

7 August 2012

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

Dear Sirs

**ACQUISITION OF HERITAGE ACQUISITIONS LTD – HEADS OF AGREEMENT EXECUTED**

- HTI recently divested its previous specialist water proofing business (shareholders approved the divestment on 5 June 2012) and has been subsequently seeking a new business opportunity.
- HTI has today entered into a Heads of Agreement (HOA) which sets out the framework to acquire all of the issued capital of a public unlisted company, Heritage Acquisitions Ltd (HAL).
- HAL operates in the Australian residential property management industry, a sector that is highly fragmented, run mainly by a large number of small real estate agents, with no dominant operators.
- HAL provides branding and management systems, business development and management services to Rental Express Group Limited (REX). REX manages the day-to-day residential rental properties.
- HAL is positioned with:
  - o A business model and strategy to capitalise on a large and profitable, but fragmented sector of the Australian economy, that it has assessed as being ripe for consolidation.
  - o Specialist teams of personnel and systems to source and negotiate the acquisition of bundled or individual residential management agreements (RMA's).
- HTI proposes, subject to due diligence, requisite approvals and a number of other conditions precedent, to consolidate its share capital on a 200:1 basis to circa 13.6m shares and 10.9m listed options (exercisable at 20¢ by 31 March

Suite 2, 5 Ord Street  
West Perth WA 6005  
+61 8 9322 1444

[mike.hendriks@hydrotechinternational.com](mailto:mike.hendriks@hydrotechinternational.com)

2015) and thereafter acquire all of the issued capital of HAL for a consideration of circa 130m HTI shares issued at a deemed issue price of 20cps (notional purchase consideration of \$26m) and issue 25m HTI Performance Shares. HTI will also offer HTI shareholders the opportunity to participate in a 1:1 entitlement issue of options (exercisable at 20¢ by 31 March 2015). Further information on the entitlement issue will be announced in due course.

- HAL derives revenue by identifying, negotiating and on-selling RMA's and rent rolls to REX on an exclusive basis. It generates fees from these transactions and also earns ongoing fees on the total gross revenue of REX for the provision of branding and systems support.
- On 11 May 2012 HAL entered into an agreement with ASX listed entity Run Corp Limited (ASX Ticker: RNC, market capitalisation of circa \$20m) to acquire its existing property management software and trust accounting services business (Agent Plus) for the issue of 25m shares. At the same time, REX entered into an interdependent agreement with RNC to acquire its property management businesses (Run Property) for circa \$65m (cash and equity consideration). Run Property has circa 15,000 RMA's under its management. The RNC transaction is contingent upon various approvals and other conditions precedent. In the event the RNC transaction secures all necessary approvals, it is intended that a further tranche of 25m HTI shares (post consolidation) will be issued to RNC to complete the acquisition of Agent Plus.
- HTI will be renamed and proposes to issue a prospectus for the issue of up to circa 10m new HTI shares at 20cps to raise up to \$2m (with 2:1 free attaching listed options – being up to 20m options of the same class as the existing HTIO securities) on a post-consolidation basis. The funds raised are intended to be used primarily for the costs of the HAL acquisition and to supplement working capital. Patersons Securities Limited (Patersons), who have introduced and arranged the HAL transaction, has been appointed Lead Manager to the acquisition and proposes to underwrite the HTI share placement. The new issue will be made available to HTI shareholders (a priority offer) and to HAL shareholders as well as Patersons' clients.
- Post consolidation, acquisition of HAL, the \$2m fundraising and the entitlement issue, HTI will have circa 154m shares, 25m Performance Shares on issue and circa 46m listed options. At the prospectus issue price of 20cps, implies post the HAL transaction, an undiluted market capitalisation of \$30.8m.
- HAL has also granted a series of 5 year Performance Shares to key executives which will be transferred to HTI in exchange for HTI Performance Shares. A total of 25m Performance Shares will be granted (on a post-consolidation basis) by which 5% of the Performance Shares held by each holder will convert into HTI shares (on a 1:1 basis) for every cumulative \$12,500,000 of value of the purchase prices of RMA's assigned or novated by HAL to REX provided that HAL has achieved greater than 25% EBITDA margin. Subject to shareholder approval, it is

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proposed that circa 1.5m of the Performance Shares would be issued to the Board. A total of 1.5m HTIO options (on a post-consolidation basis) are also proposed to be granted to an existing director (Michael Hendriks or nominee) for facilitating the HAL transaction subject to shareholder approval.

