



# Hydrotech

INTERNATIONAL LIMITED

ABN: 42 122 726 283



Hydro Technology + innovation

2007

ANNUAL REPORT



## DIRECTORS

**Sir James Hodge**  
Chairman

**Ian Dallas**  
Managing Director

**David Ledger**  
Non-Executive Director

**Lee Boyd**  
Non-Executive Director

**Stephen Penrose**  
Non-Executive Director

## COMPANY SECRETARY

**Fiona Boucher**

## REGISTERED OFFICE

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East Perth WA 6004

Phone: + 61 8 6212 0171  
Fax: + 61 8 6212 0180

## PRINCIPAL ADMINISTRATIVE OFFICES

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Hydrotech Asia Limited  
Level 21, Asian House  
1 Hennessy Road  
Hong Kong SAR

Phone: + 852 2865 6600

**United Kingdom**  
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11 Beaufort Court  
Roebuck Way  
Milton Keynes MK5 8HL

Phone: + 44 1908 675 244

## AUSTRALIAN COMPANY NUMBER

122 726 283

## AUSTRALIAN BUSINESS NUMBER

42 122 726 283

## AUDITORS

**Bentleys MRI Perth Partnership**  
Level 1, 10 Kings Park Road  
West Perth WA 6005

## SOLICITORS

**Tottle Partners**  
Level 40, BankWest Tower  
108 St Georges Terrace  
Perth WA 6000

## CORPORATE ADVISOR

**Capital Investments Partners Pty Ltd**  
Level 57, MLC Centre  
19 Martin Place  
Sydney NSW 2000

## SHARE REGISTRY

**Advanced Share Registry Services Pty Ltd**  
110 Stirling Highway  
Nedlands WA 6009

Phone: + 61 8 9389 8033  
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## WEBSITE

[www.hydro-usl.com](http://www.hydro-usl.com)

## ASX CODE

HTI

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# CHAIRMAN'S LETTER

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Dear Shareholders,

The few months since the listing of Hydrotech International Limited (HTI) on the Australian Securities Exchange in July have seen both a period of consolidation and a flurry of activity.

We were gratified by the response to the IPO, but not surprised that so many shared our confidence in the potential of our proprietary Multi Pulse Sequencing (MPS) system. We continue to believe that the prospects for business, and for the growth of that business, are great.

Our efforts over the past few months have concentrated on finalising the establishment and technical resourcing of HTI's UK and Hong Kong operations. To that end we have:

Rationalised the nomenclature of the various companies, to make it clear that they are all part of the Hydrotech Group. The UK operation is now Hydrotech Europe plc; the Hong Kong business is now Hydrotech Asia Limited; while the key technical development part of the operation in Norway is styled Hydrotech R & D Limited. This common branding serves both to avoid confusion on the part of customers and to demonstrate our unified commitment to the success of our world-wide operations.

Actively recruited high-calibre additional personnel, particularly well-qualified staff for our UK and Hong Kong operations. We now have 7 in the UK, 5 in Hong Kong, in China 4, and 4 in Norway. All are of high quality and all are committed to furthering HTI's business.

We restructured our back office procedures to ensure that all financial and management information is accessible immediately to all in the HTI Group.

HTI faces the future with confidence. We are taking forward the task of establishing strategic alliances with major civil engineering and construction companies in the UK and in China; and we are actively pursuing our existing contacts with the rail market (particularly the underground sector) in the UK. I am confident that our dedicated team will translate these contacts into business within the next few months.

I should like to thank the entire HTI team for their hard and focused work, which has brought us to the position where we are today, well-placed to seize future opportunities.

Sir James Hodge

Chairman

## DIRECTORS

### SIR JAMES HODGE CHAIRMAN KCVO CMG

Sir James is also a Non-Executive Director of both United Solutions Limited & Hydrotech Europe plc (formerly USIL (UK) plc). Both of these companies are subsidiaries of Hydrotech International Limited.

Until recently, Sir James was British Consul-General in Hong Kong. He retired from the British Diplomatic Service at the end of December 2003. Prior to the Hong Kong appointment he was British Ambassador to Thailand from 1996 to 2000 and before that, Minister, Deputy Head of Mission and Consul-General at Beijing.

His earlier service included some ten years in Tokyo, most of which were served on the commercial desk and two years in London as Head of the Economic Section of the United Nations Department, Foreign and Commonwealth Office.

Sir James holds a Master of Arts (Honours) from the University of Edinburgh, Scotland, is an Honorary Doctor of Letters conferred from the University of Ulster, Northern Ireland, is an Honorary Doctor of Laws conferred from the University of Liverpool, England and is a Member of the Chartered Institute of Linguists, London.

Honours conferred upon Sir James include:

- Knight Commander of the Royal Victorian Order (KCVO);
- Companion of the Order of Saint Michael and Saint George (CMG); and
- Knight Grand Cross (First Class) of the Most Exalted Order of the White Elephant of Thailand.

Sir James also holds directorships in the following UK based companies:

- Society of Pension Consultants (London);
- Asia House (London); and
- China Oxford Scholarship Fund (London).

Sir James is Chairman of the Remuneration Committee.

### IAN DALLAS MANAGING DIRECTOR

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

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

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

Mr. Dallas holds/has held directorships in the following Hong Kong-based and UK-based companies:

#### Hong Kong

- Universal Solutions Limited (USL);
- Underground Solutions International Limited (USIL);
- Hydrotech R&D Limited; and
- Universal Scientific Solutions Limited (formerly a Group company) - resigned 31 December, 2006.

#### United Kingdom

- Hydrotech Europe PLC (Group) (formerly USIL UK PLC).

Mr Dallas is a member of the Remuneration Committee and the Electro-Osmosis Advisory Committee.

# YOUR DIRECTORS

[CONTINUED]

LEE BOYD  
NON-EXECUTIVE DIRECTOR  
BBUS, DIP MGMT, ADV CERT BUS, CPA,  
FAICD, ACSA

Mr. Boyd is a CPA and has, over recent years, held various appointments as Chairman, Director, CFO and/or Company Secretary of a number of listed and unlisted companies. He has an extensive background at corporate and senior executive level within the manufacturing, industrial, mining and retail sectors in Australia. He is a member of CPA Australia, a Fellow of the Australian Institute of Company Directors, and an Affiliate of Chartered Secretaries Australia.

Mr. Boyd resigned as Company Secretary of HTI on 24 July 2007.

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

DAVID LEDGER  
NON-EXECUTIVE DIRECTOR  
MSDIA

Mr. Ledger has 20 years of experience as a stockbroker, commencing his career in 1985 as a trading floor operator on ASX and later becoming Floor Governor.

In 1991, David left Australia to pursue an institutionally-based stockbroking role in London where he joined James Capel & Co. specialising in broking resource stocks to institutions based in the UK and Europe. In 1994, he joined BZW, the investment banking arm of Barclays Bank as director and senior advisor on their Australian equities desk. In 2001, David returned to Australia to run the Global Sales of Australian equities for ABN AMRO and from 2002-2004, was an Executive Director of the ABN AMRO group.

Mr. Ledger has completed studies with the Securities Institute of Australia, is a Master Stockbroker with the Securities & Derivatives Industry Association, is a Responsible Executive of ASX and a Member of the Australian Institute of Company Directors.

Mr. Ledger is also an Executive Director and substantial shareholder of Capital Investment Partners Pty Ltd, corporate advisors to HTI and the recent Initial Public Offer.

Mr. Ledger is a member of the Audit Committee.

STEPHEN PENROSE  
NON-EXECUTIVE DIRECTOR  
B.COMM. B.JURIS, LL.B

Mr. Penrose is an experienced commercial solicitor having been practising since 1992. Mr Penrose holds degrees in Law and Commerce and a graduate diploma in Applied Finance and Investment.

Mr. Penrose is also a Partner of Tottle Partners, solicitors to HTI and the recent Initial Public Offer.

Mr. Penrose is a member of the Audit Committee.

## SECTION THREE - DIRECTORS' REPORT

In accordance with a resolution of Directors, the Directors present their Report together with the Financial Report of Hydrotech International Limited (HTI) and its controlled entities (together referred to as the Consolidated Entity) for the financial year ended 30 June 2007 and the Independent Audit Report thereon.

### 1. DIRECTORS

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

- Sir James Hodge (appointed 2 March 2007)
- Mr. Ian Dallas (appointed 2 March 2007)
- Mr. Lee Boyd (appointed 17 September 2006)
- Mr. David Ledger (appointed 17 September 2006)
- Mr. Stephen Penrose (appointed 17 September 2006).

Directors' qualifications, experience and special responsibilities are contained on page 3 and 4.

