
HYDROTECH INTERNATIONAL LIMITED

ABN 42 122 726 283

NOTICE OF ANNUAL GENERAL MEETING, EXPLANATORY STATEMENT AND PROXY FORM



TIME: 11.00 am (WST)
DATE: 27 October 2011
PLACE: The Celtic Club
1st Floor
48 Ord Street
WEST PERTH WA 6005

This Notice of Annual General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Should you wish to discuss any matter please do not hesitate to contact the Company by telephone on (08) 9322 1444

HYDROTECH INTERNATIONAL LIMITED
ABN 42 122 726 283

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fifth Annual General Meeting ('AGM') of Shareholders of Hydrotech International Limited (the 'Company') will be held at The Celtic Club, 1st Floor, 48 Ord Street, West Perth, WA 6005, on 27 October 2011, commencing at 11.00 am (WST).

The Explanatory Memorandum to this Notice provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of this Notice.

The Directors have determined pursuant to regulation 7.11.37 of the *Corporations Regulations* 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on 25th October 2011 at 11am (WST).

Terms and abbreviations used in this Notice and the Explanatory Memorandum are defined in Section 11 of the Explanatory Memorandum.

AGENDA

Annual Report

To table and consider the Annual Report of the Company and its controlled entities for the year ended 30 June 2011, which includes the financial report for the year ended 30 June 2011, together with the declaration of the directors, the directors' report, the Remuneration Report and the auditor's report.

Resolution 1 - Remuneration Report

To consider and, if thought fit, pass as an ordinary resolution with or without amendment the following:

"That for the purposes of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the Remuneration Report be adopted by the Shareholders as contained in the Company's annual financial report for the year ended 30 June 2011"

Voting Exclusion

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such member.

However, a person described above may cast a vote on Resolution 1 if:

- (c) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- (d) the vote is not cast on behalf of a person described in subparagraph (a) or (b) above.

Resolution 2 - Election of Mr Tony McKee

To consider and, if thought fit, to pass the following as an ordinary resolution of the Company:

"That Mr Tony McKee, retires by rotation pursuant to clause 6.3(c) of the Company's Constitution and for all other purposes and, being eligible, be re-elected as a Director."

Resolution 3 - Election of Mr Karl Grebstad

To consider and, if thought fit, to pass the following as an ordinary resolution of the Company:

"That Mr Karl Grebstad, retires by rotation pursuant to clause 6.3(c) of the Company's Constitution and for all other purposes and, being eligible, be re-elected as a Director."

Resolution 4 – Issue of Convertible Notes to Mr Philip Gray

To consider and, if thought fit, pass as an ordinary resolution with or without amendment the following:

*"That, in accordance with Listing Rule 10.11 and for all other purposes, Shareholders approve the allotment and issue of up to USD 500,000 worth of convertible notes to Mr Philip Gray (**Convertible Notes**) on the terms and conditions in the Explanatory Memorandum accompanying this Notice."*

ASX Voting Exclusion:

The Company will disregard any votes cast on this Resolution by Mr Gray (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

Resolution 5 – Approval of Grant of Director incentive Options to Dr Francis Lung

To consider and, if thought fit, pass as an ordinary resolution with or without amendment the following:

"That, in accordance with Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the allotment and issue of 14,000,000 Director Incentive Options to Dr Francis Lung (or his nominee) on the terms and conditions in the Explanatory Memorandum accompanying this Notice."

ASX Voting Exclusion:

The Company will disregard any votes cast on this Resolution by Dr Francis Lung (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

Resolution 6 – Approval of Grant of Director Incentive Options to Mr Tony McKee

To consider and, if thought fit, pass as an ordinary resolution with or without amendment the following:

“That subject to Resolution 2 being passed and in accordance with Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise allotment and issue of 7,000,000 Director Incentive Options to Mr Tony McKee (or his nominee) on the terms and conditions in the Explanatory Memorandum accompanying this Notice.”

ASX Voting Exclusion:

The Company will disregard any votes cast on this Resolution by Mr Tony McKee (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

Resolution 7 – Approval of Grant of Director Incentive Options to Mr Michael Hendriks

To consider and, if thought fit, pass as an ordinary resolution with or without amendment the following:

“That, in accordance with Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the allotment and issue of 4,000,000 Director Incentive Options to Mr Michael Hendriks (or his nominee) on the terms and conditions in the Explanatory Memorandum accompanying this Notice.”

