

HYDROTECH INTERNATIONAL LIMITED

ABN 42 122 726 283

2009 ANNUAL REPORT



CORPORATE DIRECTORY

Directors

Philip Gray
Chairman

Ian Dallas
Non-Executive Director

Andy Fourie
Non-Executive Director

Karl Grebstad
Non-Executive Director

Tony McKee
Executive Director

Company Secretary

Fiona Boucher

Principal Administrative Offices

Hong Kong

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Hong Kong SAR

Phone: +852 2865 6600

Norway

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Norway

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China

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China 100044

Phone: +86 10 6878 5182

Registered Office

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Perth WA 6000

Phone: + 61 8 9375 9796
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Website

www.hydro-usl.com

Australian Company Number

122 726 283

Australian Business Number

42 122 726 283

Auditors

WHK Horwath
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256 St Georges Terrace
Perth WA 6000

Share Registry

Link Market Services Ltd
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ASX Code

HTI

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CHAIRMAN'S LETTER

Dear Shareholders,

No doubt I will join the list of company Chairmen referring to last year in terms such as tempestuous, turbulent and even terrible. Fortunately I suspect I might be on a somewhat shorter list of Chairmen who can report a 'relatively' happy ending.

The first few months of our fiscal year we were characterised by optimism and confidence, with the prospects of some major UK contracts in the offering. However, towards the end of the second quarter it became increasingly obvious that the deteriorating world economic climate and more specifically, the UK banking crash, was taking its toll and those orders would be at best postponed. With dwindling cash resources and what was now a wholly inappropriate and exposed cost base, Hydrotech's Board decided to implement a two pronged strategy of aggressive cost cutting whilst seeking external partners and/or licensees.

On the cost cutting front, the operation in the UK was reorganised which resulted in technical support for UK installations being provided by our R&D facility in Norway, and sales being overseen by our Executive Sales Director, the Norwegian Research & Development division was cut back dramatically, while directors and staff took substantial salary/fee cuts and a number of functions were outsourced. As a result of these measures whose impact was progressive, the final outcome revealed a cost base reduction in the order of 70%, leaving the core business 'reasonably' intact, although with some inevitable resource constraints.

The second prong of our strategy, namely seeking external partners and/or licensees, was much more problematic, extremely frustrating and frankly unrewarding. The core issue seemed to be the complete paralysis of corporate decision making, inspired by the gathering recession. Even when we finally struck a deal with an Anglo-Chinese private company, this broke down at the last minute.

After going back to the drawing board in a last ditch effort, it became apparent that a successful capital raising could potentially be put together from a few current investors including Lippo Securities and myself, in conjunction with a Share Purchase Plan. It was the Board's intention at the outset to allow all existing shareholders the opportunity to participate in the capital raising if they wished at some level on the same price terms. We were astonished at the resounding support and participation in the Share Purchase Plan which comprised approximately 40% of the funds raised, and the Company raised enough funds to ensure it will be able to undertake the next phase of its lifecycle. To the investors who participated in the fund raising, as well as the existing shareholders who purchased shares via the SPP, we are extremely grateful for your continued support.

It is also gratifying to note that the terms and shape of the overall issue with regards to the interests of shareholders as a whole, were on much better conditions than those secured on the previous proposed deal that fell through at the last minute.

In the meantime it would appear that our strategic marketing initiatives in Hong Kong and China have started to bear fruit. Our enquiry rate has picked up considerably, as well as the number of submissions requested. We are currently engaged on a record number of pilot projects, which should translate into meaningful contracts down the road once efficacy of the trials have been proved. On this score, our 'batting average' remains high as for example evidenced by the Panel of Experts review of our pilot project on the Yunnan Expressway in China. To quote directly from the report, MPS was "a technically accepted and advanced solution", "a comprehensive economical option", and "an environmentally-friendly technology".

Notwithstanding the above, and having learnt some bitter lessons from the past, we remain cautious and are prudently managing our expectations and resources. Clearly however, recognising our medium future has now been secured, and with a slowly improving economic climate, we need to progressively step up our marketing efforts (and associated costs), but hopefully funded by rising revenues from an escalating order book.

It remains for me to thank everybody in Hydrotech for their super human efforts, loyalties and personal sacrifices.

Finally, after some false starts and blind alleys, in part due to some bizarre UK client developments, excess optimism before a monster global recession and some pure bad luck, your Company is in better financial and commercial shape than it has ever probably been and it is now down to management to generate shareholder value.

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

Philip Gray

Chairman

YOUR DIRECTORS

Philip Gray

Chairman - *appointed 28 April 2008*

MA DMS TEP FInstD DipTA FSTA MHKSI

Mr Gray, a founding shareholder of Hydrotech, and a permanent resident of Hong Kong, is an Investment Banker with over 35 years of international finance experience, with an emphasis on Emerging Markets - especially in Asia.

In the course of his extensive career, Mr Gray 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.

Mr Gray is currently Chairman of a Pan African Investment Bank, a number of Hedge Funds and a South African jewellery company.

Mr Gray holds an MA in Marketing and amongst his other qualifications, Mr Gray is a Fellow of the Institute of Directors and a Member of the Society of Trust and Estate Practitioners.

Mr Gray is also a director of the following subsidiary companies:

- Hydrotech Asia Limited (HAL) – Hong Kong
- Universal Solutions Limited (USL) – Hong Kong;
- Underground Solutions International Limited (USIL) – Hong Kong;
- Hydrotech R&D Limited – Hong Kong; and
- Hydrotech Europe PLC - UK

Mr Gray is Chairman of the Remuneration Committee and a member of the Audit Committee.

Ian Dallas

Non – Executive Director – *appointed 2 March 2007*

Mr Dallas has extensive senior managerial experience with financial institutions in the Asia Pacific region commencing with Grosvenor Executive Financial Management in 1985, and then in 1988 joining Scimitar, the Investment Division of Standard Chartered Bank.

Mr Dallas subsequently worked with a number of international and local stock-broking houses in Hong Kong and Singapore. He joined Jardine Fleming Securities (Singapore) Ltd in 1994 as a Director and Head of their Singapore and Malaysia Equities division. From 1998 until 2000, Mr Dallas was a Main Board Director and Head of Asia and Oceania Equities for Daiwa Securities where he developed their institutional broking business.

From 2000 until co-founding the Universal Solutions Limited Group in 2005, Mr Dallas held the position of Head of Alternative Investments for Pioneer Global Investments Ltd in Hong Kong where he was responsible for Pioneer's hedge funds in the Asia Pacific region. Pioneer Asset Management was responsible for managing US\$150 billion.

Mr Dallas is a member of the Audit Committee and Remuneration Committee.

Andy Fourie

Non-Executive Director – *appointed 6 November 2007*

BSc(Eng) MSc(Eng) PhD DIC

Dr Fourie is a civil engineer, with Bachelors and Masters Degrees in Engineering from the University of the Witwatersrand in South Africa, and a PhD in Geotechnical Engineering from Imperial College, London in the United Kingdom.

Dr Fourie's current position is Professor, School of Civil and Resource Engineering at the University of Western Australia (UWA) in Perth. Prior to his current role, Dr Fourie was a Professorial Fellow with the Australian Centre for Geomechanics (ACG), also based at UWA, where he was the Principal: Environmental Geomechanics. Prior to joining the ACG he was the Professor of Construction Materials at the University of the Witwatersrand and leader of the Waste Impact Minimisation Programme research group. Dr Fourie has also previously worked as a Lecturer in Engineering at the University of Queensland and as a geotechnical engineer for the international consulting company SRK Consulting.

In Dr Fourie's research into the management of mining, industrial and municipal solid wastes, he has supervised over 25 PhD and Masters research students and produced over 100 refereed technical publications. Dr Fourie is on the Editorial Board of [three](#) international journals. His recent research activities have focussed on the application of electrokinetics to the dewatering of mining wastes in order to minimise potential environmental impacts of these wastes. Dr Fourie is the Editor or co-Editor of eight books dealing with mining and industrial waste management, and has recently produced a training DVD for the mining industry on mine tailings storage facility management and operation.

Dr Fourie is the Chairman of the Electro-Osmosis Advisory Committee.

Karl Grebstad

Non-Executive Director – *appointed 1 April 2008*

HKIA

Mr Grebstad is a Chartered Architect with in excess of 30 years professional experience and has practiced as a principal of his own firm in Hong Kong for the last 24 years. Mr Grebstad 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 HK and UK operations as well as specialist building and construction related advice to the Company.

Mr Grebstad is a member of the Electro-Osmosis Advisory Committee.

Mr Grebstad is also a director of the following subsidiary companies:

- Universal Solutions Limited (USL) – Hong Kong;
- Underground Solutions International Limited (USIL) – Hong Kong;

Tony McKee**Executive Sales Director – appointed 9 June 2009**

Mr McKee, Executive Sales Director for the Group, has over 20 years experience in sales and marketing of solutions for concrete problems.

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. In addition, Mr McKee has given many presentations on concrete repair systems, most recently on the introduction of adhesive systems in compliance with European standards.

