

**HYDROTECH INTERNATIONAL LIMITED  
ABN: 42 122 726 283  
AND ITS CONTROLLED ENTITIES**

**FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED  
31 DECEMBER 2007**

This half-year financial report is to be read in conjunction  
with the financial report for the year ended  
30 June, 2007

**HYDROTECH INTERNATIONAL LIMITED  
FINANCIAL REPORT FOR THE HALF-YEAR ENDED  
31 DECEMBER 2007**

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## HYDROTECH INTERNATIONAL LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' REPORT

The directors present their report together with the condensed financial report of the consolidated entity consisting of Hydrotech International Limited and the entities it controlled, for the half-year ended 31 December 2007 and independent auditor's review report thereon.

#### Directors' Names

The names of the director in office at any time during or since the end of the half-year are:

<u>Name</u>	<u>Period of directorship</u>
Sir James Hodge	Director since 2 March 2007
Ian Dallas	Director since 2 March 2007
David Ledger	Director since 17 September 2006
Stephen Penrose	Director since 17 September 2006
Andy Fourie	Director since 6 November 2007
Lee Boyd	Director resigned 6 November 2007

The directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

#### Review of Operations

The consolidated loss of the group for the half-year after providing for income tax amounted to \$2,459,547.

Hydrotech officially listed on the ASX on July 16, 2007, raising \$8M during the initial public offering process to commercialise its technology, being the Multi Pulse Sequencing System.

The Group now has operations in four regions, whose efforts in the last six months are detailed below:

#### UK

The UK division has submitted numerous proposals for contracts in partnership with our licensees ranging from stations in the London Underground network, to work on the A112 in London, to listed buildings in the south of England. Proposals have also been requested and submitted for Network Rail and Strathclyde Passenger Transport. The number of surveys that the Company is being asked to submit has also grown to an average of 5 per week over the Group.

In December, the Company received final sign off on the Walthamstow Central Station in London for the installation of the MPS system to their tunnel connecting the bus station to the train station. This was the first and most significant installation for both London Underground and Hydrotech, where the Company was able to demonstrate that there was a complete halt to the water ingress that had plagued the opening of the tunnel which is now the driest part of the entire network. As the technology has now been recognised by London Underground, the Company is formally in discussions with both Metronet and Tubelines.

### Hong Kong

The HK division has also submitted several proposals for both rail and building remediation work and has begun to show signs of delivering some interesting commercial opportunities.

In January, Hydrotech sponsored the 100th anniversary of the Institution of Structural Engineers conference that was held in Hong Kong. The Institution of Structural Engineers (IStructE) is the world's leading professional body for structural engineering with over 22,000 members in 105 countries. It is a leading source of expertise on all structural engineering and public safety issues in the built environment. As a result of Hydrotech's direct involvement in the conference, many enquiries have been received from a broad range of engineering concerns that have shown strong interest in adopting our MPS System on a variety of projects that suffer from water ingress.

Between Hong Kong and China we are now averaging 4 to 5 enquiries daily. Our engineers are undertaking 3 surveys per week and we are very confident that our technology is beginning to be understood by the engineering community that we expect this activity level to grow two-fold over the next two months.

### China

Mr Jiang Nan was appointed as General Manager of the Beijing office and he has extensive experience in negotiating and managing contracts in China, in particular with the Ministry of Power, Ministry of Water Resources and the hydropower sector. In October, the Company announced that it had signed an agreement with the CIECC (China International Engineering Consulting Corporation) to form a strategic partnership to identify potential projects in the fields of underground rail, building, electric power and water resources/dams. There are currently proposals for work on several tunnels, an underground rail system and FengMan Dam awaiting sign-off in China.

