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Hydrotech Broadcast

Hydrotech (HTI) provides the opportunity to listen to an audio broadcast with myself Philip Gray, Chairman in a presentation titled "Hydrotech International Strategy Update and Company Outlook - Mr Philip Gray, Chairman".

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The presentation details are as follows:

- Hydrotech International Strategy Update and Company Outlook - Mr Philip Gray, Chairman
- Powered by Philip Gray, Chairman
- Tue, 20 Oct 2009 02:15PM AEST
- A transcript of the broadcast is also included



Philip Gray
Chairman

**RADIO INTERVIEW BETWEEN BOARDROOMRADIO AND PHILIP GRAY,
CHAIRMAN, HYDROTECH INTERNATIONAL LIMITED, CONDUCTED ON MONDAY,
19 OCTOBER 2009**

Q1 Hello, and welcome to Boardroomradio. I'm joined today by Mr Philip Gray who's the Chairman of Hydrotech International. Philip, thanks for your time and welcome back to Boardroomradio.

A1 Oh, it's a pleasure to be back.

Q2 Now, Philip, the Company has recently held a strategy meeting involving your senior management. Can you let us know who took part in the meeting and what the agenda was, the purpose, and some of the outcomes?

A2 Well, the meeting included – it was a two-day meeting. It included all directors, heads of department and key personnel. It was extremely comprehensive – quite tiring, frankly – but very rewarding. The bottom line was that we confirmed our core strategy, especially with the recognition that our brand is really our history of successful projects. And, in this instance, we need to document them with greater academic vigour, and this is the brainchild of one of our non-executive director who is the world's leading authority on electro-osmosis. So that was a point well taken. Other points were really, as I said, confirmation. Cash flow management is essential; burn-rate containment is critical; with limited resources, we must focus and prioritise our actions; and we have to recognise that we, frankly, can't kiss all the girls all the time and we must choose our clients selectively. In this instance, we need to focus on those projects where our contribution is urgently required, ie, remedial projects, rather than projects whereby we are included in a new building and a prevention context. For example, a New Zealand hospital contacted us, out of the blue, to say they had a major water ingress problem which was actually preventing the hospital from opening. Now, here's an ideal client. And, within two weeks, a contract was signed. As we speak, our team is down there. The project will be finished in three weeks' time, and we will be paid in five weeks' time, ie, a very short cycle business. This is perfect for us. Sadly, most of our projects are of an extremely long-tail nature. For example, we must work through sometimes a two-year cycle of product awareness; confirmation that it is technically sound; it has to be put into a specification; this normally involves a trial project; this involves subsequent evaluation; and then, if successful, which it has been up to now, putting this MPS system into a design specification; it goes out to tender; the building is constructed. This could take up to two years. In the context of a small company with limited cash resources, this presents a real challenge for us. So what we have tried to do, apart from focus on urgent remedial clients, is to find a shorter-cycle business which is consistent with our

core competence. And recognising our core competence is prevention of water ingress, we have come up with the idea of extending our product range to include other solutions to other water ingress problems which do not involve subterranean concrete structures. For example, roofs, they have a problem that's caused by rainfall. Bridges have a water ingress problem. Both of these do not lend themselves to MPS; on the other hand, lend themselves to proven and existing solutions where we can claim some expertise by virtue of the backdrop of some of our employees. So within a month we will be moving into what we call in our business "the coatings business". We already have the staff lined up. We have the agency agreement signed up. We have a particularly strong position in Hong Kong for a variety of reasons, including the fact that, through selling MPS, we are actually contacting all of those clients for other solutions to other problems. So in some respect you might see this as a no-brainer. We're simply extending our product range and we're selling to the same client, thereby effectively enhancing the sales productivity of any call. So that's what we've come up with. It's an immediate solution. It will be put into action, as I said, hopefully within the first two months. We already have put out some inquiries and, I must say, the preliminary indications look quite good.

Q3 Okay. And, Philip, just as an overall summary of the meeting, would you have called it a success for the Company?

A3 Yes. In fact, the one conclusion we came up with was that we must have more of these meetings. I think, given the disparate nature of our group – we have an R&D office in Norway; we have a sales operation in London; we have a sales operation in China; we have our corporate secretarial function in Perth, Australia – with this disparate geographic dispersion, we must actually improve our in-house communications, and this was a perfect medium for that. So, no, it was a very valuable exercise. A lot came out of it. Some of it is stating the obvious, which sometimes need to be stated, and also some very clever ideas emerged from the meeting. So, no, I'm particularly chuffed, I must say. And forgive me – if this was on video you would see a big smile on my face.

Q4 Philip, the Company has achieved a number of small contract wins. However, to date, we're yet to see a significant or material contract awarded in terms of dollar value. Can you give me some commentary around developments on this front?

