

27th October 2011

Attention: Public Announcements Officer
Australian Securities Exchange
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

**Hydrotech International Limited
(‘Hydrotech’ or ‘the Company’)**

As announced earlier today at the Company’s AGM, Hydrotech is pleased to advise that the Hong Kong Mass Transit Railway (‘MTR’) confirmed yesterday that it has approved the use of Hydrotech’s sprayed Polyurea lining system for a new tunnel being constructed on the West Island Line 705 project in Hong Kong. The commencement date of the contract is likely to be in early 2012.

Over the past 5 years there has been a growing trend by tunnel engineers to replace existing preformed membranes with spray applied linings. To-date the only systems that have been used are spray applied cement based systems, however these have serious issues when used in deep tunnel excavations such as those being constructed in major cities such as Hong Kong and London. The cement based systems do not work well in damp conditions with the result that several overlays are required; the use of Polyurea overcomes these issues and allows for continuous application even in locations with running water.

MTR are seen as a world leader in tunnel construction and we are very confident that with the successful installation of Polyurea on the WIL705 project that Hydrotech will have a very good introduction into this potentially lucrative market.

The MTR are undertaking major works in Hong Kong at present with 2 extensions to existing lines and 2 new lines being constructed including the new High Speed link in China. A third new line will begin construction in 2012. In total 20 major civil engineering projects have been awarded to-date, all of which will require high performance water proofing systems. We believe Hydrotech is in a very good position to fulfill such needs in future

Operational and Financial Review

Over the past quarter, the Company has further diversified its business by providing the following services in order to increase income streams;

- Selling spray machinery and providing maintenance services
- Selling waterproofing materials
- Selling MPS control units for luxury villa market use in China

Due to this, sales in the first quarter of the year represent 45% of the total sales in FY 2011.

Total income for the quarter was A\$674k (compared to A\$214k over the same period in 2010); the gross margin achieved for contract revenue was 23%. Considerable effort was focused on positioning for growth during this period although it is unlikely we will be able to break even this year.

A review of completed projects indicated that the major variable costs in these projects related to labour and as such, the Company has moved towards offering sub contracts to applicators. This not only ensures that we have a more precise estimation of true cost but also allows us to place the responsibility for workmanship firmly with the applicators which in turn increases their efficiency. Due to strict cost controls that have been put in place over the past quarter, we have been able to maintain a profit margin in the region of 23%. We shall continue to maintain our efforts in controlling costs.

The cash position in the Company remains tight; at the end of last quarter there was approximately A\$300k available and the management shall continue to manage the cash position carefully.

Our priority for the next quarter is to refocus our marketing initiatives which have taken a back seat over the past 6 months as we dealt with the significant growth in the number of projects that we have undertaken. With the award of the WIL705 project by MTR plus the associated approvals received from the Water Services Department and the Drainage Services Department, we have a very strong base from which to expand our customer base and further grow the business.

MPS Overview

With the increased awareness of our MPS System following the award of some key, high profile projects, the level of enquiries and requests for presentations and proposals from both current and potential clients is escalating once again. This follows a similar pattern that evolved in July 2010 when the Hong Kong Housing Authority announced its adoption of the MPS System.

Enquiries are being received on a weekly basis and whilst not all of these are significant opportunities it does provide us with confidence that there is a growing acceptance of the system in Hong Kong. Clients that were approached several years ago are now approaching us with requests to firm up on initial proposals or identify new areas where the system could be applied. We do not envisage an immediate influx of projects being awarded however we are confident that we will be in a position to make further announcements during the next quarter.

It is heartening to note that the length of sales lead time for projects is decreasing significantly which is directly related to a growing acceptance of the MPS technology. Architects and contractors are now happy to recommend the MPS system to their clients, which was apparent recently in the luxury villa market in Hong Kong with two projects being awarded within days of presentations.