### Norway

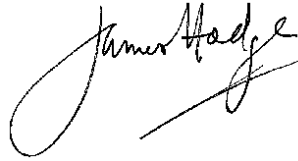
The R&D facility in Norway is now completely up and running and has been establishing several test experiments, which have been prepared as a result of enquiries from potential clients. In addition to ongoing development of the MPS (Multi Pulse Sequencing) system, the engineering team has been finalising the WET system (Water Extraction and Transfer). This system is under development as a solution to arid land areas where deep water tables can be accessed by WET allowing the system to turn 'brown field sites' into usable land. The WET system can move water from saturated land to allow developers to construct buildings and towns where that was not feasible before. Importantly, it also offers hope to people in areas that suffer from drought conditions and a lack of access to a reliable, fresh water source. There are many humanitarian opportunities that the Company expects will emerge from adoption of this technology. It is envisaged that potentially as many as ten patents will be applied for in order to protect this advanced technology which is anticipated to provide a one stop solution to a problem that until now was almost impossible to solve.

Although we must stress that proposals and tenders do not guarantee revenue, the Company believes that there are a number of promising contracts that have been presented to clients which could reasonably be expected to be finalised in the short term.

**Auditor's Declaration**

A copy of the auditor's declaration in relation to the review for the half-year is provided with this report.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read "James Hodge". The signature is written in a cursive style with a large loop at the beginning and a long horizontal stroke at the end.

Sir James Hodge  
Chairman

Dated this twenty eight day of February, 2008

**AUDITOR'S INDEPENDENCE DECLARATION****To the Directors of HYDROTECH INTERNATIONAL LIMITED.**

In relation to the half-year independent auditor's review for the six months to 31 December 2007, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the Corporations Act 2001
- (ii) No contraventions of any applicable code of professional conduct

*Pitcher Partners***PITCHER PARTNERS**  
Perth*Nicholas Hollens***NICHOLAS HOLLENS**  
Date

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**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	<b>Half-year 2007</b>
Revenue	
Sales revenue	-
Other income	101,809
	<hr/> 101,809
Changes in inventories of finished goods and work in progress	-
Employee benefits	1,214,477
Depreciation and amortisation	17,440
Other expenses	1,329,439
	<hr/> 1,329,439
<b>Loss before income tax</b>	<b>(2,459,547)</b>
Income tax expense	-
	<hr/> -
<b>Loss for the period</b>	<b>(2,459,547)</b>
	<hr/> <hr/>
Basic earnings per share	(2.1 cents)
Diluted earnings per share	(2.1 cents)

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 31 DECEMBER 2007

	<b>31 Dec 2007</b>	<b>30 June 2007</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	4,264,634	8,167,389
Trade receivables	336,591	297,594
Other current assets	350,597	28,659
<b>TOTAL CURRENT ASSETS</b>	<u>4,951,822</u>	<u>8,493,642</u>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	165,973	109,140
Intangible assets	821,178	836,137
Other non-current assets	-	11,662
<b>TOTAL NON-CURRENT ASSETS</b>	<u>987,151</u>	<u>956,939</u>
<b>TOTAL ASSETS</b>	<u>5,938,973</u>	<u>9,450,581</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	321,475	805,197
<b>TOTAL CURRENT LIABILITIES</b>	<u>321,475</u>	<u>805,197</u>
<b>TOTAL LIABILITIES</b>	321,475	805,197
<b>NET ASSETS</b>	<u>5,617,498</u>	<u>8,645,384</u>
<b>EQUITY</b>		
Share capital	10,371,621	11,041,126
Other reserves	147,093	45,927
Accumulated losses	<u>(4,901,216)</u>	<u>(2,441,669)</u>
<b>TOTAL EQUITY</b>	<u>5,617,498</u>	<u>8,645,384</u>

The accompanying notes form part of these financial statements.