### DIRECTORSHIPS OF OTHER LISTED COMPANIES

Details of all directorships of other listed companies held by each Director in the three years immediately before 30 June 2007 and the period for which it was held are set out below :

Director	Directorship of Listed Entity	Period Held
Mr. Lee Boyd	Cell Aquaculture Limited Centralian Minerals Limited GSF Corporation Limited	March 2004 to October 2005 April 2007 to present July 2007 to present
Mr. Ian Dallas	Nil	N/A
Sir James Hodge	Nil	N/A
Mr. David Ledger	Mint Wireless Limited Erongo Energy Limited Arafura Pearls Holdings Limited	October 2006 to present May 2005 to July 2007 October 2006 to September 2007
Mr. Stephen Penrose	Central Asia Resources Ltd Enerji Ltd	April 2007 to present April 2007 to present

### 2. COMPANY SECRETARY

Fiona Boucher – appointed 24 July 2007  
BBus, Grad Dip AppCorpGov, CPA, FCIS  
Company Secretary

Ms Boucher has over 25 years experience in accounting and company secretarial roles. More recently she has worked at Convé Limited (Finance & Administration Manager and Company Secretary) and TFS Corporation Limited (Joint Company Secretary).

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

### 3. INCORPORATION AND LISTING ON THE ASX

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

### 4. PRINCIPAL ACTIVITIES

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

### 5. REVIEW OF OPERATIONS

A review of, and information about, the Consolidated Entity's operations, including the results of those operations during the year together with the information about the financial position of the Consolidated Entity appears below and should be read in conjunction with the Notes to the Financial Statements appearing from page 25 of this 2007 Annual Report.

#### OPERATING RESULTS

The consolidated net loss of the Consolidated Entity for the financial year was \$1,685,978.

The net loss of the Parent Entity for the financial year was \$218,479.

This financial year end should be considered as a foundation year, and a year of preparation.

From July 2006 until the financial year-end, the focus was on building an infrastructure that could support the aggressive business strategy that was adopted. The year began with basic operations in the UK, Hong Kong and Norway.

#### UNITED KINGDOM

In December 2006, USIL UK plc. established premises in Milton Keynes, which will be Hydrotech's European operational base for the foreseeable future.

#### Key initiatives

##### **Metronet Alliance**

At the beginning of the year Hydrotech had a single representative engineer based in the UK specifically for the Walthamstow Installation for Metronet Alliance on behalf of London Underground Limited (LUL).

##### **Network Rail**

Network Rail owns more than 2,500 railway stations on the national rail network. Management and operation of most of them is carried out by the principal train operating company serving that station but Network Rail manages and operates 17 of the largest and busiest stations directly.

##### **Licensees**

Hydrotech Europe has appointed two licensees in the UK for the use of the MPS System, one being Balvac Limited, a specialist division of the Balfour Beatty Group and the second being Concrete Repairs Limited the second largest concrete repair company in the UK, second to Balvac. Hydrotech has identified additional licensees and will be announcing a third appointment in October 2007.

##### **Regulatory Approvals**

During the year the Group sought approvals from a key professional body, being York EMC. York is the UK's leading test and accreditation body for electromagnetic compatibility. This testing is compulsory, as it tests our system against the other electronic systems deployed in the rail environment to ensure that there is compatibility and compliance to EC standards. The Hydrotech System is fully compliant and is certified as such.

#### ASIA

As with the UK, the Hong Kong office was charged with the promotion of MPS and to establish strategic relationships or licensees to promote our technology initially in China, then Asia as a whole.

##### **Peoples Liberation Army – China**

On 1 October 2006 USIL entered into a contractual agreement with the National Defence and Transportation Department (NDTD) of the People's Liberation Army. The agreement enables Hydrotech Asia Limited (HAL) to effectively enter into the market in Southern China for the application of MPS technology at a strategically high level.

##### **Shanghai Joint Waterproofing Technique Co. Ltd.**

In accordance with the USL business model, the Group will receive a license fee of up to 25% (but not less than 20%) of the gross project value of all project contracts entered into by JT which includes the supply and installation of the MPS system.

### Group Initiatives

#### Railway stations

In May 2007, Hydrotech began a survey of James St Station in Liverpool, which has a particular water ingress problem. A full proposal has been submitted and two of the licensees have submitted tenders for the work. As at the date of this report a budget has now been submitted to Network Rail, and we are awaiting an outcome by the end of September 2007.

#### Environment Agency

In January of 2007 we surveyed the Thames Barrier on behalf of the Environment Agency. In conjunction with our licensees, we submitted a proposal for the installation of the MPS system in Pier 7. We anticipate being informed of the outcome of the proposal around October 2007.

#### British Nuclear Group

Since the beginning of February 2007, we have held several strategic meetings with British Nuclear Group (BNG) and its sister company British Nuclear Fuels Limited. The meetings were to introduce and demonstrate the capability of the MPS system in the exacting environment of nuclear power stations.

#### Re-branding

Following the acquisition of Universal Solutions Limited (HK) (USL) by Hydrotech International Limited (Hydrotech), we decided to re-brand each of the operating companies. The business in the UK is now called Hydrotech Europe plc (formerly USIL UK plc) and in Asia we are known as Hydrotech Asia Limited (HAL) (formerly USIL (HK) Ltd).

#### R&D Initiatives

During the year, a large portion of our resources were allocated to R&D. The R&D team worked on creating further enhancements to the MPS System, predominantly to increase the security and protection of our intellectual property. The resulting enhancement is that the operating system within the control systems can now be remotely controlled by Hydrotech, ensuring the details of our proprietary system can be protected.

In addition to MPS, the R&D team continued with the Water Extraction and Transportation (WET System). More information on this is provided under Point 8, 'Likely Developments and Expected Results of Operations'.

## 6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Other than the admission of HTI to the official list of the Australian Securities Exchange on 16 July 2007, in the opinion of the Directors, there are no other significant changes in the state of affairs of the Consolidated Entity.

## 7. EVENTS SUBSEQUENT TO REPORTING DATE

The securities of HTI were quoted on the Australian Securities Exchange on 16 July 2007. 40,000,000 shares were issued as a result of HTI's Initial Public Offering (there are in total 155,952,466 shares on issue). Subsequent to year end, due to an oversubscription on the IPO, an amount of \$73,533 has been refunded to potential shareholders.

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

## 8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Consolidated Entity intends to continue its principal activities in the design and installation of technology in the area of prevention of water ingress into subterranean concrete and masonry structures.

The UK will see a conclusion to several key initiatives. Hydrotech Europe Plc will continue to target rail as a main driver. The negotiations with BNG, we expect to lead to contracts in the second half of the year.

With the increased manpower the Group can now diversify its attention to consulting engineers and architects, thereby increasing our potential area of influence to areas other than rail.

Additional licensees are being evaluated and will be appointed throughout the year.

Asia is a key area for HTI and with the assembly of our team in China we will be in a very strong position to target large-scale infrastructure projects including dams and major water projects in mainland China.

We expect several contracts in Macau and Thailand in the coming year as we have initiated contact and it has been well received.

# DIRECTORS' REPORT

[CONTINUED]

## R&D

We continue to develop our technology and in FY 2007/08 we will be announcing major new technologies based upon the existing MPS system, one key variant is the WET system.

The WET technology represents a host of new applications for the use of electro osmosis for controlling hydraulic water pressure and dehumidification processes. In addition to our previous approach using anodes and cathodes, we now introduce the intermediate electrodes which will act as both anode and cathode in a pulsed sequence. The system is initially intended for use in soil, sand and clay, but other applications may be developed to meet marked demand. A small scale testing of the system is being undertaken at our facility, however for a larger scale trial we are actively seeking a suitable partner.

The Directors are confident that with the infrastructure in place we can now focus on contracts and revenue generation commensurate with our unique technology.

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

## 9. ENVIRONMENTAL REGULATIONS AND PERFORMANCE

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

## 10. DIVIDENDS

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

## 11. OPTIONS AND RIGHTS

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

### UNISSUED SHARES UNDER OPTION

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

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

2,000,000 options have been issued to each Director, being a total of 10,000,000 options. The exercise of these options is conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year. Further details about the options are contained in the Remuneration Report.

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

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

### SHARES ISSUED ON EXERCISE OF OPTIONS

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

## SECTION THREE - DIRECTORS' REPORT [CONTINUED]

### 12. ATTENDANCE AT DIRECTORS' BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

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

Director	Board	
	Meetings attended	Meetings held during Director's tenure
Sir James Hodge <sup>1</sup>	2	2
Mr Ian Dallas <sup>2</sup>	2	2
Mr David Ledger	5	5
Mr Lee Boyd	5	5
Mr Stephen Penrose	5	5

<sup>1</sup> Sir James Hodge was appointed Chairman on 2 March 2007.

<sup>2</sup> Ian Dallas was appointed Managing Director on 2 March 2007.

HTI has established an Audit Committee, Remuneration Committee and an Electro-Osmosis Advisory Committee. No Committee Meetings were held during the financial year under review. Details of Committee membership are referenced in the Directors' biographies set out on pages 3 and 4.

### 13. DIRECTORS' INTERESTS

Particulars of directors' relevant interests in securities of HTI as at 30 June 2007 are as follows:

Director	Ordinary Shares		Options	
	Number	Interest	Number	Interest
Mr. Lee Boyd <sup>1,4</sup>	437,854	Indirect	2,000,000	Direct
Mr. Ian Dallas <sup>4</sup>	13,446,911	Direct	2,000,000	Direct
Sir James Hodge <sup>4</sup>	Nil	N/A	2,000,000	Direct
Mr. David Ledger <sup>2,4</sup>	2,250,000	Indirect	2,000,000	Direct
Mr. Stephen Penrose <sup>3,4</sup>	500,000	Indirect	2,000,000	Direct

<sup>1</sup> Mr. Boyd has a beneficial interest in The Boyd Super Fund Pty Ltd as Trustee for The Boyd Super Fund which holds 437,854 shares in HTI.

