTECH INTERNATIONAL LIMITED  
FINANCIAL REPORT FOR THE HALF-YEAR ENDED  
31 DECEMBER 2010**

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## HYDROTECH INTERNATIONAL LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' REPORT

The directors present their report together with the financial report of the consolidated entity consisting of Hydrotech International Limited and the entities it controlled, for the half-year ended 31 December 2010 and the independent auditor's review report thereon.

#### Directors' Names

The names of the directors in office at any time during or since the end of the half-year are:

<u>Name</u>	<u>Period of directorship</u>
Philip Gray	Director since 28 April 2008
Karl Grebstad	Director since 1 April 2008
Anthony McKee	Director since 9 June 2009
Dr Francis Lung	Director since 1 February 2010
Stewart Cranswick	Director since 31 May 2010
Michael Hendriks	Director since 1 August 2010

#### Review of Operations

The consolidated loss of the group for the half-year after providing for income tax amounted to \$466,939 (2009: \$686,750).

The stark headline figures for the last six months show a sharp improvement in your Company's fortunes. Revenues are up 97%; expenses are static and losses at AUD446,939 are down 32%.

However, if anything they understate the progress we have made on the business front, especially in recent months, following the HK Housing Association's epic and company making endorsement of our MPS electro-osmosis solution to water ingress problems.

Following the subsequent and sustained surge in enquiries, we now have more MPS projects on the go than in the company's entire history and we have some major contracts at an advanced stage of negotiation. Of particular comfort is the fact that our clients, who now constitute major blue chips in the infrastructure, property construction/management space are beginning to consider MPS as a prophylactic /preventative solution to be included in new build specifications as opposed to being just a remedial response to a water ingress problem. This is a milestone development reflecting years of pioneering development work.

In the meantime, our diversification into the surface coatings business, although early days, can be deemed an undoubted success. For example, sales for the last six months were nearly 4x the preceding six months while work in progress to be invoiced in the two months of Jan/Feb could be half that of the previous six months or three times that on an annualised basis. The recently announced Cathay contract valued at AUD 500,000 and scheduled to commence in the coming months, is by far the largest contract we have received and bodes well for the future for our relatively new business.

The exposure of Hydrotech Waterproofing Solutions to Architects, Engineers and Contractors involved in the project will greatly assist our marketing activities as we focus on specifications of Polyurea systems for the major infrastructure projects which will require waterproofing in late 2011 onwards.

The award of this project to Hydrotech Waterproofing Solutions reinforces our marketing position of supplying high performance solutions for waterproofing issues. We are actively tendering further works and hope to be in a position to confirm additional projects in the coming months.

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 and we continue to grow the business.

Ending on a much more positive note and over and above the exciting Hong Kong market, the business opportunities in China are simply breathtaking, not only on the infrastructure front, but also in a relatively new segment for us namely large scale residential structures which is potentially a very profitable business proposition. We have already designed and fabricated a tailor made control unit for this new MPS application and marketing plans are at an advanced stage.

Finally, it remains for me to thank our loyal shareholders who supported us in the dark days of 2009 and our hardworking and dedicated management team who since then have fundamentally transformed the company and more importantly its long term prospects as a broad based provider of waterproofing solutions from MPS to Polyurea coatings.

#### **Auditor's Declaration**

A copy of the auditor's declaration in relation to the review for the half-year is provided with this report.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Philip Gray', written over a circular stamp or seal.

Philip Gray  
Chairman

Dated this 18th day of February, 2011

18<sup>th</sup> February 2011

Hydrotech International Limited  
The Board of Directors  
Suite 2, 5 Ord Street  
West Perth WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF  
HYDROTECH INTERNATIONAL LIMITED

As lead auditor of Hydrotech International Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hydrotech International Limited and the entities it controlled during the period.



Glyn O'Brien  
Director



BDO Audit (WA) Pty Ltd  
Perth, Western Australia

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	31 Dec 2010	31 Dec 2009
	6 mnth	6 mnth
	\$	\$
<b>Revenue from continuing operations</b>	<u>465,338</u>	<u>230,269</u>
Change in inventories of finished goods and work in progress	(21,104)	-
Accounting fees	54,007	38,881
Employee benefits expense	378,815	442,324
Depreciation and amortisation expense	6,721	5,655
Consultants' fees and costs	70,456	96,126
Australian Stock Exchange fees	27,459	9,529
Rent and rates	52,779	73,111
Travelling expenses	51,748	96,247
Other expenses	308,084	29,867
Foreign exchange losses	(21,406)	29,153
Impairment of intangible assets	<u>24,718</u>	<u>96,126</u>
<b>Total Expenditure</b>	<u>932,277</u>	<u>917,019</u>
<b>Loss before income tax</b>	<b>(466,939)</b>	<b>(686,750)</b>
Income tax expense	-	-
<b>Loss for the period</b>	<u><b>(466,939)</b></u>	<u><b>(686,750)</b></u>
Loss is attributable to the owners of Hydrotech International Limited	<u><b>(466,939)</b></u>	<u><b>(686,750)</b></u>
<b>Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:</b>		
Basic earnings (loss) per share	<b>(0.10 cents)</b>	(0.15 cents)
Diluted earnings (loss) per share	<b>(0.10 cents)</b>	(0.15 cents)

