

29th July 2011

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

Update for the Quarter ended June 2011

Your company is now firmly on a recovery track and if anything, is on an accelerating trend. An indication of our developing momentum can be gleaned from our Q4 sales (not cash receipts) of AUD0.74m which were over 3 times the previous quarter's sales while our Q4 net loss of AUD93k was down 2/3 from the previous quarter. In addition to some major contracts currently being negotiated we have identified a number of untapped, high margin niche markets which fit in and are well suited for our professional expertise and experience.

Significant progress has been made over the past 3 months in positioning Hydrotech as one of the leading suppliers of waterproofing solutions in Hong Kong and China. Our MPS system featured prominently at the Hong Kong Concrete Repairs Association Awards, winning the award for "Excellence in Innovative Repairs" at the awards presentation in May.

In our Coatings subsidiary, orders have been received from major companies which are undoubted leaders in their respective fields and are household names. These projects will significantly elevate Hydrotech's profile in the waterproofing sector and will assist in the development of opportunities in other core business sectors.

Discussions are progressing with several key parties involved in infrastructure works in Hong Kong; these include MTR (Mass Transit Railway of Hong Kong) who are very keen to use Hydrotech's Sprayed Polymer lining system in their tunnels. Trials have been undertaken with very positive feedback from both the client and their contractors. We are hopeful that these trials will result in sizeable orders from one of the world's most prestigious subway networks. Discussions are also ongoing with several contractors involved in major water treatment projects with significant interest in the use of our coating systems.



MPS Overview

With the increase in awareness of our MPS system we are receiving a steady flow of enquires from prospective clients. It is gratifying to note that these include repeat orders from clients who have undertaken successful pilot projects along with enquiries from new clients who are keen to try a different approach to resolving their water ingress issues.

MPS Hong Kong

In Hong Kong, major MPS installation projects at The Hong Kong Club and Wo Hop Shek are ongoing. The Hong Kong Housing Authority have also completed the 2nd phase of the Oi Man Estate contract with the 3rd phase presently out for tender. The installation for Hip Hing Construction and the New World Group in a private villa has been confirmed with works due to commence in July/August.

Enquiries have been received from clients in Hong Kong who are keen to use the MPS system to solve problems with water ingress in lift and escalator pits. These areas are traditionally quite small and as such, are ideal for our newly developed 'compact' MPS control units.

MPS China

In China, the project in the Dalian Cable Tunnel is ongoing. Whilst the first phase of the project is still under installation, our agent is positive about our chances of being awarded the remaining phase of the contract (approx 140,000m²). The client is arranging for electricity to be supplied to a cordoned off section of the tunnel in order that the MPS system may be activated and monitored

We believe there are further opportunities for MPS installations in Dalian which is embarking on a massive development programme; there are currently two tunnels and one villa waterproofing enquiries. We look forward to bringing you further updates on these exciting opportunities over the coming months.

In addition, the first phase of the Wu Han Steel project and the Shui On Club in Shanghai have both been successfully completed. After a period of monitoring (3-6 months), we are hopeful of securing further works at the Wu Han Steel project.

Pilot projects utilising our newly developed smaller MPS control units (V3 and V4) have been completed in several villa projects throughout China. As reported in my Q2 update, the luxury residential villa market has been identified by the Company as a niche market which we envisage will grow rapidly over the next 12-18 months.



MPS Worldwide

Further afield, a small project has been obtained to install the MPS system into brickwork caverns in an historic Gibraltar castle. The first project was secured in June and if successful in eliminating the age-old water ingress issues, we are confident of further projects being awarded as there are several kilometers of old caverns and ammunitions storage facilities that suffer from water ingress.

MPS Strategy

Recently, Hydrotech's Head of R&D spent time in Hong Kong and in conjunction with members of the Company's Electro Osmosis Committee, discussions were held about future MPS developments, in particular the design of another prototype control unit for projects above 500m². In addition, enhancements to security and monitoring systems were discussed and agreed.

A training programme is being developed which will enable the Company to train up Authorised Agents.

The Company has completed 25 MPS installations over the past 2 years in various worldwide locations and dedicated focus is now required to develop updated marketing materials. The Company is scheduling a Group Strategy meeting for after the AGM later in the year and marketing will feature prominently on the agenda.

Coatings Overview

Following the completion of the initial phase of coating projects we are now lobbying clients to undertake further works using our Polyurea overlay systems in the forthcoming financial year. Furthermore, we are hopeful of securing substantial projects that have recently been tendered for which are due to commence gradually from July 2011.

An order has been received to provide waterproofing to an extension of Asia Satellite Telecommunications Company Limited's (AsiaSat) satellite communications facility in Hong Kong. AsiaSat is Asia's premier regional satellite operator connecting to more than 50 countries throughout the Asia Pacific region. The architects for the AsiaSat development are AEDAS which is recognised as one of the world's leading architectural practices.

