Hydrotech

INTERNATIONAL LIMITED

ABN 42 122 726 283

HYDRO TECHNOLOGY + INNOVATION

2008
ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Philip Gray
Chairman

Ian Dallas
Non-Executive Director

Andy Fourie
Non-Executive Director

Karl Grebstad
Non-Executive Director

Fiona Boucher
Executive Director

Julie Jones
Executive Director

Company Secretary

Fiona Boucher

Principal Administrative Offices

Hong Kong
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United Kingdom
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Phone: + 44 1908 675 244

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Haidian, Beijing
China 100044

Phone: +86 10 6878 5182

Registered Office

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Perth WA 6000

Phone: + 61 8 9375 9796
Fax: + 61 8 9375 9630

Website

www.hydro-usl.com

Australian Company Number

122 726 283

Australian Business Number

42 122 726 283

Auditors

WHK Horwath
Level 6
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Perth WA 6000

Share Registry

Link Market Services Ltd
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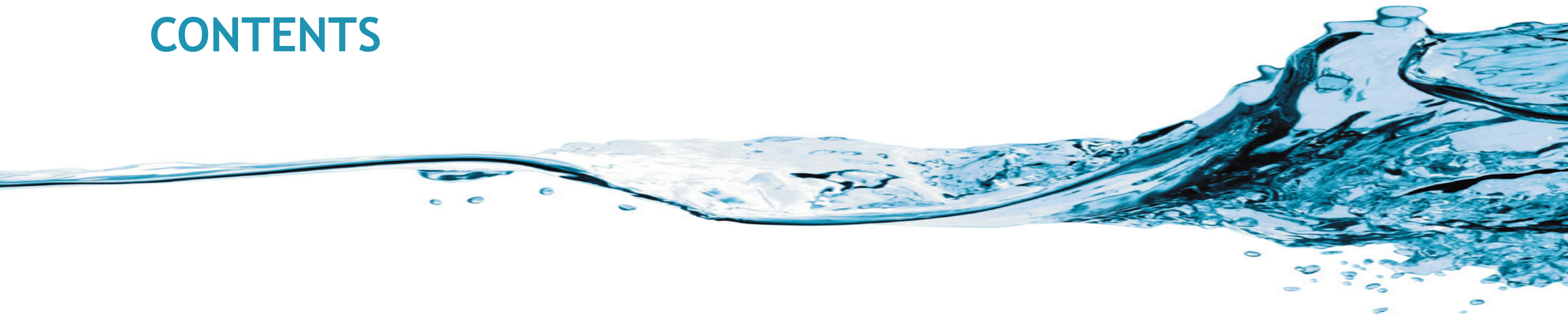
680 George Street
Sydney NSW 2000

Phone: + 61 2 8280 7111
Fax: + 61 2 9287 0303

ASX Code

HTI

CONTENTS



CHAIRMAN'S LETTER

Dear Shareholders,

Any student of small company evolution and development, be they management consultants, small company investment analysts or specialist fund managers, soon learns that small companies go through several distinct phases in their development. These phases, accompanied by their own set of crises, challenges or simply growing pains, are difficult to avoid and in Hydrotech's case, we are no different. However, the key issue is how the company addresses these developments which depends on its management, the operating environment and an underestimated component called 'luck' or 'serendipity'.

In this respect, looking collectively at these three components, our score card was, until recently, a mixed bag, although broadly positive but more importantly rapidly improving in the last quarter.

On the management front, we were clearly over optimistic regarding the adoption speed of our technological solution to water ingress given a highly conservative industry resistant to technological change and with legal and financial vested interests in the old and consistently disappointing range of solutions to this world-wide and pervasive problem.

In this vein, with the full benefit of hindsight, our marketing decision to rely on licensees to promote our product was at best misguided and possibly even naïve. So be it. However, with a dedicated long term program of conferences, seminars and trade press articles targeted at end users, we have now developed a ground swell of positive opinion characterised by infrastructure owners contacting us directly with increasing frequency.

In the meantime, on the management front, I am extremely confident in our financial control and reporting systems headed by a very professional Julie Jones and our compliance and corporate governance controls overseen by our highly competent and qualified Fiona Boucher. On both these scores, we come out well and in this respect, Hydrotech is already in the medium sized company league. However, as with all small companies with a strong technological base and technology orientated founders, we have yet to fully transition to a more commercially driven culture. This is normal and understandable, but we must re-double our efforts to effect our transition to this new phase. We are vigorously addressing this issue, although we fully recognise that time is not on our side and a degree of urgency is required.

In the context of our operating environment, excluding the 'resistance to change' factor, the potential demand for our water ingress solution is expanding exponentially. Ageing infrastructure, rising water tables, tougher environmental and health/safety legislation, let alone practical issues of damp and flooding, are creating a potentially insatiable demand for our MPS solution, a demand which is fortunately independent of economic cycles. Who would have thought, for example that Saudi Arabia, incidentally flush with grossly inflated oil revenues, has a major and very serious water ingress problem in parts of this arid and barren country.

It is on the luck front, however, that we have faced our most serious challenge. A major potential client, Metronet in the UK, on whom, again with the benefit of hindsight, we had placed too much reliance, went into administration during our key pilot and subsequently successful installation, leaving us in contractual limbo. This politically motivated displacement of one of our potentially largest clients, left us cruelly exposed. Nevertheless, every cloud has a silver lining and this adverse setback encouraged or even forced us to look at new markets such as China where we have now secured some key milestone contracts.

However, inevitably this unbudgeted and unforeseen setback wreaked havoc on our cash flow projections and despite vigorous cost cutting, we decided, on prudent grounds, to issue a small fresh tranche of stock at a premium, to mainly Hong Kong China based investors. With a sense of déjà vu, this wasn't the first time a small technology company, slightly ahead of its time, had to go back to market.

CHAIRMAN'S LETTER

Moving forward, the last quarter of our financial year has seen a change in the Company's fortunes, due possibly in part of course to luck, but perhaps more realistically and significantly to the immense amount of long term marketing ground work done by our team of highly qualified technical staff and consultants. Our MPS technology has recently been formally approved by London Underground and we are now in the process of negotiating a major contract. Furthermore, some major large property developers in the UK and Hong Kong have approached us with some large scale projects which require urgent remedial action and where MPS is the only long term solution. Negotiations are currently underway, and we hope to report back soon.

In China we have successfully tendered for a number of projects of a milestone nature such as the Guangzhou Metro.

These developments could present us a new set of challenges as we hopefully migrate to the next and potentially exciting stage of our evolutionary path to hopefully become a successful company. Our technology is now fully proven and accepted and thus our pioneering phase in relative terms is coming to a close. However, we now have to accelerate our direct marketing efforts and position the Company to cope with growth. Fortunately, the financial implications of this growth are manageable as we sell "Intellectual Property", where the development costs are fully embedded and the cost of scaling up in terms of working capital are so far as we can forecast, extremely limited. However, we need to accelerate the recruitment and training of installation personnel in various centres of growth which is not easy. In addition, we need to improve and refine our costing and pricing policies and procedures which were up to now regarded as a luxury.

In the meantime, our technology team headed by Henning Syversen continues to develop value added enhancements to our core MPS product, in part to protect our "Intellectual Property" base, and in part to offer our clients some extremely significant product advantages such as remote site monitoring via the Internet.

As ever, Hydrotech is dependent on its prime asset, our staff, and with no disrespect to anybody, I would like to single out Ian Dallas, our CEO, who almost single handily has been fighting fires on all fronts after he brought Hydrotech to market, a major feat in itself. For family reasons, he wanted to resign as CEO and to return to the UK, although I am delighted that he has agreed to remain as a Non-Executive Director. However, of much greater importance, he will take control of and manage some key commercial relationships in the UK. In a similar vein, I would like to thank our former Chairman, Sir James Hodge, for steering the company through some difficult and unchartered waters. We wish them well as the new team picks up the proverbial baton for the next phase of the Company's development.

In conclusion, seasoned small company professional investors cringe at the old well worn cliché 'Your Chairman looks to the future with confidence'. However, in our case, it would be disingenuous for me to say anything else, notwithstanding that a new set of hurdles and challenges will be presented at each stage of our evolutionary development. In addition, there are numerous pitfalls for the unwary and we still have a long way to go before we can say we are successfully fully established on a growth trajectory.

Phillip Gray
Chairman

YOUR DIRECTORS

Philip Gray – Chairman

– appointed 28 April 2008

MA DMS TEP FInstD DipTA FSTA MHKSI

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

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

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

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

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

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

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

Ian Dallas – Non-Executive Director

– appointed 2 March 2007

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

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

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

Mr Dallas is also a director of Hydrotech plc, a UK-based subsidiary company and is also a director of Hydrotech R & D Ltd, a Hong Kong-based subsidiary.

