



30 April, 2009

### Update for the Quarter ended March, 2009

If the previous quarter was marked with frustration, the last quarter (Q3) was even more so although the source of frustration has shifted considerably.

In the quarter to December 08, we were anxiously awaiting two major UK contracts which would have tied the Company over the current global recession. However it finally transpired that due to our clients' budget constraints, these two projects had been postponed to sometime in the next financial year.

The frustration this quarter, if anything, has been particularly torturous. Towards the end of last year, we actively looked for potential licensees in areas such as the Middle East where we would sell our license for a combination of hard cash and on-going royalties. Notwithstanding several serious discussions with potential partners this strategy, at the end of the day, did not work. We subsequently moved, at the beginning of this calendar year, to identify potential 'private equity' companies that would be interested in taking a strategic stake in our Company.

Extended conversations were had with a number of groups including an Australian/Singapore consortium but sadly, these came to no avail. However, recognising that the cash clock was ticking away, we took some major steps to reduce our cash burn rates which frankly had been deferred as we were hoping for a successful outcome of one of our many negotiations. These steps included closing down our expensive London headquarters, introducing sweeping salary cuts, eliminating Non-Executive Directors fees as well as a few retrenchments which although regrettable, were inevitable in the current climate.

During this period our hopes were raised when an Anglo-Hong Kong private equity group approached us and negotiations started in earnest. Their interest was genuine and they were extremely detailed and thorough. Some eight weeks later, having capitulated to a number of their demanding pre-conditions, we finally agreed terms and were within days of announcing to the market that Hydrotech's future had been secured. Sadly, and I am afraid a typical sign of these troubled times, our proposed partners pulled out at the last moment for a variety of reasons, undoubtedly real to them but for us, very much less clear.

Again mindful of the cash clock ticking away, we are busily drawing up contingency plans which on the one hand involve further restructuring of the Company whilst on the other, trying to find other interested parties even at this late stage.

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On the restructuring front, we are shifting the method of remuneration from flat salary to more commission or performance-related payments. In many cases this will involve terminating contracts and persuading employees to sign up on this new approach. In some cases we will be able to close premises thereby saving overheads whilst thoroughly reviewing each employee's actual and potential contribution to the Company going forward.

A number of functions will also be outsourced. In this way, we should hopefully be able to dramatically reduce our burn rate to below AUD80k per month whilst keeping the core business intact.

Ms Boucher has announced her resignation as a Director of the Board for personal reasons, but will continue on in her role as Company Secretary. It is hoped that at some time in the future she maybe in a position to again take up a role as Director with the Company. In the meantime, we will endeavour to fill the casual vacancy and comply with all regulations as soon as possible.

On the other side of the equation, we are currently talking to 3 parties;

- 1) a Chinese waterproofing company which has expressed real interest in acquiring a strategic stake and/or license;
- 2) a Hong Kong based construction company with the view to them taking a strategic stake given the potential synergies between the two companies, and
- 3) a private consortium of new and existing shareholders who have tentatively come forward to help refinance the Company, through the issuance of fresh equity.

Given that we are running close to the wire, we have also consulted with a Perth-based 'professional advisory' company to ensure that we exercise all due care and responsibility to the various stakeholders who have a vested interest in the Company's fortunes be they shareholders, employees, creditors, etc. This can be a delicate balancing exercise requiring clear, mature judgment to which an outside, independent third party can sometimes make a material contribution.

Paradoxically, whilst our negotiations with potential licensees or trade/strategic investors have become exponentially frustrating, we continue to make significant progress on developing the market for our MPS system. We continue to be approached by major clients, especially in the expressway tunnel space. However, once again they all want time-consuming pilot projects which should (but not necessarily will) convert into major contracts some time down the road. For example, as we go to press with this announcement, we are anxiously waiting for the results of a 'panel of experts' review meeting for the project recently completed in the Chinese Tengmeishan Tunnel which was installed on an emergency basis for the client during the Christmas period. Once the successful outcome is confirmed, we have been informally told that there are two other much larger areas of work also requiring remedial treatment, let alone the vast network of tunnels, plenty of which require preventative treatment.

The following commentary, by geographic region, gives you some feel of our commercial developments and prospects:

### *China*

- The installation of the MPS system to the Tengmeishan Tunnel in Yunnan Province was completed on time in accordance with the Clients requirements. The system was commissioned in February and an evaluation of the installation by a Panel of Experts is scheduled for 30th April which may lead to two further projects that have been identified.
- A small installation was undertaken to 2 scientific monitoring rooms at a Hydro Electric dam in Guiyang. The project was supervised by the Head of Scientific Research, Guiyang Hydropower and once proven successful, may lead to several other identified opportunities in the Guiyang Province.
- Hydrotech have also been invited to forward a proposal to seal a section of coalmine lift shaft in Shandong Province. The works will commence in late May for completion before the end of June.
- We are waiting confirmation from the client as to when they will schedule the works for the Chongqing-Chengdu Express Corporation's Zhongliang Mountain to start. The Green Rivers project is due to commence in mid May and the contract for Guangzhou Metro is due to be signed before the end of May with works due to commence in June.
- Discussions are ongoing with Shanghai Metro and we are hopeful that this pilot project will be confirmed in the near future.
- Verbal approval has been received from a coal mining company that they will install the MPS to a coal loading conveyor in Wuhan; written confirmation is expected with works scheduled to commence in June.

