Hydrotech

Hydro Technology + innovation

Hydrotech International Limited

ABN 42 122 726 283

Annual Report
30 June 2011

HYDROTECH INTERNATIONAL LIMITED ABN 42 122 726 283
Annual report – 30 June 2011

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Corporate directory

Directors	P J S Gray MA, DMS, Dip.PM, Dip.M, Dip.TA, TEP, FSTA, MHKSI, FIoDSA, MAICD, FHKIoD *Chairman*
	F K Lung BSc(Eng), PhD(Eng), LLB, MSc(Mgmt) *Chief Executive Officer and Deputy Chairman*
	K J Grebstad HKIA
	S P Cranswick
	A P McKee
	M P Hendriks
Secretary	M J Langoulant M P Hendriks
Principal registered office in Australia	Suite 2, 5 Ord Street, Perth WA 6005 Phone: +61 8 9322 1444 Fax: +61 8 9324 2977
Share register	Link Market Services Ltd Level 12, 680 George Street, Sydney, NSW 2000 Phone: +61 2 8280 7111 Fax: +61 2 9287 0303 Email: registrars@linkmarketservices.com.au Website: www.linkmarketservices.com.au
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street, Subiaco WA 6008
Banker	HSBC Bank Australia Limited Level 1, 188-190 St George's Terrace, Perth WA 6000
Solicitors	Steinepreis Paganin Level 4, The Read Buildings 16 Milligan Street, Perth WA 6000
Stock exchange listings	Hydrotech International Limited shares are listed on the Australian Securities Exchange (ASX) under the code HTI.
Website address	http://www.hydro-usl.com

Chairman's letter

Dear Shareholders,

I am pleased to report that your Company is making commendable progress on all fronts and our current trading position bears no relation whatsoever to that of two or three years ago. At that stage, we were fighting for industry acceptance of our MPS electro osmosis system whereas today not only has MPS been 'blessed' by the Hong Kong Housing Authority (a major and highly respected pioneer in concrete repair technology) but it also recently won an award for "Excellence in Innovative Repairs" at the Hong Kong Concrete Repairs Association awards presentation.

Three years ago, we only had a handful of references sites – today not only have we successfully completed 25 MPS projects but we are also receiving enquiries from countries as far away as Gibraltar, Peru and South Africa.

Our coatings business which did not exist two years ago, now accounts for approximately 70% of total group sales. As a result of this progress considerable attention is being paid to ensuring that the organisational capability and culture of the firm evolves and adapts to a new set of challenges which are presenting themselves. For example, quality control is now an extremely important component of our management process and we now have two Site Supervisors whose sole responsibility is to ensure hands-on, on-site quality control.

Precise costing and budgeting have also now become a very important feature of our life as the average order size rises exponentially and the risks of costing errors rise accordingly. Of course one of the biggest ongoing challenges facing senior management is to prevent over-enthusiastic salesmen from lowering prices just to secure the business. To that end, we have introduced very strict pricing controls with fixed margins per market segment and per size of contract. Thus I can assure you that any perceived change in the company's gross margins should be down to a change in product mix and not down to us trying to buy business.

From a cost control perspective, life was quite easy two or three years ago with only one or two projects on the go. Today, logistics and process management are a vital component of our business systems whereby, for example, we have to coordinate and manage the shipment of container loads of coating materials from the US to Hong Kong and organise the manufacturing of our MPS Control Units in Norway and subsequent shipment of these to Northern China.

Thus, for a company that not long ago was struggling for its existence we are now becoming an increasingly more complex and sophisticated business with multidimensional control issues.

Not only are our organisational systems evolving but our marketing is becoming increasingly more sophisticated as we identify specialist niche market opportunities. For example, we have recently established a small team of specialist contractors whose sole job is to develop the water tank coating business. As an indication, there are over 30,000 high-rise buildings in Hong Kong with each having a minimum of 3 water storage tanks on the roof requiring treatment. This is a viable and profitable niche market segment in which there is little competition.

Another niche market area we are developing is a specialist tunnel waterproofing system using polyurea which not only offers considerable savings in construction costs but also reduces construction time by a significant amount.

A third niche area identified by our increasingly sophisticated marketing team is the development of smaller MPS Control Units which are suitable for the domestic market. For example, the Shanghai region (a country in its own right) has some unique high water table characteristics while tight building regulations effectively force developers to create large basements; these become immediately vulnerable to water ingress with MPS being the most effective solution.

Of course the ultimate challenge of any small company going through a growth phase is cash flow management and perhaps this is our biggest single challenge at present. However we have dramatically improved our daily cash flow management and forecasting systems and spend considerable time chasing up receivables.

Our current forecasts suggest that barring unforeseen circumstances, we have sufficient (but tight) cash resources to handle our existing growth pattern.

In my last Chairman's letter, I stated that "I am reasonably confident that Hydrotech has now turned the corner and it is now a question of what trajectory our recovery will take". Well, one year on we certainly have a better feel for this dimension and it is gratifying to note, for example, that the sales in Q4 were over three times those in Q3. We have outstanding tenders/proposals to the tune of AUD 8m – not a bad start for the year although I am afraid there is, as yet, no magic pill to get us to the level of profitability we deserve. In this respect, life will continue to be a long hard slog although the good news is that the pin prick of light at the end of the tunnel has now become a damn big searchlight (and hopefully, it's not a train coming the other way!).

Finally and of course most importantly, it remains for me to thank our loyal, hard working staff who continue to make contributions beyond the call of duty at all levels and at all times. They are your company and without them, none of this successful growth would be happening.

P J S Gray
Chairman
31 August 2011

Review of operations and activities

A review of, and information about the Group's operations, including the results of those operations during the year together with the information about the financial position of the Group appears below and should be read in conjunction with the Notes to the Financial Statements appearing from page 36 of this 2011 Annual Report.

Operating Results

The consolidated net loss for the financial year was $827,612 (2010: $1,545,232). The net loss of the Parent entity for the financial year was $312,078.

The benefits of the initiatives implemented two years ago from the Company's strategic review and the associated cost cuts have continued to assist with maintaining a lower monthly cash burn rate. As advised earlier in the year, the Company eventually had no option but to properly resource its successful diversification into Coatings with the addition of specialist sales personnel who were also able to effectively respond to and service the increased enquiries into the entire range of water ingress solutions marketed by the Company. These additional monthly costs, together with the working capital requirements associated with our rapidly expanding coatings business did initially lead, mid-year, to a higher monthly burn rate. However, the award of further contracts from existing customers coupled with more favourable trade terms negotiated with our suppliers offset the effects of an increased burn rate.

Australia

There were minimal changes to the Board during the year:

On August 1st 2010 Mr Hendriks was appointed as non-Executive Director. Mr Hendriks is a Chartered Accountant, a member of the Financial Services Institute of Australia and a Member of the Australian Institute of Company Directors. Mr Hendriks also assumed responsibility as Joint Company Secretary of Hydrotech International on 31st January 2011 and assumed full responsibility on July 29th 2011.

Hong Kong

The endorsement by the Hong Kong Housing Authority on the use of Hydrotech's MPS System in July 2010 led to significant interest from Architects, Building Managers and Developers with Hydrotech being inundated with requests for presentations on the systems that we market. Our focus has continued to be on positioning the Hydrotech brand as a supplier of innovative waterproofing solutions and marketing presentations have focussed on reinforcing Hydrotech's technical expertise in the field of Electro Osmosis, coupled with introducing our range of waterproofing solutions for facades, roofs and tank lining.

The presentations provided an instant response with major clients engaging Hydrotech to undertake projects to solve water ingress issues. We also developed strong relationships with leading architects including AEDAS, probably the largest architectural practice in Asia and orders have been received from leading contractors. Our customer base is a 'Who's Who' of leading companies in Hong Kong and includes HSBC, Bank of America, The Hong Kong Jockey Club, AsiaSat, ATL Logistics, Hong Kong Housing Authority, the Hong Kong Architectural Services Department and Cathay Pacific.

Several of these clients are processing repeat orders and we have identified areas where Hydrotech can expand our business offer into niche markets such as tank lining systems and lift pit renovations. At first glance these areas could be considered as small and possibly insignificant but when you consider that Hong Kong alone has over 30,000 high rise buildings which each have a minimum of 3 water tanks and 3 lift pits it can be seen that there are major opportunities for Hydrotech to develop these niche business opportunities.

Word of Hydrotech's expertise has also spread to Hong Kong based companies with offices in China with a project being awarded in Shanghai and further enquires being received from Beijing. We have also been approached by potential partners in China who are interested in investing resources to develop opportunities in specific regions within China.

The major project in Dalian has now been completed with the first area being commissioned in July. Our business partner in Dalian is very active and has identified a wide range of clients who have shown significant interest in using the MPS system in their developments once the efficacy of the project in Dalian has been established.

MPS Business Overview

In the past Hydrotech's focus has been on gaining acceptance of the MPS technology by Government and institutional organisations as these approvals would provide the building blocks to further expand our customer base by convincing potential clients of the long term suitability of the MPS System. The award of the Wo Hop Shek project by Hong Kong's Architectural Services Department (ASD), coupled with the accreditation by the Hong Kong Housing Authority have ensured that the foundations for our future development have been firmly laid. We are now building on these foundations and identifying areas where we can create further business opportunities.

Whilst we remain in discussions with major organisations the wheels of government institutions are extremely slow and we are now focusing on clients where we can obtain a quicker return on our investments. One such niche market identified has been the luxury villa market and as a result of this, a strategic decision was made to manufacture smaller MPS Control Units that could be utilised in the basements of these villas. In early 2011 we received the first batch of the newly developed V3 and V4 MPS Control Units; these units are smaller than the V2 units and have allowed us to provide our business partners with different products for varying sizes of installations. Our partner in Shanghai has actively focused on this market segment and has undertaken pilot projects using both the V3 and V4 units. He has focused on small to medium size developers who are interested in including the MPS system as part of their product offer.

The smaller units have also provided an opportunity for us to develop a solution to combat water ingress issues in lift pits which is another niche market identified by Hydrotech. These areas are a constant source of annoyance to building owners who are concerned about the health issues related to stagnant water. To remove this water it requires the temporary suspension of lifts; pumps to remove the build up of water and qualified 'Confined Space' workers to install the MPS System. We have already received significant enquires concerning the installation of the MPS system into these areas and are currently working with specialist sub contractors to develop packages.

With regards to larger developments the installation for Hip Hing, (a large construction firm in Hong Kong) to install the MPS System into a basement structure belonging to New World Development in Kowloon, is a pivotal project in the development of the MPS System. This project is the first installation in new construction where the MPS system will be the primary waterproofing system. This project will provide a significant project reference and will open up major opportunities in the new construction sector.

The MPS system featured prominently at the recent Hong Kong Concrete Repairs Association Awards, winning the award for "Excellence in Innovative Repairs"

<u>MPS Specific Projects in Hong Kong</u>

In Hong Kong, projects at the Hong Kong Club and at Wo Hop Shek are ongoing and will be completed in the 4th quarter of 2011. The MPS installations at the China Light and Power substation at Ocean Terminal in Harbour City and the Miramar Hotel have been completed. We have received additional orders from the Miramar Hotel for 2 further locations and the management team at Ocean Terminal are considering other locations where the MPS system could be used.

The second phase of the Hong Kong Housing Authority project at Oi Man Estate has been completed and a third phase will commence in early September.

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 residential housing estates 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 cognisant 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.

<u>MPS Specific Projects in China</u>

In China, the project in the Dalian Cable Tunnel is completed and the first areas will be commissioned in early July. We have been advised that there is severe water ingress in the areas being commissioned which will provide Hydrotech with an opportunity to showcase the performance of the MPS system. With the successful commissioning of the first section our Agent is positive about our chances of being awarded the remaining phase of the contract (approx 140,000m^2). The cable tunnel area is part of a massive infrastructure development in Dalian which will transform the skyline to one of a cosmopolitan international recognisable city. The Dalian Design Institute is in constant discussions with Hydrotech and is keen to introduce their clients to Hydrotech to allow us to market the benefits of our system. A successful commissioning of the MPS system in Dalian will open up massive opportunities for Hydrotech.

The first phase of the Wu Han Steel project and the Shui On Club in Shanghai have both been successfully completed. The 2nd and 3rd phases of the Wu Han project are under discussion and Shui On have also confirmed that they are looking at further installations for the MPS system.

Pilot projects utilising our newly developed smaller MPS control units (V3 and V4) have been completed in several villa projects throughout China.

Coatings Business

Following on from last year's marketing efforts, momentum has grown over the past 12 months in our coatings division with the award of some high profile projects. An early association with Leighton Construction, a major Australian Contractor, at Ocean Park in Hong Kong for the lining of water tanks as announced in August 2010 has led to repeat business throughout the year from the Main Contractor on the project.

