Hydrotech

Hydro Technology + innovation

Hydrotech International Limited

ABN 42 122 726 283

Annual Report
30 June 2010

HYDROTECH INTERNATIONAL LIMITED ABN 42 122 726 283
Annual report – 30 June 2010

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Corporate directory

Directors	P J S Gray MA, DMS, TEP, FinstD, DipTA, FSTA, MHKSI *Chairman* F K Lung BSc(Eng), PhD(Eng), LLB, MSc(Mgmt) *Deputy Chairman* K J Grebstad HKIA S P Cranswick A P McKee
Secretary	M J Langoulant CA R A Jarvis FCCA
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Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
Banker	HSBC Bank Australia Limited Level 1 188-190 St George's Terrace Perth WA 6000
Stock exchange listings	Hydrotech International Limited shares are listed on the Australian Securities Exchange (ASX) under the code HTI.
Website address	http://www.hydro-usl.com

Chairman's letter

Dear Shareholders,

It has been said that sometimes to confirm and validate the direction you are going, it is useful to look back to see where you have come from.

In this context, Hydrotech has gone through a major transformation over the last two years, fundamentally re-engineering itself whilst going through a painful learning curve in the process. All this should be seen against a backdrop of a global recession, deeply ingrained industry conservatism and resistance to change and a highly protracted decision making process of major prospective clients.

Starting with stewardship of the Company, the Board has gone through a number of fundamental changes involving a decisive break with past and evolving into what it is today, in much better shape to face the challenges and opportunities being presented. The Company's management, especially at the front end, has also been radically changed, moving from a heavy tech/engineering approach to a more relevant practical and commercial approach. In addition, we shifted our marketing efforts from contractors and the like and progressively directly targeted infrastructure/asset owners and their advisors. All these moves are consistent with a profound transition in the Company's culture, shifting from proselytising to commercial conversion and moving away from an excessive concentration on major elephantine projects to a more realistic and wider range of smaller projects.

In this context, a deeply ingrained over optimism based on securing a "Company making" contract has given way to a more somber, sober and probalistic assessment of our commercial opportunities and chances.

Consistent with this profound change in Board composition, management, corporate culture and philosophy, there has been a radical examination of the Company's cost structure especially in light of global economic conditions and absence of any significant commercial success on our part.

Salaries were markedly reduced and non-executive Directors gave up their fees. Our expensive UK marketing operation and an oversized and inappropriate Research and Development operation in Norway was dramatically downsized and both are now in hibernation. Most recently, our Chinese operation has been radically restructured along more commercial, practical and focused lines. During this painful period, we also dramatically improved our management systems, processes, formalised policies and procedures.

Finally, while reviewing where we have come in the context of where we are going, I can't help commenting that we have experienced an unprecedented run of bad luck including some truly bizarre accidents of fate. Hopefully, Lady Luck will look more favourably on us in due course.

Moving on to our current and future operations, there is increasing evidence that our groundbreaking efforts to introduce MPS as the solution to water ingress in subterranean concrete structures are beginning to bear fruit as evidenced by a significant increase in client requests for information, presentations and the like. Nevertheless, it will continue to be a slow development, given industry conservatism and the tortuous nature of major infrastructure clients' decision-making process. However, the tide is now in our favour, reinforced by a powerful global trend embracing the concept of "Sustainability" where the introduction of MPS can radically extend an infrastructure's "life expectancy".

In the meantime, in part to compensate from the adverse cash flow implications of our long lead-time MPS business your Company took the decision around the turn of the year to extend/diversify its narrow one product solution to a specific form of water ingress to encompass our broader range of product solution to a wider range of water ingress problems. These products include well-proven and highly established sprayable industrialised coatings for a very wide range of applications including bridges, railways, rooftops, facades, sewage works and pipelines.

These products have two profound strategic advantages in a corporate strategy sense (in addition to their inherent profitability) - namely a short decision making implementation, payment cycle which is a big positive for us in cash flow terms. At the same time, incremental marketing costs are minimal given that we are marketing to the same client base (whilst at the same time reinforcing our market image as the water proofing specialists).

After an inevitable build up period, we have recently become extremely gratified by an exponential increase in client enquiries which are already being converted into commercial contracts.

Mindful of the Company's over optimism some years ago and the line from Jaws – "Just when you thought it was safe to enter the water", I am reasonably confident that Hydrotech has now turned the corner and it is now a question of what trajectory our recovery will take. We will have a better idea at the end of calendar 2010.

However, we cannot be complacent as major, but in some respect welcome, new management challenges are now emerging in terms of adequacy of resources, resource allocation and project prioritisation as our business, especially on the coatings side accelerates. Inevitably our burn rate must increase and temporarily might be a quarter or so ahead of any commensurate increase in cash flow. This needs to be carefully and delicately managed.

Finally, we have not got to this turnaround stage without the dedication and enthusiasm of our small intrepid team. They truly and richly deserve our collective thanks.

P J S Gray
Chairman

Review of operations and activities

A review of, and information about the Group's operations, including the results of those operations during the year together with the information about the financial position of the Group appears below and should be read in conjunction with the Notes to the Financial Statements appearing from page 41 of this 2010 Annual Report.

Operating Results

The consolidated net loss for the financial year was $1,545,232 (2009: $4,370,697).

The net loss of the Parent entity for the financial year was $364,942.

HTI commenced the year on a positive note following shareholder approval being granted for a share placement to a group of investors and a Share Purchase Plan which was offered to all eligible holders on the register. A total of $2,071,678 was raised which, after fund raising activity costs, provided a substantial cash injection for the Company to enable it to pursue its twin objectives of launching a new coatings division whilst simultaneously continuing the marketing of its proprietary technology, the MPS System.

In addition, the initiatives implemented during the previous year from the Company's comprehensive strategic review, such as suspension of Directors' fees, staff salary cuts and a rationalisation of regional offices, have contributed to a substantially lower cash burn rate enabling the company to husband it's cash resources.

The Board's decision to expand the group's product offering to include a range of waterproofing coating and lining products has proven to be successful with a number of contracts awarded during the year. These sales have generated additional revenue and provided the Company with the short term cash resources as envisaged in our corporate strategy.

Australia

There have been some changes to the Board during the year. This is in part due to the fact that the Company is cognisant it must regularly review the composition of the Board in order to establish an adequate mix of skills and expertise to provide and support it's corporate strategy and to achieve its corporate goals.

HTI's Company Secretary, Ms Fiona Boucher, retired on 12 April 2010. In response, the Board subsequently decided, consistent with its strategic initiatives, to outsource its accounting and corporate secretarial functions in Australia by appointing Mr Michael Langoulant and Mr Richard Jarvis of Corp Admin Resources Pty Ltd to act as joint Company Secretary for the Company.

In addition, other changes to the Board included the appointment of:

- Dr Francis Lung, Chairman and CEO of LX1 Technology Limited who had spent over 22 years in the infrastructure and utility industries was appointed to the Board as Non-executive Director on 1st February 2010.

- Stewart Cranswick, an ex-stockbroker with a wealth of experience from a wide range of industries was appointed to the Board as a Non-executive Director on 31 May 2010.

and the resignation of :

- Dr Andries Fourie retired as Non-executive Director on 31 May 2010.

Hong Kong

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

- a property management company specified the system for a basement in a commercial building and the project was successfully completed in January 2010,

- a leading consultant 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 was successfully completed in November 2009, and

- a small trial area was completed for The Hong Kong Housing Authority at their Oi Man Estate. The Hong Kong Housing Authority are the largest property owner in Hong Kong and have a major influence in introducing new concrete repair and refurbishment systems into Hong Kong. A successful application of the MPS System to their structures will provide a major stimulant to our ongoing marketing activities. The success of the MPS installation at the Oi Man Estate has been documented in a recent press release to the ASX.

Wo Hop Shek Crematorium

Following negotiations with the main contractor, works commenced on the installation of the MPS System in the Wo Hop Shek Crematorium. Works are ongoing to date and expected to be completed in early 2011. The client for this project is The Architectural Services Department of the Hong Kong Government, which is responsible for the design of all public buildings, and as with The Hong Kong Housing Authority offers a significant stimulus to the marketing opportunities of the MPS system.

