

Results for announcement to the market

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

**FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2008**

This half-year financial report is to be read in
conjunction with the financial report for the
year ended
30 June, 2008

**HYDROTECH INTERNATIONAL LIMITED
FINANCIAL REPORT FOR THE HALF-YEAR ENDED
31 DECEMBER 2008**

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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 2008 and independent auditor's review report thereon.

Directors' Names

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

Name	Period of directorship
Philip Gray	Director since 28 April 2008
Ian Dallas	Director since 2 March 2007
David Ledger	Director resigned 13 August 2008
Andy Fourie	Director since 6 November 2007
Karl Grebstad	Director since 1 April 2008
Julie Jones	Director since 1 July 2008
Fiona Boucher	Director since 13 August 2008

Review of Operations

The consolidated loss of the group for the half-year after providing for income tax amounted to \$781,726.

In my last Chairman's Statement, I informed you that a number of pending major contracts on which we had been relying, had been postponed for several months given the deepening global recession. I also stated that "your Directors, mindful of our cash position and the current burn rate, are vigorously pursuing a number of strategic options to preserve and enhance shareholder value. These include, for example, the sale of geographic licenses for a mixture of cash and future royalty payments. We are also exploring possible joint ventures with major cash rich Groups."

Sadly I am forced to report that all of our "exploratory negotiations" which we had been carrying on now for some months have come to a disappointing end. In Dubai, the cancellation of some 20% of all outstanding construction projects in the country has left our prospective partners in a very sorry state, while a Middle East Investment Bank which we were dealing with on a possible cash injection for one of their clients, has just cut its Investment Banking Corporate Finance and Mergers & Acquisitions departmental staff by some 90%. A potential UK transaction has also died on the vine, a victim of the local economic crisis, while a potential transaction in the Far East has been bogged down in legal detail and indecision. Each one of these transactions in their own right could have had a very significant and important impact on Hydrotech and at the outset; each one of them looked extremely promising. However, they have all come to no avail, itself a sad commentary on the state of global economic affairs.

Thus as we stated in our reply to an ASX enquiry and a subsequent ASX announcement, we now have no option but to pursue some significant operating cost reductions. For a small lean company, this process is not easy and requires considerable judgement to avoid throwing the baby out with the bath water or seriously damaging the company's long term interests i.e. in a biblical sense we need to avoid eating our own seed corn. After a thorough strategic review, we have decided the following:

- 1) To close down our UK operation which has generated virtually no revenues over the life of the company and has experienced a series of unfortunate setbacks which just seem to continue. Two major relationships can be handled by our very experienced Norwegian executives who travel to the UK regularly.
- 2) All non-Executive Directors to follow the example I set in May last year and rescind their Directors fees.
- 3) All staff to accept a 20% salary cut.
- 4) Outsourcing of some specific functions.
- 5) Selected staff cuts.

On an ongoing basis, these cuts should result in our burn rate falling from \$355,000 per month to AU\$158,000 per month with an expected annualised savings of \$2,040,000.

In the meantime, we shall be appointing a well known firm of Australian financial advisers who, apart from providing a useful external perspective, will review our operations, examine ways of raising future capital and introduce us to various parties who might be interested in participating in the company's future. Obviously your Directors will leave no stone unturned in trying to preserve the company during these unprecedented difficult times.

Bizarrely however, we now have very serious and major Chinese clients interested in our technology including several major metro companies who have now given us firm dates for pilot projects. Since we know from our Metronet Walthamstow experience that our system is highly effective, there is a very high probability that these will convert into very meaningful contracts in due course. However, again it is the long lead time that presents real operational difficulties for us. In the meantime, the quality of our Hong Kong order book has increased significantly with some major players emerging, but once again these tend to be pilot projects with no prospect of serious cash flows until the second half at best.