## **BACKGROUND ON HERITAGE ACQUISITIONS LIMITED**

HAL has the right to the brands and the management systems which are sub-licensed exclusively to REX for use in the operation of the property management business. REX pays a fee of 6% of total gross revenue of REX to HAL.

HAL has also been exclusively engaged by REX to provide organic growth services and business acquisition services. HAL receives a fee on each new RMA and business sourced for and acquired by REX. On a six monthly basis, HAL and REX must realign and agree on targets and growth rates. The agreements are not for a fixed term, but can only be terminated if one of the parties becomes insolvent or upon a breach of the agreement.

HAL has also been contracted to supply management services to REX.

The Boards of HAL and REX are independent.

HAL provides the tools to REX to allow it to operate the Property Management Businesses efficiently and facilitates future growth by identifying new RMA acquisitions.

## **PROPOSED TRANSACTION**

### Heads of Agreement

The legally binding Heads of Agreement (HOA) sets out the terms of the acquisition negotiated between HTI and HAL and is the basis for a formal Share Sale Agreement between the parties.

Both HTI and HAL will carry out respective due diligence investigations to the satisfaction of each of HTI and HAL.

Under the HOA, HTI will acquire 100% of the issued capital of HAL (Acquisition).

HTI proposes to consolidate its share capital on a 200:1 basis and post consolidation issue approximately 130m shares and 25m Performance Shares as consideration for the Acquisition.

HTI then proposes to prepare a prospectus for the issue of up to a further 10m shares (at 20cps) and 20m free attaching listed options (20c / 31 March 2015).

HTI currently has cash reserves of approximately \$1.1m and HAL currently has cash reserves of \$250,000. After a \$2m raising the Acquisition and associated transaction costs, HTI would have circa \$2.4m cash and no debt.

A new Board would be appointed after completion of the acquisition. The current Chairman, Philip Gray would remain as a non-executive director along with Michael Hendriks.

### Key Commercial Conditions Precedent

The transaction will not become effective unless each of the following conditions precedent is satisfied or waived (amongst others):

- Satisfactory due diligence investigations by each of HTI and HAL;
- HTI and HAL execute a definitive Share Sale Agreement and any necessary documents;
- Consolidation of HTI's existing shares and options on a 1 for 200 basis (Consolidation);
- HTI and HAL each obtaining all necessary regulatory and shareholder approvals to complete the Acquisition, the Consolidation and all the other integral aspects of the transaction as outlined herein,
- HTI prepares a prospectus and completes a new issue of shares at 20 cents each, raising up to \$2m (with 2:1 attaching options), and
- HTI completes a 1:1 entitlement issue of options.

### **GENERAL MEETING OF HTI SHAREHOLDERS**

Once HTI proceeds to the execution of a definitive Share Sale Agreement, HTI will convene a General Meeting of shareholders to approval, inter alia:

- (i) Consolidation of HTI's issued capital to comply with ASX Listing Rules;
- (ii) A change of activities via the acquisition of HAL;
- (iii) The issue of shares and Performance Shares to satisfy the purchase consideration;
- (iv) Approval for the issue of additional HTI shares (25m) for the RNC Agent Plus acquisition;

- (v) The placement of new post consolidated shares and options to raise up to \$2m at 20cps;
- (vi) A change of Company name;
- (vii) The appointment of a new Board;
- (viii) Approval for the issue of options to directors;
- (ix) Any other necessary resolutions to give effect to the proposed transaction.

## **CHANGE OF ACTIVITIES**

As the proposed Acquisition constitutes a change of activities of the nature contemplated by Chapter 11 of the ASX Listing Rules, HTI requested a trading halt on its securities on ASX prior to this market release.

As indicated above, should the Acquisition proceed, various aspects of the transaction will need to be approved by HTI shareholders and the requirements of Chapters 1 and 2 of the Listing Rules will need to be complied with.

As soon as due diligence has been completed and the definitive Share Sale Agreement executed, HTI will make further announcements to the market and will convene a shareholder meeting to approve the necessary aspects of the transaction. HTI will also issue a prospectus for the capital raising to be utilised for the costs of the Acquisition and to supplement working capital.

If the Acquisition is approved by shareholders, the Company's shares and options will be suspended from trading on ASX immediately prior to the General Meeting of shareholders and remain suspended until the requirements of ASX Listing Rules Chapters 1 and 2 have been satisfied.