ASX Voting Exclusion:

The Company will disregard any votes cast on this Resolution by Mr Michael Hendriks (or his nominee) or any of his associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

By order of the Board



Mr Michael Hendriks
Company Secretary

19 September 2011

HYDROTECH INTERNATIONAL LIMITED
ABN 42 122 726 283

EXPLANATORY MEMORANDUM

1. Introduction

This Explanatory Memorandum has been prepared for the information of Shareholders of the Company in connection with the business to be conducted at the Annual General Meeting to be held at the Celtic Club, 48 Ord Street, West Perth, WA on 27 October 2011 at 11am (WST).

This Explanatory Memorandum should be read in conjunction with, and forms part of, the accompanying Notice. The purpose of this Explanatory Memorandum is to provide information to Shareholders in deciding whether or not to pass the Resolutions in the Notice.

This Explanatory Memorandum includes the following information to assist Shareholders in deciding how to vote on the Resolutions:

Section 2:	Action to be taken by Shareholders
Section 3	Annual Report
Section 4:	Resolution 1 – Remuneration Report
Section 5:	Resolution 2 and 3 – Re-election of Mr Tony McKee and Mr Karl Grebstad
Section 6:	Resolution 4 – Issue of Convertible Notes to Mr Philip Gray
Section 7:	Resolution 5, 6 and 7 – Approval of Grant of Incentive Options to Dr Francis Lung, Mr Tony McKee and Mr Michael Hendriks.
Section 8:	Definitions
Schedule 1:	Director incentive option – terms of issue

A Proxy Form is located at the end of the Explanatory Memorandum.

2. Action to be taken by Shareholders

General

Shareholders should read this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

For the purposes of the Corporations Act, the Company has determined that all securities of the Company that are quoted securities at 11am (WST) on 25 October, 2011 will be taken, for the purpose of the meeting, to be held by the persons who held them at the time.

Proxies

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a "proxy") to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions provided. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

New sections 250BB and 250BC of the Corporations Act took effect on 1 August 2011 and apply to voting by proxy. Shareholders and their proxies should be aware of these changes to the Corporations Act as they apply to this meeting. Broadly, the changes mean that:

- (a) if proxy holders vote, they must cast all directed proxies as directed; and
- (b) any directed proxies which are not voted will automatically default to the chair, who must vote the proxies as directed.

Proxy vote if appointment specifies way to vote

Section 250BB provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- (a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- (b) if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- (c) if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll and must vote that way (i.e. as directed); and
- (d) if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC provides that, if:

- (a) an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- (b) the appointed proxy is not the chair of the meeting; and
- (c) at the meeting, a poll is duly demanded on the resolution; and
- (d) either of the following applies:
 - (i) the proxy is not recorded as attending the meeting;

- (ii) the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

3. Annual Report

In accordance with the Constitution, the business of the Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2011 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

There is no requirement for Shareholders to approve the Annual Report.

Shareholders are offered the following opportunities:

- (a) discuss the Annual Report which is available online at www.hydro-usl.com or by contacting the registered office on +61 8 9322 1444
- (b) ask questions or make comment on the management of the Company at the Meeting; and
- (c) ask the auditor questions about the conduct of the audit and the preparation and content of the auditor's report at the Meeting.

In addition to taking questions at the Meeting, written questions to the Chair of the Meeting about the management of the Company, or to the Company's auditor about:

- (a) the preparation and content of the auditor's report;
- (b) the conduct of the audit;
- (c) accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- (d) the independence of the auditor in relation to the conduct of the audit,

which may be submitted no later than 5 Business Days before the Meeting to the Company Secretary at the Company's registered office.

4. Resolution 1 – Remuneration Report

Pursuant to section 250R(2) of the Corporations Act, the Company is required to put the Remuneration Report to the vote of Shareholders. The Annual Report for the year ended 30 June 2011 contains the Remuneration Report which sets out the remuneration policy for the Company and reports the remuneration arrangements in place for the executive Directors, specified executives and non-executive Directors.

The Corporations Act provides that Resolution 1 is advisory only and does not bind the Directors. Of itself, a failure of Shareholders to pass Resolution 1 will not require the Directors to alter any of the arrangements in the Remuneration Report. However, on 21 June 2011 the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Bill 2011* (Bill) was passed by the Senate. Under the Bill and with effect from 1 July 2011, the Corporations Act was amended so that if a company's remuneration report receives a 'no' vote of 25% or more at two (2) consecutive annual general meetings, the Company will be required to put to Shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of directors of the Company (**Spill Resolution**).