<sup>2</sup> Mr. Ledger is a Director of Arlington Capital Pty Ltd which holds 2,250,000 shares in HTI.

<sup>3</sup> Mr. Penrose is a Director of 40,108 Custodians Pty Ltd and of Terrace Capital Partners Pty Ltd, each of which holds 250,000 shares in HTI.

<sup>4</sup> 2,000,000 options have been issued to each Director, being a total of 10,000,000 options. The exercise of these options is conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net profit after tax of the company exceeding \$8,000,000 in any financial year.

### CONTRACTS

HTI engaged the services of Capital Investment Partners Pty Ltd as its corporate advisors and for its recent Initial Public Offer. Mr. Ledger is an Executive Director and substantial shareholder of Capital Investment Partners Pty Ltd.

HTI engaged the services of Tottle Partners as its corporate solicitors and for its recent Initial Public Offer. Mr. Penrose is a Partner of Tottle Partners.

HTI engaged the services of the Elovadae Trust for the provision of company secretarial and administration services. Mr L Boyd is a beneficiary of this entity.

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

Refer Note 26 of the Financial Statements for further information in this regard.

### 14. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Directors and Company Secretary are indemnified by HTI against any liability incurred in their capacity as an officer of HTI or a related body corporate to the maximum extent permitted by law. HTI has not paid any premiums in respect of any contract insuring the Directors of HTI against a liability for legal costs.

Details of the nature of the liabilities covered and the amount of premium paid in respect of Directors' and Officers' insurance policies are not disclosed as such disclosure is prohibited under the terms of the contracts.

### 15. NON-AUDIT SERVICES

Details of the amounts paid to Bentleys MRI Perth Partnership as the Auditor of HTI for audit and non-audit services provided during the year are set out in Note 6 to the Financial Statements.

The Directors note that Bentleys MRI Perth Financial Services Pty Ltd, an entity related to Bentleys MRI Perth Partnership, was previously engaged to prepare the Independent Accountant's Report contained in the Prospectus dated 17 May 2007, however now only perform the function as auditor. Therefore, the Directors are satisfied that:

(a) the non-audit services provided during the financial year by Bentleys MRI Perth Financial Services Pty Ltd were compatible with the general standard of independence for auditors imposed by the Corporations Act; and

(b) any non-audit services provided during the financial year by Bentleys MRI Perth Financial Services Pty Ltd did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

- i. the services have not involved partners, directors or staff acting in a managerial or decision making capacity within the Consolidated Entity or been involved in the processing or originating of transactions;
- ii. a description of all non-audit services and the related fees have been monitored by the Board to ensure complete transparency in relation to services provided;
- iii. the non-audit services included in the Independent Accountant's Report are considered a standard commercial arrangement with respect to entities undertaking an initial public offering; and
- iv. the declaration required by section 307C of the Corporations Act confirming independence has been received from the lead auditor of Bentleys MRI Perth Partnership.

### 16. PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

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

The entity was not a party to such proceedings.

### 17. REMUNERATION REPORT (AUDITED)

The Remuneration Report is prepared in accordance with Section 300A of the Corporations Act, Accounting Standard AASB 124 Related Party Disclosures and Principle 9 of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The period ended 30 June 2007 is HTI's first reporting period (commencing 17 November 2006 to 30 June 2007). No comparative amounts (to a prior reporting period) are necessary.

# SECTION THREE - DIRECTORS' REPORT

[CONTINUED]

## HTI REMUNERATION POLICIES AND PRACTICES

In relation to remuneration issues, the Board has established some initial policies to ensure that HTI remunerates fairly and responsibly. The Remuneration Policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain desirable directors and employees.

The remuneration structures reward the achievement of strategic objectives to achieve the broader outcome of creation of value for shareholders. 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.

## NON-EXECUTIVE DIRECTOR REMUNERATION

### Fees

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which will be periodically approved by shareholders in the General Meeting (the current limit is \$400,000). These fees were approved by the Company in general meeting held on 28 February 2007. Reflecting on the international nature and scope of the Company's operations, Non-Executive Directors' fees have been set at £20,000 (approximately A\$50,000) pa, with supplemental fees of £10,000 (approximately A\$25,000) pa for the role of Chairman and £5,000 (approximately A\$12,500) pa for each Directorship of a foreign registered subsidiary, limited to a maximum of £10,000 (approximately A\$25,000) pa should the number of Directorships of foreign registered subsidiaries exceed two.

HTI has not paid any Non-executive Directors' Fees since incorporation and only commenced accruing and paying such fees from the date of Official Quotation, which was July 16, 2007.

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

### Equity Participation

2,000,000 options have been granted to each Director of HTI. Options may vest conditional on the market capitalisation of HTI meeting or exceeding \$50,000,000 and the net

profit after tax of the HTI Group exceeding \$8,000,000 in any financial year. The exercise price of each option is 30 cents. Vested options may be exercised and converted to fully paid ordinary shares on a one-for-one basis. Further details about these Options are contained on pages 13 and 14 of this Remuneration Report.

### Retirement Benefits

Non-Executive Directors do not receive retirement benefits.

### Superannuation

The Australian-resident Directors of HTI are paid superannuation at a rate twice the prescribed amount by the law. HTI makes statutory employer contributions on behalf of its Directors to the superannuation fund of their choice.

## EXECUTIVE DIRECTOR REMUNERATION

At present, all employees are paid a fixed base salary.

### Base Salary

Base salary is set with reference to market data, reflecting 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.

### Other - Equity Plans

The Remuneration Committee will consider the introduction of an equity plan to reward selected executives to share in the growth of HTI, 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 the general meeting, as suggested by the ASX Principles of Good Corporate Governance and Best Practice 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 below. It is these performance conditions which demonstrate HTI's willingness to design a remuneration philosophy for the benefit of its employees and shareholders alike.

# DIRECTORS' REPORT

[CONTINUED]

Description			Rationale					
<b>Bonus Plan</b>			There is no Bonus Plan.					
<b>Long Term Incentive Option Plan</b>			<p>The Option Plan is the "at risk" component of the HTI remuneration philosophy for Directors.</p> <p>The performance conditions have been designed to specifically increase shareholder value. They are a combination of performance based conditions and market based conditions. The predominant conditions is a performance based condition as if the net profit targets are met or exceeded, the possibility of the share price increasing is enhanced and thus a greater chance of achieving a higher market capitalisation. Market capitalisation does not normally occur without profit performance.</p> <p>The achievement of a pre-determined profit target (with an inherent stretch component) and an increasing share price inherently increase total shareholder return.</p>					
<p>The targets for the 2007 Offer are as follows:</p> <table border="1"> <thead> <tr> <th>Date of Grant</th> <th>Performance Conditions</th> <th>Last Exercise Date</th> </tr> </thead> <tbody> <tr> <td>28/02/07</td> <td>The exercise of these options is conditional on the market capitalisation of the HTI group meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year.</td> <td>28/02/10</td> </tr> </tbody> </table>				Date of Grant	Performance Conditions	Last Exercise Date	28/02/07	The exercise of these options is conditional on the market capitalisation of the HTI group meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year.
Date of Grant	Performance Conditions	Last Exercise Date						
28/02/07	The exercise of these options is conditional on the market capitalisation of the HTI group meeting or exceeding \$50,000,000 and the net profit after tax of the HTI Group exceeding \$8,000,000 in any financial year.	28/02/10						

HTI at-risk remuneration components have been designed to have a positive impact on HTI performance from this financial year onwards. Similarly, any new equity plan would have a similar design feature.

Given HTI's admission to the ASX in July 2007, there is no history of HTI performance which can be described at this stage.