In Q2 2011, the Company was successful in tendering for the second phase of waterproofing at the ATL Logistics Centre Hong Kong ("ATL") and it is heartening to note that 12 months on, we are still providing them with solutions for their waterproofing requirements.

In early Q3 the Company was awarded its first waterproofing contract for a residential development which is under the management of one of the largest property and facility management companies in Hong Kong. The successful completion of this project led to further residential contracts being awarded.

As momentum has developed in the coatings business, we have concentrated on developing relationships with a number of potential partners; this has included undertaking small pilot projects which we are pleased to relate has more often than not resulted in confirmed contracts.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Hydrotech International Limited ('Hydrotech' or 'the Company') and the entities it controlled at the end of, or during, the year ended 30 June 2011.

Directors

The following persons were directors of Hydrotech International Limited during the whole of the financial year and up to the date of this report:

- P J S Gray
- A P McKee
- K J Grebstad
- F K Lung
- S P Cranswick
- M P Hendriks (Appointed 1 August 2010)

M P Hendriks was appointed as director on 1 August 2010 and continues in office at the date of this report.

Principal activities

The principal activities of the Group during the year under review were the design and installation of electro-osmosis technology (MPS) to prevent water ingress into subterranean concrete structures and the supply of innovative waterproofing and corrosion protection technologies.

Dividends

No dividend was paid, recommended for payment nor declared during the year under review.

Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the review of operations and activities on pages 6 to 9 of this annual report.

Significant changes in state of affairs

In the opinion of the directors, there are no significant changes in the state of affairs of the Group.

Matters subsequent to end of financial year

In the opinion of the directors, there are no significant items that have occurred after balance date, with the exception of:

(i) Mr Langoulant resigned as Joint Company Secretary effective 29 July 2011.

(ii) On July 2011, 14 million options exercisable at 2 cents and expiring 30 November 2012 (see note 23) were cancelled and new incentive options totalling 45 million exercisable at AUD 0.0088 expiring 3 July 2014 with 50% vesting on 3 July 2012 and 50% on 3 July 2013, were offered to employees and directors. Of these options 20 million were issued to employees on 29 July 2011. The remaining 25 million options will be issued to directors on the following basis - 14 million to Dr Lung, 7 million to Mr McKee and 4 million to Mr Hendriks, subject to shareholder approval at the forthcoming AGM.

Likely developments and expected results of operations

The Group shall have the following priorities in the coming financial year:

1. Develop niche markets – Following successful water tank spraying trials, dedicated spraying teams will be set up to tackle this market and to ensure the Company can respond to customer requests quickly. Additional staff, spraying equipment and a dedicated vehicle will be procured to facilitate this development.

2. Increase MPS Product Range – It is the intention for the Company to produce different MPS products for different markets, the residential and villa markets in particular. The Electro-Osmosis Committee shall oversee such product development and also the continuous improvement of the MPS System.

3. Improve project execution quality – It is anticipated that the Group is entering a rapid business expansion phase. Focus will be put on proper staff recruitment, training and quality execution of projects.

4. Secure additional funding from the market – Depending on the pace of expansion, the Group may require additional funding during the coming year to support the business expansion and the expanded range of product offerings.

Environmental regulation

The Group's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth of Australia or of any Australian State or Territory.

Information on directors

P J S Gray MA, DMS, Dip.PM, Dip.M, Dip.TA, TEP, FSTA, MHKSI, FIoDSA, MAICD, FHKIoD**.**
Chairman – Non-executive.
Age 62

Experience and expertise

Mr Gray, a founding shareholder of Hydrotech, is an Investment Banker with over 35 years of international experience, with an emphasis on Emerging Markets in Asia.

In the course of his extensive career, he has been Chairman/Director of several listed operating entities on a number of Exchanges, Chairman of several professional bodies, and has been involved with Australian Capital Markets for over 20 years, first as Chairman of GT Management (Australia) and later on as Chairman of HSBC James Capel (Australia) Limited.

He holds an MA in Marketing and amongst his other qualifications; Philip is a Fellow of The Institute of Directors and a Member of The Society of Trust and Estate Practitioners.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Chairman of the Board
Chairman of the Remuneration Committee
Member of the Audit Committee

Interests in shares and options

51,431,618 ordinary shares held both directly and indirectly.

USD $500,000 Convertible Loan Refer note 15. Any conversion is restricted to Mr Gray's overall shareholding in Hydrotech not exceeding 19.9%.

A P McKee *Executive sales director.* Age 49.

Experience and expertise

Mr McKee has over 20 years experience in sales and marketing of solutions for concrete problems and currently manages the Hong Kong office and heads worldwide Sales and Marketing. A permanent resident of Hong Kong, Mr McKee studied Civil and Structural Engineering at Birmingham Polytechnic before going on to work in the UK, the UAE, China and Hong Kong.

For 17 years he headed a leading supplier of repair systems for concrete structures, running offices in various locations worldwide. He was responsible for introducing a range of innovative methods for repairing and protecting concrete structures and these included the first developments of fluid micro concrete for repairs to concrete with high density/congested steel reinforcement and the introduction of high build sprayed mortars for jetties and other confined spaces.

Mr McKee introduced a range of protective coatings for concrete structures including anti-carbonation systems used on highway and petro-chemical facilities.

Information on directors *(continued)*

Mr McKee was also involved in the introduction of galvanic protective systems for refurbishment of concrete structures and assisted in the development and marketing of high build semi flexible mortars for external rendering.

Over the past 5 years, Mr McKee has been involved in the introduction of Polyurea systems for waterproofing in Hong Kong and he has also undertaken consultative work on concrete repair systems for new construction.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Sales Director.

Interests in shares and options
7,000,000 unlisted options over ordinary shares in Hydrotech International Limited. These were cancelled 3 July 2011 and Mr McKee has been offered 7 million replacement options, the issue of which is subject to shareholder approval at the forthcoming AGM.

K J Grebstad HKIA. *Non-executive director.* Age 62.
Experience and expertise
Mr Grebstad is a Chartered Architect with over 30 years professional experience and has practiced as a principal of his own firm in Hong Kong for the last 25 years. He is a Charter member of the Hong Kong Institute of Architects.

Mr Grebstad has been actively involved for some ten years in the development of testing of electro-osmotic technology as a practical and commercially viable method of water-proofing subterranean masonry structures and has successfully designed and commissioned a number of electro-osmosis installations in substantial buildings in Hong Kong.

Mr Grebstad has provided MPS installation design services for the Hong Kong and UK operations as well as specialist building and construction related advice to the Company.

Other current directorships
None.

Former directorships in last 3 years
None.

Special responsibilities
Chairman of the Electro Osmosis Committee.

Interests in shares and options
23,446,911 ordinary shares in Hydrotech International Limited.

Information on directors *(continued)*

F K Lung BSc(Eng), MSc(Mgmt), LLB, PhD. *Chief Executive Officer and Deputy Chairman.* Age 52

Experience and expertise

Dr Lung has spent over 22 years in the infrastructure and utility industries including developing power projects at PowerGen (UK) and Duke Energy (US) from 1989-1997. After that, he joined Shell to develop business opportunities relating to natural gas fired power stations, gas pipelines and LNG receiving terminals and transportation projects. In 2004, he led the value chain development of the LNG liquefaction, transportation, re-gasification and natural gas sale project from the Asia Pacific region to North America West Coast.

Dr Lung joined the Hong Kong railway company, MTR, in 2005 as the China and International Business Director, leading the effort of MTR in international project and consultancy development. Besides the Beijing Line 4 Metro, Shenzhen Line 4 Metro and Shenyang Metro Projects in China, he successfully led MTR in winning the London Overground and Stockholm Metro projects. In addition, he built up a railway consultancy portfolio for MTR in over 23 cities in the world including Mainland China, Taiwan, Thailand, Dubai, India, Britain, Holland, Australia and South America.

Dr Lung holds various qualifications including a BSc(Eng) (Engineering, University of Hong Kong), a PhD (Engineering, University of Leeds), a LLB (Law, University of London), and an MSc (Mgmt) (Management, University of Southampton). Dr Lung is also a Barrister, UK (non-practicing) and a Member of Inner Temple, UK.

Other current directorships

Intra Energy Corporation (Non Executive Director)
Arafura Pearls Holdings Limited (Non Executive Chairman)

Former directorships in last 3 years

None.

Special responsibilities

Chairman of the Audit Committee – retired 1 April 2011.

Interests in shares and options

1,500,000 ordinary shares in Hydrotech International Limited.

On 3 July 2011 Dr Lung was offered 14 million options; the issue of which is subject to shareholder approval at the forthcoming AGM.

S P Cranswick. *Non-executive director.* Age 52.

Experience and expertise

Mr Cranswick had a distinguished career in the army before becoming a Stockbroker on the Johannesburg Stock Exchange. He brings a wealth of business insight having significant experience in a wide range of industries from travel and tourism to property and farming in various countries over the past 19 years including operating a successful hotel business in Africa and Australia.

Other current directorships

None

Information on directors *(continued)*

Former directorships in last 3 years

Non-executive director of Wavenet International Limited (ASX "WAL").

Special responsibilities

None.

Interests in shares and options

8,500,000 ordinary shares in Hydrotech International Limited.

M P Hendriks CA, F Fin, MAICD *Non-executive director and Company Secretary.* Age 52.

(Appointed 1 August 2010)

Experience and expertise

Mr Hendriks is a Chartered Accountant, a member of the Financial Services Institute of Australia and a Member of the Australian Institute of Company Directors. He began his career with PricewaterhouseCoopers before moving into Corporate Finance. He was a Non Executive Director at Wavenet International, having completed a 12 month Executive Director role in 2008 during the sale of that company's main business undertaking. He is Company Secretary and Non Executive Director of ASX listed company Carpathian Resources Limited, is on the advisory board to a private commercial kitchen company Chrystal & Coy Pty Ltd and a director of a number of private investment companies.

Other current directorships

Carpathian Resources Limited – Non-executive director.

Former directorships in last 3 years

Executive director of Wavenet International Limited (ASX "WAL").

Special responsibilities

Chairman of the Audit Committee.

Member of the Remuneration Committee.

Interests in shares and options

On 3 July 2011 Mr Hendriks was offered 4 million options; the issue of which is subject to shareholder approval at the forthcoming AGM.

Company secretary

M P Hendriks (Appointed 31 January 2011)

See details above.

M J Langoulant CA (Resigned 29 July 2011)

Joint Company secretary of HTI since April 2010. Mr Langoulant is a Chartered Accountant with 20 years experience in public company corporate administration and fundraising with a resource industry focus and has acted as Company Secretary, Executive Chairman, Finance Director, Chief Financial Officer and Non-executive Director for a number of listed public companies. He presently operates a corporate consultancy practice which provides corporate secretarial, accounting and bookkeeping services to publicly listed companies.

Information on directors *(continued)*

R A Jarvis FCCA (Resigned 31 January 2011)
Joint Company Secretary of HTI since April 2010. Mr Jarvis is a Fellow member of the Institute of Chartered Certified Accountants with over 20 years financial and accounting experience. He has acted as Company secretary, Finance Director and Chief Financial Officer for a number of listed public companies. He presently operates a corporate consultancy practice which provides corporate secretarial, accounting and bookkeeping services to publicly listed companies.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2011, and the numbers of meetings attended by each Director were:

			Meetings of committees					
	Full meetings of directors		**Audit**		**Remuneration**		**Electro-osmosis**	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
P J S Gray	8	8	7	7	2	2	**	**
K J Grebstad	5	8	**	**	**	**	2	2
A P McKee	8	8	**	**	**	**	**	**
F K Lung	8	8	6	6	**	**	**	**
S P Cranswick	7	8	**	**	**	**	**	**
M P Hendriks (appointed 1 August 2010)	7	8	6	7	2	2	**	**

A = Number of meetings attended.
B = Number of meetings held during the time the director held office or was a member of the committee during the year.
** = not a member of the relevant committee

Remuneration report (Audited)

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

The Board continues to adhere to the initial Remuneration Policy to ensure that the Company remunerates fairly and responsibly. The Remuneration Policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain desirable Directors, Company Secretaries and senior executives.

The Remuneration Committee/Board have maintained the salary and benefit reductions made in 2009. Whilst acknowledging the financial constraints of the Company and the necessity of these measures to ensure its future ongoing viability, the Board approved the issue of Options to Employees in July 2011 in recognition of their hard work and loyalty and in the absence of being able to reinstate salaries. However, it should be noted that modest increases in some key staff remuneration packages will be required in the near term to compensate for their respective and on going contributions to the Company and in order to try and lessen the gap between market rate. It has been agreed that staff remuneration will be reviewed by the Remuneration Committee/Board after the finalisation of the 2011 Accounts.