Mass Transit Railway Corporation

Negotiations continued with the Hong Kong Mass Transit Railway Corporation (MTR) to identify an area to utilise the MPS system within its rail network; as a consequence of the merger of the 2 rail networks in Hong Kong the operational structure of the MTR is undergoing a series of changes. Though this has resulted in a delay to the implementation of the proposed MPS system, the MTR has reiterated on numerous occasions that they intend to commence the project once financing has been agreed. These discussions are ongoing to date.

Hong Kong Club installation

Numerous presentations were made to leading consultants, architectural firms and property managers which led to strong leads which HTI are working on converting to confirmed contracts. The use of the MPS System has been specified for remedial waterproofing works to the basement of the prestigious Hong Kong Club in the CBD area and it is envisaged at the time of preparing this report that the installation will begin in quarter 2, 2011.

Coatings business

During the first half of the year, considerable effort was spent on developing the new coatings business. Delivering material selection and providing on-site technical support and supervision throughout a project, the coatings division ('Hydrotech Waterproofing Solutions') aims to solve clients waterproofing problems whilst generating supplemental revenue in the short term to compliment HTI's inherent long cash flow cycle.

Initial focus has been on introducing Polyurea systems into the Hong Kong construction sector; Polyureas are actively used in the US and have recently been introduced into China where over 1,000,000sqm has been specified for the High Speed Rail Link between Beijing and Shanghai. Extensive marketing documentation has been produced and demonstration road shows organised to this end. Attractive market segments have been identified and relationships redeveloped with key decision makers within these segments. Areas of activity include introducing Polyurea into wastewater treatment facilities, internal pipeline refurbishment, mass transit projects, waterproofing of water features and roof refurbishment.

Marketing has been based on our clients' need to upgrade their existing waterproofing specification to incorporate environmental issues.

Requests for presentations and subsequent issuing of proposals have risen month on month since the beginning of the year.

<u>China</u>

In line with strategic initiatives, HTI completed the restructuring of the China business operation with the downsizing of the Beijing office. A Sales Manager has been appointed to begin work in the new financial year with a revised strategy of working with established waterproofing agents in China to secure contracts. It is anticipated that this change in sales strategy will result in an increased number of installations of the MPS System.

Private Residential Villas

Agreements were signed for the MPS System to be installed in a number of basements of private villas within walled residential developments. These projects have enabled the MPS System to be showcased to owners of homes within these developments, most of which are built adjacent to rivers or lakes and as such, suffer from water ingress issues. It is envisaged that the proven efficacy of the MPS System to solve the issues traditionally afflicting this segment of the housing market will lead to an increase in installations.

Yunnan Tengmeishang Tunnel

Following the successful review held in Kunming by a panel of independent experts of the MPS System installed to a trial section of the Tengmeishang Tunnel in Yunnan Province, discussions were held with the client regarding future opportunities. The client has also expressed interest in exploring opportunities with HTI's new coatings division.

Guangzhou Metro Line 6

Works commenced in March 2010 on the planned MPS System installation to the Guangzhou Metro Line 6 and is currently ongoing with completion expected by the end of quarter 2, 2011.

Other opportunities

Negotiations continued for installations in the Zhengzhou Cable Tunnel and The Harbour Company of WISCO in Wuhan as reported in the Company's quarterly updates.

UK

Swansea Guildhall

The MPS installation to Phase 1 of the refurbishment project at the Guildhall in Swansea was deemed successful and negotiations are ongoing regarding further installations in additional Phases of the projects.

Cardoe Martin Ltd

The pilot project identified by Cardoe Martin Ltd, on behalf of its client in central London was completed and is currently being monitored.

Norway

In line with the strategic initiatives taken at the beginning of the year, the majority of the Research and Development facility was downsized. The Norway office continues to provide technical assistance to group offices as well as the development of the UK and European markets going forward.

New Zealand

St George's Hospital Cancer Care Centre

The MPS System was installed in the basement of St George's Hospital Cancer Care Centre in Christchurch. This was a milestone project being the first installation of the MPS System in the region. The project was commissioned in December 2009 and has been deemed a success. HTI worked with major New Zealand consultants on this project and it is envisaged that this niche will be further developed.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Hydrotech International Limited ('Hydrotech' or 'the Company') and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors

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

- P J S Gray
- A P McKee
- K J Grebstad

F K Lung, S P Cranswick and M P Hendriks were appointed as directors on 1 February 2010, 31 May 2010 and 1 August 2010 respectively and continue in office at the date of this report.

I G Dallas was a director from the beginning of the financial year until his resignation on 23 October 2009.

A B Fourie was a director from the beginning of the financial year until his resignation on 31 May 2010.

Principal activities

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

The following significant change in the nature of the activities of the Group occurred during the year:
Incorporation of a new subsidiary involved in the supply of innovative waterproofing and corrosion protection technologies including design for the protection of structures.

Dividends

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

Review of operations

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

Significant changes in state of affairs

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

Matters subsequent to end of financial year

In the opinion of the directors, with the exception of the non-repayment of the related party loan receivable due on 9 August 2010 – refer Note 11, which is in dispute and a full provision for impairment has been made, 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 Group's operations, results or the state of affairs in future financial years.

Likely developments and expected results of operations

The recent press release from The Hong Kong Housing Authority on the efficacy of the MPS system has provided a significant stimulant in Hydrotech's target market sectors of developers and property managers in Hong Kong. The Company's critical objective is to turn this momentum into projects encouraging a wider uptake of the MPS technology. Many Hong Kong developers are also very active within China and greater usage of the MPS system in Hong Kong will facilitate a speedy roll out of the technology into China, offering significant financial returns.

The successful introduction of Coatings to Hydrotech's product range opens significant opportunities to expand the business into contracting and project management. With the award of several projects on the Ocean Park redevelopment HTI has established a proven track record of supplying quality services and products and is now in a position to expand its range of services by undertaking contracts. This would provide significantly more profit opportunities but does come with increased operational costs and added risk. However it would also allow the Company to climb higher up the value chain within a contract and reduce the risk of bad debts.

Marketing discussions are ongoing with major infrastructure owners to upgrade their current coating specifications to match our Polyurea systems. The added interest in Hydrotech generated by the MPS system has also provided synergies by opening further opportunities with property managers for undertaking roof waterproofing using Polyurea systems.

Hydrotech remains keen on developing strategic relationship with subcontractors and agents both in China and Hong Kong who can use their influence to develop attractive market segments.

Activities in the UK will continue to be managed by the Norway office. However there may be a need to identify strategic partners in New Zealand and East Asia.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

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

Information on directors

P J S Gray MA, DMS, TEP, FinstD, DipTA, FSTA, MHKSI. *Chairman – Non-executive.* Age 61.

Experience and expertise

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

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

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

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chairman of the Board.
Chairman of the Remuneration committee.
Member of the Audit committee.

Interests in shares and options

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

A P McKee *Executive sales director.* Age 48.

Experience and expertise

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

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

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

Information on directors *(continued)*

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

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Sales director.

Interests in shares and options

7,000,000 unlisted options over ordinary shares in Hydrotech International Limited.

K J Grebstad HKIA. *Non-executive director.* Age 61.

Experience and expertise

Mr Grebstad is a Chartered Architect with over 30 years professional experience and has practiced as a principal of his own firm in Hong Kong for the last 24 years. He is a Charter member of the Hong Kong Institute of Architects.

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

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

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chairman of the Electro-osmosis advisory committee.

Interests in shares and options

23,446,911 ordinary shares in Hydrotech International Limited.

Information on directors *(continued)*

F K Lung BSc(Eng), MSc(Mgmt), LLB, PhD. *Non-executive director.* Age 51

Experience and expertise

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

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

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

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chairman of the Audit committee.

Member of the Remuneration committee.

Interests in shares and options

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

S P Cranswick. *Non-executive director.* Age 51.

Experience and expertise

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

Other current directorships

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

Information on directors *(continued)*

Former directorships in last 3 years

None.

Special responsibilities

None.

Interests in shares and options

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

M P Hendriks CA, F Fin, MAICD *Non-executive director.* Age 51.