## REMUNERATION SUMMARY

	SHORT TERM				POST EMPLOYMENT		EQUITY BASED PAYMENTS	Total	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	Cash, Salary & Commissions	Cash Profit Share	Non Cash Benefit	Total	Super Annuation	Long term Benefits	Options			
	\$	\$	\$	\$	\$	\$	\$			
<b>DIRECTORS</b>										
<b>Non-Executive</b>										
Sir James Hodge	-	-	-	-	-	-	8,933	8,933	100	100
Mr David Ledger	-	-	-	-	-	-	8,933	8,933	100	100
Mr Lee Boyd	-	-	-	-	-	-	8,933	8,933	100	100
Mr Stephen Penrose	-	-	-	-	-	-	8,934	8,934	100	100
<b>Executive</b>										
Mr. Ian Dallas	415,580	-	-	415,580	-	-	8,934	424,514	100	2.1
<b>TOTAL</b>	<b>415,580</b>	<b>-</b>	<b>-</b>	<b>415,580</b>	<b>-</b>	<b>-</b>	<b>44,667</b>	<b>460,247</b>		

## SECTION THREE - DIRECTORS' REPORT [CONTINUED]

### FAIR VALUE OF OPTIONS - FACTORS AND ASSUMPTIONS

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

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

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

### OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

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

Name	Options Granted as Remuneration	Exercised	Lapsed	Held at 30/06/07	Vested during the year	Vested and exercisable as at 30/06/07
Mr. Lee Boyd	2,000,000	-	-	2,000,000	222,224	-
Mr. Ian Dallas	2,000,000	-	-	2,000,000	222,224	-
Sir James Hodge	2,000,000	-	-	2,000,000	222,224	-
Mr. David Ledger	2,000,000	-	-	2,000,000	222,224	-
Mr. Stephen Penrose	2,000,000	-	-	2,000,000	222,224	-

### EXERCISE OF OPTIONS GRANTED AS COMPENSATION

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

# DIRECTORS' REPORT

[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 below:

	Details of Options		% vested in year	% forfeited in year <sup>1</sup>	Financial year in which grant vests	Value yet to vest	
	Number	Grant Date				Min (\$) <sup>2</sup>	Max (\$) <sup>3</sup>
Mr. Lee Boyd	2,000,000	28/02/07	11.11	-	2010	Nil	80,400
Mr. Ian Dallas	2,000,000	28/02/07	11.11	-	2010	Nil	80,400
Sir James Hodge	2,000,000	28/02/07	11.11	-	2010	Nil	80,400
Mr. David Ledger	2,000,000	28/02/07	11.11	-	2010	Nil	80,400
Mr. Stephen Penrose	2,000,000	28/02/07	11.11	-	2010	Nil	80,400

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> The maximum value of options yet to vest is not determinable as it depends on the achievement of vesting conditions (the final period being that timeframe up until 20 February 2010). The maximum values presented above are based on the fair value of the options over their life calculated at entitlement date using a Black-Scholes Merton model.

## ANALYSIS OF MOVEMENTS ON OPTIONS

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

	Year	Entitlement to Options granted in year \$ <sup>1</sup>	Exercised in Year \$	Forfeited in Year \$	Total Option Value in Year \$
Mr. Lee Boyd	2007	80,400	-	-	80,400
Mr. Ian Dallas	2007	80,400	-	-	80,400
Sir James Hodge	2007	80,400	-	-	80,400
Mr. David Ledger	2007	80,400	-	-	80,400
Mr. Stephen Penrose	2007	80,400	-	-	80,400

<sup>1</sup> The value of the entitlement to options grants in the year is the fair value of the options calculated at grant date using a Black-Scholes Merton pricing model.

# SECTION THREE - DIRECTORS' REPORT

[CONTINUED]

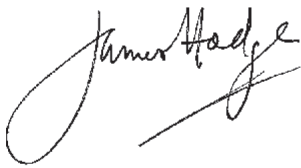
## SUMMARY OF KEY CONTRACTS TERMS

On 16 September 2005, USL entered into an Executive Services Agreements (ESA) with Mr Dallas in relation to his appointment as Group Managing Director.

The key terms of the ESA is set out below:

Contract Detail	Mr. Ian Dallas
Term	The ESA commenced on 16 September 2005 and operates for a 4 year term.
Duties	As Group Managing Director, Mr Dallas is required to undertake the duties and perform the functions with respect to the business conducted by HTI.
Salary	HK\$2,160,000 (approximately A\$316,000) per annum inclusive of any superannuation if applicable. In addition, the Company maintains family medical and dental cover along with a US\$2,000,000 "death in service" policy in favour of Mr Dallas' nominee or estate.
Termination	A rolling 12 months notice of termination period applies for either party after the anniversary of the 4th year of service.

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



Sir James Hodge

Chairman

Date: 28 September 2007

# AUDITOR'S INDEPENDANCE DECLARATION

[CONTINUED]

CHARTERED  
ACCOUNTANTS  
& BUSINESS  
ADVISORS

A MEMBER OF  
MOORES ROWLAND  
INTERNATIONAL



**Bentleys MRI Perth  
Financial Services Pty Ltd**  
ABN 92 064 260 260  
AFS Licence 259 864

Level 1, 10 Kings Park Road  
West Perth WA 6005  
Australia

PO Box 570 West Perth WA 6872

T 61 8 9480 2000  
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admin@bmrp.com.au  
www.bentleys.com.au

## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2002 TO THE DIRECTORS OF Hydrotech International Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2002 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

*Bentleys MRI Perth Partnership*

### **Bentleys MRI Perth Partnership**

**J W Vibert**

**Partner**

Dated at Perth this 28th day of September 2007.

Chartered Accountants

A member of Bentleys MRI, an association of independent accounting firms throughout Australia, and a member of Moores Rowland International, an association of independent accounting firms throughout the world. The firms practising as Bentleys MRI and Moores Rowland are independent. The member firms of these associations are affiliated only and not in partnership.

# SECTION FIVE - CORPORATE GOVERNANCE

## 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 Policy". The full terms of the policy will be made 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 Principles of Good Corporate Governance and Best Practice Recommendations. The Directors are of the view that the Company complies with all of the Best Practice Recommendations of the ASX Corporate Governance Council, except where good reason exists to depart from these recommendations. The departures from the best practice 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.

Best Practice Recommendations		Compliance
1.1	Formalise and disclose the functions reserved to the board and those delegated to management	✓
2.1	A majority of the board should be independent directors	X <sup>1</sup>
2.2	The chairperson should be an independent director	✓
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual	✓
2.4	The board should establish a nomination committee	X <sup>2</sup>
2.5	Provide the information indicated in Guide to Reporting on Principle 2	✓
3.1	Establish a code of conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer, and any other key executives as to: <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the Company's integrity</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</li> </ul>	✓
3.2	Disclose the policy concerning trading in company securities by Directors, Officers and Employees	✓
3.3	Provide the information indicated in Guide to Reporting on Principle 3	✓
4.1	Require the Chief Executive Officer and the Chief Financial Officer to state in writing to the board that <ul style="list-style-type: none"> <li>• the Company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards</li> </ul>	✓
4.2	The board should establish an audit committee	✓
4.3	Structure the audit committee so that it consists of: <ul style="list-style-type: none"> <li>• only non-executive directors</li> <li>• a majority of independent directors</li> <li>• an independent chairperson, who is not a chairperson of the board</li> <li>• at least three members</li> </ul>	X <sup>3</sup>

# CORPORATE GOVERNANCE

[CONTINUED]



Best Practice Recommendations		Compliance
4.4	The audit committee should have a formal charter	✓
4.5	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	✓
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report	✓
7.1	The board or appropriate board committee should establish policies on risk oversight and management	✓
7.2	The Chief Executive Officer and the Chief Financial Officer should state to the board in writing that the financial statements: <ul style="list-style-type: none"> <li>• are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board</li> <li>• the company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects</li> </ul>	✓
7.3	Provide the information indicated in Guide to Reporting on Principle 7	✓
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives	✓
9.1	Disclose the company's remuneration policies to enable investors to understand the costs and benefits of those policies, and the link between remuneration paid to directors and key executives and corporate performance	✓
9.2	The board should establish a remuneration committee	✓
9.3	Clearly distinguish the structure of non-executive remuneration from that of executives	✓
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with the thresholds set in plans approved by shareholders	✓
9.5	Provide the information indicated in Guide to Reporting on Principle 9	✓
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	✓

# SECTION FIVE - CORPORATE GOVERNANCE

## [CONTINUED]

### 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 will be accountable to the shareholders for the performance of HTI and will have overall responsibility for its operations. Day to day management of HTI's affairs and the implementation of the corporate strategy and policy initiatives will be formally managed by Mr. Dallas, the Managing Director. The Board is formalising its role and responsibilities into a charter which will state that the Board has the following specific responsibilities:

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

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

### SIZE OF BOARD AND COMPOSITION

The Board members determine the size and composition of the Board, subject to limits imposed by HTI's Constitution. The Constitution provides for a minimum of three directors and a maximum of ten. For the time being, the Board has determined that there shall be five directors, of whom the Managing Director 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 pages 3 and 4.

The name of the Independent Director of HTI is:

Sir James Hodge

<sup>1</sup> 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.

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.

<sup>2</sup> 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.

# CORPORATE GOVERNANCE

[CONTINUED]



## 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 Policy 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. This is also contained in "Corporate Governance Policy" which is available on the HTI website.

## AUDIT COMMITTEE

HTI has an Audit Committee in place which comprises of three members being, Mr. Lee Boyd as Chairman, who is a Certified Practising Accountant, Mr. Stephen Penrose and Mr. David Ledger. 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 Policy" which is available on the HTI website.

<sup>3</sup>Due to the current mix of the Board, none of the members of the Audit Committee are Independent Directors.

## 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 Policy. 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

The Board is responsible for the overview of HTI's Risk Management Policy and is currently undertaking a review of the plans and initiatives in place. The Committee's charter is contained within the Corporate Governance Statement and it requires the Managing Director/Chief Executive Officer and Chief Financial Officer to make statements in writing regarding HTI's internal compliance and control systems.