In conclusion, we have an outstanding product which provides a highly cost effective solution to the widespread and growing problem of water ingress in underground tunnels, subways, basements and the like. Our team is highly professional and technically competent in their field of expertise, and we now have an impressive base of reference clients and testimonials. The pilot projects, either signed or about to be signed, read like Who's Who of the Asian Metro Industry. However, like many small companies in these difficult economic conditions, it simply comes down to cash flow and the company's ability to survive this current recession. Whilst the portents are not encouraging and indeed have deteriorated significantly in recent months, your Board and your staff continue to strive unceasingly on behalf of shareholders interests and for that they have my extreme gratitude.

On a final note, it is not all doom and gloom and life is full of pleasant surprises. For example, we have just received an approach from a South African construction company who would like to set up a joint venture to target massive flooding problems in parts of Johannesburg, while last week one of the largest standing armies in the world approached us to buy our entire production of MPS control boxes - apparently their missile silos are flooding rendering them useless.

On a final and admittedly personal and potentially biased note, I can't help observing that our current share price bears no recognition whatsoever of:-

- 1) A world beating and proven technological solution (MPS) to the serious problem of concrete water ingress which is a huge and growing market
- 2) The immense amount of pioneering and pre-marketing investment in getting our MPS recognised and approved by competent and authoritative bodies
- 3) Our recent investment program in upgrading the functionality of MPS to a whole new level (Version 3)
- 4) Our portfolio of contracts, admittedly pilot, signed or about to be signed by world class subway operators which should lead to company making business deals in due course
- 5) The adoption of our MPS technology by a number of key quasi government institutions who have specified MPS in their various building specifications
- 6) Our investment in key relationships with major potential clients who have expressed serious interest in our MPS solution given the sheer size and scope of their water ingress problem

However, as a seasoned Investment Banker, I recognise the realities of our current situation and the global context in which we find ourselves and so be it. This will not deter myself and my team to try and find creative solutions to our current short term trading difficulties.

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 'Philip Gray', written over a circular stamp or seal.

Philip Gray
Chairman

Dated this 27th day of February, 2009

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 period ended 31 December 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
Principal

Perth, WA

Dated 27th day of February 2008

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	31 Dec 2008	31 Dec 2007
	6 mnth	6 mnth
Revenue		
Sales revenue	140,346	-
Other income	66,704	101,809
	<u>207,050</u>	<u>101,809</u>
Changes in inventories of finished goods and work in progress	-	-
Employee benefits	1,054,603	1,214,477
Depreciation and amortisation	19,792	17,440
Consultants' fees and costs	316,869	448,983
Other expenses	684,287	715,966
Write off of Intangible Assets	821,078	-
Foreign exchange (gain) / loss	-	164,490
	<u>-</u>	<u>164,490</u>
Loss before income tax	(2,689,579)	(2,459,547)
Income tax expense	-	-
	<u>-</u>	<u>-</u>
Loss for period	(2,689,579)	(2,459,547)
	<u>(2,689,579)</u>	<u>(2,459,547)</u>
Basic earnings per share	(0.15 cents)	(2.1 cents)
Diluted earnings per share	(0.15 cents)	(2.1 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	31 Dec 2008	30 June 2008
CURRENT ASSETS		
Cash and cash equivalents	1,494,777	3,671,417
Trade receivables	323,214	255,506
Other current assets	250,000	233,933
TOTAL CURRENT ASSETS	<u>2,067,991</u>	<u>4,160,856</u>
NON-CURRENT ASSETS		
Property, plant and equipment	144,041	130,096
Intangible assets	-	837,172
Other non-current assets	89,174	167,549
TOTAL NON-CURRENT ASSETS	<u>233,215</u>	<u>1,134,817</u>
TOTAL ASSETS	<u>2,301,206</u>	<u>5,295,673</u>
CURRENT LIABILITIES		
Trade and other payables	157,771	398,672
TOTAL CURRENT LIABILITIES	<u>157,771</u>	<u>398,672</u>
TOTAL LIABILITIES	157,771	398,672
NET ASSETS	<u>2,143,435</u>	<u>4,897,001</u>
EQUITY		
Share capital	12,594,554	12,531,014
Other reserves	319,885	447,412
Accumulated losses	<u>(10,771,004)</u>	<u>(8,081,425)</u>
TOTAL EQUITY	<u>2,143,435</u>	<u>4,897,001</u>