(Appointed 1 August 2010)

Experience and expertise

Mr Hendriks is a Chartered Accountant, a member of the Financial Services Institute of Australia and a Member of the Australian Institute of Company Directors. He began his career with PricewaterhouseCoopers before moving into Corporate Finance. He was until recently a Non Executive Director at Wavenet International, having completed a 12 month Executive Director role in 2008 during the sale of that company's main business undertaking. He is also an Executive Director of a number of private investment trust companies.

Other current directorships

None.

Former directorships in last 3 years

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

Special responsibilities

Member of the Audit Committee

Interests in shares and options

Nil

Company secretary

M J Langoulant CA

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

Information on directors *(continued)*

R A Jarvis FCCA

Joint Company secretary of HTI since April 2010. Mr Jarvis is a Fellow member of the Institute of Chartered Certified Accountants with over 20 years financial and accounting experience. He has acted as Company secretary, Finance director and Chief financial officer for a number of listed public companies. He presently operates a corporate consultancy practice which provides corporate secretarial, accounting and bookkeeping services to publicly listed companies.

Meetings of directors

The numbers of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

			Meetings of committees					
	Full meetings of directors		Audit		Remuneration		Electro-osmosis	
	A	B	A	B	A	B	A	B
P J S Gray	4	4	4	4	2	2	**	**
I G Dallas (retired 23 October 2009)	1	2	1	1	**	**	**	**
A B Fourie (retired 31 May 2010)	4	4	**	**	**	**	1	1
K J Grebstad	1	4	**	**	**	**	1	1
A P McKee	3	4	**	**	**	**	**	**
F K Lung (appointed 1 February 2010)	1	1	3	3	2	2	**	**
S P Cranswick (appointed 31 May 2010)	-	-	**	**	**	**	**	**
M P Hendriks (appointed 1 August 2010)	-	-	-	-	**	**	**	**

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

Remuneration report (Audited)

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

Principles used to determine the nature and amount of remuneration

The Board has established some initial policies to ensure that the Company remunerates fairly and responsibly. The Remuneration Policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain desirable directors, Company secretaries and senior executives.

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.

The Remuneration committee/Board has maintained across the Board salary and benefits reductions introduced in the previous year. Whilst acknowledging the financial constraints of the Company and the necessity of these measures to ensure its future ongoing viability it has been noted that modest increases in staff remuneration will be required in the near term to compensate staff for their contribution to the Company. It has been agreed that staff remuneration will be reviewed regularly by the Remuneration committee/Board and may be re-instated at some time in the future, current constraints permitting.

Non-executive directors

Fees

During the year the Board reviewed its decision from the previous year regarding suspension of Non-executive directors' fees and confirmed it would be appropriate that these fees be re-instated at $25,000 pa considering the significant contribution to the Company in their roles. However the Board is cognisant of the financial constraints of HTI and will continue to review these fees on a regular basis.

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

The fees are normally set at $50,000 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 be noted that Mr Gray has declined to take any directors' (Parent or subsidiary), or Chairman's fees during his time on the Board.

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

Remuneration report (Audited) *(continued)*

Non-executive directors *(continued)*

Equity participation

10,000,000 options granted to directors of HTI before its listing in 2007 lapsed on 28 February 2010. No options were granted to non-executive directors during the 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 forms part of their directors' fees. HTI makes statutory employer contributions on behalf of its directors to the superannuation fund of their choice, as is required by legislation.

Executive director and senior management remuneration

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

Base salary

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

Profit share pool

It is envisaged that upon HTI becoming profitable, that a 'profit share pool' will be created and distributed at the discretion of the Board annually to further incentivise employees. For the year ended 30 June, 2010, and the comparative period, no bonuses were paid, or were payable to any key management personnel of the Company or Group.

Long term incentive option plan

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

During the year the company issued 16 million options of which 2 million were subsequently forfeited. Of these issued options 7,000,000 options were granted to executive director Mr McKee. A third of these options may vest per year of service conditional on the individual remaining in the employ of the Company during the entire vesting period. The exercise price of each option is 2 cents.

Remuneration report (Audited) *(continued)*

Executive director and senior management remuneration *(continued)*

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

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

Further details about these options are contained on pages 23 to 26 of this Remuneration report.

Other equity plans

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

Relationship between policy and HTI's performance

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

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

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.

Remuneration report (Audited) *(continued)*

Employment contracts

A P McKee
Executive sales director

Terms of Agreement – base salary of $1,008,000 Hong Kong dollars ($151,150 AUD*) per annum 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 15 May 2009.

J Jones
Finance consultant

Terms of Agreement – consultancy payment of $19,200 AUD based on one day per week plus provision for audit project work. Agreement can be terminated by either party with one month's notice after 31 August 2009, and there is no additional termination benefit payable. The current terms were amended and agreed from 1 June 2009.

Corp Admin Services Pty Limited
Secretarial and accounting services

Terms of Agreement – fixed fee of $72,000 AUD plus GST per annum for corporate secretarial and accounting services provided by Corp Admin Services Pty Limited including those services provided by M J Langoulant and R A Jarvis. Agreement can be terminated by either party with three months notice. The current terms were agreed from April 12, 2010.

** AUD conversion rates as at 30 June 2010, as reported by Oanda*

Details of remuneration

Amounts of remuneration

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

The key management personnel of the Group are the directors of HTI (see pages 12 to 15 above) and those executives that report directly to the Chairman being:

- S Heng – *Group Financial Controller*

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

- F B Boucher – *Company secretary: Group and Company executive (until 12 April 2010)*
- H Syversen – *Group design and development manager: Company executive*
- J Jones – *Finance manager: Company executive*

Changes since the end of the reporting period

None.

Remuneration report (Audited) *(continued)*

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

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

Remuneration report (Audited) *(continued)*

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

2009	**Short term employee benefits**				**Post-employment benefits**	**Long-term benefits**	**Share-based payments**			
Name	**Cash, salary & fees**	**Cash profit share**	**Non-cash benefit**	**Total**	**Superannuation**	**Long service leave**	**Options**	**Total**	**Proportion of remuneration performance related**	**Value of options as proportion of remuneration**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**	**%**
Directors										
Non-executive										
D Ledger	15,000	-	-	**15,000**	-	-	-	**15,000**	-	-
P J S Gray	-	-	-	**-**	-	-	-	-	-	-
A B Fourie	22,936	-	-	**22,936**	2,064	-	-	**25,000**	-	-
K J Grebstad	25,000	-	-	**25,000**	-	-	-	**25,000**	-	-
I G Dallas	95,823			**95,823**				**95,823**	-	-
Executive										
J Jones	146,075	-	2,499	**148,574**	-	-	-	**148,574**	-	-
A P McKee	175,556	-	4,944	**180,500**	-	-	-	**180,500**	**-**	-
Other Company and Group executives										
F B Boucher	138,600	-	2,275	**140,875**	12,474	-	-	**153,349**	-	-
TOTAL	**618,990**	**-**	**9,718**	**628,708**	**14,538**	**-**	**-**	**643,246**	-	-

Remuneration report (Audited) *(continued)*

Share based compensation

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	Date vested and exercisable	Expiry date	Fair value per option ($)	Exercise price ($)	Price of shares on grant date ($)	Estimated volatility (%)	Risk free interest rate (%)	Dividend yield (%)
30/11/09*	one third on each anniversary of issue	30/11/12	0.0075	0.0200	0.01	150	4.84	N/A

10,000,000 options previously granted to the Directors of HTI at the time of listing, lapsed on 28 February 2010.

*7,000,000 and 2,000,000 options were granted to A P McKee and H Syversen respectively during the year ended 30 June 2010.

*2,000,000 options granted to F B Boucher during the year, lapsed on 12 April 2010.