As the awareness of the technology develops coupled with the anticipated award of further projects that the Company is currently negotiating, that sales lead time will continue to decrease for larger projects.



From a marketing perspective, it is evident that there is increasing acceptance of the MPS System as a guaranteed solution to treat water ingress issues and this is hugely rewarding for the team who have struggled for years to overcome these issues.

MPS Hong Kong

The Hong Kong Housing Authority has awarded the tender for the 3rd phase of MPS installation at Oi Man Estate and we are currently in negotiations with the Main Contractor; it is envisaged that the Company will be in a position to make a further announcement on this project over the next few weeks.

Works on the installation for Hip Hing Construction and the New World Group in a private villa are scheduled to begin on November 1st with the majority of Hydrotech's scope of works scheduled to begin in March 2012. This is a pilot project for the New World Group, one of the largest property development conglomerates in Hong Kong. Once the efficacy of MPS has been accepted by the Client, the Company is confident that this will lead to it being incorporated into the New World Group's Standard Specifications for waterproofing of basement structures.

Following the award of this contract, the Company has also been awarded 3 further projects in the past month for the installation of the MPS System in private luxury residential villas in Hong Kong; two of the projects have begun with another due to start in early November. All 3 projects will be completed prior to year end.

The Company continues to receive enquiries from property management companies, architects and government departments who are keen to explore the use of the MPS system to solve problems with water ingress issues. As previously announced, the Company has identified that lift pits are a niche market for the newly designed, smaller control units and presentations are being delivered regularly. As part of the major MPS installation at the Hong Kong Club, we have recently completed the installation of the MPS System into 4 lift pits.

The installation at Wo Hop Shek is ongoing with works due to be completed by year end. This will be a high profile project reference for the Company and it is envisaged that enquiries will be received from further government departments.

MPS China

In China, the trial section MPS[®] installation in the Dalian Cable Tunnel is now complete and we are currently in the monitoring phase which is scheduled to continue until mid-2012, after the rainy season has begun. We have temporarily seconded two members of our Hong Kong staff to Dalian to provide our agent and the highly prestigious client with on-site support and technical expertise. In addition, members of the senior management team make regular visits to ensure that this project, with the huge potential it offers (a possible further 100,000+m²), is provided with all the support it requires.

In addition to this project, the Company is also currently working with its Agent in Dalian on further opportunities for MPS installations in Dalian and site visits are currently being conducted for potential new projects. We will keep you updated regularly on opportunities that arise in Dalian over the coming months.

The monitoring of installations at Wu Han Steel and the Shui On Club in Shanghai is ongoing with positive results having been recorded. We are in regular contact with our Agent who reports that Clients have expressed satisfaction with results thus far and he is confident further projects will be awarded.

The luxury villa market segment in China continues to develop as a niche market for MPS installations with a further four projects having been awarded to our Agent in Shanghai. Whilst not of individual significant value, this rapidly growing segment is fast becoming a regular source of income for the Company and we are currently in negotiations to appoint further Agents throughout China.

MPS Worldwide

The installation of the MPS system into brickwork caverns in an historic Gibraltar castle has been completed and the monitoring phase has now begun. We are currently in negotiations to appoint an Exclusive Agent for Gibraltar and we are confident that following the monitoring phase, further works will be approved.

MPS Strategy

Following recommendations from the Electro Osmosis Committee, another control unit has been developed for projects between 300m² and 500m² which is typical of a medium size luxury villa basement; the prototype has been released and will shortly be installed in a pilot project in China.

The Company is in the midst of renaming the different Control Units which will provide a very clear overview of what the brand range covers and what capacity each Control Unit is suitable for.

In Hong Kong, we recently completed our inaugural MPS Installation Training Programme and have subsequently appointed our first Hydrotech 'Authorised MPS Installer'. The programme, a mixture of technical classroom work and hands on experience on an actual installation, was held over 3 days with extremely positive feedback received by all who attended. It is our intention to offer this programme to other Contractors who we determine will meet the strict criteria of becoming an Authorised Installer.