## PERFORMANCE EVALUATION & REMUNERATION POLICIES

The Board of Directors have continuous and informal method of reviewing its own performance which takes place both inside and outside of the Boardroom. The performance of key executives is monitored regularly on an informal basis and formally on an annual basis. HTI has a Remuneration Committee and its members comprise of Sir James Hodge as Chair, Mr. Lee Boyd and Mr. Ian Dallas. The Committee's charter is contained in the Corporate Governance Policy. HTI's Remuneration Policy is detailed in the Remuneration Report on page 15.

## ELECTRO-OSMOSIS ADVISORY COMMITTEE

An Electro-Osmosis Advisory Committee has also been established to combine the expertise of the Board of Directors and Management in the area of electro-osmotic technology, in order to strengthen the HTI's standing in the civil engineering and construction industries and academia. The Electro-Osmosis Advisory Committee consists of Mr. Ian Dallas (Chairman), Mr Karl Grebstad (Consulting Architect), Mr Kjell Utiklev (Specialist Electro-Osmosis Consultant) and Mr Henning Syversen (Group Development and Design Manager). No meetings have been held for the period ending 30 June 2007.

## SECTION SIX - FINANCIALS

### INCOME STATEMENT FOR THE FINANCIAL YEAR TO 30 JUNE 2007

	NOTE	CONSOLIDATED GROUP 2007 \$	PARENT ENTITY 2007 \$
Revenue	2	31,563	28,715
Other income	2	397,994	-
Accounting fees		(20,635)	(20,635)
Audit fees		(26,589)	-
Employee benefits expense		(670,205)	-
Depreciation and amortisation expense		(23,505)	-
Consultants' fees and costs		(194,392)	(97,340)
Australian Stock Exchange setup fees		(49,089)	(49,089)
Directors' remuneration		(577,836)	(44,667)
Patent and search fees		(27,665)	(27,665)
Rent and rates		(107,029)	-
Travelling expenses		(90,640)	-
Research and development expenditure		(70,440)	-
Other expenses		(257,505)	(7,798)
Finance costs		(5)	-
Loss before income tax	3	(1,685,978)	(218,479)
Income tax expense	4	-	-
Loss for the year		(1,685,978)	(218,479)
Loss attributable to members of the parent entity		(1,685,978)	(218,479)
<b>Continuing Operations</b>			
Basic earnings per share (cents per share)	8	-1.66	-0.598
Diluted earnings per share (cents per share)	8	-1.66	-0.598

*The accompanying notes form part of these financial statements.*

# FINANCIALS

## [CONTINUED]

### BALANCE SHEET AS AT 30 JUNE 2007

		<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
	<b>NOTE</b>		
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9	8,167,389	8,095,474
Trade and other receivables	10	297,594	105,820
Other current assets	15	28,659	26,890
<b>Total Current Assets</b>		<b>8,493,642</b>	<b>8,228,184</b>
<b>Non-Current Assets</b>			
Trade and other receivables	10	-	869,673
Financial assets	11	-	820,043
Property, plant and equipment	13	109,140	-
Intangible assets	14	836,137	-
Other non-current assets	15	11,662	-
<b>Total Non-Current Assets</b>		<b>956,939</b>	<b>1,689,716</b>
<b>TOTAL ASSETS</b>		<b>9,450,581</b>	<b>9,917,900</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	805,197	308,867
<b>Total Current Liabilities</b>		<b>805,197</b>	<b>308,867</b>
<b>Total Liabilities</b>		<b>805,197</b>	<b>308,867</b>
<b>NET ASSETS</b>		<b>8,645,384</b>	<b>9,609,033</b>
<b>EQUITY</b>			
Issued capital	17	11,041,126	9,782,845
Reserves		45,927	44,667
Accumulated losses		(2,441,669)	(218,479)
<b>TOTAL EQUITY</b>		<b>8,645,384</b>	<b>9,609,033</b>

*The accompanying notes form part of these financial statements.*

# SECTION SIX - FINANCIALS

## [CONTINUED]

### STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR TO 30 JUNE 2007

#### Consolidated Group

	Note	Issued Capital Ordinary Shares \$	Reserves Options Reserve \$	Exchange Reserve \$	Accumulated Losses \$	Total \$
<b>Balance at 30 June 2006 (i)</b>		1,258,281	-	-	(755,691)	502,590
Shares issued during the year net of transaction costs		9,782,845	-	-	-	9,782,845
Loss for the year		-	-	-	(1,685,978)	(1,685,978)
Transfers to and from reserves:						
– options		-	44,667	-	-	44,667
– exchange reserve		-	-	1,260	-	1,260
Sub-total		11,041,126	44,667	1,260	(2,441,669)	8,645,384
Dividends paid or provided for	7	-	-	-	-	-
<b>Balance at 30 June 2007</b>		<b>11,041,126</b>	<b>44,667</b>	<b>1,260</b>	<b>(2,441,669)</b>	<b>8,645,384</b>

(i) The balances at 30 June 2006 represent the consolidated equity balances of the Universal Solutions Limited Group as the accounting acquirer. Refer Note 1.

#### Parent Entity

<b>Balance at 30 June 2006</b>		-	-	-	-	-
Shares issued during the year net of transaction costs		9,782,845	-	-	-	9,782,845
Loss for the year		-	-	-	(218,479)	(218,479)
Transfers to and from reserves:						
– options		-	44,667	-	-	44,667
Sub total		9,782,845	44,667	-	(218,479)	9,609,033
Dividends paid or provided for	7	-	-	-	-	-
<b>Balance at 30 June 2007</b>		<b>9,782,845</b>	<b>44,667</b>	<b>-</b>	<b>(218,479)</b>	<b>9,609,033</b>

The accompanying notes form part of these financial statements.

# FINANCIALS

## [CONTINUED]

### CASH FLOW STATEMENT FOR THE FINANCIAL YEAR TO 30 JUNE 2007

		<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
	<b>NOTE</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		4,659	2,013
Payments to suppliers and employees		(1,081,393)	(26,370)
Interest received		26,904	26,702
Finance costs		(5)	-
Net cash provided by (used in) operating activities	21	<u>(1,049,835)</u>	<u>2,345</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of non-current assets		(148,739)	-
Proceeds from disposal of non-current assets		500,000	-
Net cash provided by investing activities		<u>351,261</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares net of transaction costs		8,962,802	8,962,802
Net repayment of borrowings		(102,006)	-
Loan to controlled entities		-	(869,673)
Net cash provided by financing activities		<u>8,860,796</u>	<u>8,093,129</u>
Net increase in cash held		8,162,222	8,095,474
Cash at beginning of financial year	9	5,167	-
Cash at end of financial year	9	<u>8,167,389</u>	<u>8,095,474</u>

*The accompanying notes form part of these financial statements.*

# SECTION SIX - FINANCIALS

[CONTINUED]

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

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

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

#### Basis of Preparation

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

#### Reporting Basis and Conventions

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

Hydrotech International Limited ("HTI") is listed on the Australian Securities Exchange and it is identified by ABN 42 12 726 283. During the financial year, HTI completed the acquisition of the Universal Solutions Limited Group ("USL") for consideration of \$820,043 on 7 March 2007. The purchase price was paid by the issue of 94,952,465 shares in HTI. Under the terms of Australian Accounting Standard AASB 3 Business Combinations, USL was deemed to be the accounting acquirer in the business combination. This transaction has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of the HTI group have been prepared as a continuation of the consolidated financial statements of USL. USL as the deemed acquirer, has accounted

for the acquisition of HTI from 7 March 2007. Refer to Note 27 for further details of the business combination.

#### Accounting Policies

##### a. Principles of Consolidation

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

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a June financial year-end.

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

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

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

##### b. Income Tax

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

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

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

Deferred income tax assets are recognised to the extent that

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

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

#### c. Property, Plant and Equipment

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

##### Plant and equipment

Plant and equipment are measured on the cost basis.

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the

asset's original cost is transferred from the revaluation reserve to retained earnings.

##### Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	20%-25%

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

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

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

#### d. Financial Instruments

##### Recognition

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

##### Financial assets at fair value through profit and loss

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

##### Loans and receivables

Loans and receivables are non-derivative financial assets

# SECTION SIX - FINANCIALS

## [CONTINUED]

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### Financial liabilities

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

#### Fair value

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

#### Impairment

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

#### e. Impairment of Assets

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

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

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

#### f. Intangibles

##### Goodwill

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

annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### Research and development

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

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

#### g. Foreign Currency Transactions and Balances

##### Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

##### Transaction and balances

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

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

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

##### Group companies

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

### NOTE 1: [CONTINUED]

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

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

#### **h. Provisions**

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

#### **i. Cash and Cash Equivalents**

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

#### **j. Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

#### **k. Borrowing Costs**

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

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

#### **l. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these

circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

#### **m. Comparative Figures**

As the company was incorporated on 17 November 2006, there are no comparative amounts shown in this financial report.