Mr McKee currently manages the Hong Kong office and heads worldwide Sales and Marketing, and is also a director of the following subsidiary companies:

- Hydrotech Asia Limited (HAL) – Hong Kong
- Universal Solutions Limited (USL) – Hong Kong;
- Underground Solutions International Limited (USIL) – Hong Kong;
- Hydrotech R&D Limited – Hong Kong; and
- Hydrotech Europe PLC - UK

DIRECTORS' REPORT

In accordance with a resolution of Directors, the Directors present their Report together with the Financial Report of Hydrotech International Limited (HTI) and its controlled entities (together referred to as the Consolidated Entity) for the financial year ended 30 June 2009 and the Independent Audit Report thereon.

1. Directors

Details regarding the Directors of HTI at any time during or since the end of the financial year as follows:

- Mr Philip Gray (appointed 28 April 2008)
- Mr Ian Dallas (appointed 2 March 2007)
- Mr David Ledger (resigned 13 August 2008)
- Dr Andy Fourie (appointed 6 November 2007)
- Mr Karl Grebstad (appointed 1 April 2008)
- Ms Julie Jones (resigned 28 February 2009)
- Ms Fiona Boucher (13 August 2008 to 30 April 2009)
- Mr Tony McKee (appointed 9 June 2009)

Directors' qualifications, experience and special responsibilities are contained on page 6.

Directorships of other Listed Companies

Details of all directorships of other Australian listed companies held by each Director in the three years immediately before 30 June 2009 and the period for which it was held are set out below:

Director	Directorship of Listed Entity	Period Held
Mr. Philip Gray	Nil	Nil
Mr. Ian Dallas	Nil	Nil
Dr Andy Fourie	Nil	Nil
Mr. Karl Grebstad	Nil	Nil
Mr Tony McKee	Nil	Nil

2. Company Secretary

Fiona Boucher – Company Secretary

B Bus Grad Dip AppCorpGov CPA FCIS CSM

Ms Boucher, who also holds the position of Company Secretary has been with Hydrotech since July 2007, and has over 25 years extensive experience in share registry, accounting and company secretarial roles. Ms Boucher has previously worked for Coopers & Lybrand, AMP (Superannuation Division as Business Administration Manager and State Superannuation Accountant), Sunninghill Group Pty Ltd (Group Accountant), Convé Ltd (Finance & Administration Manager and Company Secretary) and more recently TFS Corporation Ltd (Joint Company Secretary). Ms Boucher is a guest lecturer for Chartered Secretaries Australia.

Ms Boucher holds a Bachelor of Business (Accounting), a Graduate Diploma in Applied Corporate Governance, a Certificate in Superannuation Management and is a Certified Practising Accountant and a Fellow of the Institute of Chartered Secretaries.

Ms Boucher is the Chair of the Audit Committee and member of the Remuneration Committee.

3. Incorporation and Listing on the ASX

HTI was incorporated on 17 November 2006 and listed on the Australian Securities Exchange on 16 July 2007.

4. Principal Activities

The principal activities of the Consolidated Entity during the year under review were the design and installation of technology to prevent water ingress into subterranean concrete and masonry structures.

5. Review of Operations

A review of, and information about, the Consolidated Entity's operations, including the results of those operations during the year together with the information about the financial position of the Consolidated Entity appears below and should be read in conjunction with the Notes to the Financial Statements appearing from page 31 of this 2009 Annual Report.

Operating Results

The consolidated net loss of the Consolidated Entity for the financial year was \$4,370,697.

The net loss of the Parent Entity for the financial year was \$8,878,989.

HTI has undertaken comprehensive strategic review in the last year in order to weather the economic downturn and ensure that it has sufficient cash and other resources to continue to pursue its objectives. These initiatives have included a suspension of all Directors fees, across the board staff salary cuts and a rationalisation of regional offices and employees.

The Board has also identified a range of waterproofing coating and lining products that have synergies with HTI's primary business, the MPS system and it is anticipated sales from these products will generate additional revenue in the short term to provide HTI with further cash resources.

Australia

The Company successfully completed a placement to various investors and a Share Purchase Plan in June 2009, comprising the issue of 295,953,772 Ordinary Shares at 0.7 cents per share, which raised a total of \$2.07M (before capital raising costs). It is planned that this will provide sufficient working capital to continue its business development, particularly in Asia whilst income from confirmed contracts is received.

Hong Kong

During the year, the MPS system was specified on two major projects in Hong Kong:

- ❖ the government's Architectural Services Department (ASD) have specified the use of the MPS in the Wo Hop Shek Crematorium, and
- ❖ a leading architectural practice has specified the system for a commercial development in the central business district.

A third project has recommended the use of the MPS system for remedial works to a lecture theatre at the Institute of Education facility in Tai Po and the project is in the process of currently being completed.

The Hong Kong MTR has also identified an area to use the MPS system within its rail network, and is currently arranging capital works funding in order that the project can be approved.

Numerous presentations have been undertaken to leading consultants, architectural companies and property managers, which have lead to strong prospects which HTI is working on converting to confirmed contracts for future works.

China

In July 2008, HTI officially incorporated its business operation as a company in China.

The MPS system was installed to a 30 linear metre trial section of the Tengmeishang Tunnel in Yunnan Province. At a meeting of the Panel of Independent Experts held in Kunming, it was recorded that the MPS system proved to be an advanced and mature technology for preventing water ingress and enhancing the durability of the concrete structure. Yunnan has the highest number of tunnels within its boundaries in China, and it was agreed to identify other projects where the MPS system could be used and progress to obtaining further capital works funding.

Green Rivers residential basement situated in on the outskirts of Beijing, is one of the large number of gated communities being constructed around China's major business centres. As a result of height restrictions, property developers are constructing one to two level basements. During the year the MPS system was installed to a basement suffering serious water ingress issues and based upon the success of this installation, there is an opportunity to develop a market niche in these "nouveau riche" residential communities.

As a result of delays to the construction of the Guangzhou Metro Line 6 project, it has been agreed in the interim to apply the MPS system to an alternative recently constructed location on the line that has water ingress issues. A contract has been prepared and works are due to commence in November.

The Chongqing-Chengdu Express Corp, which manages the Zhongliang Mountain Tunnel has confirmed that they wish to schedule the commencement of the MPS installation to the tunnel in quarter 3 of 2009.

During the year a small project Guiyang Hydro Electric Dam was undertaken by HTI which involved the installation of the MPS system into two symmetric monitoring rooms contained within the dam. The project is unique due to the fact that the cathode has been placed directly in the water behind the dam. Reporting and data are still being collated on the performance of the system, but the power consumption between the cathode and the anode proves the system is theoretically working efficiently.

Confirmation has recently been received that The Harbour Company of WISCO in Wuhan seeks to install the MPS system to their coal loading conveyor. The first phase of the works will be undertaken within their 2009/10 budget, with works due to commence during a close down period.

As part of HTI's strategic review, sales activities in China are being reorganised. Individuals are being identified who can assist HTI to develop key business relationships and these individuals will be employed on short term contracts with sales based success remuneration via commission on projects awarded.

UK

The MPS installation to Phase 1 of the refurbishment project at the Guildhall in Swansea has been completed. We anticipate that Phase 2 may commence in early 2010, and a further installation of the MPS system has been included in this project.

In June HTI were invited to undertake a presentation to rail companies in London; including representatives of Network Rail, Tubelines and Transport for London. During the meeting, Transport for London confirmed that Metronet are not yet fully operational and that all maintenance works were being commissioned by Transport for London. There was significant interest in the system and follow up meetings will be held in September where upon a strategy going forward will be agreed.

A pilot project has been identified by Cardoe Martin Ltd, whose client in central London suffers significant water ingress issues in their complex basement. A contract for works has been agreed, and the project will commence by late August. The complex has one of the largest basements in London, and once efficacy is proved, the MPS system may be used to prevent water ingress and provide corrosion protection for the complete area. HTI will be working on the project in conjunction with Volkerlaser, one of the UK's leading concrete repair companies.

Business relationships are being further developed two major proponents of Electro Osmosis technology who are prominent within the UK for providing solutions to concrete issues. They are keen to work with HTI to develop the Electro Osmosis technology and systems in the UK and discussions are continuing.

Norway

During the last year further enhancements have been made to the Multi Pulsing Sequencing control unit (MPS), which will provide for on-line monitoring of the system.

This will include the following features:-

- provide data on electrical current draw which is a measure of system efficacy
- indicate whether the system is being tampered with
- allow the box to be switched on and off remotely

The current Research and Development works are being finalised and the facility has been down sized recently during the rationalisation process. This will allow further funds to be utilised in the area of sales and marketing world-wide, whilst the register of confirmed contracts is grown. The Norway office together with Hong Kong will continue to assist with the development of the UK and European markets going forward.

6. Significant Changes in State of Affairs

In the opinion of the Directors, there are no significant changes in the state of affairs of the Consolidated Entity.

7. Events Subsequent to Reporting Date

In the opinion of the Directors, there has not arisen in the interval between the end of the financial year and the date of the Report, any matter or circumstance that has significantly affected, or may significantly affect the Consolidated Entity's operations, results or the state of affairs in future financial years.

8. Likely Developments and Expected Results of Operations

The Group has now completed a strategic review and rationalisation of the business which included identifying target markets with a high prevalence of water ingress issues, and a consumer willingness to use the MPS technology together with the budgetary capacity to undertake works within the short term. The Group believes that Asia will be the leading region in this regard, and therefore will be concentrating the majority of its resources in this area to secure as many contracts as possible. The Group will also continue to progress contracts within the UK/European market on the basis that the majority of these are more likely to come to fruition within the medium to longer term.

