

20th April 2011

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

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

Letter to Shareholders

As the old saying goes “Be careful what you wish for”; in this context, HTI’s business is now booming following the endorsement of our MPS Electro Osmosis System by the Hong Kong Housing Authority together with projects from other government bodies such as the Hong Kong Architectural Services Department. We currently have more MPS projects on the go than we have ever had in the entirety of the company’s history, as well as recently winning a major contract in China which is the largest MPS installation ever undertaken on a Civil Engineering project in the world. Unfortunately, all this represents a short term cash strain on the Company. To make matters more complicated, our diversification into the coatings business has been a great success; but once again, this has had its short term disadvantages namely the long period between paying for the import of raw materials and receiving settlement from our clients.

Whilst we are re-negotiating more favourable payment terms with our suppliers and clients, this exhilarating business surge as you can gather has put short term pressure on our dwindling cash resources (although we still have AUD137,000 of receivables to hand and AUD630,000 work in progress value from projects). However, I hope that this cash issue should not be too much news to Shareholders as I have alluded to this potential problem several quarters ago.

You will have seen from the Quarterly 4C that we have approximately AUD7million worth of projects under tender or proposal. Therefore, to demonstrate my continuing faith in the Company and to alleviate a short term cash problem, I have offered the Company a renewable six month borrowing facility of USD 500,000 at an extremely preferential rate of 2%. In due course, I hope to convert this entirely, or partially, into a long term note or bond to be taken up by specialist fixed interest investors.

In the meantime, on the coatings side, our demonstration teams are working flat out and we have tendered for some major contracts in recent weeks – especially with one of Asia’s largest metro operators. Hopefully we shall be able to announce some good news on this front in due course and of equal importance on very much improved trade terms.

Finally, as ever, thank you to our hard working team for getting us where we are today.

Yours sincerely



Philip Gray
Chairman