A4 You're absolutely right, and this is the most frustrating aspect of our business and one that I alluded to earlier on. In fact, most of these small contracts we've seen can be seen as pilot contracts. So, yes, on their own they're a very small dollar value but could lead to huge monster contracts in the future. However, we have to go through this process of installation, evaluation, and so on, and then waiting for the major projects to come up. I'll give you a small example, if I may. We were contacted by the Hua Nan government with respect to a problem they had on an expressway tunnel. There was a small part of the tunnel that had severe flooding. We were up there within a week. We completed the project in about three weeks – Christmas/New Year's Eve. Hua Nan is probably one of the largest operators of tunnels and expressways in China. It's a huge network and this represents a fantastic business

potential. The project was successful. They signed off via their committee of experts and, indeed, we've published the results and it was all quite satisfactory stuff. However, China has its own set of challenges. For example, it has an extremely wide range of rainfall and ambient humidity and, therefore, to do a successful test, unlike in Europe where a test period may be three months, here you have to wait on a complete annual rainfall cycle. So, whilst the project has been successful as a pilot project, and whilst there is huge potential to come from this expressway network, unfortunately it's going to take a year of evaluation before that contract arrives. Now, that's a more extreme example. But a number of other projects we have successfully completed are of a pilot nature and, therefore, whilst we expect them to lead to greater and bigger things, we have to go through this frustrating period of evaluation and testing, and their technical engineers had to review the process and so on and so forth. So, yeah, this is an inherent problem in our business that all our contracts we are receiving at the moment are pilots which, hopefully, will lead to major projects in the future, albeit with a time delay. And for a small company, time is money, and that's something we ain't got much of.

Q5 Okay. Philip, just before we move on, obviously having finances to progress your projects is an important part of what you're doing – before we move on to that part, I just have a question. In terms of the product performance in the pilot trials, are you happy with how the product is holding up? Are you getting the indication that, should the pilot period be completed, there will be, a satisfactory outcome from the performance of the product?

A5 The good news is that we already have an extensive portfolio of highly successful projects and, yes, all the trials have been successful, bar one, and this was a particularly complex project. Frankly, MPS was not the perfect solution to their problems because they don't have a solution. There is no solution to their problem. MPS is a brilliant product but it has its limitation, like all things, and, in this particular instance, this water ingress problem was so complex and so complicated, both sides agreed that there was no solution and we both actually closed down the project. But that's an extreme case. No, I mean, so far, so good, but we're not surprised. This product has been around now for 10 years. Our oldest one is in Hong Kong and it's 10 years old today and it's done absolutely brilliantly, fulfilled all design expectations and all requirements. So, no, the success or non-success of a pilot project is not a concern to us and it doesn't even feature in discussions. It's taken that it will work.

Q6 Okay. Well, if we can just ask you to touch quickly on the Company's current financial position and your approach to capital management going forward.

A6 Well, thanks to loyal institutional shareholders and, more importantly, an extremely loyal band of private client shareholders, we had a very successful fundraising. We have very tight cash control. We have weekly investigations of variances. We monitor our burn rate very carefully. But we must be careful not to be too aggressive in these cuts because we might throw the baby out with the bathwater. Having said

that, I think we have reduced our burn rate by something like 60-odd per cent from the peaks a year ago. So this has been a very successful exercise. But, frankly, we can't cut any further. In fact, if anything, I will have to start looking at increasing the burn rate in the next six months or so. But the poultice(ph) looks good and, if this coating business takes off, which I think it should do, there's no reason why it shouldn't, then we would have solved our inherent structural problem of our business, namely a long lead time in being awarded major contracts.

Q7 Okay. And just to finish up, Philip, the AGM is approaching. What are the details of the AGM and what messages are you looking to impart upon shareholders that will attend?

A7 The AGM is, in fact, a fairly low-key affair, as most AGMs are for small companies. It's taking place in Perth. Our shareholders are based all around Australia and, in fact, all around the world, so we tend to have a fairly small attendance, but that's quite typical of small companies. The message I am promoting is in the Chairman's address, which will be coming out in the next day or two, and is essentially what I have told you, albeit in different terms and different words. I think the key message is that we're desperately seeking to offset this long-term nature of our business, which is a structural weakness – offsetting it by: one, focusing on projects with a shorter lifecycle, like immediate remedial work – the New Zealand hospital, as an example; and secondly, by diversifying into the coatings business, which is still part of our core competence, water ingress, but we're moving away from just MPS and subterranean concrete structures to look at other water ingress issues, be they bridges or roofs, and we shall start in Hong Kong simply because we have a lot of experience in Hong Kong. We are well-embedded with the consultants there. And the Hong Kong government has just announced a major infrastructure program of something like \$500 billion over the next 10 years. So it's going to be a major infrastructural hub in a global context, in part related to building up linkages with China, which fits into our China/Hong Kong strategy. And so the demand is there. We have the right products. We have the right agents. We have the right contacts. There is no reason why we cannot offset this long-term nature of our business by a short-term quicker cycle type of work.

Q8 Well, Philip, it's been good to hear about some of the developments that have been made at Hydrotech and we look forward to following your progress and thank you, once again, for taking the time to speak to us on Boardroomradio.

A8 Well, a pleasure – look forward to seeing you again.

Q9 That's Mr Philip Gray, the Chairman of Hydrotech International giving you an update on the Company and the outlook for the year ahead.

A9 (No verbal response)

INTERVIEW CONCLUDED