The Group has also subtly redefined its business from selling electro-osmosis/MPS, to a broader concept of selling "Solutions to Water Ingress". In this context, HTI has recently expanded its services to also offer a range of innovative, environmentally-friendly lining and coating systems that provide protection for and extend the life of concrete structures. These products include silicone resin emulsion paints (SREPs) and Polyurea products. It is expected that these products will contribute to regular and ongoing sales for HTI. HTI will continue to focus its marketing on innovative products that solve concrete durability and water proofing issues.

Further information about the likely developments in the operations of the Consolidated Entity in future years, the expected results of those operations, the strategies of the Consolidated Entity and its prospects for future financial years have not been included in this Directors' Report as it would likely result in unreasonable prejudice to the Consolidated Entity.

9. Environmental Regulations and Performance

HTI'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.

10. Dividends

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

11. Options and Rights

Since the end of the financial year, HTI has not granted options over unissued ordinary shares.

Unissued Shares under Option

As at the date of this Report, unissued ordinary shares of HTI under option are:

Expiry date	Number of Options	Exercise Price (\$)
28 February 2010	10,000,000	0.30
Total	10,000,000	

2,000,000 options were issued to each of the Directors in place during the time leading up to the listing on the ASX, being a total of 10,000,000 options. The exercise of these options is conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year. Further details about the options are contained in the Remuneration Report.

There are no participating rights or entitlements inherent in the options and option holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options.

In the event of any reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of HTI, before the expiry of any options, the number of options to which an option holder is entitled or the exercise price of the options or both will be reconstructed as appropriate in accordance with the ASX Listing Rules.

Shares issued on exercise of options

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

12. Attendance at Directors' Board Meetings and Board Committee Meetings

The number of Directors' Board Meetings held during the financial year under review and the number of meetings attended by each Director is set out below:

Director	Board	
	Meetings attended	Meetings held during Director's tenure
Mr Phillip Gray	11	11
Mr Ian Dallas	10	11
Mr David Ledger	0	0
Dr Andy Fourie	10	11
Mr Karl Grebstad	9	11
Ms Fiona Boucher	10	10
Ms Julie Jones	6	6
Mr Tony McKee	1	1

HTI has established an Audit Committee, Remuneration Committee and an Electro-Osmosis Advisory Committee. Details on Committee Meetings held during the financial year under review are set out below. Details of Committee membership are referenced in the Directors' biographies set out on page 6.

Director	Audit Committee		Remuneration Committee		Electro-Osmosis Committee	
	N° eligible to attend	Number attended	N° eligible to attend	Number attended	N° eligible to attend	Number attended
Philip Gray	1	1	1	1	-	-
Ian Dallas	1	1	1	1	-	-
David Ledger	-	-	-	-	-	-
Andy Fourie	-	-	-	-	2	2
Karl Grebstad	-	-	-	-	2	2
Fiona Boucher	1	1	1	1	-	-
Tony McKee	-	-	-	-	-	-

13. Directors' Interests

Particulars of directors' relevant interests in securities of HTI as at 30 June 2009 are as follows:

Director	Ordinary Shares		Options	
	Number	Interest	Number	Interest
Mr Philip Gray ¹	46,431,618	Direct/Indirect	Nil	Nil
Mr Ian Dallas ²	23,446,911	Direct	2,000,000	Direct
Dr Andy Fourie	25,000	Direct	Nil	Nil
Mr Karl Grebstad	20,000,000	Direct	Nil	Nil
Mr Tony McKee	Nil	N/a	Nil	Nil

¹ Mr Gray holds 8,255,406 shares indirectly under the registered holder Lippo Securities Ltd.

² 2,000,000 options were issued to each Director in place at the time of listing. The exercise of these options is conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net profit after tax of the company exceeding \$8,000,000 in any financial year.

Contracts

During July and August of 2008, HTI engaged the services of Bligh Capital Pty Ltd as its corporate advisors. Mr Ledger, a former Director of HTI is a Principal of Bligh Capital Pty Ltd and formally Capital Investment Partners (who held the role prior to Bligh Capital).

From July to February Mr Dallas (a current HTI director) received consultancy fees from Hydrotech Europe plc to manage European client relationships.

There are no contracts that confer a right for a Director to call for shares in HTI.

Refer Note 25 for further information in this regard.

14. Indemnification and Insurance of Officers and Auditors

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.

The Company has not indemnified its auditors WHK Horwath.

15. Non- Audit Services

Details of the amounts paid to WKH Horwath as the Auditor of HTI for audit services provided during the year are set out in Note 6 to the Financial Statements. No non-audit services by WHK Horwath were performed during the year.

16. Proceedings on behalf of the Consolidated Entity

No person has applied for leave of court to bring proceedings on behalf of the entity or intervene in any proceedings to which the entity is a party for the purpose of taking responsibility on behalf of the entity for all or part of those proceedings.

The entity was not a party to such proceedings.

17. Remuneration Report (Audited)

The Remuneration Report is prepared in accordance with Section 300A of the *Corporations Act*, Accounting Standard AASB 124 *Related Party Disclosures* and Principle 8 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

HTI Remuneration Policies and Practices

In relation to remuneration issues, the Board has established some initial policies to ensure that HTI 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.

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 reviews and recommends to the Board on matters of remuneration policy and specific emolument recommendations in relation to senior management and Directors.

It should be noted that due to the current economic climate and financial constraints facing the Company, HTI came to an agreement with staff in February 2009, that across the board salary and benefit cuts would be introduced in a concerted effort to ensure the future ongoing viability of the Company. It has been agreed that staff remuneration will be reviewed regularly by the Remuneration Committee/Board and re-instated at some time in the future, current constraints permitting.

Non-Executive Director Remuneration

Fees

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 general meeting held on 28 February 2007. It should be noted that the Board agreed during the year that all Non-Executive Directors' fees be suspended due to the financial constraints of HTI at this current time and will not be re-instated until such time that the Board sees fit. The fees are normally set at \$50,000 pa, 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 \$25,000 pa should the number of Directorships of foreign registered subsidiaries exceed two. It should also be noted that Mr Philip 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.

Equity Participation

2,000,000 options were granted to each Director of HTI during the time leading up to the listing. These options may vest conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year. The exercise price of each option is 30 cents. Vested options may be exercised and converted to fully paid ordinary shares on a one-for-one basis. Further details about these Options are contained on pages 23 & 24 of this Remuneration Report.

There is currently no Board policy in relation to the person granted the option limiting his or her exposure to the risk in relation to the securities. The Remuneration Committee intends to review whether such a policy would be likely to be of benefit during the coming financial year.

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 this form 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/Senior Management Remuneration

At present, the majority of employees are paid a fixed base salary. The Remuneration Committee/Board have recently made changes where possible in relation to those staff who are directly involved in the process of securing sales contracts and 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, 2009, 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. To date, there have not been any options issued pursuant to the scheme.

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						
<p><u>Bonus Plan</u></p>	<p>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.</p>						
<p><u>Options</u></p> <p>The targets for the 2007 Offer are as follows:</p> <table border="1" data-bbox="305 642 943 1136"> <thead> <tr> <th data-bbox="305 642 493 743">Date of Grant</th> <th data-bbox="501 642 760 743">Performance Conditions</th> <th data-bbox="768 642 943 743">Last Exercise Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="305 753 493 1136">28/02/07</td> <td data-bbox="501 753 760 1136">The exercise of these options is conditional on the market capitalisation of the HTI group meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year.</td> <td data-bbox="768 753 943 1136">28/02/10</td> </tr> </tbody> </table>	Date of Grant	Performance Conditions	Last Exercise Date	28/02/07	The exercise of these options is conditional on the market capitalisation of the HTI group meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year.	28/02/10	<p>Options are the "at risk" component of the HTI remuneration philosophy.</p> <p>The performance conditions have been designed to specifically increase shareholder value. They are a combination of performance based conditions and market based conditions. The predominant condition is a performance based condition as if the net profit targets are met or exceeded, the possibility of the share price increasing is enhanced and thus a greater chance of achieving a higher market capitalisation. Market capitalisation does not normally occur without profit performance.</p> <p>The achievement of a pre-determined profit target (with an inherent stretch component) and an increasing share price inherently increase total shareholder return.</p>
Date of Grant	Performance Conditions	Last Exercise Date					
28/02/07	The exercise of these options is conditional on the market capitalisation of the HTI group meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year.	28/02/10					

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

Tony McKee
Executive Sales Director

Terms of Agreement – base salary of \$1,008,000 Hong Kong (\$161,608 AUD*) plus medical benefits insurance. 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 May 15, 2009.

Fiona Boucher
Company Secretary

Terms of Agreement – base salary of \$118,800 AUD based on four days per week plus medical benefits insurance and statutory superannuation at 9%pa. Agreement can be terminated by either party with three months notice, and there is no additional termination benefit payable. The current terms were amended and agreed from 1 March, 2009.