#### **n. Business Combinations**

The purchase method of accounting is used for all business combinations regardless of whether equity instruments of other assets are acquired. Cost of acquisition is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are used in an acquisition, the value of the instruments is their fair value as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

#### **Critical Accounting Estimates and Judgments**

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

#### **Key Judgement – Share based payments**

The directors arrived at the amount of \$44,667 brought to account as at 30 June 2007 for share based payments by taking into account the likelihood of the conditions necessary for vesting of these options to occur. The directors are of the opinion that it would not be likely that the conditions would be met until 28 February 2010, the expiry date of the options. Accordingly, the calculation was made on a temporal basis taking into account that the options were issued on 28 February 2007.

The financial report was authorised for issue on 28 September 2007 by the board of directors.

Refer to Note 22 for details of the assumptions and the potential impact of changes to the assumptions.

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 2: REVENUE

	NOTE	CONSOLIDATED GROUP 2007 \$	PARENT ENTITY 2007 \$
<b>Revenue</b>			
interest received – other persons		26,904	26,702
other revenue		4,659	2,013
Total Revenue		31,563	28,715
<b>Other income</b>			
gain on disposal of controlled entity	12	397,994	-
		397,994	

### NOTE 3: LOSS FOR THE YEAR

<b>Expenses</b>			
Bad and doubtful debts:			-
trade receivables		7,905	-
Total bad and doubtful debts		7,905	-

### NOTE 4: INCOME TAX EXPENSE

#### a. The components of tax expense comprise:

Current tax		-	-
Deferred tax		-	-
		-	-

#### b. The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

Prima facie tax payable on loss from ordinary activities before income tax at 30%			
consolidated group		(505,793)	-
parent entity		-	(65,544)
		(505,793)	(65,544)
<b>Add:</b>			
Tax effect of:			
other non-deductible expenses		38,451	38,451
Temporary differences and tax losses not brought to account as a deferred tax asset		467,342	27,093
Income tax expense		-	-
<b>Unrecognised deferred tax assets</b>			
Deferred tax assets have not been recognised in respect of the following items:			
Capital raising costs		248,373	248,373
Tax losses		516,036	75,786
		764,409	324,159

# FINANCIALS

[CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

## NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

A. NAMES AND POSITIONS HELD OF ECONOMIC AND PARENT ENTITY KEY MANAGEMENT PERSONNEL IN OFFICE AT ANY TIME DURING THE FINANCIAL YEAR ARE

Key Management Person	Position
Sir James Hodge	Chairman
Ian Dallas	Managing Director
Lee Boyd	Non-Executive Director
David Ledger	Non-Executive Director
Stephen Penrose	Non-Executive Director

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

B. OPTIONS AND RIGHTS HOLDINGS  
NUMBER OF OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

	Balance 1.7.2006	Granted as Compensation	Options Exercised	Net Change Other
Sir James Hodge	-	2,000,000	-	-
Ian Dallas	-	2,000,000	-	-
Lee Boyd	-	2,000,000	-	-
David Ledger	-	2,000,000	-	-
Stephen Penrose	-	2,000,000	-	-
Total	-	10,000,000	-	-

	Balance 30.6.2007	Total Vested 30.6.2007	Total Exercisable 30.6.2007	Total Unexercisable 30.6.2007
Sir James Hodge	2,000,000	222,224	-	2,000,000
Ian Dallas	2,000,000	222,224	-	2,000,000
Lee Boyd	2,000,000	222,224	-	2,000,000
David Ledger	2,000,000	222,224	-	2,000,000
Stephen Penrose	2,000,000	222,224	-	2,000,000
Total	10,000,000	1,111,120	-	10,000,000

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### C. SHAREHOLDINGS

#### NUMBER OF SHARES HELD BY KEY MANAGEMENT PERSONNEL

	<b>Balance 1.7.2006</b>	<b>Received as Compensation</b>	<b>Options Exercised</b>	<b>Net Change Other</b>	<b>Balance 30.6.2007</b>
Sir James Hodge	-	-	-	Nil	Nil
Ian Dallas	-	-	-	13,446,911	13,446,911
Lee Boyd	-	-	-	437,854	437,854
David Ledger	-	-	-	2,250,000	2,250,000
Stephen Penrose	-	-	-	500,000	500,000
<b>Total</b>	-	-	-	16,634,765	16,634,765

### NOTE 6: AUDITORS REMUNERATION

	<b>NOTE</b>	<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
Remuneration of the auditor of the parent entity for:			
auditing or reviewing the financial report		-	-
Investigating accounting report for IPO prepared by a related practice of the auditor		20,635	20,635
Remuneration of other auditors of subsidiaries for:			
auditing or reviewing the financial report of subsidiaries		26,589	-

### NOTE 7: DIVIDENDS

No dividends have been declared or paid during or since the end of the financial year.

# FINANCIALS

[CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

## NOTE 8: EARNINGS PER SHARE

	<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
<b>a. Reconciliation of earnings to loss from operations</b>		
Loss	(1,685,978)	
Earnings used to calculate basic EPS	(1,685,978)	
Earnings used in the calculation of dilutive EPS	(1,685,978)	
<b>b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS</b>	101,596,300	36,560,365
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	101,596,300	36,560,365

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

## NOTE 9: CASH AND CASH EQUIVALENTS

Cash at bank and in hand	8,159,396	8,087,481
Short-term bank deposits	7,993	7,993
	8,167,389	8,095,474

The effective interest rate on short-term bank deposits was 4.1%; these deposits have an average maturity of 30 days.

Included in cash at bank is an amount of \$7,799,847 in regard to monies received prior to the end of the financial year from the initial public offering, which closed prior to the end of the financial year, relating to ordinary shares that were issued on 10 July 2007, Refer Note 17. The company's securities listed on the Australian stock exchange on 16 July 2007. This amount forms part of the equity of the company.

### Reconciliation of cash

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

Cash and cash equivalents	8,167,389	8,095,474
Bank overdrafts	-	-
	8,167,389	8,095,474

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 10: TRADE AND OTHER RECEIVABLES

	<b>NOTE</b>	<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
<b>CURRENT</b>			
Trade receivables		161,668	-
Other receivables		36,529	35,820
Amounts receivable from:			
other related parties		99,397	70,000
		297,594	105,820
<b>NON-CURRENT</b>			
Amounts receivable from:			
wholly-owned entities		-	869,673
		-	869,673

### NOTE 11: FINANCIAL ASSETS

#### **NON-CURRENT**

Financial Assets Comprise

Unlisted investments, at cost			
shares in controlled entity - Universal Solutions Limited		-	820,043
		-	820,043
Total financial assets		-	820,043

The fair value of unlisted financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost.

# FINANCIALS

[CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

## NOTE 12: CONTROLLED ENTITIES

### A. CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned 2007 (%) *
<b>Parent Entity:</b>		
Hydrotech International Limited	Australia	
<b>Subsidiaries of Hydrotech International Limited:</b>		
Universal Solutions Limited	Hong Kong SAR, China	100
<b>Subsidiaries of Universal Solutions Limited:</b>		
Underground Solutions International Limited	Hong Kong SAR, China	100
USIL (HK) Limited	Hong Kong SAR, China	100
USIL (UK) PLC	United Kingdom	100

\* Percentage of voting power is in proportion to ownership

This note represents the legal structure of investments in subsidiaries held by Hydrotech International Limited. Refer to Note 27 in relation to the business combination for details of how these investments have been accounted for.

### B. ACQUISITION OF CONTROLLED ENTITIES

On 7 March 2007, the parent entity acquired 100% of the legal subsidiary Universal Solutions.

The legal entities acquired as a result of the acquisition are set out above. This transaction has been accounted for as a reverse acquisition.

These financial statements therefore represent a continuation of the legal subsidiary Universal Solutions Limited ("USL") and its controlled entities and the income statement for this financial year incorporates twelve months of consolidated results for USL and four months of results of Hydrotech International Limited. This has resulted in the Consolidated Balance Sheet reflecting the historical assets, liabilities and equity of the USL Group, and the cost of the combination being recognised at the fair value of the net assets of Hydrotech International Limited at the date of acquisition.