The Remuneration Committee are mindful that where possible the remuneration structures reward the achievement of strategic objectives to achieve the broader outcome of creation of value for shareholder. The Remuneration Committee continues to review and recommend to the Board on matters of remuneration policy and specific emolument recommendations in relation to senior management and Directors.

Non-executive directors

Fees

During the year the Board reviewed fees paid to Non-executive Directors and confirmed it would be appropriate that these fees remain at $25,000pa considering the significant contribution to the Company in their roles. However the Board is cognisant of the financial constraints of HTI and will continue to review these fees on a regular basis.

Non-executive Directors fees are determined within an aggregate directors' fee pool limit, which will be periodically approved by shareholders in the general meeting (the current limit is $400,000). These fees were approved by the Company in the general meeting held on 28 February 2007.

The fees are normally set at $50,000pa, with supplementary fees of $25,000 pa for the role of Chairman and $12,500 pa for each directorship of a foreign registered subsidiary, limited to a maximum of $25,000pa should the number of directorships of foreign registered subsidiaries exceed two. It should be noted that Mr Gray has declined to take any directors' (Parent or subsidiary), or Chairman's fees during his time on the Board.

A director may be paid fees or other amounts if the directors so determine where a director performs special duties or otherwise perform services outside the scope of the ordinary duties of a director. A director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

Remuneration report (Audited) *(continued)*

Non-executive directors *(continued)*

Equity participation

No options were granted to non-executive directors during the year. On 3 July 2011, 4 million options have been offered to Mr Michael Hendriks, the issue of which is subject to shareholder approval at the forthcoming AGM

Retirement benefits

Non-executive directors do not receive retirement benefits.

Superannuation

The Australian-resident directors of HTI are paid superannuation at the statutory rate prescribed by the law and forms part of their directors' fees. HTI makes statutory employer contributions on behalf of its directors to the superannuation fund of their choice, as is required by legislation.

Executive director and senior management remuneration

At present, the majority of employees are paid a fixed base salary. Staff who are directly involved in the process of securing sales contracts are agreed a component of their base salary will be directly linked to achieving sales, payable as a percentage of contract value.

Base salary

Base salary is set with reference to the local market data where the individual is required to work, and endeavours to reflect the scope of the role and the performance of the person in the role. Should the role require a unique skill set, this is also reflected in the base salary. Salaries are reviewed annually and generally reflect a "middle-of-the-market" approach, wherever comparisons to similar international comparative roles can be made.

Profit share pool

It is envisaged that upon HTI becoming profitable, that a 'profit share pool' will be created and distributed at the discretion of the Board annually to further incentivise employees. For the year ended 30 June 2011, and the comparative period, no bonuses were paid, or were payable to any key management personnel of the Company or Group.

Long term incentive option plan

HTI established a discretionary incentive option plan at the time of listing which may be used in future as an incentive for the Company's key personnel to perform at the highest level possible.

During the year ending 30 June 2010 the company issued 16 million options of which 2 million were subsequently forfeited. Of these issued options 7,000,000 options were granted to executive director Mr McKee. A third of these options were to vest per year of service conditional on the individual remaining in the employ of the Company during the entire vesting period. The exercise price of each option was 2 cents. Subsequent to year end on 3 July 2011, all 14 million options were forfeited and 45 million new options were offered to employees and some directors.

Remuneration report (Audited) *(continued)*

Executive director and senior management remuneration *(continued)*

The vesting incentive options are exercisable at AUD 0.0088. Those issued to staff will expire 3 July 2014 with 50% vesting on 3 July 2012 and 50% on 3 July 2013 whilst those offered to Directors will expire 3 years (date to be confirmed) after and subject to Shareholder Approval being given at the forthcoming AGM. The issue of the remaining 25 million to the directors on the following basis – 14 million to Dr Lung, 7 million to Mr McKee and 4 million to Mr Hendriks will be subject to shareholder approval at the forthcoming AGM.

Vested options may be exercised and converted to fully paid ordinary shares on a one-for-one basis.

Whilst not linked directly to company performance the company see these options have a direct relationship to employee benefits and company performance.

Further details about these options are contained on pages 24 to 26 of this Remuneration report.

Other equity plans

The Remuneration committee may consider the introduction of an equity plan to reward selected executives to share in the growth of HTI, and provide specific incentive for key individuals to work towards improving the performance of HTI. It is expected that the introduction of any new equity plan would be approved by shareholders in a general meeting, as suggested by the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations.*

Relationship between policy and HTI's performance

Details of the Bonus plan and Option plan are set out above with specific information on the performance conditions set out in the following table. It is these performance conditions which demonstrate HTI's willingness to design a remuneration philosophy for the benefit of its employees and shareholders alike.

Description	**Rationale**
Bonus plan	*Once HTI becomes cash positive, a 'profit share pool' will be put in place for staff and non-executive directors. There is currently no Bonus plan.*
Options	*Options are the "at risk" component of the HTI remuneration philosophy.*

Remuneration report (Audited) *(continued)*

Relationship between policy and HTI's performance

HTI at-risk remuneration components have been designed to have a positive impact on HTI performance from this financial year onwards. Similarly, any new equity and profit share pool plans would have a similar design features.

Employment contracts

F K Lung

Chief Executive Officer and Deputy Chairman

Effective 1 April Dr Lung assumed the role of Chief Executive Officer (CEO) in addition to his Deputy Chairman position. Under the terms of his engagement Dr Lung is paid AUD $45,000 pa for the equivalent of 2 days work per week plus $25,000 pa as Deputy Chairman. Subject to shareholder approval he will be granted 14 million options to purchase shares in HTI at AUD $0.0088 with options vesting over a 2 year period and expiring in 2014 (date to be confirmed).

The agreement can be terminated by either party with 3 months notice and there is no additional termination benefit payable.

A P McKee

Executive sales director

Terms of Agreement – base salary of $1,104,000 Hong Kong dollars ($133,877 AUD*) per annum plus medical benefits insurance. Subject to shareholder approval he will be granted 7 million options to purchase shares in HTI at AUD $0.0088 with options vesting over a 2 year period and expiring in 2014 (date to be confirmed).

Agreement can be terminated by either party with 3 months notice and there is no additional termination benefit payable. The current terms were amended and agreed from 15 May 2009.

M P Hendriks

Non Executive Director and Company Secretary

Terms of Agreement – In addition to Non Executive Directors fees of $25,000 pa, Mr Hendriks is paid Company Secretary fees of AUD $18,000 pa commencing 1 April 2011. Subject to shareholder approval he will be granted 4 million options to purchase shares in HTI at AUD $0.0088 with options vesting over a 2 year period and expiring in 2014 (date to be confirmed).

Agreement can be terminated by either party with 3 months notice and there is no additional termination benefit payable.

Remuneration report (Audited) *(continued)*

Employment contracts *(continued)*

J Jones

Finance consultant

Terms of Agreement – consultancy payment of $31,600 AUD pa based on one day per week plus provision for audit project work. Agreement can be terminated by either party with one month's notice after 31 August 2009, and there is no additional termination benefit payable. The current terms were amended and agreed from 1 June 2009.

Corp Admin Resources Pty Ltd
Secretarial and accounting services

Terms of Agreement – fixed fee of $72,000 AUD plus GST per annum for corporate secretarial and accounting services provided by Corp Admin Services Pty Limited including those services provided by M J Langoulant and R A Jarvis. This Agreement was terminated effective 31 March 2011 and replaced with a new contract fee of $6,000 plus GST per annum to provide HTI with an office and support administrative services. This arrangement can be terminated by either party with one months notice.

** AUD conversion rates as at 30 June 2011, as reported by Oanda*

Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) are set out in the following tables.

The key management personnel of the Group are the directors of HTI (see pages 12 to 16 above) and those executives that report directly to the Chief Executive Officer being:

- S Heng – *Group Financial Controller (Resigned 15 November 2010)*
- C Chan – *Group Accountant (Appointed 21 February 2011)*

In addition, the following persons must be disclosed under the *Corporations Act 2001* as they are among the 5 highest remunerated Group and/or Company executives:

- H Syversen – *Group design and development manager: Company executive*
- J Jones – *Finance manager: Company executive*
- S Heng – *Group Financial Controller (Resigned 15 November 2010)*
- C Chan – *Group Accountant (Appointed 21 February 2011)*

Changes since the end of the reporting period

Mr Langoulant resigned as Joint Company Secretary 29 July 2011.

Remuneration report (Audited) *(continued)*

Key management personnel of the Group and other executives of the Company and the Group

2011	**Short term employee benefits**				**Post-employment benefits**	**Long-term benefits**	**Share-based payments**			
Name	**Cash, salary & fees**	**Cash profit share**	**Non-cash benefit**	**Total**	**Superannuation**	**Long service leave**	**Options**	**Total**	**Proportion of remuneration performance related**	**Value of options as proportion of remuneration**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**	**%**
Directors										
Non-Executive										
P J S Gray	-	-	-	**-**	-	-	-	**-**	-	-
K J Grebstad	-	-	-	**-**	-	-	-	**-**	-	-
S P Cranswick	27,083	-	-	**27,083**	-	-	-	**27,083**	-	-
M P Hendriks (appointed 1/8/2010)	27,417	-	-	**27,417**	-	-	-	**27,417**	-	-
Executive										
A P McKee	133,877	-	-	**133,877**	1,455	-	17,500	**152,832**	**-**	11.5
F K Lung	51,250	-	-	**51,087**	837	-	-	**52,087**	-	-
Other key management personnel (Group)										
S Heng (resigned 15/10/2010)	17,887	1,213	-	**19,100**	606	-	-	**19,706**	-	-
C Chang (appointed 21 February 2011)	16,631	-	-	**17,116**	485	-	-	**17,116**	-	-
Other Company and Group executives										
H Syversen	77,219	-	-	**77,219**	-	-	5,000	**82,219**	-	6.18
J Jones	31,600	-	-	**31,600**	-	-	-	**31,600**	-	-
TOTAL	**382,964**	**1,213**	**-**	**384,177**	**3,383**	**-**	**22,500**	**410,060**	-	**5.5**

Remuneration report (Audited) *(continued)*

Key management personnel of the Group and other executives of the Company and the Group

2010	Short term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments			
Name	Cash, salary & fees	Cash profit share	Non-cash benefit	Total	Superannuation	Long service leave	Options	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
	$	$	$	$	$	$	$	$	%	%
Directors										
Non-Executive										
P J S Gray	-	-	-	**-**	-	-	-	**-**	-	-
A B Fourie (from 1/7/2009 - 31/5/2010)	18,333	-	-	**18,333**	1,650	-	-	**19,983**	-	-
K J Grebstad	-	-	-	**-**	-	-	-	**-**	-	-
I G Dallas (from 1/7/2009 - 23/10/2009)	-			**-**	-	-	-	**-**	-	-
F K Lung (appointed 1/2/2010)	12,083	-	-	**12,083**	-	-	-	**12,083**	-	-
S P Cranswick (appointed 31/5/2010)	-	-	-	**-**	-	-	-	**-**	-	-
Executive										
A P McKee	144,852	-	1,799	**146,651**	-	-	10,209	**156,860**	**-**	6.5
Other key management personnel (Group)										
S Heng (appointed 1/9/2009)	46,335	-	1,500	**47,835**	-	-	-	**47,835**	-	-
Other Company and Group executives										
F B Boucher (from 1/7/2009 - 12/4/2010)	99,114	-	-	**99,114**	8,920	-	-	**108,034**	-	-
H Syversen	99,372	-	-	**99,372**	-	-	2,917	**102,289**	-	2.8
J Jones	25,300	-	-	**25,300**	-	-	-	**25,300**	-	-
TOTAL	**445,389**	**-**	**3,299**	**448,688**	**10,570**	**-**	**13,126**	**472,384**	-	2.8

Remuneration report (Audited) *(continued)*

Share based compensation

Options and rights over equity instruments granted as compensation

Details of options over ordinary shares in HTI that were granted as compensation to the key management personnel during the reporting period and details on options that vested during the reporting period are as follows:

Year Ended 30 June 2011

Name	Held at 1/07/10	Options granted	Exercised	Lapsed	Held at 30/06/11	Vested during the year	Vested and exercisable as at 30/06/11
Directors							
A P McKee	7,000,000	-	-	-	7,000,000	2,333,333	2,333,333
Other Company and Group executives							
H Syversen	2,000,000	-	-	-	2,000,000	666,666	666,666

Year Ended 30 June 2010

Name	Held at 1/07/09	Options granted	Exercised	Lapsed	Held at 30/06/10	Vested during the year	Vested and exercisable as at 30/06/010
Directors							
L Boyd*	2,000,000	-	-	(2,000,000)	-	-	-
I G Dallas *	2,000,000	-	-	(2,000,000)	-	-	-
J Hodge*	2,000,000	-	-	(2,000,000)	-	-	-
D Ledger*	2,000,000	-	-	(2,000,000)	-	-	-
S Penrose*	2,000,000	-	-	(2,000,000)	-	-	-
A P McKee	-	7,000,000	-	-	7,000,000	-	-
Other Company and Group executives							
F B Bouches*	-	2,000,000	-	(2,000,000)	-	-	-
H Syversen	-	2,000,000	-	-	2,000,000	-	-

** Resigned directors and executives at the date of this report*

Shares provided on exercise of remuneration options

During the reporting period, no shares were issued to key management personnel on the exercise of options previously granted as remuneration.