### *Hong Kong*

- The design has been completed by the Consultant for The Institute of Education project at the Tin Ka Ping Lecture Theatre in Tai Po. The contract document has been completed and the client is awaiting confirmation of financing prior to the project being let. On receipt of the approval, works will commence immediately.
- MTR Corporation has confirmed that they will undertake an installation of the MPS system. If funds are available the works will commence before the end of June 2009.
- The Hong Kong Club has confirmed that they will incorporate the MPS system in forthcoming renovation works planned for their basement area.
- The ASD project at Wo Hop Shek Crematorium is presently out for tender and enquiries have been received from several of the contractors tendering the project. The tender document will be returned on 8th May with works due to commence in September 2009.

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- The Antiquities and Monuments department of the Hong Kong Architectural Services Department have identified an application to stop rising damp in a listed 'village house'. A submittal has been made and we are waiting for confirmation to proceed with the installation.
- Discussions are at an advanced stage with a major architectural company to incorporate the MPS system in their design for a prestigious building in the CBD area of Hong Kong. Pricing has been confirmed and the MPS system has been included in the provisional waterproofing details.
- A small pilot project has also been completed for a major contractor in Hong Kong who has water ingress problems to a new building. The contractor is one of the largest in Hong Kong and they are monitoring the installation with the view to installing the system on other projects they are undertaking.

#### *UK*

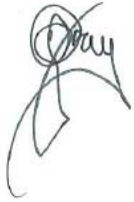
- Monitoring of the installation at Swansea Guildhall is ongoing. The client is in discussions concerning applying the system to phase 2 and 3 of the refurbishment, once the initial installation has proven to be successful.
- The final proposals for a large development project should be completed by the end of April. The consultant has significantly increased the scope of works and has confirmed that he intends to recommend the use of the MPS system.
- Discussions are continuing with one of the largest consultancies worldwide with regards to opportunities with the clients.
- Further meeting will be scheduled with Transport for London and Metronet in June.

#### *Summary*

In conclusion, although our room to maneuver is clearly narrowing, we are doing everything in our power to ensure the continuity of your Company. In consolation, it is sometimes said "it is darkest before dawn" and it is certainly dark out there at present. We do however have a number of hares (i.e. options) still running and our technology clearly works.

In the meantime, we have subtly redefined our business proposition from selling electro-osmosis/MPS to a broader concept of selling "Solutions to Water Ingress". In this context, we have recently expanded our services by offering a range of innovative, environmentally-friendly lining and coating systems that provide protection for and extend the life of concrete structures such as silicone resin emulsion paints (SREPs) and Polyurea products. The Company will continue to focus its marketing on innovative products that solve concrete durability and water proofing issues.

In this way, not only can we now offer our clients a much broader range of solutions, amortising our client acquisition costs over a wider range of products but this new range has a much, much shorter 'production/implementation' cycle with all the implications for cash flow and partially offsetting the much longer cycle required for MPS.

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

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
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ABN

37 100 468 589
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Quarter ended ("current quarter")

31 <sup>st</sup> MARCH 2009
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### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from customers	103	146
1.2 Payments for		
(a) staff costs	-578	-1,600
(b) advertising and marketing	-4	-83
(c) research and development	0	0
(d) leased assets	0	0
(e) other working capital	-295	-1,479
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	5	71
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)		
<b>Net operating cash flows</b>	<b>-769</b>	<b>-2,945</b>

+ See chapter 19 for defined terms.

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

	Current quarter \$A'000	Year to date (9 months) \$A'000
1.8 Net operating cash flows (carried forward)	<b>-769</b>	<b>-2,945</b>
<b>Cash flows related to investing activities</b>		
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
<b>Net investing cash flows</b>	0	0
<b>1.14 Total operating and investing cash flows</b>	<b>-769</b>	<b>-2,945</b>
<b>Cash flows related to financing activities</b>		
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
<b>Net financing cash flows</b>	0	0
<b>Net increase (decrease) in cash held</b>	<b>-769</b>	<b>-2,945</b>
1.21 Cash at beginning of quarter/year to date	1,495	3,671
1.22 Exchange rate adjustments to item 1.20	0	0
1.23 <b>Cash at end of quarter</b>	<b>726</b>	<b>726</b>

+ 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	147
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 - 0
Executive Directors	\$A'000 - 147

**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


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

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+ See chapter 19 for defined terms.

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

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**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	726	1,495
4.2 Deposits at call	0	0
4.3 Bank overdraft	0	0
4.4 Other (provide details)	0	0
<b>Total: cash at end of quarter (item 1.23)</b>	726	1,495

**Acquisitions and disposals of business entities**

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
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 give a true and fair view of the matters disclosed.



3 Sign here:  
(Director)

Date: 30/4/2009

Print name: FIONA BOUCHER

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