

Results for announcement to the market

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

**FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED
31 DECEMBER 2009**

These half-year financial statements are to be read in
conjunction with the financial report for the
year ended
30 June, 2009

**HYDROTECH INTERNATIONAL LIMITED
FINANCIAL REPORT FOR THE HALF-YEAR ENDED
31 DECEMBER 2009**

TABLE OF CONTENTS

	Page
Directors' Report	3
Auditor's Independence Declaration	4
Financial Report for the half year ended 31 December 2009	
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Financial Statements	10
Directors' Declaration	13
Independent Auditor's Review Report	14
Appendix 4D	16

HYDROTECH INTERNATIONAL LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The directors present their report together with these financial statements of the consolidated entity consisting of Hydrotech International Limited and the entities it controlled, for the half-year ended 31 December 2009 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:

Name	Period of directorship
Philip Gray	Director since 28 April 2008
Ian Dallas	Director 2 March 2007 to 23 October 2009
Andy Fourie	Director since 6 November 2007
Karl Grebstad	Director since 1 April 2008
Anthony McKee	Director since 9 June 2009
Francis Lung	Director since 1 February 2010

Review of Operations

The consolidated loss of the group for the half-year after providing for income tax amounted to \$686,750.

Having endured two painful years, we appear, at last to be moving onto the front foot, by regaining the initiative and taking more control of our own destiny after the successful capital raising last year.

Admittedly, for all the structural reasons mentioned in our previous reports, the business development of our MPS electro osmosis product remains slower than expected, notwithstanding the huge market potential for this successful and proven water ingress prevention system. However, there is no doubt, judging by the increasing level of enquiries, that the pace is picking up and we have concluded a number of successful pilot projects which should lead to significant contracts in due course. Furthermore, a number of major potential clients renowned for their conservatism and/or their resistance to "change", have now formally opened a dialogue with us after years of dogged reluctance.

However, what gives the Hydrotech team grounds for cautious optimism and indeed is creating great excitement within our Company is our strategic decision to expand our business opportunities by redefining our target market. Until recently, our business could be defined as providing a technical solution to water ingress into subterranean concrete structures. Although a precise and narrow definition, it encompasses a huge market including underground railway tunnels, subways, cable tunnels, dams, commercial basements and the like – but as we have painfully found out, the decision making process of the institutions involved is exceptionally slow and the time between initial discussions and a pilot contract, let alone a full contract, can easily be 12 – 24 months with all the cash flow implications for a small company.

It is in this context, that we came to the realisation that we needed to diversify into a related business segment whereby we are effectively still selling to the same group of architects, consultants and asset owners but are extending our range of products to include well proven and fully accepted solutions to a broader range of problems which include other types of water

ingress problems, apart from subterranean concrete structures. These would include, for example, bridges, roof tops, landfills, water treatment facilities and internal pipe lining. The beauty of this business is that not only do we have the necessary in house expertise, experience and industry contacts, but by definition it has a very short negotiation – contracting – payment cycle thereby complimenting the relatively long cycle inherent in our MPS system.

In addition, for a number of specific structural reasons, we are in a relatively strong competitive position and even though we have only really been in the business since the beginning of the year, we have already been invited to tender for some major contracts. In Hong Kong alone, the potential market given the Government's commitment to a massive construction program is more than enough to keep Hydrotech exceptionally busy. Of course, only time will tell if this diversification is going to be successful and I would hate to jinx the outcome by making any optimistic predictions at this stage. Having said that, however, 'so far, so good'.

In the meantime, following some savage surgery, our burn rate or cost base seems to have stabilised around the AU\$ 120,000 mark (on average) down from some AU\$ 350,000 two years ago. This is unsustainable in the long run if we are to fulfill our strategic ambitions and it is our intention to use our revenues from the coatings business to fill in some key gaps on the marketing side once our cash flow picture has stabilised.

On the organisational front, our Board has been significantly strengthened by the appointment of Dr. Francis Lung who apart from being a UK Barrister and a recognised Scientist in his own right, is an acknowledged expert on large infrastructural projects, especially subways, where his experience in China and with the MTR (Hong Kong's subway operator) in particular, is already proving to be exceptionally advantageous.