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### C. DISPOSAL OF CONTROLLED ENTITIES

In December 2006, USL disposed of its interest in Universal Scientific Solutions Limited ("USSL"). For a consideration of \$500,000 (HK\$3,350,000). Aggregate details of the transaction are as follows

	<b>CONSOLIDATED GROUP 2007</b>	<b>PARENT ENTITY 2007</b>
<b>NOTE</b>	<b>\$</b>	<b>\$</b>
Disposal price	500,000	
Cash consideration	500,000	
Assets and liabilities held at disposal date		
Cash	70	
Intellectual property	107,349	
Payables	(5,413)	
	102,006	
Net gain on disposal	397,994	
	500,000	

### NOTE 13: PROPERTY, PLANT AND EQUIPMENT

#### PLANT AND EQUIPMENT

Plant and equipment:

At cost	137,645	-
Accumulated depreciation	(28,505)	-
	109,140	-
Total Plant and Equipment	109,140	-
Total Property, Plant and Equipment	109,140	-

### A. MOVEMENTS IN CARRYING AMOUNTS

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

	<b>Plant and Equipment \$</b>
<b>Consolidated Group:</b>	
Balance at 1 July 2006	-
Additions	137,645
Depreciation expense	(28,505)
Balance at 30 June 2007	109,140
<b>Parent Entity:</b>	
Balance at 1 July 2006	-
Additions	-
Depreciation expense	-
Balance at 30 June 2007	-

# FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 14: INTANGIBLE ASSETS

	<b>NOTE</b>	<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
<b>Goodwill</b>			
At cost		836,137	-
<b>Other Intangibles</b>			
At cost		1,169	-
Total intangibles		837,306	-
		<b>GOODWILL \$</b>	<b>OTHER \$</b>
<b>Consolidated Group:</b>			
<b>Year ended 30 June 2006</b>			
Balance at the beginning of year		-	-
Additions through business combination		837,306	1,169
<b>Year ended 30 June 2007</b>		837,306	1,169

### NOTE 15: OTHER ASSETS

<b>Current</b>			
Prepayments		28,659	26,890
<b>Non-Current</b>			
Security deposit		11,662	-

### NOTE 16: TRADE AND OTHER PAYABLES

<b>Current</b>			
Trade payables		521,338	280,785
Sundry payables and accrued expenses		190,958	28,082
Deferred income		4,902	-
Amounts payable to:			
other related parties		87,999	-
		805,197	308,867

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 17: ISSUED CAPITAL

	NOTE	CONSOLIDATED GROUP 2007 \$	PARENT ENTITY 2007 \$
115,952,466 fully paid ordinary shares	a.	9,782,845	9,782,845
Share capital of Universal Solutions Limited as accounting acquirer	b.	1,258,281	-
		<u>11,041,126</u>	<u>9,782,845</u>

#### A. ORDINARY SHARES

At the beginning of reporting period (i)	1,258,281	-
Shares issued during the year		
17 November 2006	1	1
6 March 2007	100,000	100,000
7 March 2007	1,100,000	1,100,000
7 March 2007	820,043	820,043
IPO Application Proceeds (ii)	8,669,520	8,669,520
Less		
Capital raising costs arising from issues	(906,719)	(906,719)
At reporting date	<u>11,041,126</u>	<u>9,782,845</u>

- On 17 November 2006, the company issued 1 ordinary share at \$1 on the registration of the company.
- On 6 March 2007, the company issued 10,000,000 ordinary shares at \$0.01 each as founder capital for the company. On 7 March 2007, the company issued 11,000,000 ordinary shares at \$0.10 each for working capital.
- On 7 March 2007, the company issued 94,952,465 ordinary shares to the vendor shareholders of Universal Solutions Limited. Refer (iii) below.
  - Represents ordinary share capital of Universal Solutions Limited at 1 July 2006.
  - Represents monies received prior to the 30 June 2007 under an IPO which closed prior to that date but the related shares were not allotted until 10 July 2007.
  - The transaction has been accounted for as a reverse acquisition under the provisions of Australian Accounting Standard AASB 3 "Business Combinations". (Refer Note 28) and the cost of the combination has been added to the contributed equity of the consolidated entity.
- Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.
- At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

# FINANCIALS

[CONTINUED]



## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### B. OPTIONS

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

## NOTE 18: RESERVES

### A. EXCHANGE RESERVE

The exchange reserve records movements in foreign currency.

### B. OPTION RESERVE

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

## NOTE 19: CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities that exist as at 30 June 2007.

## NOTE 20: SEGMENT REPORTING

### ACCOUNTING POLICIES

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

### INTERSEGMENT TRANSFERS

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

### BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

The consolidated group operates solely in the waterproof engineering industry.

#### Geographical segments

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

### IMPAIRMENT LOSSES

No impairment losses have been recognised as expenses for the year ended 30 June 2007.

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### PRIMARY REPORTING – GEOGRAPHICAL SEGMENTS

	<b>HONG KONG 2007 \$</b>	<b>UNITED KINGDOM 2007 \$</b>	<b>AUSTRALIA 2007 \$</b>	<b>ELIMINATIONS 2007 \$</b>	<b>Consolidated Group 2007 \$</b>
<b>REVENUE</b>					
External sales	2,848	-	28,715	-	31,563
Other segments	-	-	-	-	-
Total sales revenue	2,848	-	28,715	-	31,563
Unallocated revenue	-	-	-	-	-
Total revenue	2,848	-	28,715	-	31,563
<b>RESULT</b>					
Segment result	(1,166,025)	(301,469)	(218,479)	-	(1,685,973)
Unallocated expenses net of unallocated revenue	-	-	-	-	-
Finance costs	(5)	-	-	-	(5)
Loss before income tax	(1,166,030)	(301,469)	(218,479)	-	(1,685,978)
Income tax expense	-	-	-	-	-
Loss after income tax	(1,166,030)	(301,469)	(218,479)	-	(1,685,978)
<b>ASSETS</b>					
Segment assets	45,149	357,205	9,997,900	(869,673)	9,450,581
Unallocated assets	-	-	-	-	-
Total assets	45,149	357,205	9,997,900	(869,673)	9,450,581
<b>LIABILITIES</b>					
Segment liabilities	116,247	1,409,843	308,867	(1,029,810)	805,197
Unallocated liabilities	-	-	-	-	-
Total liabilities	116,297	1,409,843	308,867	(1,029,810)	805,197
<b>OTHER</b>					
Acquisitions of non-current segment assets	21,303	103,931	-	-	125,234
Depreciation and amortisation of segment assets	1,803	21,702	-	-	23,505

# FINANCIALS

[CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

## NOTE 21: CASH FLOW INFORMATION

	<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
<b>NOTE</b>		
<b>A. RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS AFTER INCOME TAX</b>		
Loss after income tax	(1,685,978)	(218,479)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss		
Depreciation	23,505	-
Net gain on disposal of controlled entity	(397,994)	-
Share options expensed	44,667	44,667
Unrealised exchange losses	1,260	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
(Increase) in trade and term receivables	(297,594)	(105,820)
Movement in assets acquired via reverse acquisition from deemed acquirer USL	497,423	-
(Increase) in prepayments	(28,659)	(26,890)
Increase in trade payables and accruals	805,197	308,867
(Increase) in other assets	(11,662)	-
Cash flows from (used in) operations	(1,049,835)	2,345

## NOTE 22: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2007:

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

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

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

# SECTION SIX - FINANCIALS

[CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

## NOTE 22: SHARE-BASED PAYMENTS [CONTINUED]

	Consolidated Group 2007		Parent Entity 2007	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	-	-	-	-
Granted	10,000,000	10,000,000	10,000,000	10,000,000
Outstanding at year-end	10,000,000	10,000,000	10,000,000	10,000,000
Exercisable at year-end	-	-	-	-

The options outstanding at 30 June 2007 had a weighted average exercise price of \$0.30 and a weighted average remaining contractual life of two years and eight months. Exercise price was \$0.30 in respect of options outstanding at 30 June 2007.

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

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

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

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is \$44,667 and relates, in full, to equity-settled share-based payment transactions.

## NOTE: 23 EVENTS AFTER THE BALANCE SHEET DATE

On 10 July 2007, 40,000,000 ordinary shares were issued at 20c per share as a result of the initial public offering.

As a result of the initial public offering being oversubscribed, \$73,533, representing 20c per share on 367,665 shares was returned to subscribers.

The securities of Hydrotech International Limited ("HTI") were quoted on the Australian Securities Exchange on 16 July 2007. 40,000,000 shares were issued as a result of HTI's Initial Public Offering (there are in total 155,952,466 shares on issue).

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 24: FINANCIAL INSTRUMENTS

#### A. FINANCIAL RISK MANAGEMENT

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, and accounts receivable and payable.

##### **i. Treasury Risk Management**

A finance committee consisting of senior executives of the group meets on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

##### **ii. Financial Risks**

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, and credit risk.

##### **Interest rate risk**

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2007 none of the group debt is fixed.

##### **Foreign currency risk**

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency.