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

Andy Fourie – Non-Executive Director

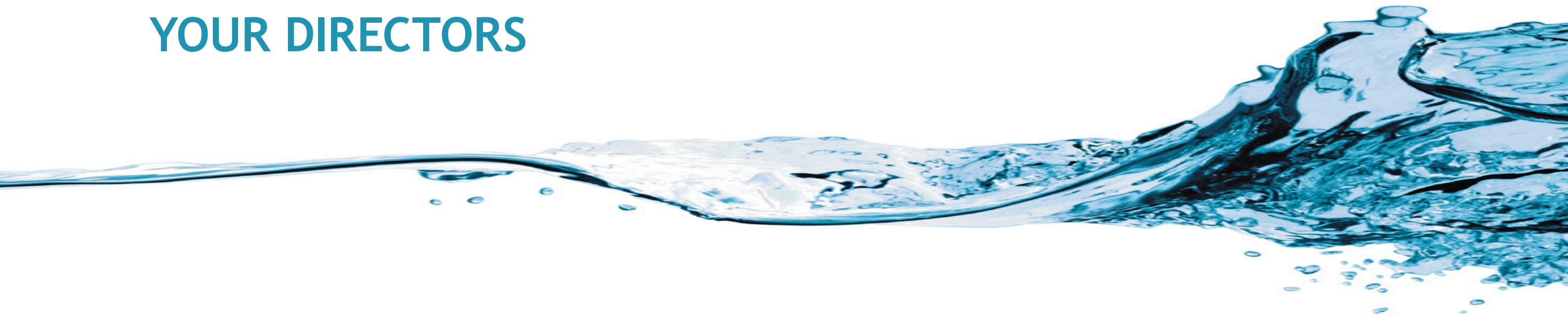
– appointed 6 November 2007

BSc(Eng) MSc(Eng) PhD DIC

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

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

YOUR DIRECTORS



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

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

Karl Grebstad – Non-Executive Director

– appointed 1 April 2008

HKIA

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

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

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

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

Fiona Boucher – Executive Director

– appointed 13 August 2008

BBus Grad Dip AppCorpGov CPA FCIS CSM

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

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

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

Julie Jones – Executive Finance Director

– appointed 1 July 2008

FMAAT

Ms Jones has extensive senior managerial experience with UK companies both in the listed and private sector, holding Directorships as Finance and Managing Director positions as well as company secretarial duties.

She is a Fellow Member of the Association of Accounting Technicians and is a member of the Institute of Directors.

Ms Jones commenced as Company Accountant with Hydrotech Europe plc in July 2007 before being admitted to the plc board in January 2008 and the Hydrotech International Ltd board from July 2008.

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 2008 and the Independent Audit Report thereon.

1. Directors

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

- Mr Philip Gray (appointed 28 April 2008)
- Sir James Hodge (resigned 28 April 2008)
- Mr Ian Dallas (appointed 2 March 2008)
- Mr David Ledger (resigned 13 August 2008)
- Dr Andy Fourie (appointed 6 November 2007)
- Mr Lee Boyd (resigned 6 November 2007)
- Mr Stephen Penrose (resigned 7 April 2008)
- Mr Karl Grebstad (appointed 1 April 2008)
- Ms Julie Jones (appointed 1 July 2008)
- Ms Fiona Boucher (appointed 13 August 2008)

Directors' qualifications, experience and special responsibilities are contained on page 6 and 7.

Directorships of other Listed Companies

Details of all directorships of other Australian listed companies held by each Director in the three years immediately before 30 June 2008 and the period for which it was held are set out below:

Director	Directorship of Listed Entity	Period Held
Mr Philip Gray	Nil	Nil
Mr Ian Dallas	Nil	Nil
Dr Andy Fourie	Nil	Nil
Mr Karl Grebstad	Nil	Nil
Ms Julie Jones	Nil	Nil
Ms Fiona Boucher	Nil	Nil

2. Company Secretary

Fiona Boucher – Company Secretary
B Bus Grad Dip AppCorpGov CPA FCIS CSM

Ms Boucher's experience and qualifications are detailed on page 7 of this Report.

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 32 of this 2008 Annual Report.

Operating Results

The consolidated net loss of the Consolidated Entity for the financial year was $5,639,756.

The net loss of the Parent Entity for the financial year was $2,550,638.

Australia

There have been significant changes to the Directors of the Board during the year, from those that existed at the time of listing. The Company is cognisant that it must regularly review the composition of its Board in order to establish the correct mix of skills and expertise to provide the future strategy to achieve its goals.

Hydrotech completed a placement to Lippo Securities Ltd for 23,390,000 ordinary shares, at 10 cents per share, which raised a total of $2,339,000 in June 2008. This will ensure that the Company has adequate working capital to continue its business development in Asia and Europe, whilst contracts currently awaiting customer acceptance are finalised.

UK

Metronet Alliance/London Underground

The year commenced with some uncertainty due to the advent of Metronet (the largest manager of London Underground stations) going into administration. This has now been resolved with a positive outcome. An agreement was reached with Metronet which verified the efficacy of the Multi Pulse Sequencing (MPS) System for use in the remediation works throughout their network of stations, within the London Underground. Walthamstow Central Station was the site of a significant trial, where the tunnel connecting the bus station to the train station used by 13M passengers annually was plagued with chronic water seepage. HTI was able to demonstrate to London Underground (LUL) that there was a complete halt to the water ingress problem, which is now controlled with the use of the MPS system and is noted as being the driest part of the entire network. LUL formally signed off acceptance of the MPS System, which will now allow significant remediation work to be commenced not only with Metronet, but also Tubelines and other major rail networks throughout the world.

Other opportunities have also been explored and submissions made during the year with regards to various road tunnels, Archways and buildings managed by major Groups within the UK.

Mr Dallas, the Group's former Managing Director has relocated to Europe to manage these relationships personally in future.

Hong Kong

HTI's Asian subsidiary, Hydrotech Asia Ltd (HAL) has appointed various expert technical staff and consultants during the year, with skills that will serve the business well going forward. The MPS system is relatively new to the Hong Kong market, and considerable efforts to market and disseminate information regarding the technology have been undertaken, with note worthy events including the following:

Testimonials

Visits were made to three MPS systems sites that had previously been installed in Hong Kong during the years 1998 to 2000. The respective clients, the Mass Transit Railway Corporation and two major property developers, provided current testimonial letters confirming the continued satisfactory performance of these installations. These testimonials have strengthened the technical documentation available to present to prospective clients.

Presentations

Numerous presentations have been made to Government departments such as Highways Department, Architectural Services Department, Housing Department and Civil Engineering Department, technical bodies such as the HK Institution of Engineers, the HK Institute of Surveyors, the Association of Project Managers and the HK Tunnelling Society and to various property developers, civil engineering and building contractors, consulting engineers and architects during the year with regards to the merits of the MPS System and its capabilities.

Hop Yuen Warehouse

In February, HAL was awarded a contract to install the MPS system in the Hop Yuen Warehouse complex in Kowloon Bay on behalf of one of Hong Kong's most respected construction companies with over 80 years experience in the industry.

Mass Transit Railway Corporation

Hong Kong's Mass Transit Railway Corporation (MTR) has recently announced approvals to proceed with the design and construction of 5 new railway lines, with an estimated construction value of HK$100 billion (A$14 billion). The majority of these works will be underground and this could present considerable opportunities for "new build" MPS installations in stations and tunnels.

China

HTI commenced operations in China last year with the opening of a divisional office headed by Mr Jiang Nan. Mr Nan has had extensive commercial experience, in particular with the Ministry of Power, Ministry of Water Resources and the hydropower sector. The establishment of Hydrotech China Ltd (HCL) a wholly owned foreign enterprise is near completion and all major formalities have been processed by the China government office. During the year the following items were note worthy:

Agreement with CIECC

In October, HTI signed an agreement with China International Engineering and Consulting Corporation (CIECC), one of the largest engineering consulting groups in the world with over 11,000 engineers. It is expected that this arrangement will lead to future commercial opportunities for HTI in the China region.

Huang Hua Gang Station, Guangzhou Province

An MPS pilot trial within the Huang Hua Gang Station, Line 6, managed by Guangzhou Metro Corporation has been awarded to HTI. This will be for the first time that the MPS system will be applied in new structures, instead of a remedial situation. The trial section is to be installed in an area of 1500m^2 and it will be monitored for approximately three months to prove efficacy; at which point the client has agreed to install the MPS system into the rest of the 16 stations of Line 6.