Remuneration report (Audited) *(continued)*

Share based compensation *(continued)*

Analysis of options and rights over equity instruments granted as compensation

Details of the vesting profile of the entitlement to options granted as remuneration to each of the key management personnel are set out on the below:

2011	**Details of options**					**Value yet to vest**	
	Number	Grant date	% vested in year	% forfeited in year[1]	Financial year in which grant vests	Min ($)[2]	Max ($)[3]
Directors							
A P McKee	7,000,000	30/11/09	33.3	Nil	2012	Nil	34,996
Key management personnel							
H Syversen	2,000,000	30/11/09	33.3	Nil	2012	Nil	10,000
Total	9,000,000						44,996

2010	**Details of options**					**Value yet to vest**	
	Number	Grant date	% vested in year	% forfeited in year[1]	Financial year in which grant vests	Min ($)[2]	Max ($)[3]
Directors							
L Boyd*	2,000,000	28/02/07	100	100	N/a	N/a	N/a
I G Dallas*	2,000,000	28/02/07	100	100	N/a	N/a	N/a
J Hodge*	2,000,000	28/02/07	100	100	N/a	N/a	N/a
D Ledger*	2,000,000	28/02/07	100	100	N/a	N/a	N/a
S Penrose*	2,000,000	28/02/07	100	100	N/a	N/a	N/a
A P McKee	7,000,000	30/11/09	Nil	Nil	2012	Nil	52,500
Key management personnel							
F B Boucher*	2,000,000	30/11/09	Nil	100	N/a	N/a	N/a
H Syversen	2,000,000	30/11/09	Nil	Nil	2012	Nil	15,000
Total	21,000,000						67,500

[1]The percentage forfeited in the year represents the reduction from the maximum number of options available to vest due to the highest performance criteria not being achieved.

[2]The minimum value of options yet to vest is $nil as the performance criteria may not be met and consequently the option may not vest.

[3]The maximum value of options yet to vest is not determinable as it depends on the achievement of vesting conditions. The maximum values presented above are based on the fair value of the options over their life calculated at entitlement date using a Black-Scholes model.

** Resigned directors and executives at the date of this report.*

Remuneration report (Audited) *(continued)*

Share based compensation *(continued)*

Analysis of movements on options

The movement during the reporting period, by total number of entitlement to options over ordinary shares in Hydrotech held by key management personnel is detailed below:

As at 30 June 2011

	Options at the beginning of the year	Entitlement to options granted in year	Exercised in year	Lapsed/forfeited in year	Options at the end of the year
Directors					
T McKee	7,000,000	-	-	-	7,000,000
Key management					
H Syversen	2,000,000	-	-	-	2,000,000

As at 30 June 2010

	Options at the beginning of the year	Entitlement to options granted in year	Exercised in year	Lapsed/forfeited in year	Options at the end of the year
Directors					
L Boyd*	2,000,000	-	-	(2,000,000)	-
I G Dallas*	2,000,000	-	-	(2,000,000)	-
J Hodge*	2,000,000	-	-	(2,000,000)	-
D Ledger*	2,000,000	-	-	(2,000,000)	-
S Penrose*	2,000,000	-	-	(2,000,000)	-
A P McKee	-	7,000,000	-	-	7,000,000
Key management					
F B Boucher*	-	2,000,000	-	(2,000,000)	-
H Syversen	-	2,000,000	-	-	2,000,000

** Resigned directors and executives at the date of this report.*

This is the end of the audited Remuneration Report.

Shares under option

Unissued ordinary shares of HTI under option at the date of this report are as follows:

Date options granted	Expiry date	Number of options	Exercise price ($)
30 November 2009	30 November 2012	14,000,000	0.02
	Total	**14,000,000**	

Shares issued on the exercise of options

During and since the end of the financial year no options have been exercised.

Insurance of officers

The Company has entered into a deed of access, indemnity and insurance with each of its current and former directors, and the Company Secretary. Under the terms of the deed, the Company indemnifies the officer or former officer, to the extent by law, for the liabilities incurred as an officer of the Company.

Since the end of the previous financial year, the Company has paid premiums in respect of contracts insuring the current and former directors and officers of HTI against liabilities incurred by them to the extent permitted by the *Corporations Act 2001*. The contracts prohibit disclosure of the nature of the liability cover and the amount of the premium.

Proceedings on behalf of the Company

On 8th October 2010, Universal Solutions Limited (a subsidiary of the Group) issued a Writ to Mr Christopher Gordon Young for the recovery of a loan to the sum of AUD250,000.

Non-audit services

A total of $59,310 (2010: $68,231) was paid for audit services during the year as detailed in note 20. No non-audit services were performed during the year.

This report is signed in accordance with a resolution of the directors.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 29.

Auditor

BDO continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of directors.

P J S Gray
Chairman

Perth
31 August 2011

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

31 August 2011

To The Directors
Hydrotech International Limited
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 year ended 30 June 2011, 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 audit; and
- any applicable code of professional conduct in relation to the audit.

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

Corporate governance statement

The directors aspire to maintain the standards of Corporate Governance appropriate to the size of HTI. HTI's codes of conduct and operational policies have been defined and will be administered under the terms of the "Hydrotech International Ltd – Corporate Governance Plan". The full terms of the Plan is available on HTI's website at http://www.hydro-usl.com.

This section outlines our main corporate governance practices in a format consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("**Principles & Recommendations**"), the directors are of the view that the Company complies with all of the Principles and Recommendations of the ASX Corporate Governance Council, except where good reason exists to depart from these. The departures from the Principles and Recommendations are disclosed below, together with explanations as to why the directors believe that it is in the best interests of the Company and its shareholders to adopt an alternative measure.

Principles and Recommendations		**Compliance**
1.1	Establish and disclose the functions reserved to the Board and those delegated to senior executives	√
1.2	Disclose process for evaluating the performance of senior executives	√
1.3	Provide the information indicated in Guide to Reporting on Principle 1	√
2.1	A majority of the Board should be independent directors	X[1]
2.2	The chair should be an independent director	X[2]
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual	√
2.4	The Board should establish a nomination committee	X[3]
2.5	Disclose the process for evaluating the performance of the Board, it's committees and individual directors	√
2.6	Provide the information indicated in Guide to Reporting on Principle 2	√
3.1	Establish and disclose as to: • the practices necessary to maintain confidence in the Company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	√
3.2	Establish and disclose the policy concerning trading in Company securities by directors, senior executives and employees	√
3.3	Provide the information indicated in Guide to Reporting on Principle 3	√

Principles and Recommendations		Compliance
4.1	The Board should establish an Audit committee	√
4.2	Structure the Audit committee so that it consists of: • no executive directors • a majority of independent directors • an independent chair, who is not the chair of the Board • at least three members	x4
4.3	The Audit committee should have a formal charter	√
4.4	Provide the information indicated in Guide to Reporting on Principle 4	√
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	√
5.2	Provide the information indicated in Guide to Reporting on Principle 5	√
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	√
6.2	Provide the information indicated in Guide to Reporting on Principle 6	√
7.1	Establish and disclose policies for oversight and management of material business risks	√
7.2	Management to design and implement a risk management and internal control system to manage material business risks and disclose that management has reported on the effectiveness of the systems	√
7.3	Require the Chief Executive Officer and/or Chief Financial Officer (CFO) to state in writing to the Board that • the declaration provided in accordance with S295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	√
7.4	Provide the information indicated in Guide to Reporting on Principle 7	√

Principles and Recommendations		**Compliance**
8.1	The Board should establish a Remuneration committee	√
8.2	Distinguish the structure of non-executive directors' remuneration from that of senior executives	√
8.3	Provide the information indicated in Guide to Reporting on Principle 8	√

Directors and the Board

In carrying out the responsibilities and powers, the Board recognises its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of its shareholders, and it also recognises its duties and responsibilities to its employees, customers and the community. The Board is accountable to the shareholders for the performance of HTI and has overall responsibility for its operations. Day to day management of HTI's affairs and the implementation of the corporate strategy and policy initiatives is managed by the regional directors and senior executives as the Board sees fit, which is governed in a Delegation of Authority policy. The Board has formalised its role and responsibilities into a charter (full details are contained in the "Corporate Governance Plan" available on the HTI website), which states that amongst others the Board has the following specific responsibilities:

- appointment of all directors, directors of regional offices and other senior executives, and the determination of their terms and conditions including remuneration and termination;
- driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
- approving and monitoring the budget and the adequacy and integrity of financial and other reporting; and
- ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making.

For the performance of their proper duties, directors are entitled to seek independent legal advice at HTI's expense.

Size of Board and composition

The Board members determine the size and composition of the Board, subject to limits imposed by HTI's Constitution. The Constitution provides for a minimum of three directors and a maximum of ten. For the time being, the Board has determined that there shall be six directors, of whom two are an executive and the balance including the Chairman, are non-executive.

The skills, experience and expertise relevant to the position of each director who is in office at the date of this report and their term of office, are detailed in the Directors' report on page 12.

Messrs Lung, Cranswick and Hendriks are classified as independent directors of HTI.

[1] HTI does not have a majority of independent directors appointed at present. HTI's directors have been chosen for their skills, expertise and the value they can add to the Board at this time. The Board considers this to be appropriate considering the current size of the Company. Each director has tabled a *standing notice of material personal interest* and these are contained in the Board papers for each Board meeting, and are regularly reviewed and updated as required.

[2] The Chairman is not an independent director as he is a substantial holder in the Company.

In line with HTI's constitution, directors are appointed for three-year terms and are required to resubmit for re-election at the Annual General Meeting should they wish to serve further terms. Formal letters of appointment, setting out key terms and conditions are in place for all directors, as are induction Directors Packs which contain relevant information to assist the director in performing the role.

[3] HTI does not currently have a Nomination committee. The Board has decided that no efficiencies will be achieved by establishing a separate Nomination committee. The full Board carries out the duties that would otherwise be undertaken by the Nomination committee, including but not limited to the nomination and selection process for the appointment of the independent non-executive directors. Each director is requested to participate in the nomination process having in mind the range of skills, experience and expertise required for the effective functioning of the Board in discharging its responsibilities.

Ethical standards and share dealings

The directors have chosen to adopt a Code of Conduct based on principles as recommended by the Australian Institute of Company Directors. HTI also has a Code of Conduct embodied within its Corporate Governance Plan which applies to all other HTI staff. HTI has a formal share trading policy which applies to all directors and staff which prohibits dealing in HTI shares whilst they are in possession of price sensitive information or in specified closed trading periods. This is also contained in "Corporate Governance Plan" which is available on the HTI website.

Audit committee

HTI has an Audit committee in place which comprises two members being, Mr Hendriks as Chair and Mr Gray.The accounting function of the HTI Group is controlled by the CFO. The Audit committee reviews the performance of external auditors on an annual basis and will meet with them at least twice a year to review the results and findings of the audit, the appropriateness of provisions and estimates included in the financial results, the adequacy of accounting and financial controls and to obtain feedback on the implementation of the recommendations made. The Audit committee will also review the draft financial statements and audit review reports at year end and half-year end and recommend acceptance or otherwise thereof to the Board. A full copy of the Committee charter is contained in the "Corporate Governance Plan" which is available on the HTI website.

[4] Due to the current mix of the Board, only one of the members of the Audit committee is an independent director.

Continuous disclosure and shareholder communication

HTI has procedures in place to ensure that all price sensitive information is identified, reviewed and disclosed to the ASX in a timely manner and simultaneously made available for all shareholders on HTI's website. HTI has formalised both its Continuous disclosure and shareholder communications policies, which are contained in the Corporate Governance Plan. The Board encourages full participation of shareholders at the Annual General Meeting to ensure high level of accountability and understanding of HTI's strategy and goals.