##### **Liquidity risk**

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

##### **Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### B. FINANCIAL INSTRUMENTS

#### i. Interest Rate Risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	<b>Weight Average Effective Interest Rate 2007 %</b>	<b>Floating Interest Rate 2007 \$</b>	<b>Non Interest Bearing 2007 \$</b>	<b>TOTAL 2007 \$</b>
<b>Financial Assets:</b>				
Cash and cash equivalents	4.1	8,167,389	-	8,167,389
Receivables		-	297,594	297,594
<b>Total Financial Assets</b>		<b>8,167,389</b>	<b>297,594</b>	<b>8,464,983</b>
<b>Financial Liabilities:</b>				
Trade and sundry payables		-	717,198	717,198
Amounts payable to related parties		-	87,999	87,999
<b>Total Financial Liabilities</b>		<b>-</b>	<b>805,197</b>	<b>805,197</b>

#### ii. Net Fair Values

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

# FINANCIALS

[CONTINUED]

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 25: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2005-10: Amendments to Australian Accounting Standards	AASB 1: First time adoption of AIFRS	The disclosure requirements of AASB 132: Financial Instruments: Disclosure and Presentation have been replaced due to the issuing of AASB 7: Financial Instruments: Disclosures in August 2005. These amendments will involve changes to financial instrument disclosures within the financial report. However, there will be no direct impact on amounts included in the financial report as it is a disclosure standard.	1 Jan 2007	1 July 2007
	AASB 4: Insurance Contracts			
	AASB 101: Presentation of Financial Statements			
	AASB 114: Segment Reporting			
	AASB 117: Leases			
	AASB 133: Earnings per Share			
	AASB 1023: General Insurance Contracts			
	AASB 1038: Life Insurance Contracts			
AASB 139: Financial Instruments: Recognition and Measurement				
AASB 7: Financial Instruments: Disclosures	AASB 132: Financial Instruments: Disclosure and Presentation	As above	1 Jan 2007	1 July 2007

### NOTE 26: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated

	NOTE	CONSOLIDATED GROUP 2007	PARENT ENTITY 2007
		\$	\$
Transactions with related parties:			
<b>a. Director Related Entities</b>			
Corporate advisory fee paid to Capital Investment Partners Pty Ltd, a related party of Mr. David Ledger who is an Executive Director and substantial shareholder of that entity.		132,168	132,168
Payments made to Tottle Partners for provision of legal services in connection with the IPO, an entity of which Mr. Stephen Penrose is a partner.		96,894	96,894
Company secretarial and administrative fees paid to the Elovadae Trust, an entity associated with Mr. L Boyd.		81,312	81,312

# SECTION SIX - FINANCIALS

## [CONTINUED]

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

### NOTE 27: BUSINESS COMBINATION

#### BUSINESS COMBINATION

Hydrotech International Limited ("HTI") completed the acquisition of 100% of Universal Solutions Limited ("USL") for a consideration of \$820,043 which was settled by the issue of 94,952,465 shares in HTI.

#### DEEMED ACQUIRER

Based on the fact that USL holds a controlling interest in HTI after the transaction, USL, the legal subsidiary of HTI is deemed the acquirer in the business combination. The Consolidated Income Statement for the financial year to 30 June 2007 represents the results of USL and HTI from the date of acquisition. The Balance Sheet at 30 June 2007 represents the financial position of the consolidated group at that time.

#### Cost of the Business Combination

The cost of the business combination has been determined by reference to the market value of HTI as at the date of the business combination and has been determined as follows:

	<b>CONSOLIDATED GROUP 2007 \$</b>	<b>PARENT ENTITY 2007 \$</b>
<b>NOTE</b>		
Fair value of HTI shares at the date of acquisition		1,001,396
Percentage acquired		81.89%
Cost relating to the acquisition		-
Transaction costs directly attributable to the business combination		-
Total cost of business combination		820,043
The underlying financial position of the former HTI as at the date of the business combination is as follows:		
Cash and cash equivalents		669,920
Trade and other receivables		19,773
Related party loans		442,500
Trade and other payables		(130,797)
Net Assets		1,001,396

# FINANCIALS

[CONTINUED]



NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2007

## NOTE 28: COMPANY DETAILS

The registered office of the company is:

**Hydrotech International Limited**

Level 2, 118 Bennett Street

EAST PERTH WA 6004

The principal places of business are:

**Hydrotech Asia Limited**

Level 21, Asian House

1 Hennesy Road

HONG KONG SAR

**Hydrotech Europe plc**

11 Beaufort Court

Roebuck Way

MILTON KEYNES MK5 8H

# SECTION SIX - FINANCIALS

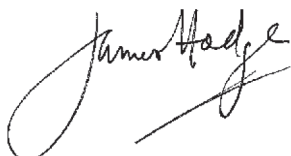
[CONTINUED]

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 21 to 46, are in accordance with the Corporations Act 2001 and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
3. 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.

This declaration is made in accordance with a resolution of the Board of Directors.



Director

SIR JAMES HODGE

Dated this 28th day of September 2007

CHARTERED  
ACCOUNTANTS  
& BUSINESS  
ADVISORS

A MEMBER OF  
MOORES ROWLAND  
INTERNATIONAL



**Bentleys MRI Perth**  
Financial Services Pty Ltd  
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www.bentleys.com.au

## INDEPENDENT AUDIT REPORT

### REPORT ON THE FINANCIAL REPORT AND AASB 124 REMUNERATION DISCLOSURES CONTAINED IN THE DIRECTORS' REPORT

We have audited the accompanying financial report of Hydrotech International Limited (the "Company"), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of changes in equity, and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 28, and the directors' declaration set out on page 47 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in the Directors' report and not in the financial report. We have audited these remuneration disclosures.

*Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' report.*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

*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. Our responsibility is also to express an opinion on the remuneration disclosures contained in Directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures contained in the Directors' report.

## SECTION SIX - FINANCIALS

[CONTINUED]

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### *Auditor's opinion on the financial report*

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

- giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the financial year ended on that date, and
- complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

### *Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report*

In our opinion, the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

*Bentleys MRI Perth Partnership*

Bentleys MRI Perth Partnership

*J Vibert*

J Vibert

Partner

Dated this day at Perth 28th September 2007.

# ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 31 AUGUST 2007

[CONTINUED]

## NUMBER OF SHARES AND SHAREHOLDERS

155,952,466 fully paid ordinary shares are held by 775 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	1	1	0.000%
1,001 - 5,000	35	112,566	0.072%
5,001 - 10,000	82	779,689	0.500%
10,001 - 100,000	520	22,230,951	14.255%
100,001 and over	137	132,829,259	85.173%
Total	775	155,952,466	100.000%

The number of shareholdings less than a marketable parcel is 22 (accounting for a total of 13,310 shares).

## SUBSTANTIAL SHAREHOLDERS (GREATER THAN 5%)

The names of the substantial shareholders listed in the holding company's register as at 31 August 2007 are:

Shareholder	NUMBER	% OF ISSUED CAPITAL
Karl Johan Grebstad	20,000,000	12.824
Ian George Dallas	13,446,911	8.622
Christopher Gordon Young	10,446,911	6.699
Suzanne Celina Lyn	10,000,000	6.412
Jennifer Ann Drew	8,000,000	5.130
Total	61,893,822	39.687

## DETAILS REGARDING ESCROW

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

### ESCROWED FULLY PAID ORDINARY SHARES

Escrow Release Date	Number of shares
Escrow expiry date - 6 March 2008	5,171,875
Escrow expiry date - 7 March 2008	44,914,681
Escrow expiry date - 8 March 2008	5,000,000
Escrow expiry date - 16 July 2009	46,006,763
<b>Total</b>	<b>101,093,319</b>

# SECTION SEVEN - ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 31 AUGUST 2007

[CONTINUED]

## DETAILS REGARDING ESCROW [CONTINUED]

### ESCROWED OPTIONS

<b>Escrow Release Date</b>	<b>Number of options</b>
Escrow expiry date - 28 February 2010	10,000,000
<b>Total</b>	<b>10,000,000</b>

### TWENTY LARGEST SHAREHOLDERS

<b>Shareholder</b>	<b>Number</b>	<b>% of issued capital</b>
Karl Johan Grebstad	20,000,000	12.824
Ian George Dallas	13,446,911	8.622
Christopher Gordon Young	10,446,911	6.699
Suzanne Celina Lyn	10,000,000	6.412
Jennifer Ann Drew	8,000,000	5.130
Jarvest Finance Ltd	6,154,804	3.947
Estate of John Douglas Kerr	5,961,926	3.823
Group # 647264 - RBC Dexia Investor Services	5,213,600	3.343
UBS Nominees Pty Ltd	3,800,000	2.437
Henning Syversen	3,517,037	2.255
Kjell Utklev	3,517,037	2.255
Peter W Buckby	3,446,911	2.210
Philip John Scott Gray	2,461,926	1.579
Arlington Capital Pty Ltd	2,250,000	1.443
Robert Leslie Bovell	2,000,000	1.282
Millcorp Securities Pty Ltd	1,303,506	0.836
Millcorp Securities Pty Ltd	1,026,167	0.658
David Albert Tuckett	750,000	0.481
Trojan One Pty Ltd	600,000	0.385
Mr David Frederick Oakley	590,000	0.378
	<b>104,486,736</b>	<b>66.999</b>

# ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 31 AUGUST 2007

[CONTINUED]

## HYDROTECH INTERNATIONAL LIMITED INCENTIVE OPTION SCHEME

There are 10,000,000 (with a 30 cent exercise price) unquoted options issued to 5 option holders under the Hydrotech Employee Option Plan.

5 Option holders hold 20% or more of the options under the Hydrotech Employee Option Plan, as set out below:

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

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

## ON-MARKET BUY-BACK

There is no current on-market buy-back.

## STATEMENT REGARDING USE OF CASH AND ASSETS

Hydrotech has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objective set out in the Prospectus dated 17 May 2007.

## SECURITIES EXCHANGE LISTINGS

Hydrotech has issued 155,952,466 fully paid ordinary shares, of which 54,859,147 are quoted on the ASX and are held by 775 shareholders.

## COMPANY SECRETARY

Fiona Boucher

## PRINCIPAL REGISTERED OFFICE

Level 2

118 Bennett Street

East Perth WA 6004

## SHARE REGISTRY

Advanced Share Registry Services





## HYDROTECH INTERNATIONAL LIMITED

### REGISTERED OFFICE

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