Zhonglianshan Mountain Tunnels, Chongqing Province

An MPS trial section in Zhongliangshan Mountain Tunnels managed by Chongqing-Chengdu Expressway Company has been awarded to HTI, and the installation will commence in the last quarter of 2008. The trial section of 30m is to have its humidity level monitored, and when it reaches an agreed level, the client has agreed to install the MPS system within the two 3.2km long tunnels covering 108,000m^2. This contract is important to the Company from not only the revenue that will be derived, but also because the client is a government body that controls other major infrastructure assets in the same region that have similar remediation requirements.

Other proposals submitted include Feng Man Dam, various undersea, rail & highway tunnels, Xiaolangdi Hydropower Station and Changdu Metro. The recent earthquake disaster that struck China has had an impact and has meant that resources are being diverted into rebuilding etc.

Norway (R & D)

The facility in Norway has the responsibility of developing water ingress protection systems based on Electro-Osmosis technology for HTI.

Multi Pulsing Sequencing System (MPS)

During the last year, R & D has been working on several new enhancements to the MPS System control unit, including:

- higher current capacities coupled with cooler running temperatures for larger installations;
- improved circuitry protection to guard against power surges, interference and emissions; and
- a sealed hybrid circuit for increased protection against piracy,

as well as the development of a 'version two' prototype.

Water Extraction & Transfer System (WET)

R & D developed a 'proof of concept' prototype of the WET System and commenced a two pronged test of the systems principles, one in house that has been completed and another at an external site which is still progressing.

This system allows 'brown field sites' to be turned into useable land by the transference of water. Applications could include for instance allowing developers to construct buildings and towns where that was not feasible before. The system can also create a water source by transferring it to an area where water was scarce and creating a permanent resource. There are potential opportunities that HTI expects will emerge from adoption of this technology in the future.

6. Significant Changes in State of Affairs

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

7. Events Subsequent to Reporting Date

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

8. Likely Developments and Expected Results of Operations

The Group has reached a key transitional stage in the commercialisation of its technological solution to water ingress into subterranean concrete and masonry structures.

Substantial effort into strategic marketing to key opinion leaders and technical experts is now showing results as major infrastructure owners request submissions or send us tenders. In addition, both London Underground and The Mass Transit Railway Corporation have endorsed our MPS product as a remedial solution to water ingress, while Guangzhou Metro has approved our product as a pre-fit in new structures. Thus the UK and China will remain our key markets although we are receiving serious enquiries from other countries such as Saudi Arabia.

In effect, the Company's efforts are now transitioning from long range strategic marketing to more focused direct selling while additional resources will need to be directed to improving cost and pricing procedures and our budgeting process. As we increase our work in progress, we will also have to recruit and train up MPS installers and supervisors.

We are not complacent and realise resistance to change is still deeply embedded in some sectors of our market place. However, it is progressively coming an issue of that it is not so much a question or the challenge of persuading infrastructure owners that our MPS system works – it will be more the challenge of managing the potential order growth of what is still a very small business.

Based on our contract pipeline and a measured assessment of current year prospects, we hope to at least break even, but with substantial risk on the upside.

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

9. Environmental Regulations and Performance

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

10. Dividends

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

11. Options and Rights

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

Unissued Shares under Option

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

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

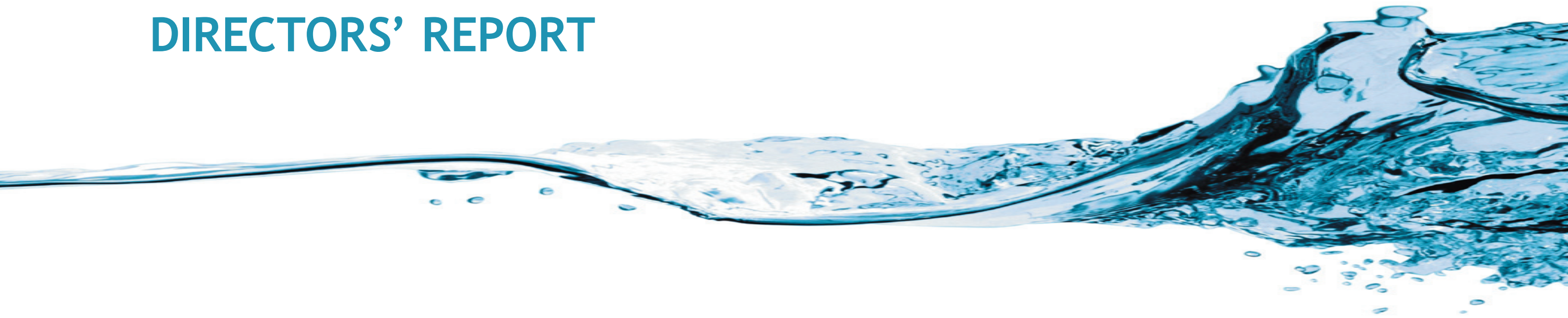
2,000,000 options were issued to each of the Directors in place during the time leading up to the listing on the ASX, being a total of 10,000,000 options. The exercise of these options is conditional on the market capitalisation of HTI meeting or exceeding $50,000,000 and the net profit after tax of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

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

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

Shares issued on exercise of options

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



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

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

Director	Board	
	Meetings attended	Meetings held during Director's tenure
Sir James Hodge	2	2
Mr Phillip Gray	6	6
Mr Ian Dallas	8	8
Mr David Ledger	8	8
Mr Lee Boyd	3	3
Mr Stephen Penrose	6	6
Dr Andy Fourie	4	5
Mr Karl Grebstad	2	2

HTI has established an Audit Committee, Remuneration Committee and an Electro-Osmosis Advisory Committee. Details on Committee Meetings held during the financial year under review are set out below. Details of Committee membership are referenced in the Directors' biographies set out on pages 6 and 7.

Director	Audit Committee		Remuneration Committee		Electro-Osmosis Committee	
	Nº eligible to attend	Number attended	Nº eligible to attend	Number attended	Nº eligible to attend	Number attended
Sir James Hodge	1	1	–	–	–	–
Mr Philip Gray	–	–	1	1	–	–
Mr Ian Dallas	–	–	1	1	1	1
Mr David Ledger	2	2	1	1	–	–
Mr Lee Boyd	1	1	–	–	–	–
Mr Stephen Penrose	1	1	–	–	–	–
Dr Andy Fourie	–	–	–	–	2	2
Mr Karl Grebstad	–	–	–	–	1	1

13. Directors' Interests

Particulars of Directors' relevant interests in securities of HTI as at 30 June 2008 are as follows:

Director	Ordinary Shares		Options	
	Number	Interest	Number	Interest
Mr Philip Gray [1]	16,862,208	Direct/Indirect	Nil	Nil
Mr Ian Dallas [2]	13,446,911	Direct	2,000,000	Direct
Dr Andy Fourie	25,000	Direct	Nil	Nil
Mr Karl Grebstad	20,000,000	Direct	Nil	Nil
Ms Julie Jones	Nil	N/a	Nil	Nil
Ms Fiona Boucher	25,000	Direct	Nil	Nil

[1] Mr Gray holds 2,461,926 shares directly, 5,441,396 shares under the registered holder Austock Nominees Ltd and 8,958,886 under the registered holder Lippo Securities Ltd, of which 6,394,876 shares are held in trust for other parties.

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

Contracts

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

During the financial year, HTI engaged the services of Tottle Partners as solicitors and for its recent Initial Public Offer. Mr Penrose, a former Director of HTI is a Partner of Tottle Partners.

During the financial year, HTI engaged the services of the Elovadae Trust for the provision of company secretarial and administration services during the first part of the year. Mr Boyd, a former Director of HTI 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 for further information in this regard.

14. Indemnification and Insurance of Officers and Auditors

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

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

The Company has not indemnified its auditors WHK Horwath.

15. Non-audit Services

During the year, HTI sought to harmonise its auditors globally and as such Grant Thornton (formerly Bentleys MRI Perth Partnership), with the consent of ASIC resigned as auditors and Pitcher Partners who are part of the world-wide Baker Tilley Group were appointed to act as auditors for the entire Group of HTI companies. Subsequent to this, Pitcher Partners sole partner Mr Nick Hollens resigned from the firm making it impossible for them to continue as auditors. As such HTI appointed WKH Horwath, where Mr Hollens is now a partner, to act forthwith, which will be put to shareholders for approval at the next Annual General Meeting.