Options and rights over equity instruments granted as compensation

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

Year Ended 30 June 2010

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

Remuneration report (Audited) *(continued)*

Share based compensation *(continued)*

Year Ended 30 June 2009

Name	Held at 1/07/08	Options granted	Exercised	Lapsed	Held at 30/06/09	Vested during the year	Vested and exercisable as at 30/06/09
Directors							
L Boyd*	2,000,000	-	-	-	2,000,000	-	-
I Dallas *	2,000,000	-	-	-	2,000,000	-	-
J Hodge*	2,000,000	-	-	-	2,000,000	-	-
D Ledger*	2,000,000	-	-	-	2,000,000	-	-
S Penrose*	2,000,000	-	-	-	2,000,000	-	-

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

Shares provided on exercise of remuneration options

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

Remuneration report (Audited) *(continued)*

Share based compensation *(continued)*

Analysis of options and rights over equity instruments granted as compensation

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

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

2009	**Details of options**					**Value yet to vest**	
	Number	Grant date	% vested in year	% forfeited in year[1]	Financial year in which grant vests	Min ($)[2]	Max ($)[3]
Directors							
L Boyd*	2,000,000	28/02/07	-	-	2010	Nil	80,400
I G Dallas*	2,000,000	28/02/07	-	-	2010	Nil	80,400
J Hodge*	2,000,000	28/02/07	-	-	2010	Nil	80,400
D Ledger*	2,000,000	28/02/07	-	-	2010	Nil	80,400
S Penrose*	2,000,000	28/02/07	-	-	2010	Nil	80,400
Total	10,000,000						402,000

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

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

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

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

Remuneration report (Audited) *(continued)*

Share based compensation *(continued)*

Analysis of movements on options

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

As at 30 June 2010

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

As at 30 June 2009

	Options at the beginning of the year	Entitlement to options granted in year	Exercised in year	Lapsed/forfeited in year	Options at the end of the year
Directors					
L Boyd*	2,000,000	-	-	-	2,000,000
I G Dallas*	2,000,000	-	-	-	2,000,000
J Hodge*	2,000,000	-	-	-	2,000,000
D Ledger*	2,000,000	-	-	-	2,000,000
S Penrose*	2,000,000	-	-	-	2,000,000

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

This is the end of the audited Remuneration Report.

Shares under option

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

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

Shares issued on the exercise of options

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

Insurance of officers

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

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

Proceedings on behalf of the Company

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

The Company was not a party to such proceedings.

Non-audit services

Details of the amounts paid to BDO Audit (WA) Pty Ltd as the Auditor of HTI for audit services provided during the year are set out in note 21 to the financial statements. No non-audit services by BDO were performed during the year.

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

Auditor's independence declaration

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

Auditor

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

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

P J S Gray
Chairman

Perth
29 September 2010

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

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

29th September 2010

To The Directors
Hydrotech International Limited
Suite 2, 5 Ord Street
WEST PERTH WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF HYDROTECH INTERNATIONAL LIMITED

As lead auditor of Hydrotech International Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hydrotech International Limited and the entities it controlled during the period.

Glyn O'Brien

Glyn O'Brien
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

Corporate governance statement

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

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

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

Principles and Recommendations		**Compliance**
4.1	The Board should establish an Audit committee	√
4.2	Structure the Audit committee so that it consists of: • no executive directors • a majority of independent directors • an independent chair, who is not the chair of the Board • at least three members	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 (CFO) to state in writing to the Board that • the declaration provided in accordance with S295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	√
7.4	Provide the information indicated in Guide to Reporting on Principle 7	√

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

Directors and the Board

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

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

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

Size of Board and composition

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

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

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

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

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

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

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

Ethical standards and share dealings

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

Audit committee

HTI has an Audit committee in place which comprises three members being, Mr Lung as Chair,Mr Gray and Mr Hendriks (appointed 1 August 2010). The CFO and Company secretaries are non-Board members of the committee. The accounting function of the HTI Group is controlled by the CFO. The Audit committee reviews the performance of external auditors on an annual basis and will meet with them at least twice a year to review the results and findings of the audit, the appropriateness of provisions and estimates included in the financial results, the adequacy of accounting and financial controls and to obtain feedback on the implementation of the recommendations made. The Audit committee will also review the draft financial statements and audit review reports at year end and half-year end and recommend acceptance or otherwise thereof to the Board. A full copy of the Committee charter is contained in the "Corporate Governance Plan" which is available on the HTI website.

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

Continuous disclosure and shareholder communication

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

Risk management

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

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

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

Performance evaluation & remuneration policies

For the majority of last year, the Board of directors has had a continuous and informal method of reviewing its own performance which has taken place both inside and outside of the boardroom. A new formal system based on self assessment and peer group assessment, which culminates in Board 'average scores' has been implemented in order to provide better feedback to individual directors and the Board as a whole. The process of disseminating and collecting this information has been performed by an independent party and each director has provided information on an anonymous basis. The performance of key executives and other employees is monitored regularly on an informal basis and formally on an annual basis. The formal component of the performance review constitutes a written review of the individual's performance together with a face to face interview with the employee undertaken by their line manager. HTI regularly reviews the skills and experience of its Board of directors and implements appropriate changes to create the most optimal mix for the Company at this stage of its evolution. HTI has a Remuneration committee and its members comprise of Mr Gray as Chair, and Dr Lung. The committee's charter is contained in the Corporate Governance Plan. HTI's Remuneration Policy is detailed in the Remuneration report on page 20.

Electro-osmosis advisory committee

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

HYDROTECH INTERNATIONAL LIMITED ABN 42 122 726 283
Annual financial report – 30 June 2010

Contents

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

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

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

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

The financial statements were authorised for issue by the directors on 29 September 2010. The directors have the power to amend and reissue the financial statements.

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

	Notes	Consolidated	
		2010	2009
		$	$
Revenue from continuing operations	5	**390,421**	275,291
Change in inventories of finished goods and work in progress		**(182,419)**	(158,368)
Accounting fees		**(32,298)**	(5,910)
Audit fees	21	**(68,231)**	(87,109)
Employee benefits expense		**(763,066)**	(1,952,561)
Depreciation and amortisation expense	6	**(15,379)**	(28,738)
Consultants' fees and costs		**(77,390)**	(365,976)
Australian Stock Exchange fees		**(37,947)**	(10,553)
Rent and rates		**(121,700)**	(335,480)
Travelling expenses		**(144,544)**	(281,580)
Other expenses		**(161,970)**	(311,612)
Foreign exchange losses	6	**(69,856)**	(180,532)
Finance costs	6	**(8,846)**	-
Impairment of intangible assets	13	**-**	(836,139)
Impairment loss – loan receivable	11	**(250,000)**	-
Loss on disposal of fixed assets	12	**(2,007)**	(91,430)
Loss before income tax		**(1,545,232)**	(4,370,697)
Income tax expense	7	**-**	-
Loss for the year		**(1,545,232)**	(4,370,697)
Loss is attributable to the owners of Hydrotech International Limited		**(1,545,232)**	(4,370,697)
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		**Cents**	Cents
Basic earnings (loss) per share	26	**(0.3)**	(2.4)
Diluted earnings (loss) per share	26	**N/A**	N/A

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

	Notes	Consolidated	
		2010	2009
		$	$
Loss for the year		**(1,545,232)**	(4,370,697)
Other comprehensive income / (loss)			
Exchange differences on translation of foreign operations	18	**32,586**	(76,756)
Income tax relating to components of other comprehensive income / (loss)	7	**-**	-
Other comprehensive income / (loss) for the year, net of tax		**(1,512,646)**	(4,447,453)
Total comprehensive income / (loss) for the year		**(1,512,646)**	(4,447,453)
Total comprehensive income / (loss) for the year is attributable to owners of Hydrotech International Limited		**(1,512,646)**	(4,447,453)

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

	Note	Consolidated	
		2010	2009
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	8	**1,037,531**	2,258,006
Trade and other receivables	9	**96,862**	37,894
Inventories	10	**40,696**	-
Other financial assets	11	**-**	250,101
Total current assets		**1,175,089**	2,546,001
Non-current assets			
Property, plant and equipment	12	**45,988**	32,173
Intangible assets	13	**30,563**	25,532
Other financial assets	14	**-**	39,195
Total non-current assets		**76,551**	96,900
Total assets		**1,251,640**	2,642,901
LIABILITIES			
Current liabilities			
Trade and other payables	15	**124,948**	140,076
Total current liabilities		**124,948**	140,076
Non-current liabilities			
Borrowings	16	**116,718**	-
Total current liabilities		**116,718**	-
Total liabilities		**241,666**	140,076
Net assets		**1,009,974**	2,502,825
EQUITY			
Contributed equity	17	**14,583,669**	14,584,291
Reserves	18	**423,659**	370,656
Accumulated losses	18	**(13,997,354)**	(12,452,122)
Total equity		**1,009,974**	2,502,825