Risk management

HTI takes a pro-active approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. With the advent of the significant changes identified in the *ASX's Corporate Governance Principles and Recommendations,* HTI has undertaken a major review of its risk management strategy and framework system which the Board has adopted and approved. This has included:-

- Setting HTI's risk profile and tolerance to risk
- Adopting a Risk management policy
- Identifying material business risks in the areas of operating, research and development, regulatory/internal control, health, safety and environmental spheres
- Compiling of a Risk register which details each risk, together with mitigating factors, likelihood of occurring, potential impact and person/s responsible for the 'ownership' of the risk
- Company-wide procedures for the continuous identifying, reporting, monitoring and reviewing of risks

Regional directors and senior management regularly report to the HTI Board on the efficacy of the newly adopted Risk Management Strategy and Framework System. The Board also requires that the Managing director and/or CFO make statements in writing regarding HTI's internal compliance and control systems on a regular basis.

Performance evaluation & remuneration policies

For the majority of last year, the Board of directors has had a continuous and informal method of reviewing its own performance which has taken place both inside and outside of the boardroom. A new formal system based on self assessment and peer group assessment, which culminates in Board 'average scores' has been implemented in order to provide better feedback to individual directors and the Board as a whole. The process of disseminating and collecting this information has been performed by an independent party and each director has provided information on an anonymous basis. The performance of key executives and other employees is monitored regularly on an informal basis and formally on an annual basis. The formal component of the performance review constitutes a written review of the individual's performance together with a face to face interview with the employee undertaken by their line manager. HTI regularly reviews the skills and experience of its Board of directors and implements appropriate changes to create the most optimal mix for the Company at this stage of its evolution. HTI has a Remuneration committee and its members comprise of Mr Gray as Chair, and Mr Hendriks. The committee's charter is contained in the Corporate Governance Plan. HTI's Remuneration Policy is detailed in the Remuneration report on page 17.

Electro-osmosis advisory committee

An Electro-osmosis advisory committee has also been established to combine the expertise of the Board of directors and senior executives in the area of electro-osmotic technology, in order to strengthen HTI's standing in the civil engineering and construction industries and academia. The Electro-osmosis advisory committee consists of Mr Grebstad as Chair, Dr Fourie (Technical consultant), and Mr Syversen (Group development and design manager).

HYDROTECH INTERNATIONAL LIMITED ABN 42 122 726 283
Annual financial report – 30 June 2011

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These consolidated financial statements comprise consolidated entity consisting of HTI and its subsidiaries. The financial statements are presented in the Australian currency.

HTI is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hydrotech International Limited
Suite 2, 5 Ord Street
West Perth WA 6005

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on pages 6 to 9 and in the Directors' report on pages 10 to 28, both of which are not part of these financial statements.

The financial statements were authorised for issue by the directors on 31 August 2011. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investor Centre on our website: http://www.hydro-usl.com

	Notes	Consolidated 2011 $	Consolidated 2010 $
Revenue from continuing operations	5	**1,471,752**	**390,421**
Cost of sales		**(902,974)**	**(182,419)**
Accounting fees		**(50,437)**	**(32,298)**
Audit fees	20	**(59,310)**	**(68,231)**
Employee benefits expense		**(797,537)**	**(763,066)**
Depreciation and amortisation expense	6	**(12,803)**	**(15,379)**
Consultants' fees and costs		**(112,260)**	**(77,390)**
Australian Stock Exchange fees		**(39,066)**	**(37,947)**
Rent and rates		**(110,352)**	**(121,700)**
Travelling expenses		**(103,396)**	**(144,544)**
Other expenses		**(150,780)**	**(161,970)**
Foreign exchange gains / (losses)	6	**48,528**	**(69,856)**
Finance costs	6	**(8,977)**	**(8,846)**
Impairment loss – loan receivable	11	**-**	**(250,000)**
Loss on disposal of fixed assets	12	**-**	**(2,007)**
Loss before income tax		**(827,612)**	**(1,545,232)**
Income tax expense	7	**-**	**-**
Loss for the year		**(827,612)**	**(1,545,232)**
Loss is attributable to the owners of Hydrotech International Limited		**(827,612)**	**(1,545,232)**
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic loss per share	25	**(0.17)**	**(0.32)**
Diluted loss per share	25	**N/A**	**N/A**

The above income statement should be read in conjunction with the accompanying notes.

	Notes	Consolidated	
		2011 **$**	**2010** **$**
Loss for the year		**(827,612)**	**(1,545,232)**
Other comprehensive loss			
Exchange differences on translation of foreign operations	17	**(85,997)**	**32,586**
Income tax relating to components of other comprehensive loss	7	**-**	**-**
Other comprehensive loss for the year, net of tax		**(85,997)**	**(32,586)**
Total comprehensive loss for the year		**(913,609)**	**(1,512,646)**
Total comprehensive loss for the year is attributable to owners of Hydrotech International Limited		**(913,609)**	**(1,512,646)**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

	Note	Consolidated	
		2011	**2010**
		$	**$**
ASSETS			
Current Assets			
Cash and cash equivalents	8	**133,386**	**1,037,531**
Trade and other receivables	9	**662,951**	**96,862**
Inventories	10	**143,716**	**40,696**
Total current assets		**940,053**	**1,175,089**
Non-current assets			
Property, plant and equipment	12	**43,644**	**45,988**
Intangible assets	13	**24,596**	**30,563**
Total non-current assets		**68,240**	**76,551**
Total assets		**1,008,293**	**1,251,640**
LIABILITIES			
Current liabilities			
Trade and other payables	14	**593,089**	**124,948**
Borrowings	14	**94,319**	**116,718**
Total current liabilities		**687,408**	**241,666**
Non-current liabilities			
Convertible loan	15	**189,520**	**-**
Total non-current liabilities		**189,520**	**-**
Total liabilities		**876,928**	**241,666**
Net assets		**131,365**	**1,009,974**
EQUITY			
Contributed equity	16	**14,583,669**	**14,583,669**
Reserves	17	**372,662**	**423,659**
Accumulated losses	17	**(14,824,966)**	**(13,997,354)**
Total equity		**131,365**	**1,009,974**

The above statement of financial position should be read in conjunction with the accompanying notes.

		Attributable to owners of Hydrotech International Limited				
Consolidated	**Note**	**Contributed equity**	**Options reserve**	**Exchange reserve**	**Accumulated losses**	**Total equity**
		$	**$**	**$**	**$**	**$**
Balance at 1 July 2009		**14,584,291**	**44,667**	**325,989**	**(12,452,122)**	**2,502,825**
Total comprehensive loss for the year as reported in the 2010 financial statements		-	-	32,586	(1,545,232)	(1,512,646)
Transactions with owners in their capacity as owners:						
Options		-	20,417	-	-	20,417
Contributions of equity, net of transaction costs		(622)	-	-	-	(622)
		(622)	20,417	-	-	19,795
Balance at 30 June 2010		**14,583,669**	**65,084**	**358,575**	**(13,997,354)**	**1,009,974**
Total comprehensive loss for the year as reported in the 2011 financial statements		**-**	**-**	**(85,997)**	**(827,612)**	**(913,609)**
Transactions with owners in their capacity as owners:						
Options		-	35,000	-	-	35,000
		-	35,000	-	-,	35,000
Balance at 30 June 2011		**14,583,669**	**100,084**	**272,578**	**(14,824,966)**	**131,365**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	Note	Consolidated 2011 $	Consolidated 2010 $
Cash flows from operating activities			
Receipts from customers		**785,432**	**303,096**
Payments to suppliers and employees		**(1,886,029)**	**(1,650,434)**
Interest and other items of a similar nature received		**48,886**	**42,299**
Net cash (outflow) inflow from operating activities	24	**(1,051,711)**	**(1,305,039)**
Cash flows from investing activities			
Payments of property, plant and equipment		**(18,446)**	**(31,345)**
Proceed from disposal of property, plant and equipment		**268**	**(5,040)**
Net cash (outflow) inflow from investing activities		**(18,178)**	**(36,385)**
Cash flows from financing activities			
Proceeds from borrowings		**189,520**	**116,718**
Share issue transaction costs		**-**	**(622)**
Net cash (outflow) inflow from financing activities		**189,520**	**116,096**
Net increase (decrease) in cash and cash equivalents		**(880,369)**	**(1,225,328)**
Cash and cash equivalents at the beginning of the financial year	8	**1,037,531**	**2,262,206**
Effects of exchange rate changes on cash and cash equivalents		**(23,776)**	**653**
Cash and cash equivalents at end of year	8	**133,386**	**1,037,531**

The above statement of cash flows should be read in conjunction with the accompanying notes.

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1 Statement of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are the consolidated entity consisting of Hydrotech International Limited and its subsidiaries. Hydrotech International Limited is a listed public company, incorporated and domiciled in Australia.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of the Hydrotech International Limited Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared on an accruals basis under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Going concern

As at 30 June 2011 the company had working capital of $252,645 (2010: $933,423) and returned a loss before income tax of $827,612 (2010: loss $1,545,232). 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. New marketing initiatives and greater acceptance of its products have resulted in increased sales and more recently the Company's trading performance has shown a dramatic improvement. At 30 June 2011 the Company had an undrawn convertible loan facility of USD $300,000 as part of a USD 500,000 facility. This available source of funds will assist with funding working capital as the Company continues to grow.

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1 Statement of significant accounting policies *(continued)*

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hydrotech International Limited ("Company" or "Parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Hydrotech International Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Hydrotech International Limited.

A list of subsidiaries is contained in Note 22 to the financial statements. All subsidiaries have a June financial year-end.

(ii) Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Hydrotech International Limited.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board who makes strategic decisions.

1 Statement of significant accounting policies *(continued)*

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Hydrotech International Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

1 Statement of significant accounting policies (continued)

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

(f) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

1 Statement of significant accounting policies (continued)

(g) Income tax *(continued)*

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The Parent entity is resident in Australia but none of the controlled entities are resident in Australia. Accordingly, no consolidated group exists for Australian income tax purposes.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

1 Statement of significant accounting policies *(continued)*

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(k) Inventories

Raw materials and stores, and work in progress

Raw materials and stores, and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Investments and other financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9 in the balance sheet).

1 Statement of significant accounting policies *(continued)*

(l) Investments and other financial assets *(continued)*

Recognition and derecognition

(i) Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

(ii) Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

(iv) The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

(m) Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term:

The depreciation rates used for each class of depreciable assets are as follows:

Class of fixed asset	Depreciation rate
Plant and equipment	10%–25%
Motor Vehicles	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

1 Statement of significant accounting policies *(continued)*

(n) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition

(p) Borrowings

Borrowings are removed from the statement of Financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

1 Statement of significant accounting policies *(continued)*

(q) Borrowing Costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(r) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(s) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

All Australian-resident employees of the Group are entitled to receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Other amounts charged to the financial statements in this respect represents the contributions made by the consolidated entity to employee retirement benefit funds in other jurisdictions.

1 Statement of significant accounting policies *(continued)*

(iv) *Share-based payments*

Share-based compensation benefits are provided to employees via the Hydrotech International Limited Employee Option Plan. Information relating to this scheme is set out in note 27.

The fair value of options granted under the Hydrotech International Limited Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(v) *Profit-sharing and bonus plans*

It is intended for a profit-sharing and bonus plan to be implemented once the Group becomes cash positive by way of a ‘profit share pool’ for employees and non-executive directors. There is currently no profit-sharing and bonus plan.

(t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(u) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 26).

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

1 Statement of significant accounting policies *(continued)*

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date	Impact on Initial Application
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9. These include the requirements relating to: • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

1 Statement of significant accounting policies *(continued)*

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date	Impact on Initial Application
IFRS 10 (issued May 2011)	Consolidated Financial Statements	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: • Power over investee (whether or not power used in practice) • Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the entity's returns from investee.	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities.
IFRS 13 (issued May 2011)	Fair Value Measurement	• Currently, fair value measurement requirements are included in several Accounting Standards. IFRS 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.	Annual reporting periods commencing on or after 1 January 2013	Due to the recent release of this standard, the entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by IFRS 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.

1 Statement of significant accounting policies *(continued)*

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date	Impact on Initial Application
Amendments to IAS 1 (issued June 2011)	Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes as follows: • 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income' • 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'. • OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.	Annual periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).

