



29th October 2008

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

2008 AGM Chairman's Address

Dear Shareholders,

You are aware, as indeed all your Directors are, that we have been a bit short in the commercial good news department over the last three months or so and shareholders are entitled to enquire, as indeed they have, as to what progress we are making in securing decent contracts for our fledgling Company. Indeed, this is of course the key issue.

It would be easy for your Directors to hide behind the now standard excuse meted out by an exponentially increasing number of executives who refer to the global financial meltdown and recession. Whilst these factors have invariably played their part, there are regrettably other issues at stake some of which have been under our control and some of which can only be ascribed to the nature of the business we are involved in.

On the internal front, with a bit of hindsight and as I have already explained in my Chairman's Statement, we were perhaps too slow to move from a techno sales/marketing approach to a commercial/financial driven sales/marketing approach. This is to some degree understandable given the Company's genesis and we have addressed this issue head on with the appointment of two top class industrial salesmen, Tony McKee in Hong Kong and Steve Morris in the UK.

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However it is not fully appropriate for us to hound ourselves on this issue given that at the outset of the Company's formation we had a major **pioneering** job to do in promoting and explaining the technical and commercial merits of our MPS product and converting and convincing the vast crowd of industry unbelievers, be they architects, engineers or asset owners who were fully entrenched in the 'old ways' and outdated/unsuccessful solutions to concrete water ingress.

The second internal issue was our original reliance on a network of licensees to promote our MPS product which, for a number of commercial reasons, was not going to work. Again, we have now addressed this with a degree of urgency by switching to contacting asset/infrastructure owners directly. However as with the previous problem, it has taken time to turn the company around in this difficult operating environment recognising that the new management team has only been in place for 6 months.

However it is the lack of progress on the external front that perhaps has caused Hydrotech Directors and its dedicated staff the greatest frustration. Again, I have already identified these issues but for the record it is worth restating.

- 1) **Our customer's resistance to change and reluctance to use a new technical solution to a pervasive problem.** For example, we recently reminded a major client that some years ago we had successfully installed our MPS system in a small part of their infrastructure (and indeed they had given us a testimonial letter to this effect). We suggested that it might now be time to install MPS in other parts of this immense infrastructure to be told that our solution, on a broader scale might be too radical and ahead of its time (even though it has been successfully working in this premises for many years)
- 2) **The prolonged decision making process embodied in our client's organisational structures.** Many of our potentially most important clients are either government bodies, recently privatised entities or very large corporations with a myriad of boards, technical committees, opinion leaders and the like who need to sign off. However the brutal realities of engineering/contracting life is that the rewards for success of adopting a new technology are slim while the penalties of failure are huge and being asymmetrically skewed on the downside. Again, it is a source of great frustration that a contract which I thought we had effectively put to bed

many weeks ago is still pending and I am unable to announce it today as much as I would have like to have done so.

- 3) Finally on the external front we are, at the end of the day, a small company with limited resources to speed up technical adoption or decision making processes and by definition, we must run to these external clocks.

In the meantime, apart from our redoubled sales/marketing efforts, we have strengthened our administration systems with the appointment of Serena Sank, a proven and highly gifted administrator and we are vigorously addressing important internal issues such as improved protection of the intellectual property rights and the establishment of standardised pricing and costing procedures. This may not be very exciting from a news point of view but is vital in building a company if it is to be successful in the longer run.

Finally, with a large Hong Kong/China component in the Company we are perhaps unduly sensitive to the concept of luck. However even from an Australian or European cultural standpoint it is easy to recognise that Lady Luck has not been on our side. For example in China, an unholy and random combination of an earthquake and serious flooding has diverted resources away from remedial concrete repairs to more basic and urgent issues such as rebuilding villages, roads and other simple infrastructural requirements.

At this difficult juncture in the Company's fortunes, all I can do is to assure you that every member of staff, from the Chairman to the proverbial tea lady is making strenuous efforts to build a viable business and are contributing their best to ensure the realisation of your Company's undoubted potential.

There is no doubt whatsoever that we have a have a winning electro-osmosis product and even as I write this letter, we are finding new derivative outlets or uses for our product such as concrete sustainability and protection whereas in the past our focus had been on simple water ingress issues. Similarly we are exploring new and potentially huge markets such as Saudi Arabia and Dubai which have only just emerged on our radar screen.

I am acutely aware that those of you who have subscribed for new shares are well and seriously under water, but then the global share market environment is absolutely littered with corporate corpses, some in worse shape than we are. Indeed since new management took over in the 2nd quarter of the year, it could be argued that the share price has broadly performed in line with the ASX.

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We all look forward to moving on the front foot on the good commercial news front but in the meantime, we thank shareholders for their patience and support. From a personal perspective, I would like to thank all our hard working staff both newcomers and seasoned employees for their enthusiastic support and contribution to date.

To paraphrase an old war cry, "onwards and forwards, (and now hopefully upwards)".

A handwritten signature in black ink, appearing to read 'Philip Gray', with a stylized flourish at the end.

Philip Gray
Chairman