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the extraordinary general meeting (**Spill Meeting**) within 90 days of the Company's 2012 annual general meeting. All of the Directors who were in office when the Company's 2012 Directors' report was approved, other than the managing director of the Company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the

Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 30 June 2011.

The Chairman will allow a reasonable opportunity for Shareholders as a whole to ask about, or make comments on, the Remuneration Report.

Proxy Restrictions

Pursuant to the Corporations Act, if you elect to appoint the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or any Closely Related Party of that member as your proxy to vote on this Resolution 1, you must direct the proxy how they are to vote. Where you do not direct the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or Closely Related Party of that member on how to vote on this Resolution 1, the proxy is prevented by the Corporations Act from exercising your vote and your vote will not be counted in relation to this Resolution 1.

5. Resolutions 2 and 3 - Re-election of Mr Tony McKee and Mr Karl Grebstad as Directors

It is a requirement under clause 6.3(c) of the Company's Constitution and the ASX Listing Rules that one third of the Directors must retire by rotation at the annual general meeting of Shareholders or if their number is not a multiple of 3, then the number nearest one third (rounded upwards in case of doubt, shall retire from office, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

The Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots.

A Director who retires by rotation under clause 6.3(c) of the Constitution is eligible for re-election.

The Company currently has 6 directors and accordingly 2 must retire.

Mr Tony McKee and Mr Karl Grebstad, the Directors longest in office since their last election, retire by rotation and seek re-election.

Mr Tony McKee

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.

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.

Mr Karl Grebstad

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.

6. Resolution 4 – Issue of Convertible Notes to Mr Philip Gray

Background

Resolution 4 seeks Shareholder's approval pursuant to Listing Rule 10.11 for the Company to issue to Mr Philip Gray (or his nominee) USD \$500,000 worth of convertible notes (Convertible Notes).

Mr Philip Gray is the Non-Executive Chairman of the Company.

In April 2011 Mr Gray provided the Company with an unsecured USD \$500,000 6 month renewable loan facility with interest payable on drawn down amount of 2% pa (Loan). In June 2011 this facility was renegotiated to a longer term convertible loan. The Company wishes to replace the Loan by the issue of Convertible Notes on the following basis:

- (a) the Convertible Notes expire on 31 December 2012 (Expiry Date).
- (b) At any time after 1 July 2012, Mr Gray has the option to convert some or all of the Convertible Notes to equity at a price equivalent to 90% of the weighted average market closing price for the 5 days prior to Mr Gray providing the Company with notice to convert, or at a conversion price of AUD0.0088, whichever is higher.
- (c) The maximum amount of the Convertible Notes Mr Gray can convert will be capped so that Mr Gray's shareholding does not exceed 19.9% of the Company's issued capital at time of conversion.
- (d) The Company has the option on the Expiry Date to repay all or a portion of the Convertible Notes not yet converted 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 Expiry Date or at AUD0.0088– whichever is higher.
- (e) At the time of conversion the maximum amount of the Convertible Notes the Company can convert will be capped so that Mr Gray's shareholding does not exceed 19.9% of issued capital at the time of conversion.

The Shares issued on conversion of the Convertible Notes will be fully paid ordinary shares in the capital of the Company. Application for quotation of these Shares will be made by the Company immediately following their issue.

The effect of passing Resolution 4 will be to allow the Directors to issue the Convertible Notes to Mr Gray, a related party, without using up the Company's 15% placement capacity under Listing Rule 7.1.

Resolution 4 is an ordinary resolution.

Chapter 2E and Listing Rule 10.11

Chapter 2E of the Corporations Act requires that for a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

In the absence of an exception, the issue of the Convertible Notes to Mr Gray requires the Company to obtain Shareholder approval because the issue of the Convertible Notes constitutes giving a financial benefit and as a Director, Mr Gray is a related party of the Company.

It is the view of the Board (other than Mr Gray who has a material personal interest in this Resolution) that the exception set out in Section 210 of the Corporations Act applies in the current circumstances as the Convertible Notes will be issued to Mr Gray (or his nominee) on arm's length terms. However, the Board believes that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought pursuant to ASX Listing Rule 10.11 only.