Details of the amounts paid to Pitcher Partners and WKH Horwath 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 Pitcher Partners was previously engaged to provide once off GST advice pertaining to the Financial Acquisitions Threshold during the period. Therefore, the Directors are satisfied that:

(a) the non-audit services provided during the financial year by Pitcher Partners 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 Pitcher Partners did not compromise the auditor independence requirements of the *Corporations Act 2001* 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 provided in relation to GST advice on the Financial Acquisitions Threshold is of a tax and not audit nature; and

  iv. the declaration required by section 307C of the *Corporations Act 2001* confirming independence has been received from the lead auditor of WKH Horwath.

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 2001* 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.*

HTI Remuneration Policies and Practices

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

The remuneration structures reward the achievement of strategic objectives to achieve the broader outcome of creation of value for shareholder. The Remuneration Committee reviews and recommends to the Board on matters of remuneration policy and specific emolument recommendations in relation to senior management and Directors.

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 at its 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 $50,000 p.a., with supplementary fees of $25,000 p.a. for the role of Chairman and $12,500 p.a. for each directorship of a foreign registered subsidiary, limited to a maximum of $25,000 p.a. should the number of Directorships of foreign registered subsidiaries exceed two. It should be noted that Mr Gray has declined to take any Directors (parent or subsidiary), or Chairman's fees at this time.

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

Equity Participation

2,000,000 options were granted to each Director of HTI during the time leading up to the listing. These options may vest conditional on the market capitalisation of HTI meeting or exceeding $50,000,000 and the net profit after tax of the HTI Group exceeding $8,000,000 in any financial year. The exercise price of each option is 30 cents. Vested options may be exercised and converted to fully paid ordinary shares on a one-for-one basis. Further details about these options are contained on pages 19 and 20 of this Remuneration Report.

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

Retirement Benefits

Non-Executive Directors do not receive retirement benefits.

Superannuation

The Australian-resident Directors of HTI are paid superannuation at the statutory rate prescribed by the law and this form part of their Directors Fees. HTI makes statutory employer contributions on behalf of its Directors to the superannuation fund of their choice, as is required by legislation.

Executive Director/Management Remuneration

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

Base Salary

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

Profit Share Pool

It is envisaged that upon HTI becoming profitable, that a 'profit share pool' will be created and distributed at the discretion of the Board annually to further incentivise employees. For the year ended 30 June 2008 and the comparative period no bonuses were paid or payable to any key management personnel of the Company or Group.

Long Term Incentive Option Plan

HTI established a discretionary incentive option plan at the time of listing which may be used in future as an incentive for the Company's key personnel to perform at the highest level possible. To date, there have not been any options issued pursuant to the scheme.

Other – Equity Plans

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

<table>
<tr><th>Description</th><th>Rationale</th></tr>
<tr><td>Bonus Plan</td><td>Once HTI becomes cash positive, a 'profit share pool' will be put in place for staff and Non-Executive Directors. There is currently no Bonus Plan.</td></tr>
<tr><td>Options</td><td>Options are the "at risk" component of the HTI remuneration philosophy.</td></tr>
<tr><td>The targets for the 2007 Offer are as follows:
<table>
<tr><th>Date of Grant</th><th>Performance Conditions</th><th>Last Exercise Date</th></tr>
<tr><td>28/02/07</td><td>The exercise of these options is conditional on the market capitalisation of the HTI group meeting orexceeding$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>
</table></td><td>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.
The achievement of a pre-determined profit target (with an inherent stretch component) and an increasing share price inherently increase total shareholder return.</td></tr>
</table>

HTI at-risk remuneration components have been designed to have a positive impact on HTI performance from this financial year onwards. Similarly, any new equity and profit share pool plans would have a similar design features.

Remuneration Summary

	Short Term				Post Employment		Equity Based Payments	TOTAL	Proportion of Remuneration Performance Related	Value of Options as Proportion of Remuneration
	Cash, Salary & Fees	Cash Profit Share	Non-Cash Benefit	TOTAL	Super-annuation	Long Term Benefits	Options			
	$	$	$	$	$	$	$	$	%	%
DIRECTORS										
Non-Executive										
Sir James Hodge	59,521	–	–	**59,521**	–	–	–	**59,521**	–	–
David Ledger	120,000	–	–	**120,000**	–	–	–	**120,000**	–	–
Lee Boyd	15,617	–	–	**15,617**	–	–	–	**15,617**	–	–
Stephen Penrose	32,582	–	–	**32,582**	2,932	–	–	**35,514**	–	–
Andy Fourie	29,848	–	–	**29,848**	2,686	–	–	**32,534**	–	–
Karl Grebstad	12,500	–	–	**12,500**	–	–	–	**12,500**	–	–
Philip Gray	–	–	–	**–**	–	–	–	**–**	–	–
Executive										
Ian Dallas	1,080,589	–	–	**1,080,589**	–	–	–	**1,080,589**	–	–
EXECUTIVE MANAGEMENT										
Fiona Boucher	41,250	–	–	**41,250**	3,712	–	–	**44,962**	–	–
TOTAL	**1,391,907**	**–**	**–**	**1,391,907**	**9,330**	**–**	**–**	**1,401,237**	–	–

Fair Value of Options – Factors and Assumptions

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

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

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

No options were granted to key management personnel during the year ended 30 June 2008.

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 30/06/08	Vested during the year	Vested and exercisable as at 30/06/08
Mr Lee Boyd*	–	–	–	2,000,000	–	–
Mr Ian Dallas	–	–	–	2,000,000	–	–
Sir James Hodge*	–	–	–	2,000,000	–	–
Mr David Ledger*	–	–	–	2,000,000	–	–
M Stephen Penrose*	–	–	–	2,000,000	–	–

** Resigned Directors at the date of this Report*

Exercise of Options Granted as Compensation

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

Analysis of Options and Rights over Equity Instruments Granted as Compensation

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

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

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

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

3 The maximum value of options yet to vest is not determinable as it depends on the achievement of vesting conditions (the 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 pricing model.

** Resigned Directors at the date of the Report.*

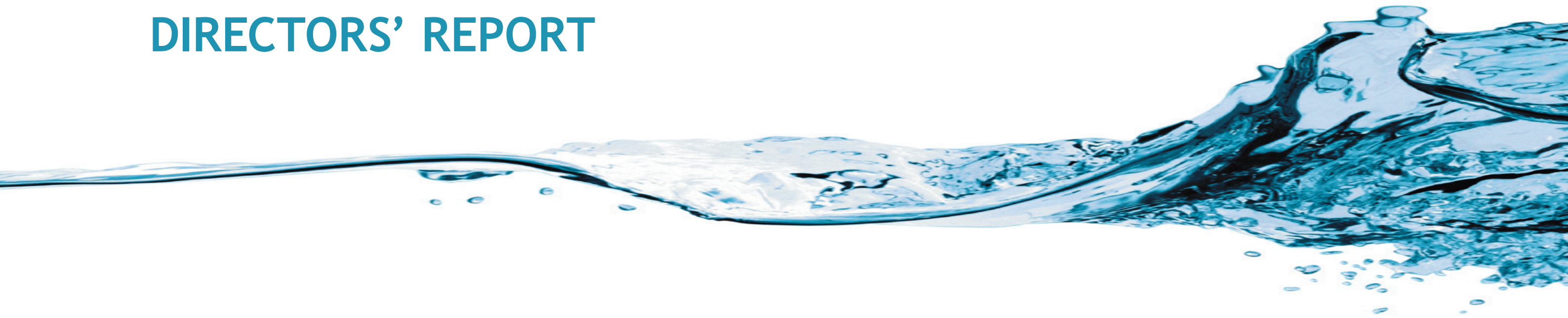
Analysis of Movements on Options

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

	Year	Options at the beginning of the year $	Entitlement to Options granted in year $	Exercised in Year $	Forfeited in Year $	Options at the end of the year $
Mr Lee Boyd*	2008	80,400	–	–	–	80,400
Mr Ian Dallas	2008	80,400	–	–	–	80,400
Sir James Hodge*	2008	80,400	–	–	–	80,400
Mr David Ledger*	2008	80,400	–	–	–	80,400
Mr Stephen Penrose*	2008	80,400	–	–	–	80,400

** Resigned Directors at the date of the Report.*

DIRECTORS' REPORT



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, and this agreement was terminated from 30 June 2008.

The key terms of the ESA are set out below:

Contract Details	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.

Phillip Gray
Chairman
Date: 26 September 2008

AUDITOR'S INDEPENDENCE DECLARATION

WHK Horwath

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Hydrotech International Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP

Nicholas Hollens

NICHOLAS HOLLENS
Principal

Perth, WA

Dated this 26th day of September 2008

Total Financial Solutions

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A WHK Group firm

Horwath

Horwath refers to Horwath International Association, a Swiss verein. Each member of the Association is a separate and independent legal entity.