Julie Jones
CFO

Terms of Agreement – consultancy payment of \$30,800 AUD based on one day per week plus provision for audit project work. Agreement can be terminated by either party with one months notice after 31 August, 2009, and there is no additional termination benefit payable. The current terms were amended and agreed from 1 June, 2009.

** AUD conversion rates as at 30 June, 2009, as reported by Oanda*

REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS	TOTAL	PROPORTION OF REMUNERATION PERFORMANCE RELATED	VALUE OF OPTIONS AS PROPORTION OF REMUNERATION
	CASH, SALARY & FEES	CASH PROFIT SHARE	NON- CASH BENEFIT	TOTAL	SUPER- ANNUATION	LONG TERM BENEFITS	OPTIONS			
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
DIRECTORS										
Non-Executive										
David Ledger	15,000	-	-	15,000	-	-	-	15,000	-	-
Andy Fourie	22,936	-	-	22,936	2,064	-	-	25,000	-	-
Karl Grebstad	25,000	-	-	25,000	-	-	-	25,000	-	-
Philip Gray	-	-	-	-	-	-	-	-	-	-
Ian Dallas	95,823			95,823				95,823	-	-
Executive										
Julie Jones	146,075	-	2,499	148,574	-	-	-	148,574	-	-
Tony McKee	175,556	-	4,944	180,500	-	-	-	180,500	-	-
EXECUTIVE MANAGEMENT										
Fiona Boucher	138,600	-	2,275	140,875	12,474	-	-	153,349	-	-
TOTAL	618,990	-	9,718	628,708	14,538	-	-	643,246	-	-

Fair Value of Options – Factors and Assumptions

The following factors and assumptions were used in determining the fair value of options on entitlement date.

Grant Date	Expiry Date	Fair Value per option (\$)	Exercise Price (\$)	Price of shares on Grant Date (\$)	Estimated volatility (%)	Risk free interest rate (%)	Dividend yield (%)
28/02/07	28/02/10	0.0402	0.30	0.20	75	6.15	N/A

2,000,000 options have been granted to each of the Directors of HTI who were in place at the time of listing. Options may vest conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net profit after tax of HTI exceeding \$8,000,000 in any financial year. The exercise price of each option is 30 cents. Vested options may be exercised and converted to fully paid ordinary shares on a one-for-one basis.

No options were granted to key management personnel during the year ended 30 June 2009.

Options and Rights over Equity Instruments Granted as Compensation

Details of entitlement to 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:

Name	Held at 1/07/08	Options Granted as Remuneration	Exercised	Lapsed	Held at 30/06/09	Vested during the year	Vested and exercisable as at 30/06/09
Lee Boyd*	2,000,000	-	-	-	2,000,000	-	-
Ian Dallas	2,000,000	-	-	-	2,000,000	-	-
Sir James Hodge*	2,000,000	-	-	-	2,000,000	-	-
David Ledger*	2,000,000	-	-	-	2,000,000	-	-
Stephen Penrose*	2,000,000	-	-	-	2,000,000	-	-

* Resigned Directors at the date of this report

Exercise of Options Granted as Compensation

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

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:

	Details of Options				Financial year in which grant vests	Value yet to vest	
	Number	Grant Date	% vested in year	% forfeited in year ¹		Min (\$) ²	Max (\$) ³
Lee Boyd*	2,000,000	28/02/07	-	-	2010	Nil	80,400
Ian Dallas	2,000,000	28/02/07	-	-	2010	Nil	80,400
Sir James Hodge*	2,000,000	28/02/07	-	-	2010	Nil	80,400
David Ledger*	2,000,000	28/02/07	-	-	2010	Nil	80,400
Stephen Penrose*	2,000,000	28/02/07	-	-	2010	Nil	80,400
Total	10,000,000						402,000

¹The 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.

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

³The maximum value of options yet to vest is not determinable as it depends on the achievement of vesting conditions (the final period being that timeframe up until 20 February 2010). 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 Merton model.

* Resigned Directors at the date of the report.

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:

	Year	Options at the beginning of the year \$	Entitlement to Options granted in year \$	Exercised in Year \$	Forfeited in Year \$	Options at the end of the Year \$
Lee Boyd*	2009	80,400	-	-	-	80,400
Ian Dallas	2009	80,400	-	-	-	80,400
Sir James Hodge*	2009	80,400	-	-	-	80,400
David Ledger*	2009	80,400	-	-	-	80,400
Stephen Penrose*	2009	80,400	-	-	-	80,400

* Resigned Directors at the date of the report.

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This Report is signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Philip Gray', with a large, stylized flourish extending downwards and to the left.

Philip Gray
Chairman
Date: 31 August 2009

Corporate Governance

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 guidelines for *Corporate Governance Principles and Recommendations*. These guidelines underwent a significant review by the ASX, (particularly in the area of Risk Management) with a view that companies adopt the new Principles and Recommendations from the reporting year commencing July 1, 2008. As such the Directors have undertaken a full review and implementation plan to ensure that these guidelines are met where possible. 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: <ul style="list-style-type: none"> • 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	√

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Principles and Recommendations	Compliance	
4.1	The board should establish an audit committee	√
4.2	Structure the audit committee so that it consists of: <ul style="list-style-type: none"> • no executive directors • a majority of independent directors • an independent chair, who is not the chair of the board • at least three members 	X ⁴
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 to state in writing to the board that <ul style="list-style-type: none"> • 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	√

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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 the Chief Executive Officer/Managing Director, 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 five directors, of whom one is an executive and the balance including the Chairman, are Non-Executive.

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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 6.

There are currently no 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 three members being, Ms Fiona Boucher as Chair, who is a Certified Practising Accountant (with over 25 years financial experience as a qualified accountant), Mr Philip Gray and Mr Ian Dallas. The accounting function of the HTI Group is controlled by the CFO, Ms Julie Jones. 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, none of the members of the Audit Committee are Independent Directors and Ms Boucher is the Company Secretary.

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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 have recently provided the first 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 Chief Financial Officer 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 Board Room. 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 Philip Gray as Chair, Ms Fiona Boucher (who is currently the Company Secretary) and Mr Ian Dallas. The Committee's charter is contained in the Corporate Governance Plan. HTI's Remuneration Policy is detailed in the Remuneration Report on page 16.

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 the HTI's standing in the civil engineering and construction industries and academia. The Electro-Osmosis Advisory Committee consists of Dr Andy Fourie (Chairman), Mr Karl Grebstad (Non-Executive Director) and Mr Henning Syversen (Group Development and Design Manager).

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Hydrotech International Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP



NICHOLAS HOLLENS
Principal

Perth, WA

Dated this 15th day of September 2009

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INCOME STATEMENT FOR THE FINANCIAL YEAR TO 30 JUNE 2009

	Note	Consolidated Group 2009 \$	Consolidated Group 2008 \$	Parent Entity 2009 \$	Parent Entity 2008 \$
Revenue	2	275,291	167,374	74,408	162,416
Cost of sales		(158,368)	-	-	-
Gross Profit		116,923	167,374	74,408	162,416
Accounting fees		(5,910)	(50,045)	(5,475)	(30,592)
Audit fees		(87,109)	(70,000)	(27,850)	(42,475)
Employee benefits expense		(1,952,561)	(2,975,681)	(203,467)	(245,314)
Depreciation and amortisation expense		(28,738)	(34,851)	(692)	(142)
Consultants' fees and costs		(365,976)	(595,814)	(57,744)	(277,252)
Australian Stock Exchange fees		(10,553)	(37,772)	(10,553)	(17,599)
Patent and search fees		-	(8,237)	-	(8,237)
Rent and rates		(335,480)	(260,663)	-	-
Travelling expenses		(281,580)	(286,326)	(26,093)	(51,833)
Other expenses		(327,708)	(500,957)	10,971	(191,546)
Foreign exchange gains/(losses)		(180,532)	(976,854)	395,600	(976,903)
Finance costs		-	(9,930)	-	-
Write down of investment in subsidiary		-	-	(959,387)	(871,161)
Impairment of intangible assets		(820,043)	-	-	-
Write down of loans with subsidiaries		-	-	(7,673,107)	-
Loss on disposal of fixed assets		(91,430)	-	-	-
Loss before income tax	3	(4,370,697)	(5,639,756)	(8,483,389)	(2,550,638)
Income tax expense	4	-	-	-	-
Loss for the year		(4,370,697)	(5,639,756)	(8,483,389)	(2,550,638)
Loss attributable to members of the parent entity		(4,370,697)	(5,639,756)	(8,483,389)	(2,550,638)
Overall Continuing Operations					
Basic earnings (loss) per share (cents per share)	8	(0.024)	(0.036)		
Diluted earnings (loss) share (cents per share)	8	(0.024)	(0.036)		

The accompanying notes form part of these financial statements.