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>6 mnth</b>	<b>6 mnth</b>
	<b>\$</b>	<b>\$</b>
<b>Other comprehensive loss</b>		
Exchange differences on translation of foreign Operations	<b>(48,079)</b>	(55,507)
Income tax relating to components of other comprehensive loss	-	-
	<hr/>	<hr/>
<b>Other comprehensive loss for the Period</b>	<b>(48,079)</b>	(55,507)
<b>Loss after tax</b>	<b>(466,939)</b>	(686,750)
	<hr/>	<hr/>
<b>Total comprehensive result for the period</b>	<b>(515,018)</b>	(742,257)
	<hr/>	<hr/>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2010

	31 Dec 2010 \$	30 June 2010 \$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	441,201	1,037,531
Inventories	37,317	40,696
Trade receivables	179,939	96,862
Other current assets	69,072	-
	<u>727,529</u>	<u>1,175,089</u>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	34,933	45,988
Intangible assets	-	30,563
	<u>34,933</u>	<u>76,551</u>
<b>TOTAL ASSETS</b>	<u>762,462</u>	<u>1,251,640</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	133,288	124,948
	<u>133,288</u>	<u>124,948</u>
<b>NON-CURRENT LIABILITES</b>		
Borrowings	116,718	116,718
	<u>116,718</u>	<u>116,718</u>
<b>TOTAL LIABILITIES</b>	<u>250,006</u>	<u>241,666</u>
<b>NET ASSETS</b>	<u>512,456</u>	<u>1,009,974</u>
<b>EQUITY</b>		
Contributed Equity	14,583,669	14,583,669
Other reserves	393,080	423,659
Accumulated losses	(14,464,293)	(13,997,354)
<b>TOTAL EQUITY</b>	<u>512,456</u>	<u>1,009,974</u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	Contributed equity \$	Option reserve \$	Forex reserve \$	Accumulated losses \$	Total \$
<b>BALANCES AT 1 JULY 2009</b>	14,584,291	44,667	325,989	(12,452,122)	2,502,825
Loss for the period	-	-	-	(686,750)	(686,750)
<b>OTHER COMPREHENSIVE LOSS</b>					
Net loss on hedge of net investment in foreign operation	-	-	(55,507)	-	(55,507)
<b>TOTAL OTHER COMPREHENSIVE LOSS</b>	-	-	(55,507)	-	(55,507)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	-	-	(55,507)	(686,750)	(742,257)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY OF OWNERS</b>					
Share based payment	-	3,333	-	-	3,333
Capital raising costs	(622)	-	-	-	(622)
Total transactions with owners	(622)	3,333	-	-	2,711
<b>BALANCES AT 31 DECEMBER 2009</b>	<u>14,583,669</u>	<u>48,000</u>	<u>270,482</u>	<u>(13,138,872)</u>	<u>1,763,279</u>
<b>BALANCES AT 1 JULY 2010</b>	14,583,669	65,084	358,575	(13,997,354)	1,009,974
Loss for the period	-	-	-	(466,939)	(466,939)
<b>OTHER COMPREHENSIVE LOSS</b>					
Net loss on hedge of net investment in foreign operation	-	-	(48,079)	-	(48,079)
<b>TOTAL OTHER COMPREHENSIVE LOSS</b>	-	-	(48,079)	-	(48,079)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	-	-	(48,079)	(466,939)	(515,018)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY OF OWNERS</b>					
Share based payment	-	17,500	-	-	17,500
Total transactions with owners	-	17,500	-	-	17,500
<b>BALANCES AT 31 DECEMBER 2010</b>	<u>14,583,669</u>	<u>82,584</u>	<u>310,496</u>	<u>(14,464,293)</u>	<u>512,456</u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	31 Dec 2010 6 mnth \$	31 Dec 2009 6 mnth \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from customers	344,504	69,327
Payments to suppliers and employees	(953,019)	(845,847)
Interest received	12,185	22,315
<b>Net cash used by operating activities</b>	<u>(596,330)</u>	<u>(754,205)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	-	-
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<u>-</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>	(596,330)	(754,205)
Cash and cash equivalents at beginning of half year	<u>1,037,531</u>	<u>2,258,006</u>
<b>Cash and cash equivalents at end of the half-year</b>	<u><u>441,201</u></u>	<u><u>1,503,801</u></u>

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**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2010****NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS**

These general purpose financial statements for the half year reporting period ended 31 December 2010 have been prepared in accordance with Australian Accounting Standard 134 *Interim Financial Reporting* and the Corporations Act 2001.

These half year financial statements do not include all the notes of the type usually included in an annual financial statements and therefore cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2010 and any public announcements made by Hydrotech International Limited during the half-year reporting period in accordance with any continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these half year financial statements as compared with the most recent annual financial statements.

