

RADIO INTERVIEW WITH PHILIP GRAY, CHAIRMAN, HYDROTECH INTERNATIONAL LIMITED, CONDUCTED ON FRIDAY, 30 APRIL 2010

Q1 Hello and welcome to Boardroomradio. I'm joined by Mr Philip Gray who's the Chairman of Hydrotech International. Philip, many thanks for your time and welcome back to Boardroomradio.

A1 Thank you. Thank you, James. Good morning to you.

Q2 The Company has released its quarterly report and I might get you to start by touching on the financials and the Company's quarterly financial performance.

A2 Indeed. Well, from an executive summary standpoint, I think we've made very good progress, albeit from a low base. Our cash outflow in the quarter just reported was something like 246,000, which is roughly half the figure we reported in the first quarter, ie, 535,000. In the meantime, we have reduced our cash burn from around 370 a couple of years ago. We've now got it down to 110, and the business remains, after it, intact and not impacted by these cuts. So, financially speaking, we're in good shape, albeit from pretty bad days a year ago. Even on a worst pessimistic forecast, the Company is still a viable entity by the end of this year, even assuming no business whatsoever, which is totally unrealistic. Our cash balances are strong and, all-important for business, are good. If, for example, proposals were a predictor of huge success, then we did more large proposals to customers in April than we did in the previous three months. If, for example, hard work is a predictor of fortunes to come, well, my staff are regularly working till 11 o'clock at night. My poor financial controller, who has been with me in Perth for a few days, changed a suitcase in Hong Kong and is spending the weekend in Beijing with our auditors, while the rest of the team spent the previous weekend entertaining a Chinese Provincial Government in Hong Kong demonstrating some of our projects. So to the extent that all those are predictors of good things to come, I think we have a reasonably good future, although it ain't over till the fat lady sings, as they say, and we still need to get some proper runs on the board.

Q3 Philip, you have indicated the Company is pursuing a diversification strategy. Can you provide us with some commentary around this and how it's progressing?

A3 Yes. One of the inherent structural weaknesses in the business was the long gestation period between client negotiation and receiving a contract. It's the nature of the business, but this gestation period can be as long as three years and, for a cash-strapped company, this is not good news. So we decided to complement our MPS system by slightly redefining our business to cover all types of water ingress and opposed to just water ingress in subterranean structures. Once we redefine this business, this gives rise to a wide range of solutions to be called Polyurea systems, which are spray-on coatings which we can use on horizontal or vertical surfaces, use on bridges, tunnels, your

roof tops, for example. Now, the beauty about these products is that they have been well-proven; they're 20 years old. We have secured some very, very favourable long-term contracts from the major suppliers which give us a major competitive edge, and we are actually, at the end of the day, marketing to the same clients as we market our MPS system, ie, architects, consultants, engineers and infrastructure owners. So you might argue, in one way, that we're amortising the cost of marketing our MPS system over a wider range of products which have a much, much shorter gestation period. The gestation period for these products – from making a proposal, getting an order, and implementation – is as little as months. It complements this structure issue we have with MPS by giving us a much shorter and quicker product cycle with all the benefit of impact on our cash flow.

Q4 Now, Philip, you have been going through a certain level of organisational change. Can you give us some commentary around this process and how it does change the business?

A4 Yes. Obviously, you have to cut your cloth, according to your need, and we have to have an eye on our burn rate, so we have been introducing various performance-related systems to reduce our fixed costs base. So, for example, we have reorganised our Chinese marketing operation. We're now on very low base salaries but, you know, good commissions. We have shrunk down our head office accordingly. In a similar sense, we've outsourced the Company's secretarial function here in Australia with substantial cost savings but with no change in effectiveness. So our eye is always on where can we save money; where can we move from fixed cost to variable cost, ie, from high salaries to low salaries but with a strong performance bias. So we're probably through most of the changes. In fact, I'm damned if I can see any further measures we could take, frankly. We're now as lean and fit as a butcher's dog.

Q5 Now, Philip, from your commentary around the quarterly financial performance and some of the strategy and organisational change comments that you've made, it would seem that the outlook for Hydrotech is looking pretty good at the moment. Can you give me some commentary around your outlook and some news you might expect to be able to tell investors about?

A5 Well, I think if there's one sin the Company has been guilty of in the past it's over-optimism and I don't certainly want to repeat that sin. So I am cautiously very optimistic. We have certainly past the worst. We are a viable entity. We are absolutely overworked with demands for proposals and requests for business. Let's see how this translates into hard orders. The point is we have survived. We've made it. We're going to make it. We're moving forward. It's now just a question of what pace we move at. We are in the middle of some very, very serious negotiations with various Chinese Provincial Governments, which we've announced, and just one of those could have a major impact on the business. But I don't want to hold out any hopes. I don't want to promise and not deliver, so I'd much rather say "watch this space". I think the next two or three months will be critical in proving my point that these proposals are going to be a predictor of success.

Q6 Philip, we appreciate you taking the time to give us your comments around the developments that have been taking place at Hydrotech International. I do hope we're able to speak in the coming months to mark some of these milestones that may be in the pipeline. Once again, we thank you for your time.

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Well, thank you very much and I look forward to talking to you next time, hopefully with a big order book. Thanks, James. Cheers.