

29 October 2009

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 September 2010**

Following the very positive endorsement released by the influential Hong Kong Housing Authority on the use of Hydrotech’s MPS System and the subsequent inundation of requests for presentations, the Company adjusted its sales tactics to ensure that it met the demands of the interest shown. Market segments were identified and the sales team focused on specific areas relative to their experience and contacts. Our main focus has been on meeting with Property Developers, many of whom have expressed interest in adopting the MPS System as their generic solution to the water ingress issues facing their property portfolios. High level meetings have been held with Sino Land, New World Group, Pacific Century, Cheung Kong and Kowloon Development. We are in the midst of lengthy discussions with one of the largest listed property developers concerning a very large MPS installation; a presentation has been undertaken to their Architect who has requested assistance in putting together a specification

Another segment identified was Property Management companies and meetings have been held with Kai Shing Property Management, Kerry Properties, Jones Lang La Salle and Urban Property Management. Combined, these companies manage most of the properties in Hong Kong and we have been working with them to identify critical areas for us to undertake MPS installations. Unfortunately some of the areas are relatively small and as we are all aware, small projects take as much time as larger projects without the financial returns. However, we are extremely cognizant of the long-term opportunities offered by this sector and the Company is currently determining pricing policies. As an indication of the level of interest shown, 7 projects are in the process of being inspected or designed

In the Architectural segment, meetings have been held with some of Hong Kong’s largest firms and we are currently in discussion with a leading practice regarding their client’s proposed new development in Mainland China.

The enhanced Sales Team now has a combined experience level of 40+ years and use of market segmentation techniques has proven to be an effective way of ensuring we are in communication with and servicing the needs of each segment.

### **Specific MPS Opportunities**

#### Hong Kong

We continue to follow up local MPS opportunities from meetings held recently and have received feedback from several clients requesting further clarification on installation requirements and on pricing. From the feedback received we are confident a number of these discussions will convert to installations within the coming 3-6 months.

We continue to hold discussions with MTR (Hong Kong's Mass Transit Railway) and most recently have met with its property technical advisors to have more detailed discussions on the merits of adopting our MPS System.

#### China

In China, the MPS installation in a Guangzhou Metro station is complete and commissioning is scheduled for November 1st. Invitations have been sent to other metro operators within Mainland China to attend the event.

The tender for Wuhan was submitted with an award expected before the end of November.

There is continued activity in Dalian (North East China) where we have been approached by the Design Institute regarding design and sign off methods for the trial application which has begun. The Company is working with ten main contractors on installation procedures; further updates on this project are expected soon and announcements will be made when appropriate.

#### United Kingdom

The MPS System has been specified in a tender recently released by London Underground concerning the waterproofing in Great Portland Street and we are currently responding to enquiries received from contractors.

### **Coatings**

Our relatively new Coatings business is extremely buoyant as momentum continues to develop. We have held a number of meetings with potential business partners regarding undertaking small pilot projects using the cold applied Polyurea; these projects will allow the contractors to gain a greater understanding of the system for their future business development.

Gammon Construction has awarded a contract for the waterproofing of the Cathay Cargo Facility; the subcontractor has included our polyurea system in a formal material submittal. The size of the project is believed to be approximately 17,000m<sup>2</sup> and is considered to be the largest waterproofing opportunity in Hong Kong at the moment; the project is currently scheduled to commence in March 2011.

The tender for the second phase of the ATL Container Terminal was released and our response has been submitted; a request has been received to provide further documentation

We have held meetings with the Urban Group, a large independent building management organization regarding specifications for Polyurea; a project has already been identified and a site visit has been undertaken.