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	<b>Half-year 2007 \$'000</b>
<b>TOTAL EQUITY AT THE BEGINNING OF THE HALF-YEAR</b>	<u>8,645,384</u>
Exchange differences on translation of foreign operations	101,166
<b>Loss for the half-year</b>	(2,459,547)
<b>Transactions with equity holders in their capacity as equity holders:</b>	
Returned contributions	(73,533)
Capital raising costs	(595,972)
<b>TOTAL EQUITY AT THE END OF THE HALF-YEAR</b>	<u>5,617,498</u>

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	<b>Half-year 2007 \$'000</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Payments to suppliers and employees	(3,930,564)
Interest received	101,809
<b>Net cash used by operating activities</b>	<b>(3,828,755)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Refund of over subscriptions	(74,000)
<b>Net cash used in investing activities</b>	<b>(74,000)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
Proceeds from share issue	-
Proceeds from borrowings	-
Repayment of borrowings	-
Dividends paid	-
<b>Net cash provided by financing activities</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,902,755)</b>
Cash and cash equivalents at beginning of half year	8,167,389
<b>Cash and cash equivalents at end of the half-year</b>	<b><u>4,264,634</u></b>

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2007

**NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR  
FINANCIAL REPORT**

This half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this financial report be read in conjunction with the financial report for the year ended 30 June 2007 and any public announcements made by Hydrotech International Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

**(a) Basis of preparation of the half-year financial report**

This general purpose half year financial report has been prepared in accordance with Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*.

**(b) Summary of the significant accounting policies:**

The half-year consolidated financial report has been prepared using the same accounting policies as used in the annual financial report for the year ended 30 June 2007.

**(c) Principles of Consolidation**

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Hydrotech International Limited controlled from time to time during the year and at balance date.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist. All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2007****NOTE 2: COMPARATIVE INFORMATION**

No comprehensive information is available for this period to 31 December 2007 as this is the first time the company has been required to produce such financial statement.

**NOTE 3: SUBSEQUENT EVENTS**

There are no material events subsequent to the end of the half-year that have not been recognised in the half-year financial statements

**NOTE 4: SEGMENT INFORMATION**

The company operates predominantly in one industry, the water ingress systems industry (which allows concrete and masonry structures to be effectively and permanently dried out), and in the following geographical locations, Europe, Asia and Australia.

	<b>Half-year 2007 \$'000</b>
<b>Segment results</b>	
Europe	1,222,106
Asia	472,108
Australia	<u>765,333</u>
<b>Loss before income tax</b>	<u><u>2,459,547</u></u>

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2007**

**NOTE 5: CONTINGENT ASSETS AND LIABILITIES**

There are no significant contingent assets or liabilities at the date of this report.

**NOTE 6: DIVIDENDS PAID OR PROVIDED FOR**

No dividend has been paid or provided for during the half year

**NOTE 7: SUBSEQUENT EVENTS AFTER BALANCE DATE**

There were no significant events occurring after balance date requiring disclosure

## **DIRECTORS DECLARATION**

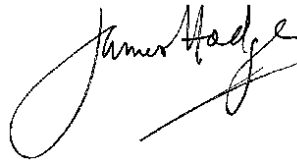
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The directors declare that the financial statements and notes set out on pages 5 to 11 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*, and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2007 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date.

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

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

A handwritten signature in black ink, appearing to read "James Hodge". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

**Sir James Hodge**  
Chairman  
Milton Keynes, UK  
28 February, 2008

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

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**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Hydrotech International Limited. The half-year financial report comprises the condensed consolidated balance sheet as at 31 December 2007, and the condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the half-year ended on that date, for the company and the entities it controlled at the half-year or from time to time during the period, together with a statement of accounting policies, other selected explanatory notes and the directors' declaration.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the Hydrotech International Limited are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hydrotech International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

**INDEPENDENT REVIEW REPORT cont'd  
TO THE MEMBERS OF HYDROTECH INTERNATIONAL LIMITED**

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*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hydrotech International Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

