Appendix 4 D

Half year report

Name of entity:	**HydroMet Corporation Limited**

1. Details of the reporting period

Current period:	1 July 2004 – 31 December 2004
Previous corresponding period:	1 July 2003 – 31 December 2003

2. Results for announcement to the market

				$A'000
2.1 Revenues from ordinary activities	up	135.1%	to	7,741
2.2 Profit from ordinary activities after tax attributable to members	up	N/A	to	860
2.3 Net Profit attributable to members	up	N/A	to	860

2.4 Dividends	Amount per security	Franked amount per security
Interim dividend	N/A ¢	N/A ¢
Final dividend	N/A ¢	N/A ¢

2.5 Record date for determining entitlements to dividends	N/A

+ See chapter 19 for defined terms.

2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood:

The consolidated profit from ordinary activities for the half year ended 31 December 2004 attributable to members of the Company was a very pleasing and welcome $860,168 (2003: Loss $1,463,000).

The six months under review continued to see a significant contribution to group profit from the strong price for Selenium produced at our Minmet plant. The selenium price increased from A$50,000 per tonne in June 2004 to A$90,000 per tonne in December 2004 (an increase of 80%) on the back of heavy demand in China. Worldwide industry opinion is that the current unprecedented demand for selenium which is driving the price higher will continue over the next twelve months with further price increases very likely. With two new sources secured over the period we now have agreements with three generators of residues containing selenium. This success came from a concerted effort to secure sustainable continuous feed for our Minmet selenium recovery plant in a very competitive market. Minmet is in a good position to continue to generate strong profit for the remaining financial year and beyond. In the meantime we are evaluating other selenium product options which would enhance returns with higher premiums for more pure selenium chemical products.

The electric arc furnace (EAF dust) project continued at Unanderra with dust from Smorgon Steel commencing processing during July. The plant is operating a around 95% of plant capacity with over 10,634 tonnes of dust processed in the six months to December 2004. As indicated in the Chairman's address at our AGM in November we have experienced cost difficulties in extracting zinc from the EAF dust to produce zinc sulphate. Meeting market specification requirements also limited sales during our continuous production run from July to October. The project did not meet budget expectations for zinc sulphate sales and result in a loss for the six months under review. The technical issues are being addressed with planned plant trials of process modifications expected to resolve quality issues. Processing costs are also being closely examined and negotiations for a treatment fee increase are underway with our EAF dust clients. Treatment fee support will enable us to fully develop and evaluate zinc production options to meet market price and quality expectations and to define other zinc extraction possibilities. We remain confident that quality zinc sulphate will be produced from the EAF dust; the challenge is to alleviate the high processing costs issues.

In New Zealand we completed the 4,000 tonne lead slag immobilisation project in November and at present are in negotiation for an ongoing contract to crush and immobilise the arisings from the smelter. This has been a successful project and we expect to continue the relationship with Exide Technologies in solving this difficult waste disposal problem.

3. Net tangible assets per security

	31 December 2004	31 December 2003
Net tangible assets per share (cents)	3.11	2.52

4. Control gained or lost over entities during the period

N/A

5. Details of dividends/distributions

6.1	Date the dividend (distribution) is payable	N/A
6.2	+Record date to determine entitlements to the dividend (distribution)	N/A

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend	Date of payment
6.3	**Final dividend:** Current year	- ¢	- ¢	- ¢	
6.4	Previous year	- ¢	- ¢	- ¢	
6.5	**Interim dividend:** Current year	- ¢	- ¢	- ¢	
6.6	Previous year	- ¢	- ¢	- ¢	

6. Details of dividend reinvestment plan

The dividend reinvestment plan approved by the shareholders in 1999 is in operation.

7. Details of associates and joint venture entities

N/A

8. Accounting Standards used by foreign entities

N/A

9. Qualification of audit/review

N/A

+ See chapter 19 for defined terms.

Hydromet Corporation Limited
ABN 71 002 802 646
and its controlled entities

Half-Year Financial Report

31 December 2004

Offices and officers

Principal registered office
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
Facsimile: 02 4271 6151
www.hydromet.com.au

Company Secretary
Mr Pipvide S Tang

Offices
Hydromet Corporation Limited
Hydromet Operations (Southern) Limited
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
Facsimile: 02 4271 6151
www.Hydromet.com.au

Hydromet Operations Limited
Tasmania operation
Risdon Road
New Town TAS 7008

Telephone: 03 6278 9287
Facsimile: 03 6278 9320

Minmet Operations Pty Limited
25 School Drive
Tomago NSW 2322

Telephone: 02 4964 8266
Facsimile: 02 4966 5958

Location of share registry
Sydney
Computershare Investor Services Pty Limited
Level 3 60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000
Facsimile: 02 8234 5050
Investor enquiries: 1300 855 080

Stock Exchange
The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other information
Hydromet Corporation Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Auditor
KPMG
Level 3
63 Market Street
PO Box 866
Wollongong NSW 2500

Hydromet Corporation Limited and its controlled entities
For the half-year ended 31 December 2004

Contents

Hydromet Corporation Limited and its controlled entities

Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2004 and the review report thereon.