1 Statement of significant accounting policies *(continued)*

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date	Impact on Initial Application
IAS 19 (issued June 2011)	Employee Benefits	Main changes include: • Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans • Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods • Subtle amendments to timing for recognition of liabilities for termination benefits • Employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013	The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to IAS 19 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

1 Statement of significant accounting policies *(continued)*

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date	Impact on Initial Application
AASB 124 (issued December 2009)	Related Party Disclosures	Simplifies disclosure requirements for government-related entities and clarifies the definition of a related party.	Annual reporting periods commencing on or after 1 January 2011.	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 2010-6 (issued November 2010)	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them.	Annual reporting periods commencing on or after 1 July 2011	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements
AASB 1054 (issued May 2011)	Australian Additional Disclosures	Moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of the Trans-Tasman Convergence Project. Removes the requirement to disclose each class of capital commitment and expenditure commitment contracted for at the end of the reporting period (other than commitments for the supply of inventories).	Annual reporting periods commencing on or after 1 July 2011	There will be no impact on disclosures when this Standard is adopted for the first time because the entity has no capital or other expenditure commitments

1 Statement of significant accounting policies *(continued)*

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date	Impact on Initial Application
IFRS 12 (issued May 2011)	Disclosure of Interests in Other Entities	Combines existing disclosures from IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods commencing on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.
IFRS 13 (issued May 2011)	Fair Value Measurement	Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time on 1 July 2012, additional disclosures will be required about fair values.

- **AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*** (effective from 1 January 2011)
  In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make any such prepayments. The amendment is therefore not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 July 2011.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

Hydrotech's Board of directors performs the duties of a risk management committee in identifying and evaluating sources of financial and other risks. The Board seeks to apply principles for overall risk management which balance the potential adverse effects of financial risks on Hydrotech's financial performance and position with the "upside" potential made possible by exposure to these risks and by taking into account the costs and expected benefits of the various methods available to manage them.

The Group holds the following financial instruments:

	Consolidated	
	2011	**2010**
	$	**$**
Financial assets		
Cash and cash equivalents	**133,386**	**1,037,531**
Trade and other receivables	**662,951**	**96,862**
	796,337	**1,134,393**
Financial liabilities		
Trade and other payables	**593,089**	**124,948**
Borrowings and convertible loans	**283,839**	**116,718**
	876,928	**241,666**

2 Financial risk management *(continued)*

(a) Market Risk

(i) Foreign exchange risk

Hydrotech International Limited is based in Australia, its shares are listed on the Australian Stock Exchange and the Group reports its financial performance and position in Australian dollar (AUD). The Group operates internationally, with subsidiaries in the UK, Hong Kong and China, with the result being that the Group is to some extent exposed to foreign exchange risk arising from fluctuations in the Australian dollar/UK pound stirling (GBP), Australian dollar/Hong Kong dollar (HKD), Australian dollar/Chinese Renminbi (RMB), and Australian dollar/US dollar (USD).

As at reporting date, the Board has formed the view that it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this foreign exchange risk. Factors which the Board considered in arriving at this position included: The expense of purchasing such instruments; the inherent difficulties associated with forecasting the timing and quantum of foreign currency cash inflows and outflows at a time when the subsidiary entities are still at the commercialisation and development stage of utilising its technology.

The Board may reconsider its position with regard to hedging against foreign exchange risk in the future as the Group's activities evolve and/or in response to industry or macro-economic factors. The carrying amounts of the Group's financial assets and liabilities are all denominated in Australian dollar.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations, denominated in currencies other than the functional currency of the operations.

	30 June 2011					30 June 2010				
	AUD $	**GBP $**	**HKD $**	**RMB $**	**USD $**	AUD $	GBP $	HKD $	RMB $	USD $
Cash	13,239	2,543	112,530	5,045	29	895,999	28,312	110,109	3,077	34
Receivables	20,357	14,176	322,316	29,974	276,128	-	1,608	86,933	8,321	-
Borrowings	-	-	-	-	283,839	-	-	-	-	116,718
Payables	21,567	1,626	335,282	35,323	199,291	14,335	15,051	95,542	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the GBP, HKD, RMB and USD with all other variables held constant, the Group's loss for the year would have been $28,384/$25,804 higher/lower (2010 - $11,672/$10,611) as a result of foreign exchange gains/losses on translation of subsidiary losses denominated in foreign currencies. Equity would have been $28,384/$25,804 higher/lower (2010 - $11,672/$10,611) had the Australian dollar weakened/strengthened by 10% against these foreign currencies, arising mainly as a result of foreign exchange gains/losses on translation of subsidiary losses denominated in foreign currencies.

2 Financial risk management *(continued)*

(ii) Interest rate risk

As at and during the year ended on reporting date, the Group had no significant interest bearing assets or liabilities other than liquid funds on deposit. As such, the Group's income and operating cash flows (other than interest income from funds on deposit) are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below:

	Consolidated	
	2011	**2010**
	$	**$**
Financial Assets		
Cash and cash equivalents at Floating rate*	**133,386**	**1,037,531**

** Weighted average effective interest rate 4.0% (2010 – 3.5%)*

Group sensitivity

At 30 June 2011, if interest rates had changed by +/- 80 basis points from the year end with all other variables held constant, the loss for the year would have been $1,067 lower/higher (2010 - $8,300), mainly as a result of a lower/higher interest income from cash and cash equivalents. Equity would have been $1,067 higher/lower (2010 - $8,300 higher/lower) as a result of an increase/decrease in interest income from cash and cash equivalents.

(iii) Commodity risk pricing

The Group is not exposed to commodity risk price risk.

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers. For banks and financial institutions, only independently rated parties with a minimum of 'A' are accepted. The Group trades only with recognised, trustworthy third parties. It is the Group's policy to perform credit verification procedures in relation to any customer's financial position and any past experience to set individual risk limits as determined by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 58.

	Consolidated	
	2011	**2010**
	$	**$**
Cash at Bank and short-term bank deposits		
AA Rated	**133,386**	**1,037,531**

2 Financial risk management *(continued)*

(c) Liquidity risk

Prudent liquidity risk management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the Board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Maturities of financial liabilities

Group – As at the reporting date the Group has total financial liabilities of $876,928 (2010: $241,666), comprised of non interest-bearing at call borrowings, trade creditors and accruals with a maturity of 1 – 3 months and a convertible loan bearing 2% interest pa with a maturity of 18 months.

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(e) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of cash equivalents and equity attributable to equity holders of the Parent.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3 Critical accounting estimates and judgements

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the Group recognises deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

(b) Critical judgements in applying the entity's accounting policies

Impairment of assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include economic and political environments and future product expectations.

If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such assets have been tested for impairment in this financial period.

4 Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Board, as the chief operating decision maker, that are used to make strategic decisions.

The Board considers the business from both an industry and geographical perspective and has identified one industry segment, being the waterproof solutions systems industry which the Group only operates in, and five reportable geographical segments. The Board determined for management reporting purposes that it reports, measures and monitors on segments dissected by geographical location, being Australia (Parent), Hong Kong, China, the United Kingdom and Norway.

(b) Segment information provided to the chief operating decision maker

The segment information provided to the Board for the reportable segments for the year ended 30 June 2011 is as follows:

4 Segment information *(continued)*

2011	**Hong Kong** $	**United Kingdom** $	**China** $	**Norway** $	**Australia** $	**Total** $
Total segment revenue	1,285,939	1,432	135,495	32,591	-	1,455,457
Inter-segment revenue	-	-	-	(32,591)	-	(32,591)
Revenue from external customers	**1,285,939**	**1,432**	**135,495**	**-**	**-**	**1,422,886**
Adjusted EBITDA	**(381,914)**	**14,169**	**(65,093)**	**(108,297)**	**(294,577)**	**(835,712)**
Depreciation and amortisation	8,459	-	383	3,961	-	12,803
Finance costs	3,288	89	198	647	4,755	8,977
Income tax expense	-	-	-	-	-	-
Total segment assets	**914,634**	**16,719**	**36,283**	**7,301**	**33,356**	**1,008,293**
Total assets includes:						
Additions to non-current assets (other than financial assets and deferred tax)	18,446	-	-	-	-	18,446
Total segment liabilities	**532,757**	**1,626**	**35,321**	**1,818**	**21,567**	**593,089**

There was no impairment charge or other significant non-cash item recognised in 2011.

4 Segment information *(continued)*

(b) Segment information provided to the chief operating decision maker *(continued)*

The segment information provided to the Board for the reportable segments for the year ended 30 June 2010 is as follows:

2010	Hong Kong $	United Kingdom $	China $	Norway $	Australia $	Total $
Total segment revenue	232,588	66,615	41,503	-	-	340,706
Inter-segment revenue	-	-	-	-	-	-
Revenue from external customers	**232,588**	**66,615**	**41,503**	**-**	**-**	**340,706**
Adjusted EBITDA	**(764,329)**	**(75,608)**	**(159,597)**	**(235,124)**	**(310,751)**	**(1,545,409)**
Depreciation and amortisation	10,152	-	263	4,445	519	15,379
Finance costs	1,476	348	159	552	6,311	8,846
Income tax expense	-	-	-	-	-	-
Total segment assets	**293,083**	**29,919**	**13,312**	**19,327**	**895,999**	**1,251,640**
Total assets includes:						
Additions to non-current assets (other than financial assets and deferred tax)	31,345	-	-	-	-	31,345
Total segment liabilities	**90,294**	**15,071**	**-**	**5,248**	**14,335**	**124,948**

With the exception of $250,000 provision for impairment on loan receivable (Refer Note 11), there was no impairment charge or other significant non-cash item recognised in 2010.

(c) Other segment information

(i) Segment revenue

With the exception of Norway there were no sales between segments. The revenue from external parties reported to the Board is measured in a manner consistent with that in the income statement.

Revenues from external customers are derived from the sale of waterproof solutions systems by each office. A breakdown of revenue and results is provided in the tables above.

4 Segment information *(continued)*

(c) Other segment information *(continued)*

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2011 **$**	**2010** **$**
Total segment revenue	**1,422,866**	**340,706**
Interest revenue	**13,680**	**42,299**
Other revenue	**35,206**	**7,416**
Total revenue from continuing operations (note 5)	**1,471,752**	**390,421**

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is $NIL (2010 - $NIL), and the total revenue from external customers in other countries is $1,422,866 (2010 - $340,706). Segment revenues are allocated based on the country in which the customer is located.

(ii) Adjusted EBITDA

The Board assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event. Furthermore, the measure excludes the effects of equity-settled share-based payments and unrealised gains/(losses) on financial instruments. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

4 Segment information *(continued)*

(c) Other segment information *(continued)*

(ii) Adjusted EBITDA (continued)

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

	Consolidated	
	2011	2010
	$	$
Adjusted EBITDA	**(835,712)**	**(1,545,409)**
Interest revenue	**(13,680)**	**(42,299)**
Finance costs	**8,977**	**8,846**
Depreciation and amortization	**12,803**	**15,379**
Share options granted to directors and employees	**-**	**20,417**
Other	**-**	**(2,166)**
Loss before income tax from continuing operations	**(827,612)**	**(1,545,232)**

(iii) Segment assets

The amounts provided to the strategic steering committee with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

(c) Other segment information *(continued)*

(iv) Segment liabilities

The amounts provided to the strategic steering committee with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

The group's borrowings are not considered to be segment liabilities but rather managed by the treasury function.

5 Revenue

	Consolidated	
	2011 **$**	**2010** **$**
From continuing operations		
Sales revenue		
Sale of goods	**1,422,866**	**340,706**
	1,422,866	**340,706**
Other revenue		
Interest from financial assets	**13,680**	**42,299**
Other	**35,206**	**7,416**
	48,886	**49,715**
	1,471,752	**390,421**

6 Expenses

	Consolidated	
	2011 **$**	**2010** **$**
Loss before income tax includes the following specific expenses:		
Depreciation and amortization		
Plant and equipment	**12,653**	**15,370**
Intangibles	**150**	**9**
Total depreciation and amortization	**12,803**	**15,379**
Finance costs		
Interest and finance charges	**8,977**	**8,846**
Finance costs expensed	**8,977**	**8,846**
Net loss on disposal of plant and equipment	**-**	**2,007**
Foreign exchange gains and losses		
Net foreign exchange losses/(gains)	**(48,528)**	**69,856**
Net foreign exchange losses recognised in loss before income tax for the year	**(48,528)**	**69,856**
Defined contribution superannuation expense	**3,383**	**10,570**

6 Expenses (continued)

Research and development	**(25,180)**	**7,838**
Impairment of other assets		
Impairment loss – loan receivable	**-**	**250,000**
Total impairment losses – other assets	**-**	**250,000**

7 Income tax expense

	Consolidated	
	2011	2010
	$	$
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
Adjustments for current tax of prior periods	-	-
	-	-
Income tax expense is attributable to:		
Loss from continuing operations	-	-
Loss from discontinued operations	-	-
Aggregate income tax expense	-	-
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	-	-
Decrease (increase) in deferred tax liabilities	-	-
	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	**(827,612)**	**(1,545,232)**
Tax at the Australian tax rate of 30% (2010: 30%)	**(248,284)**	**(463,570)**
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Capital raising expenses	**-**	**187**
	(248,284)	**(463,383)**
Temporary differences and tax losses not brought to account as deferred tax asset	**248,284**	**463,383**
Income tax expense	**-**	**-**

7 Income tax expense (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

Capital raising costs	**870,272**	**870,272**
Tax losses	**14,824,966**	**13,997,354**
	15,695,238	**14,867,626**

(i) $3,178,365 of the carried forward tax losses relate to Australian tax losses. The remaining $11,646,601 of the losses relate to losses incurred in foreign jurisdictions which the directors have estimated based on their understanding of tax laws in those jurisdictions. The utilisation of the foreign tax losses will only be offset against income generated in the country where the expense was incurred and will be dependent upon the company complying with the specific tax laws and regulations of those countries.