Finally, it remains for me to thank our loyal and dedicated staff who are working tirelessly to make things happen for our little company. There is no doubt that there is a huge buzz in the Company and the excitement and energy is palpable. The results of all this hopefully will be reasonably clear by the end of this financial year.

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 19th day of February, 2010

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of HYDROTECH INTERNATIONAL LIMITED.

In relation to the half-year independent auditor's review for the six months to 31 December 2009, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the Corporations Act 2001
- (ii) No contraventions of any applicable code of professional conduct

**BDO
Perth**

**GLYN O'BRIEN
Date**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	31 Dec 2009 6 mnth \$	31 Dec 2008 6 mnth \$
Revenue		
Sales revenue	230,269	140,346
Other income	22,315	66,704
	<u>252,584</u>	<u>207,050</u>
Employee benefits	442,324	1,054,603
Depreciation and amortisation	5,655	19,792
Consultants' fees and costs	96,126	316,869
Other expenses	395,229	684,287
Write off of Intangible Assets	-	821,078
	<u>-</u>	<u>821,078</u>
Loss before income tax	(686,750)	(2,689,579)
Income tax expense	-	-
	<u>-</u>	<u>-</u>
Loss for the period	(686,750)	(2,689,579)
Other comprehensive income		
Exchange differences on translation of foreign operations	(55,507)	(127,527)
	<u>(55,507)</u>	<u>(127,527)</u>
Other comprehensive income for the period	(55,507)	(127,527)
	<u>(55,507)</u>	<u>(127,527)</u>
Total comprehensive income for the period	<u>(742,257)</u>	<u>(2,817,106)</u>
Basic loss per share	<u>(0.38 cents)</u>	<u>(1.5 cents)</u>
Diluted loss per share	<u>(0.38 cents)</u>	<u>(1.5 cents)</u>

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

	31 Dec 2009 \$	30 June 2009 \$
CURRENT ASSETS		
Cash and cash equivalents	1,503,801	2,258,006
Trade receivables	171,867	37,894
Other current assets	225,168	250,101
TOTAL CURRENT ASSETS	<u>1,900,836</u>	<u>2,546,001</u>
NON-CURRENT ASSETS		
Property, plant and equipment	24,377	32,173
Intangible assets	-	25,532
Other non-current assets	25,471	39,195
TOTAL NON-CURRENT ASSETS	<u>49,848</u>	<u>96,900</u>
TOTAL ASSETS	<u>1,950,684</u>	<u>2,642,901</u>
CURRENT LIABILITIES		
Trade and other payables	187,405	140,076
TOTAL CURRENT LIABILITIES	<u>187,405</u>	<u>140,076</u>
TOTAL LIABILITIES	187,405	140,076
NET ASSETS	<u><u>1,763,279</u></u>	<u><u>2,502,825</u></u>
EQUITY		
Contributed Equity	14,583,669	14,584,291
Other reserves	318,482	370,656
Accumulated losses	<u>(13,138,872)</u>	<u>(12,452,122)</u>
TOTAL EQUITY	<u><u>1,763,279</u></u>	<u><u>2,502,825</u></u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

	Contributed equity \$	Option reserve \$	Exchange reserve \$	Accumulated losses \$	Total \$
BALANCES AT 1 JULY 2008	12,531,014	44,667	402,745	(8,081,425)	4,897,001
Loss for the period	-	-	-	(2,689,579)	(2,689,579)
OTHER COMPREHENSIVE INCOME					
Net loss on hedge of net investment in foreign operation	-	-	(127,527)	-	(127,527)
TOTAL OTHER COMPREHENSIVE INCOME	-	-	(127,527)	-	(127,527)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(127,527)	(2,689,579)	(2,817,106)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY OF OWNERS					
Issue of share capital	63,540	-	-	-	63,540
Total transactions with owners	63,540	-	-	-	63,540
BALANCES AT 31 DECEMBER 2008	12,594,554	44,667	275,218	(10,771,004)	2,143,435
BALANCES AT 1 JULY 2009	14,584,291	44,667	325,989	(12,452,122)	2,502,825
Loss for the period	-	-	-	(686,750)	(686,750)
OTHER COMPREHENSIVE INCOME					
Net loss on hedge of net investment in foreign operation	-	-	(55,507)	-	(55,507)
TOTAL OTHER COMPREHENSIVE INCOME	-	-	(55,507)	-	(55,507)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(55,507)	(686,750)	(742,257)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY OF OWNERS					
Share based payment	-	3,333	-	-	3,333
Capital raising costs	(622)	-	-	-	(622)
Total transactions with owners	(622)	3,333	-	-	2,711
BALANCES AT 31 DECEMBER 2009	14,583,669	48,000	270,482	(13,138,872)	1,763,279