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

Attributable to owners of Hydrotech International Limited

Consolidated	**Note**	**Contributed equity**	**Options reserve**	**Exchange reserve**	**Accumulated losses**	**Total equity**
		$	**$**	**$**	**$**	**$**
Balance at 1 July 2008		**12,531,014**	**44,667**	**402,745**	**(8,081,425)**	**4,897,001**
Total comprehensive income for the year as reported in the 2009 financial statements						
Loss for the year		-	-	-	(4,370,697)	(4,370,697)
Foreign currency translation differences		-	-	(76,756)	-	(76,756)
Total comprehensive income for the year		**-**	**-**	**(76,756)**	**(4,370,697)**	**(4,447,453)**
Transactions with owners in their capacity as owners:						
Options		-	-	-	-	-
Contributions of equity, net of transaction costs		2,053,277	-	-	-	2,053,277
		2,053,277	-	-	-	2,053,277
Balance at 30 June 2009		**14,584,291**	**44,667**	**325,989**	**(12,452,122)**	**2,502,825**
Total comprehensive income for the year		**-**	**-**	**32,586**	**(1,545,232)**	**(1,512,646)**
Transactions with owners in their capacity as owners:						
Options		-	20,417	-	-	20,417
Contributions of equity, net of transaction costs		(622)	-	-	-	(622)
		(622)	20,417	-	-	19,795
Balance at 30 June 2010		**14,583,669**	**65,084**	**358,575**	**(13,997,354)**	**1,009,974**

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

	Note	Consolidated	
		2010	**2009**
		$	**$**
Cash flows from operating activities			
Receipts from customers		**303,096**	140,841
Payments to suppliers and employees		**(1,650,434)**	(3,425,644)
Interest and other items of a similar nature received		**42,299**	75,403
Net cash (outflow) inflow from operating activities	25	**(1,305,039)**	(3,209,400)
Cash flows from investing activities			
Payments of property, plant and equipment		**(31,345)**	-
Addition of intangibles		**(5,040)**	-
Transfers to and from reserves		**-**	(76,756)
Net cash (outflow) inflow from investing activities		**(36,425)**	(76,756)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	2,071,678
Proceeds from borrowings		**116,718**	-
Share issue transaction costs		**(622)**	(18,401)
Net cash (outflow) inflow from financing activities		**116,096**	2,053,277
Net increase (decrease) in cash and cash equivalents		**(1,225,368)**	(1,232,879)
Cash and cash equivalents at the beginning of the financial year	8	**2,258,006**	3,671,417
Effects of exchange rate changes on cash and cash equivalents		**653**	(180,532)
Cash and cash equivalents at end of year	8	**1,037,531**	2,258,006

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

Contents of the notes to the financial statements

1 Statement of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

These financial statements have been prepared on an accruals basis under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

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

Financial statement presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Going concern

As at 30 June 2010 the company had working capital of $1,050,141 (2009: $2,405,925). The company returned a loss before income tax of $1,545,232 (2009: loss $4,370,697). The ability of the company to pay its debts as and when they fall due for payment is dependent upon the continued financial support of the company's financiers and the ability of the company to trade profitably in the future. The directors believe that with the cost cutting initiatives implemented as part of the comprehensive strategic review undertaken in the previous year, resulting in a substantial lower cash burn rate this year, combined with expansion of the groups product offerings and changes to the way the company markets these products, provides a sound basis to return the company to profitable growth.

1 Statement of significant accounting policies *(continued)*

Removal of parent

Separate financial statements for Hydrotech International Limited as an individual entity, are no longer presented as the consequence of a change to the Corporations Act 2001. Financial information for Hydrotech International Limited as an individual entity is included in Note 28.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hydrotech International Limited ("Company" or "Parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Hydrotech International Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

A list of subsidiaries is contained in Note 23 to the financial statements. All subsidiaries have a June financial year-end.

(ii) Changes in ownership interests

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

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1 Statement of significant accounting policies *(continued)*

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

(iii) *Changes in accounting policy*

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date of control, joint control or significant influence ceased, became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(c) Segment reporting

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

Change in accounting policy
The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a material change from the way segment information has been historically been reported in the past. The Group operates in predominantly in one industry, the waterproof solutions systems industry, and operates in several geographical locations. Comparatives for 2009 have been restated.

(d) Foreign currency translation

(i) *Functional and presentation currency*

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

1 Statement of significant accounting policies *(continued)*

(ii) *Transactions and balances*

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

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

(iii) *Group companies*

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

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

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

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

(e) Revenue recognition

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

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

1 Statement of significant accounting policies *(continued)*

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

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

(f) Interest income

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

(g) Income tax

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

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

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

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

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

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

1 Statement of significant accounting policies *(continued)*

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

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

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

(h) Impairment of assets

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

(i) Cash and cash equivalents

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

(j) Trade receivables

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

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

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

1 Statement of significant accounting policies *(continued)*

(k) Inventories

Raw materials and stores, and work in progress

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

(l) Investments and other financial assets

Classification

(i) The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Loans and receivables

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

Recognition and derecognition

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

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Subsequent measurement

(iii) Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Impairment

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

1 Statement of significant accounting policies *(continued)*

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

(m) Property, Plant and Equipment

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

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

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

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

Class of fixed asset	**Depreciation rate**
Plant and equipment	10%–25%

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

(n) Intangibles

(i) Goodwill

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

(ii) Research and development

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

1 Statement of significant accounting policies *(continued)*

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

(o) Trade and other payables

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

(p) Borrowings

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

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

(q) Borrowing Costs

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

(r) Provisions

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

(s) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

1 Statement of significant accounting policies *(continued)*

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

(iii) Retirement benefit obligations

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

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

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Hydrotech International Limited Employee Option Plan. Information relating to this scheme is set out in note 28.

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

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

The Group has issued equity settled options that were valued in the year of issue using the Black-Scholes pricing model. During the financial year 16,000,000 options were issued of which 2,000,000 have subsequently been forfeited. The issued options are subject to non-market vesting conditions which currently have not been met, and the 10,000,000 options issued during the time leading up to the listing on the ASX have lapsed.

(v) Profit-sharing and bonus plans

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

(t) Contributed equity

Ordinary shares are classified as equity.

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

1 Statement of significant accounting policies *(continued)*

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

(ii) Diluted earnings per share

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

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

(v) Goods and Services Tax (GST)

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

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

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

(w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- **AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2]*** (effective from 1 January 2010)

  The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a Group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the Group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's financial statements.

1 Statement of significant accounting policies *(continued)*

- **AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]*** (effective from 1 February 2010)
  In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

- **AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*** (effective from 1 January 2013)
  AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it is unlikely to affect the Group's accounting for its financial assets as it does not hold any investments in financial instruments, such as available-for-sale debt investments. The Group has not yet decided when to adopt AASB 9.

- **AASB Interpretation 19 *Extinguishing financial liabilities with equity instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*** (effective from 1 July 2010)
  AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

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

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

2 Financial risk management

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

The Group holds the following financial instruments:

	Consolidated	
	2010	2009
	$	$
Financial assets		
Cash and cash equivalents	**1,037,531**	2,258,006
Trade and other receivables	**96,862**	37,894
Other financial assets	**-**	289,296
	1,134,393	2,585,196
Financial liabilities		
Trade and other payables	**124,948**	140,076
Borrowings	**116,718**	-
	241,666	140,076

(a) Market Risk

(i) Foreign exchange risk

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

As at 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.

2 Financial risk management *(continued)*

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 Australian dollar. The carrying amounts of the Group's financial assets and liabilities are all denominated in Australian dollar.

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

	30 June 2010					30 June 2009				
	AUD $	**GBP $**	**HKD $**	**RMB $**	**USD $**	AUD $	GBP $	HKD $	RMB $	USD $
Other financial assets	-	-	-	-	-	250,101	-	-	-	-
Borrowings	-	-	-	-	116,718	-	-	-	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the GBP, HKD, RMB and USD with all other variables held constant, the Group's loss for the year would have been $11,672/$10,611 higher/lower (2009 - $327,398) as a result of foreign exchange gains/losses on translation of subsidiary losses denominated in foreign currencies. Equity would have been $11,672/$10,611 higher/lower (2009 - $328,656) 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.