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BALANCE SHEET AS AT 30 JUNE 2009

	Note	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
		2009	2008	2009	2008
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	2,258,006	3,671,417	2,169,446	3,482,714
Trade and other receivables	10	37,894	255,506	-	11,597
Other current assets	14	250,101	233,933	-	-
TOTAL CURRENT ASSETS		2,546,001	4,160,856	2,169,446	3,494,311
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	-	5,218,568
Property, plant and equipment	12	32,173	130,096	2,626	3,318
Intangible assets	13	25,532	837,172	-	-
Other non-current assets	14	39,195	167,549	-	-
TOTAL NON-CURRENT ASSETS		96,900	1,134,817	2,626	5,221,886
TOTAL ASSETS		2,642,901	5,295,673	2,172,072	8,716,197
CURRENT LIABILITIES					
Trade and other payables	15	140,076	398,672	38,775	152,788
TOTAL CURRENT LIABILITIES		140,076	398,672	38,775	152,788
TOTAL LIABILITIES		140,076	398,672	38,775	152,788
NET ASSETS		2,502,825	4,897,001	2,133,297	8,563,409
EQUITY					
Issued capital	16	14,584,291	12,531,014	13,341,136	11,287,859
Reserves		370,656	447,412	44,667	44,667
Accumulated losses		(12,452,122)	(8,081,425)	(11,252,506)	(2,769,117)
TOTAL EQUITY		2,502,825	4,897,001	2,133,297	8,563,409

The accompanying notes form part of these financial statements.

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STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR TO 30 JUNE 2009

Consolidated Group

	Note	Issued Capital	Reserves			Total
		Ordinary Shares	Options Reserve	Exchange Reserve	Accumulated Losses	
		\$	\$	\$	\$	
Balance at 1 July 2008		12,531,014	44,667	402,745	(8,081,425)	4,897,001
Shares issued during the year net of transaction costs		2,053,277	-	-	-	2,053,277
Loss for the year		-	-	-	(4,370,697)	(4,370,697)
Adjustments from translation of foreign controlled entities				55,220	-	55,220
Transfers to and from reserves:						
— options		-	-	-	-	-
— exchange reserve		-	-	(131,976)	-	(131,976)
Sub-total		14,584,291	44,667	325,989	(12,452,122)	2,502,825
Dividends paid or provided for	7	-	-	-	-	-
Balance at 30 June 2009		14,584,291	44,667	325,989	(12,452,122)	2,502,825

Parent Entity

	Note	Issued Capital	Reserves			Total
		Ordinary Shares	Options Reserve	Exchange Reserve	Accumulated Losses	
		\$	\$	\$	\$	
Balance at 1 July 2008		11,287,859	44,667	-	(2,769,117)	8,563,409
Shares issued during the year net of transaction costs		2,053,277	-	-	-	2,053,277
Loss for the year		-	-	-	(8,483,389)	(8,483,389)
Adjustments from translation of foreign controlled entities		-	-	-	-	-
Transfers to and from reserves:						
— options		-	-	-	-	-
Sub total		13,341,136	44,667	-	(11,252,506)	2,133,297
Dividends paid or provided for	7	-	-	-	-	-
Balance at 30 June 2009		13,341,136	44,667	-	(11,252,506)	2,133,297

**Hydrotech International Limited ABN 42 122 726 283
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STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR TO 30 JUNE 2008

Consolidated Group

	Note	Issued Capital	Reserves			Total
		Ordinary Shares	Options Reserve	Exchange Reserve	Accumulated Losses	
		\$	\$	\$	\$	
Balance at 1 July 2007		11,041,126	44,667	1,260	(2,441,669)	8,645,384
Shares issued during the year net of transaction costs		1,489,888	-	-	-	1,489,888
Loss for the year		-	-	-	(5,639,756)	(5,639,756)
Transfers to and from reserves:						
— options		-	-	-	-	-
— exchange reserve		-	-	401,485	-	401,485
Sub-total		12,531,014	44,667	402,745	(8,081,425)	4,897,001
Dividends paid or provided for	7	-	-	-	-	-
Balance at 30 June 2008		12,531,014	44,667	402,745	(8,081,425)	4,897,001

Parent Entity

	Note	Issued Capital	Reserves			Total
		Ordinary Shares	Options Reserve	Exchange Reserve	Accumulated Losses	
		\$	\$	\$	\$	
Balance at 1 July 2007		9,782,845	44,667	-	(218,479)	9,609,033
Shares issued during the year net of transaction costs		1,505,014	-	-	-	1,505,014
Loss for the year		-	-	-	(2,550,638)	(2,550,638)
Transfers to and from reserves:						
— options		-	-	-	-	-
Sub total		11,287,859	44,667	-	(2,769,117)	8,563,409
Dividends paid or provided for	7	-	-	-	-	-
Balance at 30 June 2008		11,287,859	44,667	-	(2,769,117)	8,563,409

The accompanying notes form part of these financial statements.

**Hydrotech International Limited ABN 42 122 726 283
and Controlled Entities**

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR TO 30 JUNE 2009

	Note	Consolidated Group 2009 \$	Consolidated Group 2008 \$	Parent Entity 2009 \$	Parent Entity 2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		140,841	4,119	-	-
Payments to suppliers and employees		(3,425,644)	(5,176,380)	(434,224)	(1,931,295)
Interest received		75,403	163,255	74,408	162,416
Finance costs		-	-	-	-
Net cash provided by (utilised in) operating activities	21	(3,209,400)	(5,009,006)	(359,816)	(1,768,879)
CASH FLOWS FROM INVESTING ACTIVITIES					
Transfers to and from reserves		(76,756)	-	-	-
Proceeds from disposal of non-current assets		-	-	-	-
Net cash provided by/(utilised in) investing activities		(76,756)	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		2,071,678	1,489,888	2,071,678	2,256,341
Transaction costs		(18,401)	-	(18,401)	(751,327)
Loan to controlled entities		-	-	(3,006,729)	(4,348,895)
Net cash provided by/(utilised in) financing activities		2,053,277	1,489,888	(953,452)	(2,843,881)
Net (decrease)/increase in cash held		(1,232,879)	(3,519,118)	(1,313,268)	(4,612,760)
Effect of exchange rates on cash holdings in foreign currencies		(191,776)	(968,078)	-	-
Effect the change in exchange rate from 2008 to 2009 has had on cash balance		11,244	(8,776)	-	-
Cash at beginning of financial year	9	3,671,417	8,167,389	3,482,714	8,095,474
Cash at end of financial year	9	2,258,006	3,671,417	2,169,446	3,482,714

The accompanying notes form part of these financial statements.

**Hydrotech International Limited ABN 42 122 726 283
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has 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*.

The financial report covers the consolidated group of Hydrotech International Limited and controlled entities, and Hydrotech International Limited as an individual parent entity. Hydrotech International Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Hydrotech International Limited and controlled entities, and Hydrotech International Limited as an individual parent entity complies with all International Financial Reporting Standards (IFRS).

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

a. Principles of Consolidation

Subsidiaries

A subsidiary is any company Hydrotech International Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of subsidiaries is contained in Note 11 to the financial statements. All subsidiaries have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where subsidiaries have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

**Hydrotech International Limited ABN 42 122 726 283
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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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.

c. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	10%–25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**Hydrotech International Limited ABN 42 122 726 283
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

d. Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

e. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

f. Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and 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.

**Hydrotech International Limited ABN 42 122 726 283
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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

g. Foreign Currency Transactions and Balances

Functional and presentation currency

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Exchange rate differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are included in the consolidated financial report in a separate component of equity and recognised in a profit or loss on disposal of the net investment.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

h. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

i. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

j. Revenue and Other Income

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

k. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

l. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

m. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Judgement – 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.

n. Equity Settled Compensation

The Group has issued equity settled options that were valued in the year of issue using the Black-Scholes pricing model, which incorporates all market vesting conditions. The options are subject to market vesting conditions which currently have not been met. There have been no movements recorded in issued options during the financial year.

o. New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards (where they are applicable). A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.
- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to

**Hydrotech International Limited ABN 42 122 726 283
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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.
- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.
- AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.
- AASB Interpretation 15: Agreements for the Construction of Real Estate (applicable for annual reporting periods commencing from 1 January 2009). Under the interpretation, agreements for the construction of real estate shall be accounted for in accordance with AASB 111 where the agreement meets the definition of 'construction contract' per AASB 111 and when the significant risks and rewards of ownership of the work in progress transfer to the buyer continuously as construction progresses. Where the recognition requirements in relation to construction are satisfied but the agreement does not meet the definition of 'construction contract', revenue is to be accounted for in accordance with AASB 118. Management does not believe that this will represent a change of policy to the Group.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

- AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.

- AASB Interpretation 17: Distributions of Non-cash Assets to Owners (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

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.

