



30 January, 2009

Update for the Quarter ended December 2008

During the quarter, the Hydrotech has continued to progress its contract negotiations and agreements with various key clients on a number of potentially important installations.

However, some of the key issues impacting on our business which I identified in my AGM address remain and if anything, have been exacerbated by the deepening world recession. As I pointed out, the bureaucratic decision making processes embodied in our large clients' organisational structure was and still is a major source of frustration which has now been amplified by our clients' own in-house budgetary issues. For example, a major contract on which we were heavily relying has now been deferred to our client's next financial year which does not start until April. In a similar vein, we have just been informed that another major contract which also could have had a major positive beneficial impact on our cash flow, has now been postponed for several months as our client re-evaluates the cost/benefit impact against the backdrop of a disastrous property slump.

In October, Hydrotech was pleased to announce that the MPS system was specified as a mandatory specification in the new 7200 m² Wo Hep Shek Crematorium being commissioned by the Hong Kong ASD (Architectural Services Department), who is the government utility that is responsible for state buildings such as hospitals and schools. We have been advised that the ASD will begin calling for tenders for this work in March, 2009, and it is expected that some of Hong Kong's largest building contractors will participate.

In December, Hydrotech was also very pleased to announce that a contract was signed with Yunnan Provincial Communications Department for a pilot installation of the MPS system in the Tengmeishan Highway Tunnel, which is 3km in length and suffering serious water ingress problems. The new section of highway, south of Jinghong City, is 180km in length, and includes numerous tunnels and bridges contained in very mountainous terrain. As scheduled, work has commenced in 40 metres of the 3 km Tengmeishan tunnel, and this is due for completion in the next few weeks. This tunnel is located on a section of the highway which links the provincial capital of Kunming to Laos, which eventually leads on to Bangkok.

Whilst both these contracts are relatively small in the overall scheme of things, they are of extreme strategic importance, given the substantial flow on business that should arise from these two important clients.

Level 40, 108 St Georges Terrace
Perth WA 6000
+61 8 93759796
info@hydro-usl.com

During the quarter, Hydrotech commenced and finalised the installation the MPS system as a remedial solution in the Swansea Guild Hall building in Wales. This building is a listed historic Victorian style structure, and all of the 'listed-building' criteria have been exceeded and the works approved by the Listed Building Authority. Hydrotech is also continuing in advanced contract negotiations with several other major building managers and owners based in the UK, and further announcements on these works are expected in the near future, UK recession permitting.

In China, it has now been confirmed that the pilot project of 30 metres on Zhongliang Mountain Tunnels (which is a total of 6 Km) will proceed in March 2009, whilst the asphalt is also being laid in the tunnels. Unfortunately, advice was received in January that Fengman dam would have a new dam wall built instead of the use of the MPS system.

Notwithstanding the difficulties I have identified, our enquiry rate from serious potential clients has increased significantly in the last quarter as has the number of formal proposals we have submitted. Whilst this is gratifying and shows that our new marketing strategy is on track, a significant number of these proposals are of a pilot nature and will only lead to major contracts some quarters down the road. In the meantime, your Directors mindful of our cash position and current burn rate, are vigorously pursuing a number of strategic options to preserve and enhance shareholder value. These include, for example, the sale of geographic licenses for a mixture of cash and future royalty payments. We are also exploring possible joint ventures with major cash rich Groups.

Needless to say, these times are quite stressful and I would like to thank the Company's Directors and staff for their hard work and dedication.

We hope to narrow down the list of strategic options fairly quickly, and hopefully we will be in a position to report favourable progress to shareholders by the end of February. In the meantime, as they used to say in a famous police TV series "Gee it's tough out there!"



Philip Gray
Chairman

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

HYDROTECH INTERNATIONAL LIMITED

ABN

37 100 468 589

Quarter ended ("current quarter")

31ST DECEMBER 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	40	43
1.2 Payments for		
(a) staff costs	-613	-1,022
(b) advertising and marketing	-26	-79
(c) research and development	0	0
(d) leased assets	0	0
(e) other working capital	-727	-1,184
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	34	66
1.5 Interest and other costs of finance paid	0	0
1.6 Income taxes paid	0	0
1.7 Other (provide details if material)		
Net operating cash flows	-1,292	-2,176

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

		Current quarter	Year to date (6 months)
		\$A'000	\$A'000
1.8	Net operating cash flows (carried forward)	-1,292	-2,176
Cash flows related to investing activities			
1.9	Payment for acquisition of:	0	0
	(a) businesses (item 5)	0	0
	(b) equity investments	0	0
	(c) intellectual property	0	0
	(d) physical non-current assets	0	0
	(e) other non-current assets	0	0
1.10	Proceeds from disposal of:	0	0
	(a) businesses (item 5)	0	0
	(b) equity investments	0	0
	(c) intellectual property	0	0
	(d) physical non-current assets	0	0
	(e) other non-current assets	0	0
1.11	Loans to other entities	0	0
1.12	Loans repaid by other entities	0	0
1.13	Other (provide details if material)	0	0
Net investing cash flows		0	0
1.14	Total operating and investing cash flows	-1,292	-2,176
Cash flows related to financing activities			
1.15	Proceeds from issues of shares, options, etc.	0	0
1.16	Proceeds from sale of forfeited shares	0	0
1.17	Proceeds from borrowings	0	0
1.18	Repayment of borrowings	0	0
1.19	Dividends paid	0	0
1.20	Other (provide details if material)	0	0
Net financing cash flows		0	0
Net increase (decrease) in cash held		-1,292	-2,176
1.21	Cash at beginning of quarter/year to date	2,787	3,671
1.22	Exchange rate adjustments to item 1.20	0	0
1.23	Cash at end of quarter	1,495	1,495

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	111
1.25	Aggregate amount of loans to the parties included in item 1.11	
1.26	Explanation necessary for an understanding of the transactions	
	Non Executive Directors Parent Company	\$A'000 - 25
	Executive Directors	\$A'000 - 86

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

FX gain on inter-company balances	\$A'000 - 415

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	0	0
3.2	Credit standby arrangements	0	0

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

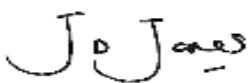
Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	1,495	2,787
4.2 Deposits at call	0	0
4.3 Bank overdraft	0	0
4.4 Other (provide details)	0	0
Total: cash at end of quarter (item 1.23)	1,495	2,787

Acquisitions and disposals of business entities

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i>
5.1 Name of entity	0	0
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.

3 Sign here: 
 (Director)

Date: 30/01/2009

Print name: Julie Jones

Notes

+ See chapter 19 for defined terms.