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	✗ [1]
2.2	The chairperson should be an independent director	✗ [2]
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	✗ [3]
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: • the practices necessary to maintain confidence in the Company's integrity • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	✓
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: • 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	✓
4.2	The board should establish an audit committee	✓
4.3	Structure the audit committee so that it consists of: • no executive directors • a majority of independent directors • an independent chairperson, who is not a chairperson of the board • at least three members	✗ [4]
4.4	The audit committee should have a formal charter	✓
4.5	Provide the information indicated in Guide to reporting on Principle 4	✓

CORPORATE GOVERNANCE STATEMENT

	Best Practice Recommendations	Compliance
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	✓
5.2	Provide the information indicated in Guide to reporting on Principle 5	✓
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	✓
6.2	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	✓
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: • are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board • the company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects	✓
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	✓

CORPORATE GOVERNANCE STATEMENT

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

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

Size of Board and Composition

The Board members determine the size and composition of the Board, subject to limits imposed by HTI's Constitution. The Constitution provides for a minimum of three directors and a maximum of ten. For the time being, the Board has determined that there shall be six directors, of whom two are executives 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 6 and 7.

There are currently no Independent Directors of HTI.

[1] HTI does not have a majority of Independent Directors appointed at present. HTI's Directors have been chosen for their skills, expertise and the value they can add to the Board at this time. The Board considers this to be appropriate considering the current size of the Company.

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

In line with HTI's Constitution, Directors are appointed for three-year terms and are required to resubmit for re-election at the Annual General Meeting should they wish to serve further terms. Formal letters of appointment, setting out key terms and conditions, are in place for all Directors.

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

Ethical Standards and Share Dealings

The Directors have chosen to adopt a Code of Conduct based on principles as recommended by the Australian Institute of Company Directors. HTI also has a Code of Conduct embodied within its Corporate Governance 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 three members being, Ms Boucher as Chairman, who is a Certified Practising Accountant (with over 25 years financial experience as a qualified accountant), Mr Gray and Mr Dallas. The accounting function of the HTI Group is controlled by the Finance Director, Ms Julie Jones. The Audit Committee reviews the performance of external auditors on an annual basis and will meet with them at least twice a year to review the results and findings of the audit, the appropriateness of provisions and estimates included in the financial results, the adequacy of accounting and financial controls and to obtain feedback on the implementation of the recommendations made. The Audit Committee will also review the draft financial statements and audit review reports at year end and half-year end and recommend acceptance or otherwise thereof to the Board. A full copy of the Committee Charter is contained in the "Corporate Governance Policy" which is available on the HTI website.

[4] Due to the current mix of the Board, none of the members of the Audit Committee are Independent Directors and Ms Boucher is an Executive Director.

Continuous Disclosure and Shareholder Communication

HTI has procedures in place to ensure that all price sensitive information is identified, reviewed and disclosed to the ASX in a timely manner and simultaneously made available for all shareholders on HTI's website.

HTI has formalised both its Continuous Disclosure and Shareholder Communications Policies, which are contained in the Corporate Governance 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

HTI takes a pro-active approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. HTI has recently undertaken a review of HTI's Risk Management Policies and implemented a Risk Management Strategy Plan. The Board requires that the Managing Director/Chief Executive Officer and Chief Financial Offer to make statements in writing regarding HTI's internal compliance and control systems on a regular basis.

Performance Evaluation and Remuneration Policies

In the last year the Board of Directors has had a continuous and informal method of reviewing its own performance which takes place both inside and outside of the Boardroom. A new system based on self assessment and peer group assessment, which culminates in Board 'average scores' is currently being implemented for the ensuing year in order to provide better feedback to individual Directors and the Board as a whole. The performance of key executives is monitored regularly on an informal basis and formally on an annual basis. HTI has recently reviewed the skills and experience of its Board of Directors and implemented appropriate changes to create the most optimal mix for the Company at this stage of its evolution. HTI has a Remuneration Committee and its members comprise of Mr Gray as Chair, Ms Boucher and Mr 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-osmostic technology, in order to strengthen the HTI's standing in the civil engineering and construction industries and academia. The Electro-Osmosis Advisory Committee consists of Dr Fourie (Chairman), Mr Grebstad (Non-Executive Director) and Mr Henning Syversen (Group Development and Design Manager).

INCOME STATEMENT FOR THE FINANCIAL YEAR TO 30 JUNE 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Revenue	2	163,374	31,563	162,416	28,715
Other income	2	–	397,994	–	–
Accounting fees		(50,045)	(20,635)	(30,592)	(20,635)
Audit fees		(70,000)	(26,589)	(42,475)	–
Employee benefits expense		(2,975,681)	(1,248,041)	(245,314)	(44,667)
Depreciation and amortisation expense		(34,851)	(23,505)	(142)	–
Consultants' fees and costs		(595,814)	(194,392)	(277,252)	(97,340)
Australian Stock Exchange setup fees		(37,772)	(49,089)	(17,599)	(49,089)
Directors' remuneration		(1,909,088)	(577,836)	(194,733)	(44,667)
Patent and search fees		(8,237)	(27,665)	(8,237)	(27,665)
Rent and rates		(260,663)	(107,029)	–	–
Travelling expenses		(286,326)	(90,640)	(51,833)	–
Research and development expenditure		–	(70,440)	–	–
Other expenses		(500,957)	(257,505)	(191,546)	(7,798)
Foreign exchange losses		(976,854)	–	(976,903)	–
Finance costs		(9,930)	(5)	–	–
Write down of investment in subsidiary		–	–	(871,161)	–
Loss before income tax	3	(5,639,756)	(1,685,978)	(2,550,638)	(218,479)
Income tax expense	4	–	–	–	–
Loss for the year		(5,639,756)	(1,685,978)	(2,550,638)	(218,479)
Loss attributable to members of the parent entity		(5,639,756)	(1,685,978)	(2,550,638)	(218,479)

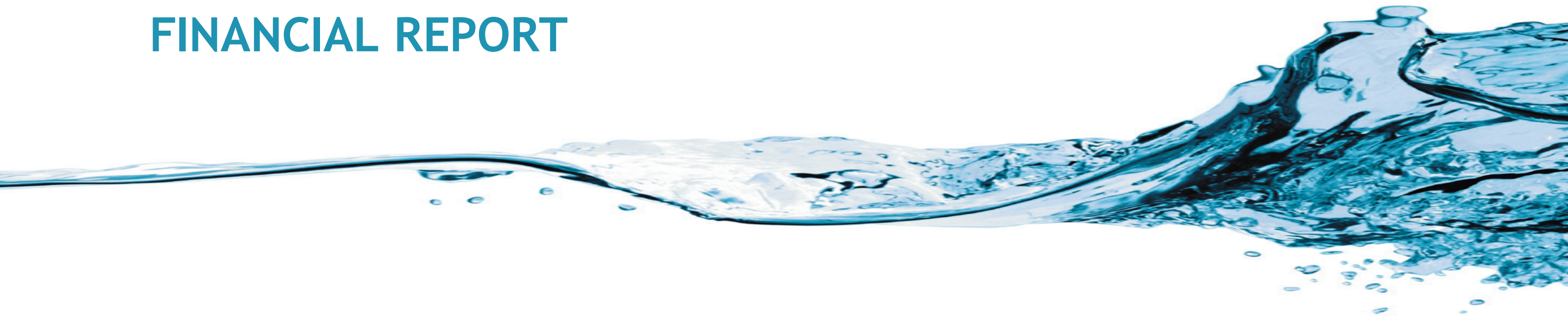
	Note	Consolidated Group 2008	Consolidated Group 2007
Overall Continuing Operations			
Basic earnings per share (cents per share)	8	(0.036)	(0.016)
Diluted earnings per share (cents per share)	8	(0.036)	(0.016)

The accompanying notes form part of these financial statements.

BALANCE SHEET AS AT 30 JUNE 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	3,671,417	8,167,389	3,482,714	8,095,474
Trade and other receivables	10	255,506	297,594	11,597	105,820
Other current assets	15	233,933	28,659	–	26,890
TOTAL CURRENT ASSETS		4,160,856	8,493,642	3,494,311	8,228,184
NON-CURRENT ASSETS					
Trade and other receivables	10	–	–	5,218,568	869,673
Financial assets	11	–	–	–	820,043
Property, plant and equipment	13	130,096	109,140	3,318	–
Intangible assets	14	837,172	836,137	–	–
Other non-current assets	15	167,549	11,662	–	–
TOTAL NON-CURRENT ASSETS		1,134,817	956,939	5,221,886	1,689,716
TOTAL ASSETS		5,295,673	9,450,581	8,716,197	9,917,900
CURRENT LIABILITIES					
Trade and other payables	16	398,672	805,197	152,788	308,867
TOTAL CURRENT LIABILITIES		398,672	805,197	152,788	308,867
TOTAL LIABILITIES		398,672	805,197	152,788	308,867
NET ASSETS		4,897,001	8,645,384	8,563,409	9,609,033
EQUITY					
Issued capital	17	12,531,014	11,041,126	11,287,859	9,782,845
Reserves		447,412	45,927	44,667	44,667
Accumulated losses		(8,081,425)	(2,441,669)	(2,769,117)	(218,479)
TOTAL EQUITY		4,897,001	8,645,384	8,563,409	9,609,033
Net Tangible Assets per share		0.0249	0.0552	–	–

The accompanying notes form part of these financial statements.



STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR TO 30 JUNE 2008

Consolidated Group

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

Parent Entity

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

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

Consolidated Group

	Note	Issued Capital	Reserves			
		Ordinary Shares	Options Reserve	Exchange Reserve	Accumulated Losses	Total
		$	$	$	$	$
Balance at 30 June 2006(i)		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	–	–	–	–	–
Balance at 30 June 2007		11,041,126	44,667	1,260	(2,441,669)	8,645,384

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

Parent Entity

	Note	Issued Capital	Reserves			
		Ordinary Shares	Options Reserve	Exchange Reserve	Accumulated Losses	Total
		$	$	$	$	$
Balance at 30 June 2006		–	–	–	–	–
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	–	–	–	–	–
Balance at 30 June 2007		9,782,845	44,667	–	(218,479)	9,609,033

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR TO 30 JUNE 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		4,119	4,659	–	2,013
Payments to suppliers and employees		(6,153,234)	(1,081,393)	(1,931,295)	(26,370)
Interest received		163,255	26,904	162,416	26,702
Finance costs		–	(5)	–	–
Net cash provided by (used in) operating activities	21	(5,985,860)	(1,049,835)	(1,768,879)	2,345
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of non-current assets		–	(148,739)	–	–
Proceeds from disposal of non-current assets		–	500,000	–	–
Net cash provided by investing activities		–	351,261	–	–
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares net of transaction costs		1,489,888	8,962,802	1,505,014	8,962,802
Net repayment of borrowings		–	(102,006)	–	–
Loan to controlled entities		–	–	(4,348,895)	(869,673)
Net cash provided by financing activities		1,489,888	8,860,796	(2,843,881)	8,093,129
Net decrease/increase in cash held		(4,495,972)	8,162,222	(4,612,760)	8,095,474
Cash at beginning of financial year	9	8,167,389	5,167	8,095,474	–
Cash at end of financial year	9	3,671,417	8,167,389	3,482,714	8,095,474

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Basis of Preparation

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

Reporting Basis and Conventions

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

Going Concern

The Financial Report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group incurred a net loss of $5,639,756 for the year to June 30, 2008 and had a net cash outflow from operations of $4,459,972 for the year. Notwithstanding this, the Financial Report has been prepared on a going concern basis based on: Available cash assets at year-end of $3,671,417; and the expectation that based on management projections, certain subsidiaries, notably Hydrotech Europe plc envisage becoming cash flow positive within the foreseeable future. In addition the Company may be able to source additional funds if required by means of additional equity and/or debt fund raisings.

The Directors consider it possible that the Company may complete a combination of transactions including commercial agreements that will provide additional uncommitted funds for the Company's operations. It is also possible that a capital raising will be undertaken before the end of the current financial year. At present the Company has a number of funding alternatives open to it and will continue to assess these options to identify the most advantageous alternative.

In the event that a fundraising cannot be completed within this timeframe, it is expected that expenditure commitments can be deferred sufficiently to enable the Group to continue as a going concern for the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

Accounting Policies

a. Principles of Consolidation

Subsidiaries

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

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

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

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

b. Income Tax

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

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

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

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

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

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	10%–25%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

d. Financial Instruments

Recognition

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

Financial liabilities

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

Fair value

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

Impairment

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

e. Impairment of Assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

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:

– 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

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

h. Provisions

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

i. Cash and Cash Equivalents

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

j. Revenue and Other Income

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

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. Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets, is the rate inherent in the instrument.

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

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 Taxation 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(CONT'D)*

Key Judgement – Share based payments

The Directors arrived at the amount of $44,667 brought to account as at 30 June 2008 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 26 September, 2008 by the Board of Directors.

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

NOTE 2: REVENUE

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Revenue					
– interest received – other persons		163,255	26,904	162,416	26,702
– other revenue		4,119	4,659	–	2,013
Total Revenue		167,374	31,563	162,416	28,715
Other income					
– gain on disposal of controlled entity		–	397,994	–	–
		–	397,994	–	–

NOTE 3: LOSS FOR THE YEAR

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Expenses					
Bad and doubtful debts:					
– trade receivables		–	7,905	–	–
Total bad and doubtful debts		–	7,905	–	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 4: INCOME TAX EXPENSE

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
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		(1,691,926)	(505,793)	–	–
– parent entity		–	–	(503,843)	(65,544)
		(1,691,926)	(505,793)	(503,843)	(65,544)
Add:					
Tax effect of:					
– other non-deductible expenses		293,056	38,451	293,056	38,451
– temporary differences and tax losses not brought to account as a deferred tax asset		1,398,870	467,342	210,787	27,093
Income tax expense		–	–	–	–
Unrecognised deferred tax assets					
Deferred tax assets have not been recognised in respect of the following items:					
Capital raising costs		851,249	248,373	851,249	248,373
Tax losses		8,081,425	516,036	1,897,956	75,786
		8,932,674	764,409	2,749,205	324,159

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

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
Mr Philip Gray	Chairman
Sir James Hodge	Chairman (resigned 28/4/08)
Mr Ian Dallas	Non-Executive Director
Mr David Ledger	Non-Executive Director (resigned 13/8/08)
Mr Stephen Penrose	Non-Executive Director (resigned 7/4/08)
Mr Lee Boyd	Non-Executive Director (resigned 6/11/07)
Dr Andy Fourie	Non-Executive Director
Mr Karl Grebstad	Non-Executive Director
Ms Fiona Boucher	Company Secretary

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 1.7.2007	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2008
Sir James Hodge*	2,000,000	–	–	–	2,000,000
Mr Ian Dallas	2,000,000	–	–	–	2,000,000
Mr David Ledger*	2,000,000	–	–	–	2,000,000
Mr Stephen Penrose*	2,000,000	–	–	–	2,000,000
Mr Lee Boyd*	2,000,000	–	–	–	2,000,000
Total	10,000,000	–	–	–	10,000,000

	Balance 1.7.2007	Total Vested 30.6.2008	Total Exercisable 30.6.2008	Total Unexercisable 30.6.2008	Balance 30.6.2008
Sir James Hodge*	2,000,000	–	–	2,000,000	2,000,000
Mr Ian Dallas	2,000,000	–	–	2,000,000	2,000,000
Mr David Ledger*	2,000,000	–	–	2,000,000	2,000,000
Mr Stephen Penrose*	2,000,000	–	–	2,000,000	2,000,000
Mr Lee Boyd*	2,000,000	–	–	2,000,000	2,000,000
Total	10,000,000	–	–	10,000,000	10,000,000

** Resigned Directors at the date of this Report.*

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

c. Shareholdings

Number of Shares held by Key Management Personnel

	Balance 1.7.2007	Received as Compensation	Options Exercised	Net Change Other	Balance 30.6.2008
Sir James Hodge*	–	–	–	–	–
Mr Philip Gray	–	–	–	16,862,208	16,862,208
Mr Ian Dallas	13,446,911	–	–	–	13,446,911
Mr David Ledger*	2,250,000	–	–	(2,250,000)	–
Mr Stephen Penrose*	500,000	–	–	(500,000)	–
Mr Lee Boyd	437,854	–	–	(437,854)	–
Dr Andy Fourie	–	–	–	25,000	25,000
Mr Karl Grebstad	–	–	–	20,000,000	20,000,000
Ms Fiona Boucher	–	–	–	25,000	25,000
Total	16,634,765	–	–	33,724,354	50,359,119

** Resigned Directors at the date of this Report.*

NOTE 6: AUDITORS' REMUNERATON

	Consolidated Group 2008 $	Parent Entity 2008 $
Remuneration of the auditor of the parent entity for:		
– auditing or reviewing the financial report	15,000	12,000
Remuneration of other auditors of subsidiaries for:		
– auditing or reviewing the financial report of subsidiaries	8,000	–

NOTE 7: DIVIDENDS

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 8: EARNINGS PER SHARE

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $
a. Reconciliation of earnings to loss from operations			
Loss		(5,639,756)	
Earnings used to calculate basic EPS		(5,639,756)	
Earnings used in the calculation of dilutive EPS		(5,639,756)	
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS		156,593,287	101,596,300
Weighted average number of options outstanding		–	–
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS		156,593,287	101,596,300

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

The 10,000,000 options granted on 28 February 2007 are not included in the calculation of diluted earnings per share, because they are anti-dilutive after the year ended 30 June 2008. These options could potentially dilute basic earnings per share in the future.