**Hydrotech International Limited ABN 42 122 726 283
and Controlled Entities**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 2: REVENUE

	Note	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
		2009	2008	2009	2008
		\$	\$	\$	\$
Revenue					
- interest received		75,403	163,255	74,408	162,416
- other revenue		199,888	4,119	-	-
Total Revenue		<u>275,291</u>	<u>167,374</u>	<u>74,408</u>	<u>162,416</u>
Other income					
- gain on disposal of controlled entity		-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTE 3: LOSS FOR THE YEAR

Expenses					
Employee benefits expense		1,952,561	2,975,681	203,467	245,314
Depreciation and amortisation expense		28,738	34,851	692	142
Write down of investment in subsidiary		-	-	959,387	871,161
Write off of intangible assets		820,043	-	-	-
Write down of loans with subsidiaries		-	-	7,673,107	-
Loss on disposal of fixed assets		91,430	-	-	-

**Hydrotech International Limited ABN 42 122 726 283
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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

	Note	Consolidated Group 2009	Consolidate Group 2008	Parent Entity 2009	Parent Entity 2008
NOTE 4: INCOME TAX EXPENSE			\$		\$
a. The components of tax expense comprise:					
Current tax		-	-	-	-
Deferred tax		-	-	-	-
		-	-	-	-
b. The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:					
Current year losses		(4,370,697)	(5,639,756)	(8,483,389)	(2,550,638)
Prima facie tax payable on loss from ordinary activities		(1,311,209)	(1,691,927)	(2,545,017)	(765,191)
Add Tax effect of:					
Write off of intangible assets		246,013	-	-	-
Write down of investment in subsidiary		-	-	287,816	261,348
Write down of loans in subsidiary		-	-	2,301,932	-
Total		(1,065,196)	(1,691,927)	44,731	(503,843)
Tax effect of: other non-deductable expenses					
Capital raising expenses		5,520	232,674	5,520	228,136
Temporary differences and tax losses not brought to account as deferred tax asset		1,059,676	1,459,253	(50,251)	275,707
Income Tax Expense		-	-	-	-
Unrecognised deferred tax assets					
Deferred tax assets have not been recognised in respect of the following items:					
Capital raising costs		869,650	851,249	869,650	851,249
Tax losses		12,452,122	8,081,425	10,381,345	1,897,956
		13,321,772	8,932,674	11,250,995	2,749,205

**Hydrotech International Limited ABN 42 122 726 283
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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

- a. **Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:**

Key Management Person	Position
Philip Gray	Chairman
Ian Dallas	Non-Executive Director
Andy Fourie	Non-Executive Director
Karl Grebstad	Non-Executive Director
Tony McKee	Executive Sales Director
Fiona Boucher*	Company Secretary/Executive Director
David Ledger*	Non-Executive Director
Julie Jones*	Executive Director

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report

- b. **Options and Rights Holdings**

Number of Options Held by Key Management Personnel

	Balance 1.7.2008	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2009
Sir James Hodge*	2,000,000	-	-	-	2,000,000
Ian Dallas	2,000,000	-	-	-	2,000,000
David Ledger*	2,000,000	-	-	-	2,000,000
Stephen Penrose*	2,000,000	-	-	-	2,000,000
Lee Boyd*	2,000,000	-	-	-	2,000,000
Total	10,000,000	-	-	-	10,000,000

	Balance 1.7.2008	Total Vested 30.6.2009	Total Exercisable 30.6.2009	Total Unexercisable 30.6.2009	Balance 30.6.2009
Sir James Hodge*	2,000,000	-	-	2,000,000	2,000,000
Ian Dallas	2,000,000	-	-	2,000,000	2,000,000
David Ledger*	2,000,000	-	-	2,000,000	2,000,000
Stephen Penrose*	2,000,000	-	-	2,000,000	2,000,000
Lee Boyd*	2,000,000	-	-	2,000,000	2,000,000
Total	10,000,000	-	-	10,000,000	10,000,000

* Resigned Directors at the date of this report

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT'D)

c. Shareholdings

Number of Shares held by Key Management Personnel

	Balance 1.7.2008	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2009
Philip Gray	16,862,208	-	-	29,569,410	46,431,618
Ian Dallas	13,446,911	-	-	10,000,000	23,446,911
David Ledger*	2,250,000	-	-	(2,250,000)	-
Andy Fourie	25,000	-	-	-	25,000
Karl Grebstad	20,000,000	-	-	-	20,000,000
Tony McKee	-	-	-	-	-
Julie Jones*	-	-	-	-	-
Fiona Boucher*	25,000	-	-	714,285	739,285
Total	52,609,119	-	-	38,033,695	90,642,814

* Resigned Directors at the date of this report

NOTE 6: AUDITORS' REMUNERATION

	Consolidated Group 2009 \$	Parent Entity 2009 \$
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	27,850	27,850
Remuneration of other auditors of subsidiaries for:		
— auditing or reviewing the financial report of subsidiaries	37,178	-
	<u>65,028</u>	<u>27,850</u>

NOTE 7: DIVIDENDS

No dividends have been declared.

NOTE 8: EARNINGS PER SHARE

	Consolidated Group 2009 \$	Parent Entity 2009 \$
a. Reconciliation of earnings to loss from operations		
Loss	(4,370,697)	(5,639,756)
Earnings used to calculate basic EPS	(4,370,697)	(5,639,756)
Earnings used in the calculation of dilutive EPS	(4,370,697)	(5,639,756)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 8: EARNINGS PER SHARE (CONT'D)

	Note	Consolidated Group 2009 No.	Consolidated Group 2008 No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS		180,153,298	156,593,287
Weighted average number of options outstanding		-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS		180,153,298	156,593,287

The options are not considered to be dilutive and accordingly no adjustment has been made to the weighted average shares in that regard.

The 10,000,000 options granted on 28 February, 2007, are not included in the calculation of diluted earnings per share, because they are anti-dilutive after the year ended 30 June 2009. These options could potentially dilute basic earnings per share in the future.

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated Group 2009 \$	Consolidated Group 2008 \$	Parent Entity 2009 \$	Parent Entity 2008 \$
Cash at bank and in hand	2,258,006	3,671,417	2,169,446	3,482,714
Short-term bank deposits	-	-	-	-
	2,258,006	3,671,417	2,169,446	3,482,714

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	2,258,006	3,671,417	2,169,446	3,482,714
Bank overdrafts	-	-	-	-
	2,258,006	3,671,417	2,169,446	3,482,714

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 10: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group 2009 \$	Consolidated Group 2008 \$	Parent Entity 2009 \$	Parent Entity 2008 \$
CURRENT					
Trade receivables		17,535	-	-	-
Prepayments		16,542	205,049	-	-
Other receivables		3,817	50,457	-	11,597
		37,894	255,506	-	11,597
NON-CURRENT					
Amounts from wholly owned entities comprise:					
- opening balance		-	-	5,218,568	869,673
- advanced during year		-	-	2,454,539	4,348,895
- write down of intercompany loans		-	-	(7,673,107)	-
Closing Balance		-	-	-	5,218,568

NOTE 11: CONTROLLED ENTITIES

a. **Controlled Entities**

	Country of Incorporation	Percentage Owned (%)*	
		2009	2008
Parent Entity:			
Hydrotech International Limited	Australia		
Subsidiaries of Hydrotech International Limited:			
Universal Solutions Limited	Hong Kong SAR, China	100	100
Hydrotech R & D Limited	Hong Kong SAR, China	100	100
Underground Solutions International Limited	Hong Kong SAR, China	100	100
Hydrotech China Limited	China	100	-
Subsidiaries of Universal Solutions Limited:			
Hydrotech Asia Limited	Hong Kong SAR, China	100	100
Hydrotech Europe PLC	United Kingdom	100	100

* Percentage of voting power is in proportion to ownership

This note represents the legal structure of investments in subsidiaries held by Hydrotech International Limited.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
	2009	2008	2009	2008
	\$	\$	\$	\$
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	124,267	193,452	3,460	3,460
Accumulated depreciation	(92,094)	(63,356)	(834)	(142)
	<u>32,173</u>	<u>130,096</u>	<u>2,626</u>	<u>3,318</u>
Total Plant and Equipment	<u>32,173</u>	<u>130,096</u>	<u>2,626</u>	<u>3,318</u>
Total Property, Plant and Equipment	<u><u>32,173</u></u>	<u><u>130,096</u></u>	<u><u>2,626</u></u>	<u><u>3,318</u></u>

a. **Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Plant and Equipment	Plant and Equipment
	2009	2008
	\$	\$
Consolidated Group:		
Opening carrying value	130,096	109,140
Additions	22,245	55,807
Disposals	(91,430)	-
Depreciation expense	(28,738)	(34,851)
Closing carrying value	<u>32,173</u>	<u>130,096</u>
Parent Entity:		
Opening carrying value	3,318	-
Additions	-	3,460
Disposals	-	-
Depreciation expense	(692)	(142)
Closing carrying value	<u>2,626</u>	<u>3,318</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 13: INTANGIBLE ASSETS

	Note	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
		2009	2008	2009	2008
		\$	\$	\$	\$
Goodwill					
At cost		-	836,137	-	-
Other Intangibles					
At cost		25,532	1,035	-	-
Total intangibles		25,532	837,172	-	-

	Goodwill	Other
	\$	\$
Consolidated Group:		
Balance at the beginning of year	836,137	1,035
Acquisition during year	-	24,497
Amortisation	-	-
Write off during year	(836,137))	-
Year ended 30 June 2009	-	25,532

NOTE 14: OTHER ASSETS

	Note	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
		2009	2008	2009	2008
		\$	\$	\$	\$
CURRENT					
Outstanding loan*		250,101	233,935	-	-
NON-CURRENT					
Security deposit		39,195	167,549	-	-

*Outstanding loan on interest free terms repayable in full on 10 March, 2010

NOTE 15: TRADE AND OTHER PAYABLES

CURRENT					
Trade payables		20,010	165,005	16,600	39,635
Sundry payables and accrued expenses		120,066	233,667	22,175	113,153
		140,076	398,672	38,775	152,788

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 16: ISSUED CAPITAL

	Note	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
		2009	2008	2009	2008
		\$	\$	\$	\$
475,296,238 fully paid ordinary shares		13,341,136	11,287,859	13,341,136	11,287,859
Share capital of Universal Solutions Limited		1,243,155	1,243,155	-	-
		<u>14,584,291</u>	<u>12,531,014</u>	<u>13,341,136</u>	<u>11,287,859</u>

Ordinary shares

At the beginning of reporting period		12,531,014	11,041,126	11,287,859	9,782,845
Over subscriptions returned to shareholders		-	(73,533)	-	(73,533)
Shares issued during the year					
— 20 June 2008		-	2,339,000	-	2,339,000
— 30 June 2009		2,071,678	-	2,071,678	-
Less					
Capital raising costs arising from issues		(18,401)	(775,579)	(18,401)	(760,453)
At reporting date		<u>14,584,291</u>	<u>12,531,014</u>	<u>13,341,136</u>	<u>11,287,859</u>

On 30 June 2009, the Company issued 295,953,772 ordinary shares at \$0.007 each for working capital.