Specific Information Required by Listing Rule 10.13

For the purposes of Listing Rule 10.13, information regarding the issue of the Convertible Notes to Mr Gray (or his nominee) is provided as follows:

- (a) The related party is Mr Gray by virtue of being a Director of the Company.
- (b) The maximum number of Convertible Notes (being the nature of the financial benefit provided) to be issued to Mr Gray 500,000 Convertible Notes issued at USD \$1.00 each (convertible at conversion price of not less than AUD 0.0088).
- (c) The Convertible Notes will be issued to Mr Gray no later than 1 month after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Convertible Notes will be issued on one date.
- (d) The Convertible Notes will be issued at a deemed issue price of US \$1.00 each in consideration for the repayment of the Loan and as such, no funds will be raised from the issue.
- (e) The terms of the Convertible Notes are set out above under "Background" above.
- (f) A voting exclusion statement is included in the Notice.

7. Resolutions 5, 6 and 7 – Approval of grant of Director Options to Dr Francis Lung, Mr Tony McKee and Mr Michael Hendriks

General

Resolutions 5, 6 and 7 seek Shareholder approval pursuant to Listing Rule 10.14 for the Company to issue a total of 25,000,000 Director Options to Dr Francis Lung and Messrs McKee and Hendriks (or their nominees) (together the **Recipients**). The Director Options will be issued pursuant to the Hydrotech Employee Option Scheme (**Plan**) and will be governed by the rules of the Plan.

Related Party Transaction

Details concerning the giving of financial benefit under Chapter 2E of the Corporations Act and Listing Rule 10.14 are set out above in Section 6.

The grant of the Director Options to the Recipients requires the Company to obtain Shareholder approval because the grant of Director Options constitutes giving a financial benefit and as Directors, the Recipients are related parties of the Company.

The Board of Directors have resolved that the issue of the Director Incentive Options constitutes reasonable remuneration in accordance with Section 211 of the Corporations Act. Accordingly, Shareholder approval is not sought for the grant of the Director Options to the Recipients under Chapter 2E.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Director Options as approval is being obtained under ASX Listing Rule 10.14 and Exception 9(b) of ASX Listing Rule 7.2. The issue of the Director Options to the Recipients will not be included in the 15% calculation for the purposes of ASX Listing Rule 7.1.

ASX Listing Rule 10.14

ASX Listing Rule 10.14 provides that a company must not permit any of the following persons to acquire securities under an employee incentive scheme without the approval of holders of ordinary securities of the acquisition:

- (a) a director of the company;
- (b) an associate of a director; or
- (c) a person whose relationship with the company or a person referred to in (a) or (b) above is, in ASX's opinion, such that approval should be obtained.

If Resolutions 5, 6 and 7 are passed, Director Options will be issued to Dr Francis Lung and Messrs McKee and Hendriks, Directors of the Company. Therefore, the Company requires Shareholder approval to issue the Director Options to Dr Francis Lung and Messrs McKee and Hendriks.

Specific Information Required by Listing Rule 10.15

For the purposes of Listing Rule 10.15, information regarding the issue of the Director Incentive Options to the Recipients is provided as follows:

- (a) The related parties are Dr Francis Lung and Messrs McKee and Hendriks as they are related parties by virtue of being Directors.
- (b) The maximum number of Director Options (being the nature of the financial benefit being provided) to be granted is:
 - a. 14,000,000 Director Options to Dr Lung;
 - b. 7,000,000 Director Options to Mr McKee; and
 - c. 4,000,000 Director Options to Mr Hendriks.
- (c) The Director Options will be granted for nil consideration and accordingly no funds will be raised from the grant of the Options.
- (d) The Company has not issued securities to any persons referred to in ASX Listing Rule 10.14 since the last approval under ASX Listing Rule 10.14;
- (e) The following persons referred to in ASX Listing Rule 10.14, being all of Directors of the Company, are entitled to participate in the Plan: Mr Karl Grebstad, Mr Philip Gray, Mr Tony McKee, Dr Francis Lung, Mr Stewart Cranswick and Mr Michael Hendriks,

- (f) No loan has or will be provided to the Recipients in relation to the issue of the Director Options.
- (g) The Company will grant the Director Options no later than 12 months after the date of the Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Director Incentive Options will be issued on one date;
- (h) The terms and conditions of the Director Option are set out in Schedule 1;
- (i) A voting exclusion statement is included in the Notice.

8. Definitions

In this Explanatory Memorandum and Notice

Annual Report means the annual report of the Company for the financial year ending 30 June 2011.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited.

Board means the board of Directors.

Chair or **Chairman** means the person appointed to chair the meeting convened by the Notice.

Closely Related Party of a member of the Key Management Personnel means a spouse or child of the member; a child of the members spouse; a dependant of the member or of the members spouse; anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the members dealing with the Company; a company that the member controls; or a person prescribed by the Corporations Regulations 2001 (Cth).