(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	
	2010 $	2009 $
Financial Assets		
Cash and cash equivalents at Floating rate*	**1,037,531**	2,258,006

** Weighted average effective interest rate 3.5% (2009 - 4.4%)*

2 Financial risk management *(continued)*

Group sensitivity

At 30 June 2010, 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 $8,300 lower/higher (2009 - $18,064), mainly as a result of a lower/higher interest income from cash and cash equivalents. Equity would have been $8,300 higher/lower (2009 - $18,064 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 54.

	Consolidated	
	2010	**2009**
	$	**$**
Cash at Bank and short-term bank deposits		
AA Rated	**1,037,531**	2,258,006

(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 $241,666 (2009: $140,076), comprised of non interest-bearing borrowings with a maturity of 18 months, and trade creditors and accruals with a maturity of 1 – 3 months.

(d) Fair value measurements

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

2 Financial risk management *(continued)*

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

(e) Capital risk management

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

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

3 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(n).

(ii) Income taxes

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

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

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

(i) 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.

3 Critical accounting estimates and judgements *(continued)*

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

4 Segment information

(a) Description of segments

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

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

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

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

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

There was no impairment charge or other significant non-cash item recognised in 2010.

4 Segment information *(continued)*

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

The segment information provided to the Board for the reportable segments for the year ended 30 June 2009 is as follows:

2009	Hong Kong $	United Kingdom $	China $	Norway $	Australia $	Total $
Total segment revenue	21,228	114,025	64,635	-	-	199,888
Inter-segment revenue	-	-	-	-	-	-
Revenue from external customers	**21,228**	**114,025**	**64,635**	**-**	**-**	**199,888**
Adjusted EBITDA	**(1,268,166)**	**(1,074,272)**	**(230,576)**	**(758,198)**	**(1,812,863)**	**(5,144,075)**
Depreciation and amortisation	8,002	14,542	171	5,331	692	28,738
Finance costs	-	-	-	-	-	-
Income tax expense	-	-	-	-	-	-
Total segment assets	**374,825**	**3,082**	**19,509**	**73,406**	**2,172,079**	**2,642,901**
Total assets includes:						
Additions to non-current assets (other than financial assets and deferred tax)	-	-	-	-	-	-
Total segment liabilities	**42,152**	**14,532**	**2,885**	**41,732**	**38,775**	**140,076**

There was no impairment charge or other significant non-cash item recognised in 2009.

(c) Other segment information

(i) Segment revenue

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

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

4 Segment information *(continued)*

(c) Other segment information *(continued)*

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

	Consolidated	
	2010	2009
	$	$
Total segment revenue	**340,706**	199,888
Inter-segment eliminations	**-**	-
Interest revenue	**42,299**	75,403
Other revenue	**7,416**	-
Total revenue from continuing operations (note 5)	**390,421**	275,291

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is $NIL (2009 - $NIL), and the total revenue from external customers in other countries is $340,706 (2009 - $199,888). Segment revenues are allocated based on the country in which the customer is located.

(ii) Adjusted EBITDA

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

4 Segment information *(continued)*

(c) Other segment information *(continued)*

(ii) Adjusted EBITDA (continued)

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

	Consolidated	
	2010	2009
	$	$
Adjusted EBITDA	**(1,545,409)**	(5,144,075)
Inter-segment eliminations	**-**	-
Interest revenue	**(42,299)**	(75,403)
Finance costs	**8,846**	-
Depreciation and amortisation	**15,379**	28,738
Impairment of intangible assets	**-**	820,043
Share options granted to directors and employees	**20,417**	-
Other	**(2,166)**	-
Loss before income tax from continuing operations	**(1,545,232)**	(4,370,697)

(iii) Segment assets

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

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2010	2009
	$	$
Segment assets	**1,251,640**	2,642,901
Inter-segment eliminations	**-**	-
Unallocated assets	**-**	-
Total assets as per the balance sheet	**1,251,640**	2,642,901

4 Segment information *(continued)*

(c) Other segment information *(continued)*

(iv) Segment liabilities

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

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

Reportable segments' liabilities are reconciled to total liabilities as follows:

	Consolidated	
	2010	2009
	$	$
Segment liabilities	**124,948**	140,076
Inter-segment eliminations	**-**	-
Unallocated liabilities:		
Non-current borrowings	**116,718**	-
Total liabilities as per the balance sheet	**241,666**	140,076

5 Revenue

	Consolidated	
	2010	2009
	$	$
From continuing operations		
Sales revenue		
Sale of goods	**340,706**	199,888
	340,706	199,888
Other revenue		
Interest from financial assets	**42,299**	75,403
Other	**7,416**	-
	49,715	75,403
	390,421	275,291

6 Expenses

	Consolidated	
	2010	2009
	$	$
Loss before income tax includes the following specific expenses:		
Depreciation and amortisation		
Plant and equipment	**15,370**	28,738
Intangibles	**9**	-
Total depreciation and amortisation	**15,379**	28,738
Finance costs		
Interest and finance charges	**8,846**	-
Finance costs expensed	**8,846**	-
Net loss on disposal of plant and equipment	**2,007**	91,430
Foreign exchange gains and losses		
Net foreign exchange losses	**69,856**	180,532
Net foreign exchange losses recognised in loss before income tax for the year	**69,856**	180,532
Defined contribution superannuation expense	**10,570**	14,538
Research and development	**7,838**	87,190
Impairment of other assets		
Impairment of intangible assets	**-**	820,043
Impairment loss – loan receivable	**250,000**	-
Total impairment losses – other assets	**250,000**	820,043

7 Income tax expense

	Consolidated	
	2010	2009
	$	$
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
Adjustments for current tax of prior periods	-	-
	-	-
Income tax expense is attributable to:		
Loss from continuing operations	-	-
Loss from discontinued operations	-	-
Aggregate income tax expense	-	-
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	-	-
Decrease (increase) in deferred tax liabilities	-	-
	-	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	**(1,545,232)**	(4,370,697)
Tax at the Australian tax rate of 30% (2009: 30%)	**(463,570)**	(1,311,209)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of intangible assets	**-**	246,013
Capital raising expenses	**187**	5,520
	(463,383)	(1,059,676)
Temporary differences and tax losses not brought to account as deferred tax asset	**463,383**	1,059,676
Income tax expense	**-**	-

Unrecognised deferred tax assets

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

Capital raising costs	**870,272**	869,650
Tax losses	**13,997,354**	12,452,122
	14,867,626	13,321,772

7 Unrecognised deferred tax assets *(continued)*

(i) $2,315,942 of the carried forward tax losses relate to Australian tax losses. The remaining $11,681,412 of the losses relate to losses incurred in foreign jurisdictions which the directors have estimated based on their understanding of tax laws in those jurisdictions. The utilisation of the foreign tax losses will only be offset against income generated in the country where the expense was incurred and will be dependent upon the company complying with the specific tax laws and regulations of those countries.

8 Current assets – Cash and cash equivalents

	Consolidated	
	2010	2009
	$	$
Cash at bank and in hand	**1,037,531**	2,258,006
	1,037,531	2,258,006

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

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

Balances as above	**1,037,531**	2,258,006
Balances per statement of cash flows	**1,037,531**	2,258,006

(b) Risk exposure

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

9 Current assets – Trade and other receivables

	Consolidated	
	2010	2009
	$	$
Trade receivables	**42,659**	17,535
Other receivables	**-**	3,817
Prepayments	**54,203**	16,542
	96,862	37,894

10 Current assets – Inventories

	Consolidated	
	2010	2009
	$	$
Raw materials and stores – at cost	**17,213**	-
Work in progress – at cost	**23,483**	-
	40,696	-

11 Current assets – Other financial assets

	Consolidated	
	2010	2009
	$	$
Loan receivable*	**250,000**	250,101
Provision for impairment	**(250,000)**	-
	-	250,101

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

Further information relating to the impairment of the loan receivable is set out in note 22.