On 20 June 2008, the company issued 23,390,000 ordinary shares at \$0.10 each for working capital.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2009

NOTE 16: ISSUED CAPITAL (CONT'D)

Options

- i. For information relating to the Hydrotech International Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 22 Share-Based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 22 Share-based Payments.

NOTE 17: RESERVES

a. **Exchange Reserve**

The exchange reserve records movements in foreign currency.

b. **Option Reserve**

The option reserve records items recognised as expenses on valuation of employee share options.

NOTE 18: CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities that exist as at 30 June 2009.

NOTE 19: COMMITMENTS

Under Chinese government law, Hydrotech International is committed to remit \$200,000US over a two year period at set intervals. To date \$100,000US has been remitted and HTI will be required to remit another \$100,000US currently worth \$121,349AUD (*based on Oanda rates at 20 August, 2009*) during the next financial year.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 20: SEGMENT REPORTING

Primary Reporting — Geographical Segments

	HONG KONG	UNITED KINGDOM	CHINA	AUSTRALIA	ELIMINATIONS	Consolidated Group
	2009	2009	2009	2009	2009	2009
	\$	\$	\$	\$	\$	\$
REVENUE						
External sales	21,228	114,025	64,635	-	-	199,888
Other segments	-	-	-	-	-	-
Total sales revenue	21,228	114,025	64,635	-	-	199,888
Unallocated revenue	-	-	-	-	-	-
Total revenue	21,228	114,025	64,635	-	-	199,888
RESULT						
Segment result	(2,013,270)	(1,060,049)	(230,842)	(8,483,389)	(8,208,053)	(19,995,603)
Finance costs	-	-	-	-	-	-
Loss before income tax	(2,013,270)	(1,060,049)	(230,842)	(8,483,389)	(8,208,053)	(19,995,603)
Income tax expense	-	-	-	-	-	-
Loss after income tax	(2,013,270)	(1,060,049)	(230,842)	(8,483,389)	(8,208,053)	(19,995,603)
ASSETS						
Segment assets	449,266	3,082	19,509	2,171,072	(1,028)	2,641,901
Unallocated assets	-	-	-	-	-	-
Total assets	449,266	3,082	19,509	2,171,072	(1,028)	2,641,901
LIABILITIES						
Segment liabilities	4,546,970	2,891,832	502,565	38,775	(7,840,066)	140,076
Unallocated liabilities	-	-	-	-	-	-
Total liabilities	4,546,970	2,891,832	502,565	38,775	(7,840,066)	140,076
OTHER						
Depreciation and amortisation of segment assets	13,333	14,542	171	692	-	28,738

**Hydrotech International Limited ABN 42 122 726 283
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 20: SEGMENT REPORTING (CON'T).

Primary Reporting — Geographical Segments

	HONG KONG	UNITED KINGDOM	CHINA	AUSTRALIA	ELIMINATIONS	Consolidated Group
	2008	2008	2008	2008	2008	2008
	\$	\$	\$	\$	\$	\$
REVENUE						
External sales	4,119	-	-	-	-	4,119
Other segments	-	-	-	-	-	-
Total sales revenue	4,119	-	-	-	-	4,119
Unallocated revenue	-	-	-	-	-	-
Total revenue	4,119	-	-	-	-	4,119
RESULT						
Segment result	(1,300,012)	(1,786,768)	-	(2,543,046)	-	(5,629,826)
Unallocated expenses net of unallocated revenue	-	-	-	-	-	-
Finance costs	(1,375)	(963)	-	(7,592)	-	(9,930)
Loss before income tax	(1,301,387)	(1,787,731)	-	(2,550,638)	-	(5,639,756)
Income tax expense						
Loss after income tax	(1,301,387)	(1,787,731)	-	(2,550,638)	-	(5,639,756)
ASSETS						
Segment assets	284,122	386,957	-	5,221,886	(597,292)	5,295,673
Unallocated assets	-	-	-	-	-	-
Total assets	284,122	386,957	-	5,221,886	(597,292)	5,295,673
LIABILITIES						
Segment liabilities	1,471,183	2,304,256	-	108,121	(3,529,555)	354,005
Unallocated liabilities	-	-	-	-	-	-
Total liabilities	1,471,183	2,304,256	-	108,121	(3,529,555)	354,005
OTHER						
Depreciation and amortisation of segment assets	11,093	23,616	-	142	-	34,851

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NOTES TO THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR TO 30 JUNE 2009

NOTE 20: SEGMENT REPORTING (CONT'D)

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

There are no transfers of revenues, expenses and results between segments.

Business and Geographical Segments

Business segments

The consolidated group operates solely in the waterproof engineering industry.

Geographical segments

The consolidated group's business segments are located in Hong Kong, China, the United Kingdom and Australia.

Impairment Losses

Impairment losses have been recognised as expenses for the year ended 30 June 2009. Refer to Note 3.

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NOTES TO THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR TO 30 JUNE 2009

NOTE 21: CASH FLOW INFORMATION

	Note	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
		2009	2008	2009	2008
		\$	\$	\$	\$
a. Reconciliation of Cash Flow from Operations with Loss after Income Tax					
Loss after income tax		(4,370,697)	(5,639,756)	(8,483,389)	(2,550,638)
Cash flows excluded from loss attributable to operating activities					
Non-cash flows in loss					
Write down of investment in subsidiary		-	-	959,387	871,161
Write down of loans with subsidiaries		-	-	7,673,107	-
Additions to fixed assets		(22,245)	-	-	-
Loss on disposal of fixed assets		91,430	-	-	-
Depreciation		28,738	34,851	692	142
Unrealised exchange losses/(gains)		180,532	1,423,006	(395,600)	44,667
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:					
(Increase)/decrease in trade and term receivables		217,612	42,088	-	94,223
(Increase)decrease in outstanding loan		(16,168)	(205,274)	-	26,890
Increase/(decrease) in trade payables & accruals		(258,596)	(451,192)	(114,013)	(200,746)
(Increase)/decrease in intangible assets		811,640	-	-	-
(Increase)/decrease in other assets		128,354	(212,729)	-	(54,578)
Cash flows from (used in) operations		<u>(3,209,400)</u>	<u>(5,009,006)</u>	<u>(359,816)</u>	<u>(1,768,879)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR TO 30 JUNE 2009

NOTE 22: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2009:

On 28 February 2007, 10,000,000 share options were granted to current directors to accept ordinary shares at an exercise price of \$0.30. Options may vest conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net profit after tax of HTI exceeding \$8,000,000 in any financial year. The exercise price of each option is 30 cents. The options expire on 28 February 2010. Vested options may be exercised and converted to fully paid ordinary shares on a one-for-one basis.

It should be noted that the above options were not issued pursuant to the Hydrotech International Ltd Employee Option Plan, and thus have their own terms applicable.

The options hold no voting or dividend rights, and are not transferable.

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

	Consolidated Group		Parent Entity		Consolidated Group		Parent Entity	
	2009		2008		2009		2008	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	10,000,000	-	-	-	10,000,000	-	-	-
Granted	-	10,000,000	10,000,000	10,000,000	-	10,000,000	10,000,000	10,000,000
Outstanding at year-end	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Exercisable at year-end	-	-	-	-	-	-	-	-

The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.30 and a weighted average remaining contractual life of one year and eight months. Exercise price was \$0.30 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options when granted was 4.02 cents per share.

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

Weighted average exercise price	\$0.30
Weighted average life of the option	3 Years
Underlying share price	\$0.20
Expected share price volatility	75%
Risk free interest rate	6.15%

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NOTES TO THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR TO 30 JUNE 2009

NOTE 23: EVENTS AFTER BALANCE SHEET DATE

There are no significant items that have occurred after Balance Sheet date.

NOTE 24: FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price 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 (Board) 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 and the parent entity hold the following financial instruments:

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	2,258,006	3,671,417	2,169,446	3,482,714
Loans and receivables	327,190	255,506	-	11,597
	2,585,196	3,926,923	2,169,446	3,494,311
Financial Liabilities				
Trade and other payables	140,076	398,672	38,775	152,788

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 dollars (A\$). 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 A\$/UK pound (UK£), A\$/Hong Kong dollar (HK\$), and A\$/ Chinese Renminbi (RMB).