Company means Hydrotech International Limited (ABN 42 122 726 283)

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of the Company.

Director Options means the Options to be granted to the Directors pursuant to Resolutions 5 to 7 (inclusive) with the terms and conditions as set out in Schedule 1.

Directors' Report means the annual directors' report prepared under chapter 2M of the Corporations Act for the Company its controlled entities.

Explanatory Memorandum means the explanatory memorandum attached to the Notice.

Key Management Personnel has the same meaning as in the accounting standards and broadly includes those persons with the authority and responsibility for planning, directing and controlling the activities of the Company (whether directly or indirectly), and includes any Director of the Company.

Listing Rules means the listing rules of ASX.

Meeting has the meaning given in the introductory paragraph of the Notice.

Notice means this notice of meeting.

Option means an option to acquire a Share.

Proxy Form means the proxy form attached to the Notice.

Remuneration Report means the remuneration report of the Company contained in the Directors' Report.

Resolution means a resolution contained in this Notice.

Schedule means a schedule to this Notice.

Section means a section of the Explanatory Memorandum.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

WST means Western Standard Time, being the time in Perth, Western Australia.

In this Notice, words importing the singular include the plural and vice versa.

Schedule 1 – Terms and Conditions of Director Options

The Director Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Director Option gives the holder the right to subscribe for one Share.
- (b) The Director Options to be issued will expire at 5pm (WST) on 30 October 2014 (**Expiry Date**).
- (c) The proposed Options are only exercisable in accordance with the table below:

Restriction on Exercise	% of Options that may be Exercised
After 30 October 2012	50%
After 30 October 2013	50%

- (d) Any Director Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
 - (e) The Director Options will lapse on termination of the Optionholder's employment. For the avoidance of doubt, the Director Options will not lapse where the Optionholder's employment is terminated as a result of a Takeover Event.
 - (f) For the purposes of the Director Options, a Takeover Event means:
 - (i) a takeover offer where:
 - (A) the offeror in respect of all the Shares announces that it has achieved acceptances of 50.1% or more of the Shares; and
 - (B) that takeover bid has become unconditional; or
 - (ii) an announcement by the Company that:
 - (A) shareholders of the Company, have at a Court convened meeting of shareholders, voted in favour, by the necessary majority, of a proposed scheme of arrangement under which all the Shares are to be either cancelled or transferred to a third party; and
 - (B) the Court, by order, approves the proposed scheme of arrangement.
 - (g) Subject to paragraph (o), the amount payable upon exercise of each Director Option will be AUD0.0088 (**Exercise Price**).
 - (h) The Director Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
 - (i) An Optionholder may exercise the Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Director Options specifying the number of Director Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised;
- (Exercise Notice).**
- (j) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.

- (k) Within 10 business days of the receipt of the Exercise Notice accompanied by payment of the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Director Options specified in the Exercise Notice.
- (l) The Director Options are not transferable except with the prior written consent of the board of directors of the Company.
- (m) All shares allotted upon the exercise of Director Options will be upon allotment ranked pari passu in all respects with other Shares.
- (n) The Company will not apply for quotation of the Director Options on the ASX. However, the Company will apply for quotation of all shares allotted pursuant to the exercise of Options on the ASX within 10 Business Days after the date of allotment of those Shares.
- (o) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (p) There are no participating rights or entitlements inherent in the Options and the Optionholder will not be entitled to participate in the new issues of capital offered to shareholders during the currency of the Director Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Director Options prior to the date for determining entitlements to participate in any such issue.
- (q) A Director Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Director Option can be exercised.

PROXY FORM

**APPOINTMENT OF PROXY
HYDROTECH INTERNATIONAL LIMITED
ABN 42 122 726 283**



ANNUAL GENERAL MEETING

The Company Secretary
Hydrotech International Limited

□

By delivery:
Hydrotech International Limited
Suite 2, 5 Ord Street
West Perth West Australia 6005

By post:
Hydrotech International Limited
PO Box 368
West Perth West Australia 6872

By facsimile:
In Australia (08) 9324 2977
From outside Australia +61 8 9324 2977

I/We ¹ _____

of _____

being a Shareholder/Shareholders of the Company and entitled to _____

votes in the Company, hereby appoint ² _____

OR _____

failing such appointment the chairman of the general meeting as my/our proxy to vote for me/us on my/our behalf at the general meeting of the Company to be held at The Celtic Club, 48 Ord Street West Perth WA, 6005 on 27 October 2011 at 11am (WST) and at any adjournment thereof in the manner indicated below or, in the absence of indication, as he thinks fit. If 2 proxies are appointed, the proportion or number of votes that this proxy is authorised to exercise is * []% of the Shareholder's votes*/ [] of the Shareholder's votes. (An additional Proxy Form will be supplied by the Company, on request).