Coatings

Over the past 18 months there has been a growing acceptance of Polyurea systems in Hong Kong. This is evidenced by the fact that over the past quarter, 37 proposals for coatings projects have been issued and to-date, 17 of them have been approved.

In addition to the original application of roof waterproofing overlays, Hydrotech have identified significant opportunities for the use of Polyurea as a lining system for drinking and flushing water tanks, as well as linings for water features. Polyurea systems are also being used in water treatment facilities and are being specified by Architects for new construction waterproofing. The systems have also been used for sealing of heavily trafficked expansion joints and we are also looking at a system for sealing window frames and both decorative materials.



With the above, plus the recognition from MTR project award, Hydrotech is in a very good position to expound our marketing activities and develop further opportunities in the waterproofing sector.

We continue to focus on Property Management companies who maintain residential and commercial properties. As well as roof overlay systems, we have also completed several water tank relining projects and we are expanding our product offer to include other minor works activities including concrete repair and window sealing.

Our list of clients is also expanding with presentations being undertaken to Resident's Committees on major private housing developments as well as to property management companies who operate commercial centers within the Hong Kong business district. In addition, several major high street banks have also used our Polyurea system.

In conclusion, significant progress has been made over the past 3 months in positioning Hydrotech as one of the leading suppliers of waterproofing solutions in Hong Kong and China; we look forward to continuing to bring you further announcements over the coming quarter.

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

Philip Gray

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

HYDROTECH INTERNATIONAL LIMITED

ABN

42 122 726 283

Quarter ended ("current quarter")

30th September 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers	828	828
1.2 Payments for		
(a) staff costs	-202	-202
(b) advertising and marketing	-11	-11
(c) research and development	0	0
(d) leased assets	0	0
(e) other working capital	-700	-700
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	0	0
1.5 Interest and other costs of finance paid	-2	-2
1.6 Income taxes paid	0	0
1.7 Other (provide details if material)		
Net operating cash flows	-87	-87

+ See chapter 19 for defined terms.

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

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	-87	-87
Cash flows related to investing activities		
1.9 Payment for acquisition of:	0	0
(a) businesses (item 5)	0	0
(b) equity investments	0	0
(c) intellectual property	0	0
(d) physical non-current assets	0	0
(e) other non-current assets	0	0
1.10 Proceeds from disposal of:	0	0
(a) businesses (item 5)	0	0
(b) equity investments	0	0
(c) intellectual property	0	0
(d) physical non-current assets	0	0
(e) other non-current assets	0	0
1.11 Loans to other entities	0	0
1.12 Loans repaid by other entities	0	0
1.13 Other (provide details if material)	0	0
Net investing cash flows	0	0
1.14 Total operating and investing cash flows	-87	-87
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	0	0
1.16 Proceeds from sale of forfeited shares	0	0
1.17 Proceeds from borrowings	275	275
1.18 Repayment of borrowings	0	0
1.19 Dividends paid	0	0
1.20 Other (provide details if material)	0	0
Net financing cash flows	275	275
Net increase (decrease) in cash held	188	188
1.21 Cash at beginning of quarter/year to date	133	133
1.22 Exchange rate adjustments to item 1.20	-25	-25
1.23 Cash at end of quarter	296	296

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	50
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Non Executive Directors Parent Company	-	\$A'000	-	19
Executive Directors	-	\$A'000	-	31

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	464	464
3.2	Credit standby arrangements	0	0

+ See chapter 19 for defined terms.

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

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	96	133
4.2 Deposits at call	200	0
4.3 Bank overdraft	0	0
4.4 Other (provide details)	0	0
Total: cash at end of quarter (item 1.23)	296	133

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	0	0
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

3 Sign here:



Director

4 Date: 27 October 2011

Print name: Philip John Scott Gray

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.