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NOTES TO THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR TO 30 JUNE 2009

NOTE 24: FINANCIAL INSTRUMENTS (CONT'D)

As at balance 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 parent entity's financial assets and liabilities are all denominated in A\$. The carrying amounts of the Groups financial assets and liabilities are all denominated in A\$.

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. The foreign currency risk in the books of the parent entity is considered immaterial and is therefore not shown.

2009 Consolidated	Net financial assets/(liabilities) in AUD \$000				
	AUD	UK£	HK\$	RMB	Total AUD
Functional currency of the Group entity					
Australian Dollar	N/a	-	-	-	-
UK Pound Stirling	-	N/a	-	-	-
Hong Kong Dollar	250,101	-	N/a	-	250,101
Chinese Renminbi	-	-	-	N/a	-
Balance sheet exposure	250,101	-	-	-	250,101

2008 Consolidated	Net financial assets/(liabilities) in AUD \$000				
	AUD	UK£	HK\$	RMB	Total AUD
Functional currency of the Group entity					
Australian Dollar	N/a	-	-	-	-
UK Pound Stirling	-	N/a	-	-	-
Hong Kong Dollar	233,933	-	N/a	-	233,933
Chinese Renminbi	-	-	-	N/a	-
Balance sheet exposure	233,933	-	-	-	233,933

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Group Sensitivity

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% against the UK£, HK\$ and RMB with all other variables held constant, the Group's loss for the year would have been \$327,398 lower/higher (2008 - \$309,000) as a result of foreign exchange gains/losses on translation of subsidiary losses denominated in foreign currencies. Equity would have been \$328,656 higher/lower (2008:\$309,000) 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.

Parent Entity Sensitivity

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% against the UK£, HK\$ and RMB with all other variables held constant, the parent entity's loss for the year would not be affected (2008 - \$521,000) as a result of foreign exchange gains/losses on translation of intercompany balances denominated in foreign currencies. Equity would have been \$767,584 higher/lower (2008:\$521,000) had the Australian dollar weakened/strengthened by 10% against these foreign currencies, arising as a result of foreign exchange gains/losses on translation of intercompany balances denominated in foreign currencies.

ii. Interest rate risk

As at and during the year ended on balance 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		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents				
at Floating rate*	2,258,006	3,671,417	2,169,446	3,482,714

* Weighted average effective interest rate 4.4% (2008 – 6.1%)

Group sensitivity

At 30 June 2009, 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 \$18,064 lower/higher (2008 - \$29,000), mainly as a result of a lower/higher interest income from cash and cash equivalents. Equity would have been \$18,064 higher/lower (2008 - \$29,000 higher/lower) as a result of an increase/decrease in interest income from cash and cash equivalents.

Parent entity sensitivity

At 30 June 2009, 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 \$17,356 lower/higher (2008 - \$27,000), mainly as a result of a lower/higher interest income from cash and cash equivalents.

**Hydrotech International Limited ABN 42 122 726 283
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NOTES TO THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR TO 30 JUNE 2009

NOTE 24: FINANCIAL INSTRUMENTS (CONT'D)

Equity would have been \$17,356 higher/lower (2008 - \$27,000 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 60.

	Consolidated		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash at Bank and short-term deposits				
AA Rated	2,258,006	3,671,417	2,169,446	3,482,714

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 \$140,076 (2008: \$398,672), comprised of non interest-bearing trade creditors and accruals with a maturity of 1 – 3 months.

Parent Entity – As at the reporting date the Parent Entity has a total financial liabilities of \$38,775 (2008: \$152,788), comprised of non-interest bearing trade creditors and accruals with maturity of 1 – 3 months.

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NOTES TO THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR TO 30 JUNE 2009

NOTE 24: FINANCIAL INSTRUMENTS (CONT'D)

d) Fair value estimation

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

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.

None of the Group's entities are subject to externally imposed capital requirements.

NOTE 25: RELATED PARTY TRANSACTIONS

There were no related party transactions other than those with directors as discussed and disclosed on pages 15 and 21.

NOTE 26: COMPANY DETAILS

The registered office of the company is:

Hydrotech International Limited
Level 40, 108 St Georges Terrace
PERTH WA 6000

The principal places of business are:

- Hydrotech Asia Limited
Level 20, Queens Centre
58-64 Queens Road East
HONG KONG SAR
- Hydrotech China Limited
Haifu International Mansion
22 Chengongzhuang Xi Road
Haidian, Beijing
CHINA 100044

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Hydrotech International Ltd, we state that:

- (1) In the opinion of the directors:
 - (a) The financial report, the additional disclosures included in the directors' report, and the notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) Complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial period ending 30 June 2009.

Signed on behalf of the Board:

A handwritten signature in black ink, appearing to read 'Philip Gray', with a large, stylized flourish extending downwards and to the left.

Philip Gray
Chairman
Date: 31 August 2009

INDEPENDENT AUDIT REPORT TO MEMBERS OF HYDROTECH INTERNATIONAL LIMITED AND ITS CONTROLLED ENTITIES

We have audited the accompanying financial report of Hydrotech International Limited (the company) and Hydrotech International Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgment, 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 and fair presentation of the financial report 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.

Auditor's Opinion

In our opinion, the financial report of Hydrotech International Limited and Hydrotech International Limited and its Controlled Entities is in accordance with the Corporations Act 2001 including:

- (a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 17 - 24 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report for Hydrotech International Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



NICHOLAS HOLLENS

Principal

Perth, WA

Dated this 15th day of September 2009



**Hydrotech International Limited ABN 42 122 726 283
and Controlled Entities**

**ADDITIONAL STOCK EXCHANGE INFORMATION
AS AT 31 AUGUST 2008**

Number of Shares and Shareholders

475,296,238 fully paid ordinary shares are held by 772 shareholders.
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Distribution of Shareholders

<i>Range</i>	<i>Total Holders</i>	<i>Total No. of Shares</i>	<i>% of issued capital</i>
1 – 1,000	1	1	0.00%
1,001 – 5,000	24	82,698	0.02%
5,001 – 10,000	67	612,638	0.13%
10,001 – 100,000	307	13,126,612	2.76%
100,001 and over	373	461,474,289	97.09%
Total	772	475,296,238	100.00%

The number of shareholdings less than a marketable parcel is 276 (accounting for a total of 5,356,259 shares)

Substantial shareholders (greater than 5%)

The names of the substantial shareholders listed in the holding company's register as at 31 August 2009 are:

<i>Shareholder</i>	<i>Number</i>	<i>% of issued capital</i>
Philip John Gray	46,431,618	9.77
Total	46,431,618	9.77

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

**Hydrotech International Limited ABN 42 122 726 283
and Controlled Entities**

Details Regarding Escrow

The number of securities subject to escrow and the escrow period applied to those securities are as follows:

Escrowed (voluntary) Fully Paid Ordinary Shares

Escrow Release Date	Number of shares
Escrow expiry date – 1 July 2010	181,437,499

Escrowed Options

Escrow Release Date	Number of options
Escrow expiry date – 28 February 2010	10,000,000

Twenty Largest Shareholders

Shareholder	Number	% of issued capital
Lippo Securities Ltd	153,157,069	32.22
Philip John Scott Gray*	38,176,212	8.03
Ian George Dallas	23,446,911	4.93
Karl Johan Grebstad	20,000,000	4.21
Nicholas Sibley	19,614,777	4.13
Kyle Bradley Haynes	8,571,428	1.80
Estate of John Douglas Kerr	5,961,926	1.25
Henning Syversen	3,517,037	0.74
Kjell Utklev	3,517,037	0.74
Peter W Buckby	3,446,911	0.73
Surfboard Pty Ltd - ARW Super Fund	3,057,142	0.64
John Grace & Zoe Ainsworth Grace	2,500,000	0.53
The Boyd Superannuation Fund Pty Ltd	2,500,000	0.53
Austock Nominees Pty Ltd	2,388,841	0.50
Arlington Capital Pty Ltd	2,250,000	0.47
Bell Potter Nominees Ltd	2,104,804	0.44
ACP Investments Pty Ltd –A & L Pismiris Super Fund	2,000,000	0.42
Invia Custodian Pty Ltd	2,000,000	0.42
Robert Gemelli	1,878,570	0.40
Nyuk Sang Liew	1,804,595	0.38
	301,893,260	63.51

*Philip J S Gray indirectly holds another 8,225,406 shares under the name of Lippo Securities Ltd

**Hydrotech International Limited ABN 42 122 726 283
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Performance Options

There are 10,000,000 (with a 30 cent exercise price) unquoted options issued to 5 option holders who were Directors at the time of listing.

Name	Number of options	%
Mr. Lee Boyd	2,000,000	20
Mr. Ian Dallas	2,000,000	20
Sir James Hodge	2,000,000	20
Mr. David Ledger	2,000,000	20
Mr. Stephen Penrose	2,000,000	20

Option holders do not have any voting rights with respect to the options held by them.

On-Market Buy-Back

There is no current on-market buy-back

Stock Exchange Listings

Hydrotech has issued 475,296,238 fully paid ordinary shares, all of which are quoted on the ASX and are held by 772 shareholders.

Company Secretary

Fiona Boucher

Principal Registered Office

Level 40, 108 St Georges Terrace
Perth WA 6000

Share Registry

Link Market Services Ltd