Comment

“Important for Resolution 1: If the Chair of the Meeting or any member of the Key Management Personnel of the Company whose remuneration details are included in the Remuneration Report or a Closely Related Party of that member is your proxy and you have not directed the proxy to vote on Resolution 1, the proxy will be prevented from casting your votes on Resolution 1. If the Chair, another member of the Key Management Personnel of the Company whose remuneration details are included in the Remuneration Report or Closely Related Party of that member is your proxy, in order for your votes to be counted on Resolution 1, you must direct your proxy how to vote on Resolution 1.”

If the Chair of the Annual General Meeting is appointed as your proxy, or may be appointed by default, and you do not wish to direct your proxy how to vote as your proxy in respect of Resolutions 4 to 7 please place a mark in this box.

By marking this box, you acknowledge that the Chair of the Annual General Meeting may exercise your proxy even if he has an interest in the outcome of Resolutions 4 to 7 and that votes cast by the Chair of the Annual General Meeting for Resolutions 4 to 7 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 4 to 7 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 4 to 7.

If no directions are given, the Chair will vote in favour of all the Resolutions in which the Chair is entitled to vote undirected proxies.

Instructions as to Voting on Resolution

The chairman of the Meeting intends to vote undirected proxies in favour of the Resolution.

The proxy is to vote for or against the Resolution referred to in the Notice as follows:

		For	Against	Abstain
Resolution 1	Remuneration Report			
Resolution 2	Re-election of Mr Tony McKee			
Resolution 3	Re-election of Mr Karl Grebstad			
Resolution 4	Issue of Convertible Notes to Mr Philip Gray			
Resolution 5	Approval of Grant of Incentive Options to Dr Francis Lung			
Resolution 6	Approval of Grant of Incentive Options to Mr Tony McKee			
Resolution 7	Approval of Grant of Incentive Options to Mr Michael Hendriks			

Authorised signature/s

This section **must** be signed in accordance with the instructions overleaf to enable your voting instructions to be implemented.

Individual or Shareholder 1

Shareholder 2

Shareholder 3

Sole Director and Sole Company Secretary

Director

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date

¹Insert name and address of Shareholder

² Insert name and address of proxy

*Omit if not applicable

Proxy Notes:

A Shareholder entitled to attend and vote at the general meeting may appoint a natural person as the Shareholder's proxy to attend and vote for the Shareholder at that general meeting. If the Shareholder is entitled to cast 2 or more votes at the general meeting the Shareholder may appoint not more than 2 proxies. Where the Shareholder appoints more than one proxy the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If such proportion or number of votes is not specified each proxy may exercise half of the Shareholder's votes. A proxy may, but need not be, a Shareholder of the Company.

If a Shareholder appoints a body corporate as the Shareholder's proxy to attend and vote for the Shareholder at that general meeting, the representative of the body corporate to attend the general meeting must produce the Certificate of Appointment of Representative prior to admission. A form of the certificate may be obtained from the Company's share registry.

You must sign this form as follows in the spaces provided:

Joint Holding: where the holding is in more than one name all of the holders must sign.

Power of Attorney: if signed under a Power of Attorney, you must have already lodged it with the registry, or alternatively, attach a certified photocopy of the Power of Attorney to this Proxy Form when you return it.

Companies: a Director can sign jointly with another Director or a Company Secretary. A sole Director who is also a sole Company Secretary can also sign. Please indicate the office held by signing in the appropriate space.

If a representative of the corporation is to attend the general meeting the appropriate 'Certificate of Appointment of Representative' should be produced prior to admission. A form of the certificate may be obtained from the Company's Share Registry.

Proxy Forms (and the power of attorney or other authority, if any, under which the Proxy Form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the Proxy Form (and the power of attorney or other authority) must be deposited at or received by facsimile transmission at the Perth office of the Company Suite 2.5 Ord Street West Perth WA 6005, or by post to PO Box 368 West Perth WA 6872 or Facsimile (08) 9324 2977 if faxed from within Australia or 61 8 9324 2977 if faxed from outside Australia) not less than 48 hours prior to the time of commencement of the Meeting (WST).