**Going Concern**

As at 31 December 2010 the company had working capital of \$594,281 (30 June: \$1,050,141). The company returned a loss before income tax of \$466,939 (31 December 2009: \$686,750). The ability of the company to pay its debts as and when they fall due for payment is dependent upon the continued financial support of the company's financiers and the ability of the company to trade profitably in the future. The directors believe that with the expansion of the group's product offerings and changes to the way the company markets these products, provided a sound basis to return the company to profitable growth. Signs of a turnaround in the company's operations is supported by the increase in revenues, reduced losses and award of larger contracts.

**NOTE 2: SUBSEQUENT EVENTS**

There are no material events subsequent to the end of the half-year that have not been recognised in the half-year financial statements

**NOTE 3: CONTINGENT ASSETS AND LIABILITIES**

In prior years the company advanced \$250,000 interest free to a key employee. This advance was due for repayment on 9 August 2010 and the employee is disputing the liability to repay the loan. As this loan is overdue and in dispute, the company has made a full provision for impairment in the accounts and is pursuing full recovery of this receivable.

There are no other significant contingent assets or liabilities at the date of this report.

**NOTE 4: DIVIDENDS PAID OR PROVIDED FOR**

No dividend has been paid or provided for during the half year.

**NOTE 5: RELATED PARTY TRANSACTIONS**

There were no changes to related party transactions during the half year.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2010**

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**NOTE 6: SEGMENT INFORMATION**

The Company operates predominantly in one industry, the water solutions systems industry, and operates in several geographical locations.

*Description of Segments*

The Board has determined for management reporting purposes that it will report and measure on segments dissected by geographical location, being Australia (Parent), Hong Kong, China, and the United Kingdom and Norway.

HYDROTECH INTERNATIONAL LIMITED AND CONTROLLED ENTITIES

ABN: 42 122 726 283

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2010

NOTE 6 : SEGMENT INFORMATION

(TABLE) cont.

	UK		Norway		Hong Kong		China		Australia		Total	
	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$
External revenue	-	58,089	-	-	468,113	139,463	16,949	32,739	12,181	22,293	497,243	252,584
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted EBITDA	(15,137)	(13,063)	(62,752)	(161,882)	(184,393)	(263,841)	(33,012)	(85,696)	(191,296)	(163,499)	(486,590)	(687,981)

	UK		Norway		Hong Kong		China		Australia		Total	
	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$
Reportable segment assets	27,522	22,400	11,872	18,880	382,595	500,895	14,350	48,451	326,123	1,310,210	762,462	1,900,835

HYDROTECH INTERNATIONAL LIMITED AND CONTROLLED ENTITIES

ABN: 42 122 726 283

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NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2010

**NOTE 6 : SEGMENT INFORMATION cont.**

A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	<b>2010</b>	<b>2009</b>
<b>ADJUSTED EBITDA</b>	(486,590)	687,981
Inter-segment eliminations	21,406	(15,429)
Interest revenue	12,185	22,315
Finance costs	-	-
Depreciation amortisation	(6,721)	(5,655)
Impairment of intangible assets	(24,719)	-
Share options granted to directors and employees	(17,500)	-
Other	(452,223)	(627,903)
Loss before income tax from continuing operations	<u>(466,939)</u>	<u>(686,750)</u>

## **DIRECTORS DECLARATION**

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The directors declare that the financial statements and notes set out on pages 5 to 11 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*, and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2010 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Hydrotech International Limited will be able to pay its debts as and when they become due and payable.

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

A handwritten signature in black ink, appearing to read 'Philip Gray', with a large circular flourish at the top.

**Philip Gray**  
Chairman  
18<sup>th</sup> February 2011

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF HYDROTECH INTERNATIONAL LIMITED

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Hydrotech International Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### 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 a 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 2010 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 Hydrotech International Limited, 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hydrotech International Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



## 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 Hydrotech International Limited 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 2010 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*.

## Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that Hydrotech International Limited incurred a net loss of \$466,939 during the half-year ended 31 December 2010 and, as of that date, the consolidated entity's working capital totalled \$594,281. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the entity's ability to continue as a going concern and therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', written over the printed name.

Glyn O'Brien  
Director

Perth, Western Australia  
Dated this 18<sup>th</sup> day of February 2011

## Appendix 4D

### Half Year Report for the six months to 31 December 2010

Hydrotech International Limited ABN 43 122 726 283

#### 2. Results for announcement to the market

Revenues from ordinary activities	Up	97%	252,584	to	497,243
Profit (loss) from ordinary activities after tax attributable to members	Down	32%	(686,750)	to	(466,939)
Net profit (loss) for the period attributable to members	Down	32%	(686,750)	to	(466,939)
<b>Dividends</b>					
	Amount per security		Franked amount per security		
Interim dividend	Nil		Nil		
Final dividend	Nil		Nil		
Previous corresponding period	Nil		Nil		
Record date for determining entitlements to the dividend	N/A				
Brief explanation of any of the figures reported above necessary to enable the figures to be understood: N/A					

#### 3. Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	0.11 cents	0.37 cents