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash at bank and in hand	3,671,417	8,159,396	3,482,714	8,087,481
Short-term bank deposits	–	7,993	–	7,993
	3,671,417	8,167,389	3,482,714	8,095,474

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:

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash and cash equivalents	3,671,417	8,167,389	3,482,714	8,095,474
Bank overdrafts	–	–	–	–
	3,671,417	8,167,389	3,482,714	8,095,474

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 10: TRADE AND OTHER RECEIVABLES

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT					
Trade receivables		–	161,668	–	–
Prepayments		205,049	–	–	–
Other receivables		50,457	36,529	11,597	35,820
Amounts receivable from:					
– other related parties		–	99,397	–	70,000
		255,506	297,594	11,597	105,820
NON-CURRENT					
Amounts receivable from:					
– wholly-owned entities		–	–	5,218,568	869,673

NOTE 11: FINANCIAL ASSETS

NON-CURRENT				
Financial Assets Comprise				
Unlisted investments, at cost				
– shares in controlled entity – Universal Solutions Limited	–	–	869,673	820,043
Hydrotech R & D Limited	–	–	1,488	–
	–	–	871,161	820,043
– Less impairment provision	–	–	(871,161)	–
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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 12: CONTROLLED ENTITIES

a. Controlled Entities

	Country of Incorporation	Percentage Owned (%)*	
Parent Entity:		**2008**	**2007**
Hydrotech International Limited	Australia		
Subsidiaries of Hydrotech International Limited:			
Universal Solutions Limited	Hong Kong SAR, China	100	100
Hydrotech R & D Limited	Hong Kong SAR, China	100	N/a
Underground Solutions International Limited	Hong Kong SAR, China	100	100
Subsidiaries of Universal Solutions Limited:			
Hydrotech Asia Limited	Hong Kong SAR, China	100	100
Hydrotech Europe plc	United Kingdom	100	100

** Percentage of voting power is in proportion to ownership.*

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	193,452	137,645	3,460	–
Accumulated depreciation	(63,356)	(28,505)	(142)	–
	130,096	109,140	3,318	–
Total Plant and Equipment	130,096	109,140	3,318	–
Total Property, Plant and Equipment	130,096	109,140	3,318	–

a. Movements in Carrying Amounts

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

	Plant and Equipment 2008 $	Plant and Equipment 2007 $
Consolidated Group:		
Balance at 1 July 2007	109,140	–
Additions	55,807	137,645
Depreciation expense	(34,851)	(28,505)
Balance at 30 June 2008	130,096	109,140
Parent Entity:		
Balance at 1 July 2007	–	–
Additions	3,460	–
Depreciation expense	(142)	–
Balance at 30 June 2008	3,318	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 14: INTANGIBLE ASSETS

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Goodwill					
At cost		836,137	836,137	–	–
Other Intangibles					
At cost		1,035	–	–	–
Total intangibles		837,172	836,137	–	–

	Goodwill $	Other $
Consolidated Group:		
Balance at the beginning of year	836,137	–
Amortisation	–	–
Additions through business combination	–	1,035
Year ended 30 June 2008	836,137	1,035

NOTE 15: OTHER ASSETS

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT					
Prepayments		233,935	28,659	–	26,890
NON-CURRENT					
Security deposit		167,549	11,662	–	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 16: TRADE AND OTHER PAYABLES

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT					
Trade payables		165,005	521,338	39,635	280,785
Sundry payables and accrued expenses		233,667	190,958	113,153	28,082
Deferred income		–	4,902	–	–
Amounts payable to:					
– other related parties		–	87,999	–	–
		398,672	805,197	152,788	308,867

NOTE 17: ISSUED CAPITAL

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
179,342,466 fully paid ordinary shares	a.	11,287,859	9,782,845	11,287,859	9,782,845
Share capital of Universal Solutions Limited	b.	1,243,155	1,258,281	–	–
		12,531,014	11,041,126	11,287,859	9,782,845
Ordinary shares					
At the beginning of reporting period		11,041,126	1,258,281	9,782,845	–
Over subscriptions returned to shareholders		(73,533)	–	(73,533)	–
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		–	8,669,520	–	8,669,520
– 20 June 2008		2,339,000	–	2,339,000	–
Less					
Capital raising costs arising from issues		(775,579)	(906,719)	(760,453)	(906,719)
At reporting date		12,531,014	11,041,126	11,287,859	9,782,845

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 17: ISSUED CAPITAL *(CONT'D)*

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

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

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

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 2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 20: SEGMENT REPORTING

Primary Reporting – Geographical Segments

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 20: SEGMENT REPORTING *(CONT'D)*

Primary Reporting – Geographical Segments

	Hong Kong 2007 $	United Kingdom 2007 $	Australia 2007 $	Eliminations 2007 $	Consolidated Group 2007 $
REVENUE					
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
RESULT					
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)
ASSETS					
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
LIABILITIES					
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
OTHER					
Acquisitions of non-current segment assets	21,303	103,931	–	–	125,234
Depreciation and amortisation of segment assets	1,803	21,702	–	–	23,505

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

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 2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 21: CASH FLOW INFORMATION

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
a. Reconciliation of Cash Flow from Operations with Loss after Income Tax					
Loss after income tax		(5,639,756)	(1,685,978)	(2,550,638)	(218,479)
Cash flows excluded from loss attributable to operating activities					
Non-Cash flows in loss					
Write down of investment in subsidiary		–	–	871,161	–
Depreciation		34,851	23,505	142	–
Net gain on disposal of controlled entity		–	(397,994)	–	–
Share options expensed		–	44,667	–	44,667
Unrealised exchange losses		446,152	1,260	44,667	–
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:					
(Increase) in trade and term receivables		42,088	(297,594)	94,223	(105,820)
Movement in assets acquired via reverse acquisition from deemed acquirer USL		–	497,423	–	–
(Increase) in prepayments		(205,274)	(28,659)	26,890	(26,890)
Increase in trade payables and accruals		(451,192)	805,197	(200,746)	308,867
(Increase) in other assets		(212,729)	(11,662)	(54,578)	–
Cash flows from (used in) operations		(5,985,860)	(1,049,835)	(1,768,879)	2,345

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 22: SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2008:

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

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

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

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

	Consolidated Group		Parent Entity		Consolidated Group		Parent Entity	
	2008		2007		2008		2007	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	10,000,000	–	–	–	10,000,000	–	–	–
Granted	–	10,000,000	10,000,000	10,000,000	–	10,000,000	10,000,000	10,000,000
Outstanding at year-end	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Exercisable at year-end	–	–	–	–	–	–	–	–

The options outstanding at 30 June 2008 had a weighted average exercise price of $0.30 and a weighted average remaining contractual life of one year and eight months. Exercise price was $0.30 in respect of options outstanding at 30 June 2008.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 23: EVENTS AFTER BALANCE SHEET DATE

There are no significant items that have occurred after balance sheet date of a reportable nature.

NOTE 24: FINANCIAL INSTRUMENTS

Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

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

The Group and the parent entity hold the following financial instruments:

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Financial Assets				
Cash and cash equivalents	3,671,417	8,167,389	3,482,714	8,095,474
Loans and receivables	255,506	297,594	11,597	105,820
	3,926,923	8,464,983	3,494,311	8,201,294
Financial Liabilities				
Amortised Cost	398,672	805,197	152,788	308,867

a. Market Risk

i. Foreign exchange risk

Hydrotech International Limited is based in Australia, its shares are listed on the Australian Securities Exchange and the Group reports its financial performance and position in Australian dollars (A$). The Group operates internationally, with subsidiaries in the UK, Hong Kong and The Peoples Republic of China, with the result being that the Group is to some extent exposed to foreign exchange risk arising from fluctuations in the A$/UK pound (UK£), A$/Hong Kong dollar (HK$), and A$/ Chinese Renminbi (RMB).