12 Non-current assets – Property, plant and equipment

	Machinery	Furniture, fittings and equipment	Total
	$	**$**	**$**
Year ended 30 June 2009			
Opening net book amount	-	130,096	130,096
Additions	-	22,245	22,245
Disposals	-	(91,430)	(91,430)
Depreciation charge	-	(28,738)	(28,738)
Closing net book amount	-	32,173	32,173
Consolidated			
At 30 June 2009			
Cost	-	124,267	124,267
Accumulated depreciation	-	(92,094)	(92,094)
Net book amount	-	32,173	32,173
Year ended 30 June 2010			
Opening net book amount	-	32,173	32,173
Exchange differences	-	(153)	(153)
Additions	30,633	712	31,345
Disposals	-	(2,007)	(2,007)
Depreciation charge	(2,157)	(13,213)	(15,370)
Closing net book amount	28,476	17,512	45,988

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

	Machinery	Furniture, fittings and equipment	Total
	$	$	$
At 30 June 2010			
Cost	30,633	122,819	153,452
Accumulated depreciation	(2,157)	(105,307)	(107,464)
Net book amount	28,476	17,512	45,988

13 Non-current assets – Intangible assets

Consolidated	Goodwill $	Software $	Other rights $	Total $
Year ended 30 June 2009				
Opening net book amount	836,137	-	1,035	837,172
Additions	-	-	24,497	24,497
Impairment charge	(836,137)	-	-	(836,137)
Closing net book amount	-	-	25,532	25,532
At 30 June 2009				
Cost	836,137	-	25,532	861,669
Accumulated amortisation and impairment	(836,137)	-	-	(836,137)
Net book amount	-	-	25,532	25,532
Year ended 30 June 2010				
Opening net book amount	-	-	25,532	25,532
Additions	-	840	4,200	5,040
Impairment charge	-	-	-	-
Amortisation charge	-	(9)	-	(9)
Closing net book amount	-	831	29,732	30,563
At 30 June 2010				
Cost	-	840	29,732	30,572
Accumulated amortisation and impairment	-	(9)	-	(9)
Net book amount	-	831	29,732	30,563

14 Non-current assets – Other financial assets

	Consolidated	
	2010	2009
	$	$
Security deposit	**-**	39,195
	-	39,195

These financial assets are carried at cost.

15 Current liabilities – Trade and other payables

	Consolidated	
	2010	2009
	$	$
Trade payables	**2,007**	20,010
Other payables	**122,941**	120,066
	124,948	140,076

(a) Risk exposure

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

16 Non-current liabilities – Borrowings

	Consolidated	
	2010	2009
	$	$
Unsecured		
Loans from related parties*	**116,718**	-
Total unsecured non-current borrowings	**116,718**	-
Total non-current borrowings	**116,718**	-

* Further information relating to loans from related parties is set out in note 22.

(a) Risk exposure

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

17 Contributed equity

	Notes	Consolidated			
		2010	2009	**2010**	2009
		Shares	Shares	**$**	$
(a) Share capital					
Ordinary shares					
Fully paid		**475,296,238**	475,296,238	**13,340,514**	13,341,136
				13,340,514	13,341,136
Share capital of Universal Solutions Ltd				**1,243,155**	1,243,155
Total consolidated contributed equity				**14,583,669**	14,584,291

(b) Movements in ordinary share capital:

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

Funds raised from share issues were used for general working capital purposes.

(c) Ordinary shares

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

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

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

(d) Dividend reinvestment plan

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

17 Contributed equity *(continued)*

(e) Options

Information relating to the Hydrotech International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 27.

18 Reserves and accumulated losses

	Consolidated	
	2010	2009
	$	$
(a) Reserves		
Share-based payments	**65,084**	44,667
Foreign currency translation	**358,575**	325,989
	423,659	370,656
Movements:		
Share-based payments		
Balance 1 July	**44,667**	44,667
Option expense	**20,417**	-
Balance 30 June	**65,084**	44,667
Foreign currency translation		
Balance 1 July	**325,989**	402,745
Currency translation difference arising during the year	**32,586**	(76,756)
Balance 30 June	**358,575**	325,989
(b) Accumulated losses		
Movements in accumulated losses were as follows:		
Balance 1 July	**(12,452,122)**	(8,081,425)
Net loss for the year	**(1,545,232)**	(4,370,697)
Balance 30 June	**(13,997,354)**	(12,452,122)

18 Reserves and accumulated losses *(continued)*

(c) Nature and purpose of reserves

(i) Share-based payments

The Options reserve is used to:

- recognise the grant date fair value of options issued to employees but not exercised, and
- record items recognised as expenses on valuation of employee share options.

(ii) Foreign currency translation

The Exchange reserve records movements in foreign currency.

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

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

19 Dividends

No dividends have been declared or paid during the year.

20 Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated	
	2010	2009
	$	$
Short-term employee benefits	**448,688**	628,708
Post-employment benefits	**10,570**	14,538
Share-based payments	**13,126**	-
	472,384	643,246

Detailed remuneration disclosures are provided in the Remuneration report on pages 20 to 26.

20 Key management personnel disclosures *(continued)*

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options provided as remuneration together with terms and conditions of the options can be found in the Remuneration report on pages 20 to 26.

(ii) Option holdings

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

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

All vested options are exercisable at the end of the year.

2009	**Balance at start of the year**	**Granted as compensation**	**Exercised**	**Other changes**	**Balance at end of the year**	**Vested and exercisable**	**Unvested**
Directors of Hydrotech International Limited							
L Boyd*	2,000,000	-	-	-	2,000,000	-	2,000,000
I G Dallas*	2,000,000	-	-	-	2,000,000	-	2,000,000
J Hodge*	2,000,000	-	-	-	2,000,000	-	2,000,000
D Ledger*	2,000,000	-	-	-	2,000,000	-	2,000,000
S Penrose*	2,000,000	-	-	-	2,000,000	-	2,000,000

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

20 Key management personnel disclosures *(continued)*

(iii) Share holdings

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

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

2009	**Balance at the start of the year**	**Received during the year on exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of Hydrotech International Limited **Ordinary shares**				
P J S Gray	16,862,208	-	29,569,410	46,431,618
I G Dallas*	13,446,911	-	10,000,000	23,446,911
K J Grebstad	20,000,000	-	-	20,000,000
D Ledger	2,250,000-	-	(2,250,000)	-
A B Fourie*	25,000	-	-	25,000
A P McKee	-	-	-	-
F B Boucher*	25,000	-	714,285	739,285
J Jones*	-	-	-	-

21 Remuneration of auditors

	Consolidated	
	2010	2009
	$	$
(a) BDO Audit (WA) Pty Ltd		
Audit and other assurance services		
Audit and review of financial statements	**32,283**	-
Total remuneration for audit and other assurance services	**32,283**	-
Total remuneration of BDO Audit (WA) Pty Ltd	**32,283**	-
(b) Non-BDO audit firms		
Audit and other assurance services		
Audit and review of financial statements	**35,948**	87,109
Total remuneration for audit and other assurance services	**35,948**	87,109
Total remuneration of non-BDO audit firms	**35,948**	87,109
Total auditor's remuneration	**68,231**	87,109

22 Related party transactions

(a) Parent entities

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 20.

(d) Transactions with related parties

There were no related party transactions other than those with directors as discussed and disclosed on pages 21 and 75.

22 Related party transactions *(continued)*

(e) Loan receivable – provision for impairment

In prior years the company advanced $250,000 interest free to a key employee – refer to Note 11. This advance was due for repayment on 9 August 2010 and the employee is disputing the liability to repay the loan. As this loan is overdue and in dispute the company has made a full provision for impairment in the accounts and is pursuing full recovery of this receivable.