8 Current assets – Cash and cash equivalents

	Consolidated	
	2011	**2010**
	$	**$**
Cash at bank and in hand	**133,386**	**1,037,531**
	133,386	**1,037,531**

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	**133,386**	**1,037,531**
Balances per statement of cash flows	**133,386**	**1,037,531**

(b) Risk exposure

The Group’s and the Parent entity’s exposure to interest rate risk is discussed in note 2. The maximum exposure to interest rate risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

9 Current assets – Trade and other receivables

	Consolidated	
	2011	**2010**
	$	**$**
Trade receivables	**525,690**	**42,659**
Other receivables	**57,513**	**-**
Prepayments	**79,748**	**54,203**
	662,951	**96,862**

Past due but not impaired

As at 30 June 2011, trade receivables of $77,478 (2010 - $28,761) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011	**2010**
	$	**$**
Overdue - up to 30 days	**32,625**	**28,7629**
- 31 to60 days	**-**	**-**
- over 60 days	**44,853**	**-**
	77,478	**28,761**

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The group does not hold any collateral in relation to these receivables.

10 Current assets – Inventories

	Consolidated	
	2011	**2010**
	$	**$**
Raw materials and stores – at cost	**129,993**	**17,213**
Work in progress – at cost	**13,723**	**23,483**
	143,716	**40,696**

Inventory expense

Inventories recognised as expense during the year ended 30 June 2011 amounted to $674,587 (2010 - $67,610).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 amounted to $nil (2010 - $nil). The expense has been included in cost of sales in profit and loss.

11 Current assets – Other financial assets

	Consolidated	
	2011	**2010**
	$	**$**
Loan receivable*	-	**250,000**
Provision for impairment	-	**(250,000)**
	-	-

** Loan receivable on interest free terms was repayable in full on 9 August 2010.*

Further information relating to the impairment of the loan receivable is set out in note 21.

12 Non-current assets – Property, plant and equipment

	Motor Vehicles	**Machinery**	**Furniture, fittings and equipment**	**Total**
	$	**$**	**$**	**$**
Year ended 30 June 2010				
Opening net book amount	-	-	32,173	32,173
Exchange differences	-	-	(153)	(153)
Additions	-	30,633	712	31,345
Disposals	-	-	(2,007)	(2,007)
Depreciation charge	-	(2,157)	(13,213)	(15,370)
Closing net book amount	-	28,476	17,512	45,988
At 30 June 2010				
Cost	-	30,633	122,819	153,452
Accumulated depreciation	-	(2,157)	(105,307)	(107,464)
Net book amount	-	28,476	17,512	45,988
Year ended 30 June 2011				
Opening net book amount	-	28,476	17,512	45,988
Exchange differences	7	(5,033)	(2,843)	(7,869)
Additions	2,060	14,606	1,780	18,446
Disposals	-	(268)	-	(268)
Depreciation charge	(64)	(5,962)	(6,627)	(12,653)
Closing net book amount	2,003	31,819	9,822	43,644

12 Non-current assets – Property, plant and equipment *(continued)*

	Motor Vehicles	Machinery	Furniture, fittings and equipment	Total
	$	$	$	$
At 30 June 2011				
Cost	2,060	39,098	115,646	156,804
Accumulated depreciation	(57)	(7,279)	(105,824)	(113,160)
Net book amount	2,003	31,819	9,822	43,644

13 Non-current assets – Intangible assets

Consolidated	Software $	Other rights $	Total $
Year ended 30 June 2010			
Opening net book amount	-	25,532	25,532
Additions	840	4,200	5,040
Amortisation charge	(9)	-	(9)
Closing net book amount	831	29,732	30,563
At 30 June 2010			
Cost	840	29,732	30,572
Accumulated amortisation and impairment	(9)	-	(9)
Net book amount	831	29,732	30,563
Year ended 30 June 2011			
Opening net book amount	831	29,732	30,563
Exchange difference	(117)	(5,700)	(5,817)
Additions	-	-	-
Disposals	-	-	-
Amortisation charge	(150)	-	(150)
Closing net book amount	564	24,032	24,596
At 30 June 2011			
Cost	715	24,032	24,747
Accumulated amortisation and impairment	(151)	-	(151)
Net book amount	564	24,032	24,596

14 Current liabilities – Trade and other payables

	Consolidated	
	2011	**2010**
	$	**$**
Trade payables	**315,878**	**2,007**
Other payables	**277,211**	**122,941**
	593,089	**124,948**

Risk exposure

Information about the group's exposure to foreign exchange risk is provided in note 2.

15 Borrowings

	Consolidated	
Unsecured	**2011**	**2010**
	$	**$**
Current		
Loan from related party*	**94,319**	**116,718**
Non-current		
Convertible loan from related party*	**189,520**	**-**
Total borrowings	**283,839**	**116,718**

* Further information relating to loans from related party is set out in note 21.

In April 2011 Mr Gray , the Group's Chairman and major shareholder, provided the Company with an unsecured USD $500,000 6 month renewable loan facility with interest payable on drawn down amount of 2% pa. At 30 June USD $200,000 AUD $189,520 of this facility was drawn. In June 2011 this facility was renegotiated to a longer term convertible loan on the following basis:

(i) Loan term - Expires 31 December 2012.

(ii) At any time after 1 July 2012, the Lender has the option to convert the drawn down portion of the loan to equity at a price equivalent to 90% of the weighted average market closing price for the 5 days prior to the Lender providing HTI with notice to convert, or at a conversion price of AUD0.0088 whichever is higher.

(iii) The maximum amount of loan the Lender can convert will be capped so that the Lender's shareholding does not exceed 19.9% of HTI's issued capital at time of conversion.

(iv) Conversion will be subject to shareholder approval which the company will seek at the forthcoming Annual General Meeting.

(v) HTI has the option on expiry of this loan (31 December 2012) to repay all or a portion of the outstanding funds due to the Lender or have these funds converted to equity at a price equivalent to 90% of the weighted average market closing price for the 5 days before the loan expiry date or at AUD0.0088– whichever is higher.

(vi) At the time of conversion the maximum amount of the loan the company can convert will be capped so that the Lender's shareholding does not exceed 19.9% of issued capital at the time of conversion.

Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 2.

16 Contributed equity

		Consolidated			
		2011	2010	**2011**	**2010**
	Notes	**Shares**	Shares	**$**	**$**
(a) Share capital					
Ordinary shares					
Fully paid		**475,296,238**	475,296,238	**14,853,669**	14,583,669

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue Price	$
1 July 2008	Opening balance	179,342,466		12,531,014
30 June 2009	Share placement and purchases plan	295,953,772	$0.007	2,071,678
		475,296,238		14,602,692
	Less: Transaction cost arising on share issue	-		(18,401)
30 June 2009	Balance	475,296,238		14,584,291
				(622)
30 June 2010	Balance	475,296,238		14,583,669
30 June 2011	Balance	**475,296,238**		**14,583,669**

16 Contributed equity *(continued)*

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Dividend reinvestment plan

The Group currently does not have a Dividend Reinvestment Plan in place.

(e) Options

Information relating to the Hydrotech International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 26.

17 Reserves and accumulated losses

	Consolidated	
	2011	**2010**
	$	**$**
(a) Reserves		
Share-based payments	**100,084**	**65,084**
Foreign currency translation	**272,578**	**358,575**
	372,662	**423,659**
Movements:		
Share-based payments		
Balance 1 July	**65,084**	**44,667**
Option expense	**35,000**	20,417
Balance 30 June	**100,084**	**65,084**
Foreign currency translation		
Balance 1 July	**358,575**	**325,989**
Currency translation difference arising during the year	**(85,997)**	**32,586**
Balance 30 June	**272,578**	**358,575**

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2011	2010
Balance 1 July	**(13,997,354)**	**(12,452,122)**
Net loss for the year	**(827,612)**	**(1,545,232)**
Balance 30 June	**(14,824,966)**	**(13,997,354)**

17 Reserves and accumulated losses *(continued)*

(c) Nature and purpose of reserves

(i) Share-based payments

recognise the grant date fair value of options issued to employees but not exercised, and

- record items recognised as expenses on valuation of employee share options.

(ii) Foreign currency translation

The Exchange reserve records movements in foreign currency.

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated in a separate reserve within equity.

The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

18 Dividends

No dividends have been declared or paid during the year.

19 Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated	
	2011	**2010**
	$	**$**
Short-term employee benefits	**387,560**	**448,688**
Post-employment benefits	**-**	**10,570**
Share-based payments	**22,500**	**13,126**
	410,060	**472,384**

Detailed remuneration disclosures are provided in the Remuneration report on pages 17 to 26.

19 Key management personnel disclosures *(continued)*

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options provided as remuneration together with terms and conditions of the options can be found in the Remuneration report on pages 17 to 26.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Hydrotech International Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2011	**Balance at start of the year**	**Granted as compensation**	**Exercised**	**Other changes**	**Balance at end of the year**	**Vested and exercisable**	**Unvested**
Directors of Hydrotech International Limited							
A P McKee	7,000,000	-	-	-	7,000,000	2,331,000	4,669,000
Other key management personnel of the Group							
H Syversen	2,000,000	-	-	-	2,000,000	666,000	1,334,000
J Jones	-	-	-	-	-	-	-
C Chan (from21/2/11)	-	-	-	-	-	-	-

- **** Resigned directors and executives during year ended 30 June 2011.***

All vested options are exercisable on or before expiry date.

2010	**Balance at start of the year**	**Granted as compensation**	**Exercised**	**Other changes**	**Balance at end of the year**	**Vested and exercisable**	**Unvested**
Directors of Hydrotech International Limited							
L Boyd*	2,000,000	-	-	(2,000,000)	-	-	-
I G Dallas*	2,000,000	-	-	(2,000,000)	-	-	-
J Hodge*	2,000,000	-	-	(2,000,000)	-	-	-
D Ledger*	2,000,000	-	-	(2,000,000)	-	-	-
S Penrose*	2,000,000	-	-	(2,000,000)	-	-	-
A P McKee	-	7,000,000	-	-	7,000,000	-	7,000,000
Other key management personnel of the Group							
F B Boucher*	-	2,000,000	-	(2,000,000)	-	-	-
H Syversen	-	2,000,000	-	-	2,000,000	-	2,000,000

** Resigned directors and executives during year ended 30 June 2010.*

19 Key management personnel disclosures *(continued)*

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Hydrotech International Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2011	**Balance at the start of the year**	**Received during the year on exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of Hydrotech International Limited				
Ordinary shares				
P J S Gray	51,431,618	-	-	51,431,618
K J Grebstad	23,446,911	-	-	23,446,911
F K Lung	1,500,000	-	-	1,500,000
S P Cranswick	8,500,000	-	-	8,500,000
A P McKee	-	-	-	-
M P Hendriks	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
H Syversen	3,517,037	-	-	3,517,037
J Jones	-	-	-	-
C Chan (from 21/2/11)	-	-	-	-
S Heng*	-	-	-	-

* Resigned directors and executives during year ended 30 June 2011.

2010	**Balance at the start of the year**	**Received during the year on exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of Hydrotech International Limited				
Ordinary shares				
P J S Gray	46,431,618	-	5,000,000	51,431,618
I G Dallas*	23,446,911	-	(15,000,000)	8,446,911
K J Grebstad	20,000,000	-	3,446,911	23,446,911
F K Lung	-	-	1,500,000	1,500,000
S P Cranswick	-	-	-	8,500,000
A B Fourie*	25,000	-	-	25,000
A P McKee	-	-	-	-
Other key management personnel of the Group				
Ordinary shares				
F B Boucher*	739,285	-	-	739,285
H Syversen	3,517,037	-	-	3,517,037

* Resigned directors and executives at the date of this report.