*Pitcher Partners*

**PITCHER PARTNERS**  
Perth

*Nicholas Hollens*

**NICHOLAS HOLLENS**  
Date

## Appendix 4D

### Half Year Report for the six months to 31 December 2007

Name of entity. Hydrotech International Limited

ABN or equivalent company reference: 43 122 726 283

#### 1. Reporting period

Report for the half year ended: 31 December 2007

Previous corresponding periods: Financial year ended 30 June 2007

#### 2. Results for announcement to the market

Revenues from ordinary activities ( <i>item 2.1</i> )	-	-%	to	nil
Profit (loss) from ordinary activities after tax attributable to members ( <i>item 2.2</i> )	down	-%	to	(2,459,547)
Net profit (loss) for the period attributable to members ( <i>item 2.3</i> )	down	-%	to	(2,459,547)
<b>Dividends (<i>item 2.4</i>)</b>	Amount per security	Franked amount per security		
Interim dividend	Nil	Nil		
Final dividend	Nil	Nil		
Previous corresponding period	Nil	Nil		
Record date for determining entitlements to the dividend ( <i>item 2.5</i> )	N/A			
Brief explanation of any of the figures reported above necessary to enable the figures to be understood ( <i>item 2.6</i> ):				
N/A				

#### 3. Net tangible assets per security (*item 3*)

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	3.1 Cents	nil

**4. Details of entities over which control has been gained or lost during the period: (item 4)**

**Control gained over entities**

Name of entities (item 4.1)	N/A	
Date(s) of gain of control (item 4.2)	N/A	
Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities since the date(s) in the current period on which control was acquired (item 4.3)		\$ Nil
Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period (item 4.3)		\$ Nil

**Loss of control of entities**

Name of entities (item 4.1)	N/A	
Date(s) of loss of control (item 4.2)	N/A	
Contribution to consolidated profit (loss) from ordinary activities after tax by the controlled entities to the date(s) in the current period when control was lost (item 4.3).		\$Nil
Profit (loss) from ordinary activities after tax of the controlled entities for the whole of the previous corresponding period (item 4.3)		\$Nil

**5. Dividends** (item 5)

	<b>Date of payment</b>	<b>Total amount of dividend</b>
Interim dividend year ended 30 June 2008	N/A	\$ Nil
Final dividend year ended 30 June 2007	N/A	\$ Nil

**Amount per security**

	<b>Amount per security</b>	<b>Franked amount per security at % tax</b>	<b>Amount per security of foreign sourced dividend</b>
<b>Total dividend:</b> Current year	Nil	Nil	Nil
Previous year	Nil	Nil	Nil

**Total dividend on all securities**

	<b>Current period \$A'000</b>	<b>Previous corresponding Period - \$A'000</b>
Ordinary securities (each class separately)	Nil	Nil
Preference securities (each class separately)	Nil	Nil
Other equity instruments (each class separately)	<b>Nil</b>	<b>Nil</b>
<b>Total</b>		

**6. Details of dividend or distribution reinvestment plans in operation are described below** (item 6):

N/A
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The last date(s) for receipt of election notices for participation in the dividend or distribution reinvestment plan

N/A
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**7. Details of associates and joint venture entities** (*item 7*)

Name of associate or joint venture entity	%Securities held
N/A	

**Aggregate share of profits (losses) of associates and joint venture entities**

Group's share of associates' and joint venture entities':	2007 \$	2006 \$
Profit (loss) from ordinary activities before tax		Nil
Income tax on ordinary activities		Nil
<b>Net profit (loss) from ordinary activities after tax</b>		Nil
Adjustments		Nil
<b>Share of net profit (loss) of associates and joint venture entities</b>		Nil

8. **The financial information provided in the Appendix 4D is based on the half year condensed financial report (attached).**

9. Independent review of the financial report (*item 9*)

**The financial report has been independently reviewed. The financial report is not subject to a qualified independent review statement.**

10. Matters relating to a qualified independent review statement

**A description of the dispute or qualification in respect of the independent review of the half-year financial report is provided below** (*item 17*)

N/A
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