Further orders have been received for lining of storage tanks at the Ocean Park development, as well as for providing water tank linings for an international college. Material orders have also been procured for the first phase of the redevelopment of a large industrial unit in Hong Kong, with further orders expected. All of these projects offer Hydrotech significant marketing opportunities as we continue to position ourselves as the preferred waterproofing solutions provider.



The niche business opportunity for lining of water storage tanks in commercial and residential buildings in Hong Kong is ongoing with orders received for the first phase of tank linings for a housing estate in the New Territories. The estate has over 280 water storage tanks with the first order being received for 8 tanks; works are due to be completed by the end of July with future orders pending the successful completion of the first phase of works. 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; Hydrotech have identified this as a major niche market opportunity and our sales and technical teams are working hard to secure further contracts.

The MTR are continuing to award projects on the extensions to the rail network in Hong Kong. There are currently 3 extensions to existing lines and a new High Speed link with China; all these projects require high performance membranes and lining systems. Many of the projects are at an early stage and Hydrotech are presently in discussions with MTR and their Materials Engineers concerning the use of our Polyurea systems. The prospect of working with MTR looks positive.

US \$500,000 UNSECURED LOAN TENURE EXTENSION

All the above efforts and successes have, as foreseen in our Q2 update, resulted in greater working capital requirements. As such, and as announced to Shareholders in April, your Chairman provided Hydrotech International Ltd with a US\$500,000 unsecured loan facility of which US\$200,000 was drawn down in April. The term of the loan was for originally for 6 months (until October 2011) and extendable on negotiation; interest is payable at the rate of 2% per annum on drawn down funds. I am pleased with the Company's performance and have extended the tenure of this loan to 31 December 2012. (Refer to Appendix A for detailed Loan Terms)

COMPANY RESTRUCTURE AND MANAGEMENT CHANGES

Liquidation of non-operating subsidiaries

The Board have recently undertaken a review of the Company structure and following a recommendation by the Audit Committee, have agreed to close subsidiaries which were part of the original group structure but which have not operated in the past 3 years. The closure of these subsidiaries will contribute to lowering monthly group overheads and supports the Board's commitment to streamlining costs and enhancing shareholder value.

Resignation of Company Secretary

Mr Michael Langoulant, Joint Company Secretary tendered his resignation with effect from July 29th 2011 and Mr Michael Hendriks (Appointed 31st January 2011) will assume the Company Secretary role. The Board would like to record their appreciation to Mr Langoulant for his support and guidance during his tenure with the Company and wish him all the very best.

CEO's Executive Package

As announced on 14th March 2011, Dr Francis Lung assumed the role of CEO in addition to his non Executive Deputy Chairman position. Dr Lung's executive CEO role formally began on 1st April 2011 and given the company's current level of activity he is being remunerated for the equivalent of 2 days work per week in this role. Dr Lung is paid AUD \$45,000pa for acting as Deputy Chairman and CEO and subject to shareholder approval will be granted 14 million options to purchase shares in HTI at AUD0.0088 with the options vesting over a 2 year period and expiring on 3 July 2014.

Cancel and Issue of unlisted "Incentive" options

As often alluded to in my quarterly updates, Hydrotech would not be in the position that it is today without the support of a small band of dedicated, hard working and underpaid staff. By way of thanking and rewarding staff for their outstanding commitment and loyalty to the Company and providing them with an incentive to continue to add shareholder value, the Board, on the recommendation of the Audit and Remuneration Committees, recently voted to renegotiate the existing share options previously granted to employees and subject to shareholder approval, offer options to the CEO Dr Francis Lung, Director of Sales Mr Tony McKee and Company Secretary Mr Michael Hendriks.

These negotiations have resulted in 14 million options exercisable at 2 cents at various dates being cancelled and new incentive options issued totalling 45 million exercisable at AUD0.0088 vested in a year's time over two years and expiring on 3 July 2014 being offered. Of the 45 million options offered, 20 million were issued to employees on 29 July 2011. The issue of the remaining 25 million options is subject to shareholder approval.

Yours sincerely



Philip Gray
Chairman

APPENDIX A

Details of the US\$500,000 unsecured loan by Mr Philip Gray

The terms of the loan have been renegotiated and agreed between Mr Philip Gray and the Board of Hydrotech International whereby it is now a convertible loan on the following terms and conditions:

- Loan term has been extended and will now expire on 31 December 2012.
- At any time after 1 July 2012, and subject to shareholder approval, the Lender has the option to convert some or all of 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.
- 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.
- Shareholder approval to the conversion will be sought at the forthcoming Annual General Meeting.
- If the loan has not already been converted, 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.
- At the time of conversion the maximum amount of the loan the Lender can convert will be capped so that the Lender's shareholding does not exceed 19.9% of issued capital at the time of conversion.

Based on the company's existing number of issued shares and Mr Gray's current shareholding, at AUD0.0088 per share, approx \$350k of the \$500k loan can be converted so Mr Gray's expanded shareholding will not exceed 19.9%.