The accompanying notes form part of these financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	31 Dec 08 2008 6 mnth	31 Dec 2007 6 mnth
TOTAL EQUITY AT THE BEGINNING OF THE HALF-YEAR	<u>4,897,001</u>	<u>8,645,384</u>
Exchange differences on translation of foreign operations	(127,527)	101,166
Investment in subsidiaries	63,540	-
Loss for the half-year	(2,689,579)	(2,459,547)
Transactions with equity holders in their capacity as equity holders:		
Returned contributions	-	(73,533)
Capital raising costs	-	(595,972)
TOTAL EQUITY AT THE END OF THE HALF-YEAR	<u><u>2,143,435</u></u>	<u><u>5,617,498</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	31 Dec 2008 6 mnth	31 Dec 2007 6 mnth
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	40,299	-
Payments to suppliers and employees	(2,283,643)	(3,930,564)
Interest received	66,704	101,809
Net cash used by operating activities	<u>(2,176,640)</u>	<u>(3,828,755)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Refund of over subscriptions	-	(74,000)
Net cash used in investing activities	<u>-</u>	<u>(74,000)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	-	-
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
Dividends paid	-	-
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(2,176,640)	(3,902,755)
Cash and cash equivalents at beginning of half year	<u>3,671,417</u>	<u>8,167,389</u>
Cash and cash equivalents at end of the half-year	<u>1,494,777</u>	<u>4,264,634</u>

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2008**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 2008 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 2008.

(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.

(d) Going Concern

The financial statements have been prepared on the going concern basis, which assumes that the company will be able to meet its commitments, realise its assets and discharge its liabilities in the ordinary course of the business. This status is dependent upon the company being able to generate commercial levels of cash flow from potential future projects, or receiving further capital from a third party.

If this does not occur, the going concern basis may not be appropriate and the entity may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2008
NOTE 2: 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 3: 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.

	31 Dec 2008 6 mnth	31 Dec 2007 6 mnth
Segment results		
Europe	1,182,468	1,222,106
Asia	867,617	472,108
Australia	<u>(1,268,359)</u>	<u>765,333</u>
Loss before income tax	<u>781,726</u>	<u>2,459,547</u>

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS 31 DECEMBER 2008

NOTE 4: CONTINGENT ASSETS AND LIABILITIES

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

NOTE 5: DIVIDENDS PAID OR PROVIDED FOR

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

DIRECTORS DECLARATION

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 2008 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 'Philip Gray', with a large circular flourish at the top.

Philip Gray
Chairman
27th February, 2009

INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF HYDROTECH INTERNATIONAL LIMITED AND ITS CONTROLLED ENTITIES

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Hydrotech International Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the consolidated entity 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 the 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 2008 and its performance for the half-year ended on that date; and complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Hydrotech International Limited and its Controlled Entities, 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 complied with the independence requirements of the Corporations Act 2001.

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 and its Controlled Entities 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 2008 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.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the review opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 to the financial statements, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

WHK HORWATH PERTH AUDIT PARTNERSHIP

A handwritten signature in blue ink that reads "Nick Hollens".

NICK HOLLENS
Principal

Perth, WA

Dated this 27th day of February 2009



Appendix 4D

Half Year Report for the six months to 31 December 2008

Hydrotech International Limited ABN 43 122 726 283

2. Results for announcement to the market

Revenues from ordinary activities	Up	103%	207,050	to	101,809
Profit (loss) from ordinary activities after tax attributable to members	down	68%	(781,726)	to	(2,459,547)
Net profit (loss) for the period attributable to members	down	68%	(781,726)	to	(2,459,547)
Dividends					
		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		N/A			
Brief explanation of any of the figures reported above necessary to enable the figures to be understood: N/A					

3. Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	1.3 cents	3.2 cents