20 Remuneration of auditors

	Consolidated	
	2011	**2010**
	$	**$**
(a) BDO Audit (WA) Pty Ltd		
Audit and other assurance services		
Audit and review of financial statements	**31,235**	**32,283**
Total remuneration for audit and other assurance services	31,235	32,283
Total remuneration of BDO Audit (WA) Pty Ltd	31,235	32,283
(b) Non-BDO audit firms		
Audit and other assurance services		
Audit and review of financial statements	**28,075**	**35,948**
Total remuneration for audit and other assurance services	28,075	35,948
Total remuneration of non-BDO audit firms	**28,075**	**35,948**
Total auditor's remuneration	**59,310**	**68,231**

21 Related party transactions

(a) Parent entities

The ultimate parent entity and ultimate controlling party within the Group is Hydrotech International Limited, which is based in Australia and its shares are listed on the Australian Stock Exchange.

(b) Subsidiaries

Interests in subsidiaries are set out in note 22.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 19.

(d) Transactions with related parties

There were no related party transactions other than those with directors as discussed and disclosed on pages 73 and 80.

21 Related party transactions *(continued)*

(e) Loan receivable – provision for impairment

In prior years the company advanced $250,000 interest free to a key employee – refer to Note 11. 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.

(f) Loans to/from related parties

	Consolidated	
	2011	**2010**
	$	**$**
Loans from other related parties		
Beginning of the year	**116,718**	**-**
Convertible loan received - unsecured	**-**	**116,718**
Convertible loan received - unsecured	**189,520**	**-**
Loan repayments/received	**-**	**-**
Interest charged	**-**	**-**
Interest received	**-**	**-**
Foreign Exchange Gain	**(22,399)**	
End of year	**283,839**	**116,718**

22 Subsidiaries

	Country of Incorporation	Class of shares	Equity holding 2011 %	Equity holding 2010 %
Parent Entity:				
Hydrotech International Limited	Australia	Ordinary		
Subsidiaries of Hydrotech International Limited:				
Universal Solutions Limited	Hong Kong SAR, China	Ordinary	**100**	**100**
Hydrotech R & D Limited	Hong Kong SAR, China	Ordinary	**100**	**100**
Underground Solutions International Limited	Hong Kong SAR, China	Ordinary	**100**	**100**
Hydrotech China Limited	China	Ordinary	**100**	**100**
Subsidiaries of Universal Solutions Limited:				
Hydrotech Asia Limited	Hong Kong SAR, China	Ordinary	**100**	**100**
Hydrotech Europe Plc	United Kingdom	Ordinary	**100**	**100**
Subsidiary of Hydrotech Asia Limited:				
Hydrotech Waterproofing Solutions Limited	Hong Kong SAR, China	Ordinary	**100**	**100**

** The proportion of ownership interest is equal to the proportion of voting power held.*

23 Events occurring after the reporting period

There are no significant items that have occurred after reporting date, with the exception of

i) Mr Langoulant resigned as Joint Company Secretary effective 29 July 2011.

(ii) On 30 July 2011, 14 million options exercisable at 2 cents and expiring 30 November 2012 (see note 26) were cancelled and new incentive options totalling 45 million exercisable at AUD 0.0088 expiring 3 July 2014 with 50% vesting on 3 July 2012 and 50% on 3 July 2013, were offered to employees and directors. Of these options 20 million were issued to employees on 29 July 2011. The remaining 25 million options will be issued to directors on the following basis - 14 million to Dr Lung, 7 million to Mr McKee and 4 million to Mr Hendriks, subject to shareholder approval at the forthcoming AGM.

24 Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated	
	2011	2010
	$	$
Loss for the year	**(827,612)**	**(1,545,232)**
Non Cash Items excluded from loss attributable to operating activities:		
Depreciation and amortisation	**12,803**	**15,379**
Loss on disposal of non-current assets	**-**	**2,007**
Non-cash employee benefits expense – share-based payments	**35,000**	**20,417**
Impairment of receivable	**-**	**250,000**
Impairment of intangible assets	**-**	**-**
Unrealised exchange losses/(gains)	**(48,535)**	**69,856**
Changes in operating assets and liabilities, net of effects from purchase and disposal of controlled entity:		
(Increase)/decrease in fixed assets	**-**	**-**
(Increase)/decrease in trade and other receivables	**(566,089)**	**(58,968)**
(Increase)/decrease in inventories	**(103,020)**	**(40,696)**
(Increase)/decrease in other operating assets	**-**	**(2,676)**
(Increase)/decrease in outstanding loan	**(22,399)**	**-**
Increase/(decrease) in trade and other payables	**468,141**	**(15,130)**
Net cash inflow (outflow) from operating activities	**(1,051,711)**	**(1,305,039)**

25 Loss per share

	Consolidated	
	2011	2010
	Cents	Cents
(a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the company	**(0.17)**	**(0.32)**
Total basic loss per share attributable to the ordinary equity holders of the company	**(0.17)**	**(0.32)**
(b) Diluted loss per share		
From continuing operations attributable to the ordinary equity holders of the company	**N/A**	**N/A**
Total basic loss per share attributable to the ordinary equity holders of the company	**N/A**	**N/A**

(c) Reconciliation of earnings used in calculating earnings per share

	Consolidated	
	2011	2010
	$	$
Basic loss per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic loss per share:		
From continuing operations	**(827,612)**	**(1,545,232)**
	(827,612)	**(1,545,232)**
Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company:		
Used in calculating basic loss per share	**(827,612)**	**(1,545,232)**
Used in calculating diluted loss per share	**(827,612)**	**(1,545,232)**
Loss from discontinued operations	**-**	**-**
Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(827,612)**	**(1,545,232)**

25 Loss per share *(continued)*

(d) Weighted average number of shares used as the denominator

	Consolidated	
	2011 Number	2010 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**475,296,238**	**475,296,238**
Adjustments for calculation of diluted earnings per share:	**-**	**-**
Options	**-**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**475,296,238**	**475,296,238**

(e) Information concerning the classification of securities

Options granted to employees under the Hydrotech International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic loss per share. Details relating to the options are set out in note 26.

The 14,000,000 options granted on 23 October 2010 and 16 November 2010 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2011 and 2010. These options could potentially dilute basic loss per share in the future.

26 Share Based Payments

(a) Employee Option Plan

The establishment of the Hydrotech International Limited Employee Option Plan was approved by shareholders at the time of listing. The Employee Option Plan is designed to provide long-term incentives for the Company's key management personnel to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options are granted under the plan for no consideration, carry no dividend or voting rights, and are not transferable.

26 Share Based Payments *(continued)*

The following share-based payment arrangements existed at 30 June 2011:

On 30 November 2009, 7,000,000 options were granted to a director exercisable at $0.02 on or before 30 November 2012. One third of these options vest on every anniversary of the option issue; and

On 30 November 2009, 9,000,000 options were granted to key management personnel exercisable at $0.02 on or before 30 November 2012. One third of these options vest on every anniversary of the option issue. Of these options 2,000,000 have been forfeited as at the date of this report.

All options granted to key management personnel and employees are ordinary shares in Hydrotech International Limited, which confer a right of one ordinary share for every option held.

The weighted average fair value of the options when granted was 0.75 cents per option.

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Exercise price	$0.02
Life of the option	3 Years
Underlying share price	$0.01
Expected share price volatility	150%
Risk free interest rate	4.84%

Set out below are summaries of options granted under the plan:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated and parent entity – 2011								
30 Nov 2009	30 Nov 2012	$0.02	14,000,000	-	-	-	14,000,000	-
Total			-	-	-	-	14,000,000	-
Weighted average exercise price			$0.02	N/A	N/A	N/A	$0.02	N/A
Consolidated and parent entity – 2010								
28 Feb 2007	28 Feb 2010	$0.30	10,000,000	-	-	10,000,000	-	-
30 Nov 2009	30 Nov 2012	$0.02	-	16,000,000	-	2,000,000	14,000,000	-
Total			10,000,000	16,000,000	-	12,000,000	14,000,000	-
Weighted average exercise price			$0.30	$0.02	N/A	$0.25	$0.02	N/A

26 Share Based Payments *(continued)*

No options were exercised during the year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.41 years (2010 – 2.42 years)

Fair value of options granted

The assessed fair value at grant of options granted during the year ended 30 June 2011 was nil as no options granted (2010 was 0.75 cents). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

	Consolidated	
	2011	2010
Number of shares issued under the plan to participating employees on 30 November 2009 (2009 – 2 December 2008)	nil	nil

Expenses arising from share based payment transactions

Total expense arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2011	2010
Options issued under employee option plan	35,000	20,417

27 Parent Entity Information

The following details information related to the Parent entity, Hydrotech International Limited, at 30 June 2011. The information presented here has been prepared using consistent accounting policies as presented in note 1.

	2011	2010
Current assets	33,356	895,999
Non-current assets	-	-
Total assets	**33,356**	**895,999**
Current liabilities	21,567	14,335
Non-current liabilities	189,520	-
Total liabilities	**211,087**	**14,335**
Contributed equity	13,340,514	13,340,514
Accumulated losses	(11,929,526)	(11,617,448)
Other reserve	(1,688,803)	(906,486)
Option reserve	100,084	65,084
Total equity	**(177,731)**	**881,664**
Loss for the year	(312,078)	(364,942)
Other comprehensive income / (loss) for the year	-	-
Total comprehensive (loss) for the year	**(312,078)**	**(364,942)**

28 Contingent liabilities

The directors are not aware of any contingent liabilities that exist as at 30 June 2011.

29 Commitments

The directors are not aware of any commitments that have not been recognised as liabilities in the accounts as of 30 June 2011 with the exception of the Hong Kong office Lease see details below:

Operating lease commitments	**2011**	2010
	$	$
Within 1 year	50,033	19,516
Later than 1 year but not greater than 5 years	2,909	-
Total equity	**52,942**	**19,516**

The directors of the company declare that:

1. the financial statements, comprising the income statement, the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of change in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporation Regulations 2001; and

   (b) comply with International Financial Reporting Standards as stated in note 1 to the financial statements; and

   (c) give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date.

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

3. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

P J S Gray
Chairman

Perth
31 August 2011

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Australia

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

Report on the Financial Report

We have audited the accompanying financial report of Hydrotech International Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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.

Opinion

In our opinion:

(a) the financial report of Hydrotech International Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that Hydrotech International Limited incurred a loss before income tax of $827,612 during the year ended 30 June 2011 and, as of that date, the consolidated entity's working capital totalled $252,645. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Hydrotech International Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien
Director

Perth, Western Australia
Dated this 31st day of August 2011

Additional Stock Exchange Information

Number of Shares and Shareholders

475,296,238 fully paid ordinary shares are held by 538 shareholders.
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Distribution of Shareholders

Range	*Total Holders*	*Total No. of Shares*	*% of issued capital*
1 – 1,000	4	4	0.00%
1,001 – 5,000	8	27,033	0.01%
5,001 – 10,000	20	181,013	0.04%
10,001 – 100,000	181	9,329,170	1.96%
100,001 and over	325	465,759,018	97.99%
Total	538	475,296,238	100.00%

The number of shareholdings less than a marketable parcel is 170 (accounting for a total of 5,471,400 shares).

Substantial shareholders (greater than 5%)

The names of the substantial shareholders listed in the holding Company's register as at 15 August 2011 are:

Shareholder	*Number*	*% of issued capital*
Philip John Scott Gray	51,431,618	10.82
Total	51,431,618	10.82

Note: Lippo Securities Ltd is a nominee holder, and is not a substantial holder under Part 6C.1 of the Corporations Act 2001

Details Regarding Escrow

There are no securities subject to escrow.

Twenty Largest Shareholders

Shareholder	***Number***	***% of issued capital***
Lippo Securities Ltd	146,685,619	30.86%
Philip John Gray	43,176,212	9.08%
Karl Johan Grebstad	23,446,911	4.93%
Mr Nicholas Sibley	19,614,777	4.13%
Mr John Grace & Mrs Zoe Ainsworth-Grace	11,000,000	2.31%
Austock Nominees Pty Ltd	10,025,841	2.11%
Mr Stewart Cranswick	8,500,000	1.79%
Ian George Dallas	8,446,911	1.78%
Est John Douglas Kerr	5,961,926	1.25%
Sandsoft Pty Ltd	4,500,000	0.95%
Henning Syversen	3,517,037	0.74%
Kjell Utklev	3,517,037	0.74%
Mr Shai Zeev	3,072,000	0.65%
Ms Carol Anne Austin	3,049,356	0.64%
Moon Technologies Pty Ltd	3,000,000	0.63%
Mr Geoff Campbell	3,000,000	0.63%
Danwell Holdings Pty Limited	3,000,000	0.63%
The Boyd Super Fund Pty Ltd	2,781,821	0.59%
Mr John Grace & Mrs Zoe Ainsworth-Grace	2,700,000	0.57%
Joseph Super Pty Ltd	2,604,070	0.55%
	319,058,795	67.13

**Philip J S Gray indirectly holds another 8,255,406 shares under the name of Lippo Securities Ltd.*