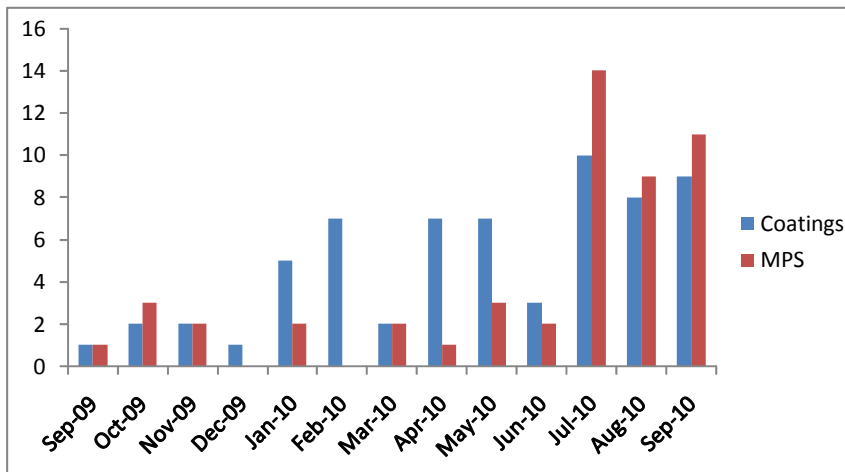
Jones Lang La Salle have confirmed that they intend to use our Polyurea system to repair a roof of an office building in the central business district of Hong Kong; the area is small but the project will provide a significant reference and also provide further opportunities with other properties managed by Jones Lang La Salle.

### **Strategy**

The outlook for HTI has improved quite dramatically in recent quarters although admittedly this has not been reflected in our share price. Perhaps a key issue remains unresolved to date; namely the angle of the recovery curve/trajectory going forward, set against our ongoing burn rate. On the former, the jury is still out but a dispassionate assessment of our prospects, taking into account our enquiry rate, client meetings, proposals submitted and the quality of clients involved would suggest a positive outlook. However an analysis of our 'tender portfolio' reveals only a few elephants or company making contracts at this stage although the host of small contracts for major potential clients might simply be a natural and inevitable first phase in our new found momentum, leading on to bigger and better things in due course.

In the meantime, having notified shareholders some quarters ago, we have had no option but to increase our burn rate or expenditure to properly resource our diversification and more importantly, to effectively respond to the dramatic increased interest in our range of water ingress solutions...

### **Coatings/MPS Enquiries & Proposals September 2009 – September 2010**



Taking these two factors together, we are approaching a pivotal point in terms of medium term cash flow issues although it is extremely hard not to be optimistic for the long term outlook. A simplistic but valid comparison between our market capitalisation of AUD3m and the profit potential inherent in a few decent size contracts suggests substantial potential on the upside given a bit of luck which has been notoriously absent for most of the Company's history.

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")

30<sup>th</sup> SEPTEMBER 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers	222	222
1.2 Payments for		
(a) staff costs	-175	-175
(b) advertising and marketing	-6	-6
(c) research and development	0	0
(d) leased assets	0	0
(e) other working capital	-325	-325
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	8	8
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>-276</b>	<b>-276</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 (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	-276	-276
<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>	0	0
<b>1.14 Total operating and investing cash flows</b>	-276	-276
<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>	0	0
<b>Net increase (decrease) in cash held</b>	-276	-276
1.21 Cash at beginning of quarter/year to date	1,038	1,038
1.22 Exchange rate adjustments to item 1.20	0	0
1.23 <b>Cash at end of quarter</b>	762	762

+ 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	128
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 - 80
Executive Directors	\$A'000 - 48

**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**

**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	762	1,038
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>	<b>762</b>	<b>1,038</b>

**Acquisitions and disposals of business entities**

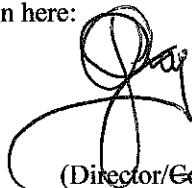
	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	0	0
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

**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 ~~does not~~\* (delete one) give a true and fair view of the matters disclosed.

3 Sign here:



(Director/Company Secretary)

4 Date:

30 OCT 2010

Print name:

PHILIP J S GRAY

+ 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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