## **INDICATIVE TIMETABLE**

The following timetable is indicative only and may be subject to variation. Any material changes will be notified to ASX by HTI.

<b><u>Event</u></b>	<b><u>Date</u></b>
Terms of Sale Agreement announced to ASX:	6 August 2012
Finalise and despatch Notice of General Meeting:	7 September 2012
Lodge Prospectus:	8 October 2012
Suspension of HTI shares and options from trading on ASX:	8 October 2012

General Meeting of HTI Shareholders:	8 October 2012
Record date for consolidation:	16 October 2012
Record date for option entitlement issue:	24 October 2012
Close of HTI prospectus and capital raising:	9 November 2012
Settlement of HAL Acquisition:	16 October 2012
Shares requoted on consolidated basis:	21 November 2012

Yours sincerely



Mike Hendriks  
Director and Company Secretary  
HYDROTECH INTERNATIONAL LIMITED



**HYDROTECH INTERNATIONAL LIMITED (ASX: "HTI")**

**- Proposed acquisition of**

**HERITAGE ACQUISITIONS LIMITED**

**Background Information on the Proposed Transaction**

**AUGUST 2012**

## **DISCLAIMER**

This presentation contains certain forward looking statements with respect to the financial condition, results of operations, business plans and objectives of management. All such forward-looking statements involve known and unknown risks, significant uncertainties, assumptions, contingencies and other factors many of which are outside the control of Hydrotech International Limited (HTI), which may cause the results or actual performance to be materially different from the future results or performance expressed or implied by such forward-looking statements.

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## INTRODUCTION

- Hydrotech International Ltd ( “**HTI**”, **Hydrotech** or the “**Company**”) has recently divested its former business activity (specialist water-proofing of concrete and masonry structures) and contemporaneously raised a small amount of additional equity capital by way of a share placement and entitlement issue (announced to ASX on 15 June 2012).
- HTI now has circa 2,726 million ordinary fully paid shares on issue together with 2,181 million listed options (ASX Ticker: “HTIO”) each with an exercise price of \$0.001 and expiring on 31 March 2015.
- HTI has subsequently retired all core debt and currently has circa \$1.1 million in cash and has been actively seeking a suitable new business opportunity.
- HTI has a market cap of \$2.7 million at the last trade price of \$0.001 ps.
- HTI has entered into a conditional Heads of Agreement on 6 August 2012 to purchase Heritage Acquisitions Limited, an unlisted public company, with substantial business interests in the management of Australian residential rental properties.

## BACKGROUND ON HERITAGE

- Heritage Acquisitions Limited (“**HAL**”) was specifically established to address the large and growing business sector of managing residential rental properties.
- The Australia-wide residential rental property management industry is run by a very large number of small, independent operators (typically Real Estate Agents) that often do not have a sufficient critical mass of residential management agreements (“**RMA’s**”) nor the specialist staff and systems in place to derive an appropriate return on their investment.
- HAL believes that there is significant growth potential as the industry is highly fragmented and where a large number of Real Estate Agents are looking to sell their ‘rent-rolls’ for liquidity reasons or as an exit upon retirement of the Principal. In Australia there are no dominant operators – where the largest manages less than 1% of the total market.
- HAL is a niche specialist and provides branding and management systems, business development services and other management services, on an exclusive basis, to Rental Express Group Limited (“**REX**”).
- REX, an arms-length entity to HAL, performs the day-to-day property management function and derives revenue from property management fees, property inspections and letting fees, etc. It also receives referral fees for the purchase of RMA’s and rent roll businesses.

- HAL has been exclusively engaged by REX to facilitate organic growth (via the acquisition of RMA's— either individually or by purchasing rent rolls from Real Estate Agents) as well as other business acquisition services.
- HAL's business development function is to source new RMA's for on-sale to REX. HAL derives revenue from sourcing and on-selling RMA's to REX and also earns an ongoing fee of the total gross revenue generated by REX for providing its systems, services and branding.
- HAL's agreed target with REX excluding the Run Corp Limited ("Run Corp") acquisition, is to deliver circa 14,000 RMA's for FY'13.
- HAL has entered into an agreement with Run Corp to acquire its property management software and trust accounting services business (Agent Plus) for consideration of 25 million HAL Shares. REX has entered into an interdependent agreement with Run Corp to acquire its property management businesses (Run Property). Run Property has circa 15,000 RMA's under its management. The proposed \$65m acquisition, announced by Run Corp to ASX on 11 May 2012 for a cash and equity consideration, is subject to various conditions and RNC shareholder approvals.