(f) Loans to/from related parties

	Consolidated	
	2010	2009
	$	$
Loans from other related parties		
Beginning of the year	**-**	-
Loan received - unsecured	**116,718**	-
Loan repayments/received	**-**	-
Interest charged	**-**	-
Interest received	**-**	-
End of year	**116,718**	-

23 Subsidiaries

	Country of Incorporation	Class of shares	Equity holding 2010 %	Equity holding 2009 %
Parent Entity:				
Hydrotech International Limited	Australia	Ordinary		
Subsidiaries of Hydrotech International Limited:				
Universal Solutions Limited	Hong Kong SAR, China	Ordinary	**100**	100
Hydrotech R & D Limited	Hong Kong SAR, China	Ordinary	**100**	100
Underground Solutions International Limited	Hong Kong SAR, China	Ordinary	**100**	100
Hydrotech China Limited	China	Ordinary	**100**	100
Subsidiaries of Universal Solutions Limited:				
Hydrotech Asia Limited	Hong Kong SAR, China	Ordinary	**100**	100
Hydrotech Europe Plc	United Kingdom	Ordinary	**100**	100
Subsidiary of Hydrotech Asia Limited:				
Hydrotech Waterproofing Solutions Limited	Hong Kong SAR, China	Ordinary	**100**	-

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

24 Events occurring after the reporting period

There are no significant items that have occurred after balance date, with the exception of the non-repayment of the related party loan receivable due on 9 August 2010 – refer Note 11. This loan is in dispute and a full provision for impairment has been made.

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

	Consolidated	
	2010	2009
	$	$
Loss for the year	**(1,545,232)**	(4,370,697)
Non Cash Items excluded from loss attributable to operating activities:		
Depreciation and amortisation	**15,379**	28,738
Loss on disposal of non-current assets	**2,007**	91,430
Non-cash employee benefits expense – share-based payments	**20,417**	-
Impairment of receivable	**250,000**	
Impairment of intangible assets	**-**	811,640
Unrealised exchange losses/(gains)	**69,856**	180,532
Changes in operating assets and liabilities, net of effects from purchase and disposal of controlled entity:		
(Increase)/decrease in fixed assets	**-**	(22,245)
(Increase)/decrease in trade and other receivables	**(58,968)**	217,612
(Increase)/decrease in inventories	**(40,696)**	-
(Increase)/decrease in other operating assets	**(2,676)**	128,354
(Increase)/decrease in outstanding loan	**-**	(16,168)
Increase/(decrease) in trade and other payables	**(15,128)**	(258,596)
Net cash inflow (outflow) from operating activities	**(1,305,039)**	(3,209,400)

26 Loss per share

	Consolidated	
	2010	2009
	Cents	Cents
(a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the company	**(0.3)**	(2.4)
Total basic loss per share attributable to the ordinary equity holders of the company	**(0.3)**	(2.4)
(b) Diluted loss per share		
From continuing operations attributable to the ordinary equity holders of the company	**N/A**	N/A
Total basic loss per share attributable to the ordinary equity holders of the company	**N/A**	N/A

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

	Consolidated	
	2010	2009
	$	$
Basic loss per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic loss per share:		
From continuing operations	**(1,545,232)**	(4,370,679)
	(1,545,232)	(4,370,679)
Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company:		
Used in calculating basic loss per share	**(1,545,232)**	(4,370,679)
Used in calculating diluted loss per share	**(1,545,232)**	(4,370,679)
Loss from discontinued operations	**-**	-
Loss attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(1,545,232)**	(4,370,679)

26 Loss per share *(continued)*

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

	Consolidated	
	2010 Number	2009 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**475,296,238**	180,153,298
Adjustments for calculation of diluted earnings per share:		
Options	**-**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**475,296,238**	180,153,298

(e) Information concerning the classification of securities

Options granted to employees under the Hydrotech International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic loss per share. Details relating to the options are set out in note 27.

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

27 Share Based Payments

(a) Employee Option Plan

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

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

27 Share Based Payments *(continued)*

The following share-based payment arrangements existed at 30 June 2010:

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

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

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

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

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

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

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

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

27 Share Based Payments *(continued)*

10,000,000 options expired during the periods covered by the above tables and 2,000,000 were forteited.

No options were exercised during the year.

The weighted average remaining contractual ife of share options outstanding at the end of the period was 2.42 years (2009 – 0.66 years)

Fair value of options granted

The assessed fair value at grant of options granted during the year ened 30 June 2010 was 0.75 cents per option (2009 – N/A). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

	Consolidated	
	2010	2009
Number of shares issued under the plan to participating employees on 1 December 2009 (2009 – 2 December 2008)	nil	nil

Expenses arising from share based payment transactions

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

	Consolidated	
	2010	2009
Options issued under employee option plan	20,417	N/A

28 Parent Entity Information

The following details information related to the Parent entity, Hydrotech International Limited, at 30 June 2010. The information presented here has been prepared using consistent accounting policies as presented in note 1.

	2010	2009
Current assets	895,999	2,169,446
Non-current assets	-	2,626
Total assets	**895,999**	2,172,072
Current liabilities	14,335	38,775
Non-current liabilities	-	-
Total liabilities	**14,335**	38,775
Contributed equity	13,340,514	13,341,136
Accumulated losses	(11,617,448)	(11,252,506)
Option reserve	(906,486)	44,667
Other reserve	65,084	-
Total equity	**881,664**	2,133,297
Loss for the year	364,942	8,483,389
Other comprehensive income / (loss) for the year	-	-
Total comprehensive income / (loss) for the year	**364,942**	8,483,389

29 Contingent liabilities

The directors are not aware of any contingent liabilities that exist as at 30 June 2010.

30 Commitments

The directors are not aware of any commitments that have not been recognised as liabilities in the accounts as of 30 June 2010.

The directors of the company declare that:

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

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

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

   (c) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.

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

3. The remuneration disclosures included in paragraphs pages 17 to 26 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2010 comply with section 300A of the *Corporations Act 2001.*

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

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

P J S Gray
Chairman

Perth
29 September 2010

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

Report on the Financial Report

We have audited the accompanying financial report of Hydrotech International Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, 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 controls 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(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:
(a) the financial report of Hydrotech International Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(a) of the financial report which indicates that the consolidated entity incurred a net loss of $1,545,232 for the year ended 30 June 2010, and, as at that date, the consolidated entity had working capital of $1,050,141. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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 of Hydrotech International Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien
Director

Perth, Western Australia
Dated this 29th day of September 2010

Additional Stock Exchange Information

Number of Shares and Shareholders

475,296,238 fully paid ordinary shares are held by 604 shareholders.
Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Distribution of Shareholders

Range	*Total Holders*	*Total No. of Shares*	*% of issued capital*
1 – 1,000	3	3	0.00%
1,001 – 5,000	8	27,033	0.01%
5,001 – 10,000	21	194,513	0.04%
10,001 – 100,000	211	10,678,327	2.25%
100,001 and over	361	464,396,362	97.70%
Total	604	475,296,238	100.00%

The number of shareholdings less than a marketable parcel is 188 (accounting for a total of 5,906,257 shares).

Substantial shareholders (greater than 5%)

The names of the substantial shareholders listed in the holding Company's register as at 31 August 2010 are:

Shareholder	*Number*	*% of issued capital*
Philip John Scott Gray	51,431,618	10.80
Total	51,431,618	10.80

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

Details Regarding Escrow

There are no securities subject to escrow.

Twenty Largest Shareholders

Shareholder	***Number***	***% of issued capital***
Lippo Securities Ltd	153,007,792	32.19
Philip John Scott Gray*	43,176,212	9.08
Karl Johan Grebstad	23,446,911	4.93
Nicholas Sibley	19,614,777	4.13
Stewart Cranswick	8,500,000	1.79
Ian George Dallas	8,446,911	1.78
Valueinvest	6,567,866	1.38
John Douglas Kerr	5,961,926	1.25
John Grace & Zoe Ainsworth Grace	5,500,000	1.16
Henning Syversen	3,517,037	0.74
Kjell Utklev	3,517,037	0.74
Austock Nominees Pty Ltd	3,208,841	0.68
Danwell Holdings Pty Ltd	3,000,000	0.63
Surfboard Pty Ltd	2,857,142	0.60
The Boyd Super Fund Pty Ltd	2,781,821	0.59
Trevor Neil Hay	2,744,976	0.58
John Grace & Zoe Ainsworth Grace	2,700,000	0.57
Joseph Super Pty Ltd	2,604,070	0.55
Arlington Capital Pty Ltd	2,250,000	0.47
Bell Potter Nominees	2,104,804	0.44
	305,508,123	64.28

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