As at balance date, the Board has formed the view that it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this foreign exchange risk. Factors which the Board considered in arriving at this position included: The expense of purchasing such instruments; the inherent difficulties associated with forecasting the timing and quantum of foreign currency cash inflows and outflows at a time when the subsidiary entities are still at the commercialisation and development stage of utilising its technology. The Board may reconsider its position with regard to hedging against foreign exchange risk in the future as the Group's activities evolve and/or in response to industry or macro-economic factors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

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

Group Sensitivity

Based on the financial instruments held at 30 June, 2008, had the Australian dollar weakened/strengthened by 10% against the UK£, HK$ and RMB with all other variables held constant, the Group's loss for the year would have been $309,000 lower/higher (2007 - $146,000 lower/higher) mainly as a result of foreign exchange gains/losses on translation of subsidiary losses denominated in foreign currencies. The loss is more sensitive to movements in the Australian dollar / UK£, HK$ or RMB in 2008 than 2007 because of the increased loss incurred by subsidiaries denominated cash and equivalents The Group's exposure to other foreign exchange movements is not material.

Parent Entity Sensitivity

Based on the financial instruments held at 30 June, 2008, had the Australian dollar weakened/strengthened by 10% against the UK£, HK$ or RMB with all other variables held constant, the parent entities loss for the year would have been $521,000 lower/higher (2007 - $86,000) lower/higher mainly as a result of exchange gains/losses on the translation of inter-company balances denominating in Australian dollars.

ii. Interest rate risk

As at and during the year ended on balance date, the Group had no significant interest bearing assets or liabilities other than liquid funds on deposit. As such, the Group's income and operating cash flows (other than interest income from funds on deposit) are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below:

	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
	2008 $	2007 $	2008 $	2007 $
Financial Assets				
Cash and cash equivalents at Floating rate*	3,671,417	8,167,389	3,482,714	8,095,474

** Weighted average effective interest rate 6.1% (2007 – 5.1%).*

Group sensitivity

At 30 June, 2008, if interest rates had changed by -/+ 80 basis points from the year end rates with all other variables held constant, the loss for the year would have been $29,000 lower/higher (2007 – change of 80 basis points: $65,000 lower/higher), mainly as a result of lower/higher interest income from cash and cash equivalents.

Parent entity sensitivity

At 30 June, 2008, if interest rates had changed by -/+ 80 basis points from the year end rates with all other variables held constant, the loss for the year would have been $27,000 lower/higher (2007 – change of 80 basis points: $64,000 lower/higher), mainly as a result of lower/higher interest income from cash and cash equivalents.

iii. Commodity risk pricing

The Group is not exposed to commodity risk price risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

b. Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers. For banks and financial institutions, only independently rated parties with a minimum of 'A' are accepted. The Group trades only with recognised, trustworthy third parties. It is the Group's policy to perform credit verification procedures in relation to any customer's financial position and any past experience to set individual risk limits as determined by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 54.

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash at Bank and short-term bank deposits				
AA Rated	3,671,417	8,167,389	3,482,714	8,095,474

c. Liquidity risk

Prudent liquidity risk management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the Board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Maturities of financial liabilities

Group – As at the reporting date the Group has total financial liabilities of $354,005 (2007: $805,197), comprised of non interest-bearing trade creditors and accruals with a maturity of 1–3 months.

Parent Entity – As at the reporting date the Parent Entity has a total financial liabilities of $108,121 (2007: $308,867), comprised of non-interest bearing trade creditors and accruals with maturity of 1–3 months.

d. Fair value estimation

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

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

e. Capital risk management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

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 2007–3 Amendments to Australian Accounting Standards	AASB 102 Inventories AASB 107 Cash Flow Statements AASB 119 Employee Benefits AASB 127 Consolidated and Separate Financial Statements AASB 134 Interim Financial Reporting AASB 136 Impairment of Assets	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the Financial Report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the Financial Report.	1.1.2009	1.7.2009
AASB 8 Operating Segments	AASB 114 Segment Reporting	As above	1.1.2009	1.7.2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements AASB 107 Cash Flow Statements AASB 111 Construction Contracts AASB 116 Property, Plant and Equipment AASB 138 Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the Financial Report.	1.1.2009	1.7.2009
AASB 123 Borrowing Costs	AASB 123 Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007–8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1.1.2009	1.7.2009
AASB 101	AASB 101 Presentation of Financial Statements	As above	1.1.2009	1.7.2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2008

NOTE 26: RELATED PARTY TRANSACTIONS

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.					
Transactions with related parties:					
a. Director Related Entities					
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.		65,210	96,894	65,210	96,894
Company secretarial and administrative fees paid to the Elovadae Trust, an entity associated with Mr Lee Boyd.		55,350	81,312	55,350	81,312

NOTE 27: COMPANY DETAILS

The registered office of the Company is:

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

The principal places of business are:

- Hydrotech Asia Limited
  Level 20, Queens Centre
  58-64 Queens Road East
  HONG KONG SAR
- Hydrotech Europe plc
  11 Beaufort Court
  Roebuck Way
  Milton Keynes MK5 8HL
  UNITED KINGDOM
- Hydrotech China
  Haifu International Mansion
  22 Chengongzhuang Xi Road
  Haidian, Beijing
  CHINA 100044

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 27 to 58, 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 2008 and of the performance for the year ended on that date of the Company and Consolidated Group;
2. the Chief Executive Officer and Chief Financial 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. there are reasonable grounds to believe the Company will be able to pay its debts as when they become due and payable.

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

Phillip Gray
Chairman

Date: 26 September 2008

INDEPENDENT AUDIT REPORT

WHK Horwath

INDEPENDENT AUDIT REPORT TO MEMBERS OF HYDROTECH INTERNATIONAL LIMITED

We have audited the accompanying financial report of Hydrotech International Limited (the company) and Hydrotech International Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are

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appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

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

a) i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

WHK HORWATH PERTH AUDIT PARTNERSHIP

Nicholas Hollens

NICHOLAS HOLLENS
Principal

Perth, WA

Dated this 26th day of September 2008

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ADDITIONAL SECURITIES EXCHANGE INFORMATION
AS AT 31 AUGUST 2008

Number of Shares and Shareholders

179,342,466 fully paid ordinary shares are held by 783 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	0.00%
1,001 – 5,000	29	104,198	0.06%
5,001 – 10,000	84	776,771	0.43%
10,001 – 100,000	510	21,625,093	12.06%
100,001 and over	159	156,846,403	87.45%
Total	783	179,342,466	100.00%

The number of shareholdings less than a marketable parcel is 49 (accounting for a total of 226,658 shares).

Substantial shareholders (greater than 5%)

The names of the substantial shareholders listed in the holding Company's register as at 31 August 2008 are:

Shareholder	Number	% of issued capital
Karl Johan Grebstad	20,000,000	11.15
Ian George Dallas	13,446,911	7.50
Philip John Scott Gray	10,467,332	5.83
Suzanne Celina Lyn	10,000,000	5.58
Total	53,914,243	30.06

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 – 16 July 2009	46,006,763

Escrowed Options

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

ADDITIONAL SECURITIES EXCHANGE INFORMATION
AS AT 31 AUGUST 2008

Twenty Largest Shareholders

Shareholder	Number	% of issued capital
Karl Johan Grebstad	20,000,000	11.15
Lippo Securities Ltd	18,969,497	10.58
Austock Nominees Pty Ltd	16,561,496	9.23
Ian George Dallas	13,446,911	7.50
Suzanne Celina Lyn	10,000,000	5.58
Estate of John Douglas Kerr	5,961,926	3.32
Nicholas Sibley	5,329,063	2.97
Arlington Capital Pty Ltd	3,997,614	2.22
Henning Syversen	3,517,037	1.96
Kjell Utklev	3,517,037	1.96
Peter W Buckby	3,446,911	1.92
The Boyd Superannuation Fund Pty Ltd	2,500,000	1.39
Philip John Scott Gray	2,461,926	1.37
Bell Potter Nominees Ltd	2,104,804	1.17
Invia Custodian Pty Ltd	2,000,000	1.12
Rodney Staggard & Donna Berry	1,500,000	0.84
British & Colonial Investments Pty Ltd	1,230,000	0.69
National Nominees Ltd	1,120,000	0.62
Millcorp Securities Pty Ltd	925,172	0.52
Malcolm Smartt	900,000	0.50
	119,489,394	66.61

ADDITIONAL SECURITIES EXCHANGE INFORMATION
AS AT 31 AUGUST 2008

Performance Options

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

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

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

On-Market Buy-Back

There is no current on-market buy-back.

Stock Exchange Listings

The Company has issued 179,342,466 fully paid ordinary shares, of which 133,335,703 are quoted on the ASX and are held by 783 shareholders.

Company Secretary

Ms Fiona Boucher

Principal Registered Office

Level 40, 108 Saint Georges Terrace
Perth WA 6000

Share Registry

Link Market Services Limited

Hydrotech
INTERNATIONAL LIMITED

www.hydro-usl.com