## **GROWTH POTENTIAL**

- HAL has concluded that the Australian residential property management sector is ripe for consolidation/aggregation where scale, specialised IT systems/processes and experienced personnel are critical to success.
- There is also significant potential to roll-out a similar business model into international markets.
- HAL has the essential systems and personnel already in place and therefore has capacity to rapidly grow the business from current levels.

## **THE PROPOSED HTI / HAL TRANSACTION**

- HTI proposes to consolidate its share capital on a 200:1 basis. The number of shares would then become 13,632,406 with 10,905,925 listed options (then with an exercise price of 20¢ps and expire on 31 March 2015).
- HTI would secure shareholder approval for the acquisition of HAL for a total of circa 130 million post consolidation HTI shares which at 20¢ps is an indicative purchase consideration of \$26m together with 25 million Performance Shares . In addition, HTI proposes to issue 25 million HTI Shares to Run Corp to complete the acquisition of Agent Plus. Approval will also be required to satisfy, inter alia, Chapters 11 and subsequently Chapters 1 and 2 of the ASX Listing Rules.

- HTI will also offer HTI shareholders the opportunity to participate in a 1:1 entitlement issue of options (exercisable at 20¢ by 31 March 2015). Further information on the entitlement issue will be announced in due course. A facilitation fee of 1.5m HTIO options are also proposed to be granted to an existing HTI Director, Michael Hendriks (or nominee).
- Approval for a change of company name and all other associated administrative matters for the proposed transaction detailed herein.
- HTI would prepare a prospectus for the placement of up to 10 million new shares at 20¢ps to raise up to \$2 million with a 2:1 free attaching listed option (ex price of 20¢ / 31 March 2015 – ie the same class as the existing HTIO options).
- HTI shareholders will be afforded a priority to participate in this new issue.

## **A NEW BOARD**

- A new and well-credentialed Board for HTI will be assembled after completion of the HAL acquisition.

## INDICATIVE CAPITAL STRUCTURE

<b>HYDROTECH INTERNATIONAL LIMITED</b>							
<b>Capital Structure after the HAL Acquisition</b>							
				<b>Shares</b>	<b>Options (Listed)</b>	<b>Performance Shares</b>	<b>Total Securities</b>
Existing HTI securities (Pre consolidation)				<u>2,726,481,190</u>	<u>2,181,184,952</u>		<u>4,911,666,142</u>
HTI share s after consolidation (200:1 basis)				13,632,406	10,905,925		24,558,531
Acquisition of Heritage				130,353,783			130,353,783
Entitlement Issue Options / Director Options					15,132,406		15,132,406
HTI Prospectus Placement at 20cps (up to)				<u>10,000,000</u>	<u>20,000,000</u>		<u>30,000,000</u>
Sub Totals:				153,986,189	46,038,331		200,024,520
Performance Shares (1)						25,000,000	25,000,000
Consideration for Agent Plus Acquisition (2)				25,000,000			25,000,000
<b>TOTAL ISSUED SECURITIES</b>				<b>178,986,189</b>	<b>46,038,331</b>	<b>25,000,000</b>	<b>250,024,520</b>

## **Notes to Hydrotech Capital Structure Table:**

- (1) A total of 25m HTI “Performance Shares” will be issued.

Within 5 years of issue, 5% of the Performance Shares held by each holder will convert into OFP HTI shares (on a 1:1 basis) for every cumulative \$12,500,000 of value of the purchase prices of rental management agreements assigned or novated by HAL to REX provided that HAL has achieved > 25% EBITDA margin (audit reviewed).

- (2) An additional 25m OFP HTI shares (post consolidation) will be issued as part of the purchase consideration should the purchase of Agent Plus acquired from Run Corp be completed.

## **NEXT STAGES**

- HTI is now seeking, subject to detailed due diligence and satisfaction of all the other conditions precedent, to acquire HAL.
- Approval would be sought at a General Meeting of HTI Shareholders.
- A prospectus would be prepared for the proposed new HTI equity and option issues. HTI shareholders will be afforded a priority in these new issues.
- The Company will keep HTI Shareholders and the market fully informed all of developments.

**For further information please contact:**

**Mr Michael Hendriks  
Director / Company Secretary  
Hydrotech International Limited  
Telephone: 0419 920 287**



For further background information on Heritage Acquisitions Ltd,

Please refer to: [www.heritageacquisitions.com.au](http://www.heritageacquisitions.com.au)