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	31 Dec 2009 6 mnth \$	31 Dec 2008 6 mnth \$
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	69,327	40,299
Payments to suppliers and employees	(845,847)	(2,283,643)
Interest received	22,315	66,704
Net cash used by operating activities	<u>(754,205)</u>	<u>(2,176,640)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Refund of over subscriptions	-	-
Net cash used in investing activities	<u>-</u>	<u>-</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	-	-
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
Dividends paid	-	-
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(754,205)	(2,176,640)
Cash and cash equivalents at beginning of half year	<u>2,258,006</u>	<u>3,671,417</u>
Cash and cash equivalents at end of the half-year	<u>1,503,801</u>	<u>1,494,777</u>

**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 2009 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 2009 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, except as follows:-

- 1) Change in accounting policy – Segment Reporting – refer Note 6

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

There are no 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

In December 2009, Hydrotech Group incorporated a company in Hong Kong under the name Hydrotech Waterproofing Solutions Ltd (HWS), which is a fully owned subsidiary of Hydrotech Asia Ltd (HAL). Mr Philip Gray (the Chairman of Hydrotech International Ltd) has entered into an agreement with HWS and made an interest free, unsecured loan repayable within 2 years of grant for a sum of \$100,000US, to be used as working capital to establish a waterproofing coatings business.

NOTE 6: SEGMENT INFORMATION

The Group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach' i.e. segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision maker, being the Board of Directors who makes strategic decisions.

This has not resulted in a material change from the way segment information has historically been reported in the past.

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, the United Kingdom and Norway.

HYDROTECH INTERNATIONAL LIMITED AND CONTROLLED ENTITIES

ABN: 42 122 726 283

NOTE 6 : SEGMENT INFORMATION (TABLE) cont.

	UK		Norway		Hong Kong		China		Australia		Total	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
External revenue	58,089	114,576	-	-	139,463	13,852	32,739	12,568	22,293	66,054	252,584	207,050
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Reportable loss before income tax	(36,447)	(728,886)	(162,895)	(453,582)	(259,917)	(666,866)	(85,938)	(200,751)	(141,553)	(639,494)	(686,750)	(2,689,579)

	UK		Norway		Hong Kong		China		Australia		Total	
	31 Dec 2009	30 Jun 2009	31 Dec 2009	30 Jun 2009	31 Dec 2009	30 Jun 2009	31 Dec 2009	30 Jun 2009	31 Dec 2009	30 Jun 2009	31 Dec 2009	30 Jun 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Reportable segment assets	22,400	3,082	18,880	57,674	500,895	336,869	48,451	18,117	1,310,210	2,169,446	1,900,835	2,585,188

RECONCILIATION OF REPORTABLE SEGMENT LOSS

	2009	2008
Total loss for reportable segments	(686,750)	(2,689,579)
Consolidated loss before income tax	<u>(686,750)</u>	<u>(2,689,579)</u>

DIRECTORS DECLARATION

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 2009 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
19th February, 2010

**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. The half-year financial report comprises the condensed consolidated balance sheet as at 31 December 2009, and the condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the half-year ended on that date, for the company and the entities it controlled at the half-year or from time to time during the period, together with a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Hydrotech International Limited 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 designing, implementing and maintaining internal control 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 2009 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.

**INDEPENDENT REVIEW REPORT cont'd
TO THE MEMBERS OF HYDROTECH INTERNATIONAL LIMITED**

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 2009 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.

**BDO
Perth**

**GLYN O'BRIEN
Date**

Appendix 4D**Half Year Report for the six months to 31 December 2009****2. Results for announcement to the market**

Revenues from ordinary activities	Up	22%	207,050	to	252,584
Loss from ordinary activities after tax attributable to members	down	76%	(2,817,106)	to	(686,750)
Net loss for the period attributable to members	down	76%	(2,817,106)	to	(686,750)
Dividends					
			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	0.37 cents	1.3 cents