Directors

The directors of the company at anytime during or since the end of the half-year are:

Name	Period of directorship
Dr Lakshman D Jayaweera MSc, PhD Executive Chairman	Director since 1991- Deputy Chairman from September 2000 to January 2001 and appointed Chairman in January 2001.
Mr Gregory W Wrightson Managing Director	Director since 1998 - appointed Managing Director in September 2000.
Mr Stephen H Kwan MPhil, ATI, MBIM Non-Executive Director	Director since 1991.
Mr Pipvide S Tang MBA, CPA, FCCA Executive Director	Director from 1991 to 1996 and since 1997 – Mr Tang was a Non-Executive Director until August 2004.
Mr Timothy R Allen Non-Executive Director	Appointed Director in October 2001.
Mr Stephen Wolfe MBA Non-Executive Director	Appointed Director in February 2004.

Review of operations

Consolidated results

The consolidated profit from ordinary activities for the half year ended 31 December 2004 attributable to members of the Company was a very pleasing and welcome $860,168 (2003: Loss $1,463,000).

Minmet Operations Pty Limited – Tomago NSW

The six months under review continued to see a significant contribution to group profit from the strong price for Selenium produced at our Minmet plant. The selenium price increased from A$50,000 per tonne in June 2004 to A$90,000 per tonne in December 2004 (an increase of 80%) on the back of heavy demand in China. Worldwide industry opinion is that the current unprecedented demand for selenium which is driving the price higher will continue over the next twelve months with further price increases very likely. With two new sources secured over the period we now have agreements with three generators of residues containing selenium. This success came from a concerted effort to secure sustainable continuous feed for our Minmet selenium recovery plant in a very competitive market.

Minmet is in a good position to continue to generate strong profit for the remaining financial year and beyond. In the meantime we are evaluating other selenium product options which would enhance returns with higher premiums for more pure selenium chemical products.

Hydromet Operations (Southern) Limited – Unanderra NSW

The electric arc furnace (EAF dust) project continued at Unanderra with dust from Smorgon Steel commencing processing during July. The plant is operating a around 95% of plant capacity with over 10,634 tonnes of dust processed in the six months to December 2004. As indicated in the Chairman's address at our AGM in November we have experienced cost difficulties in extracting zinc from the EAF dust to produce zinc sulphate. Meeting market specification requirements also limited sales during our continuous production run from July to October. The project did not meet budget expectations for zinc sulphate sales and result in a loss for the six months under review. The technical issues are being addressed with planned plant trials of process modifications expected to resolve quality issues. Processing costs are also being closely examined and negotiations for a treatment fee increase are underway with our EAF dust clients. Treatment fee support will enable us to fully develop and evaluate zinc production options to meet market price and quality expectations and to define other zinc extraction possibilities. We remain confident that quality zinc sulphate will be produced from the EAF dust; the challenge is to alleviate the high processing costs issues.

Exide Project – Wellington, New Zealand

In New Zealand we completed the 4,000 tonne lead slag immobilisation project in November and at present are in negotiation for an ongoing contract to crush and immobilise the arisings from the smelter. This has been a successful project and we expect to continue the relationship with Exide Technologies in solving this difficult waste disposal problem.

Other projects and likely developments

During the six months to December Hydromet pursued a number of project opportunities including:

- The Stanton prospect sale option process is well underway with positive feedback indicating a public float by the interested party is progressing. The option agreement was extended to July 2005 to facilitate a full and detailed assessment of the projects potential and prospectus preparation.

- The battery crushing/recycling project planned for Unanderra received Local Council and EPA approval in September. We continued negotiations with scrap battery generators and prospective lead product customers and expect to finalise details of financial expectations during March.

- The arsenic immobilisation project for two mining operation in Western Australia. Final plant design and scope details are being compiled by one of our clients. We expect the project will be confirmed for go ahead in early 2005.

- The waste acid recovery research and development project has reached the point where we are preparing a project report for our client on pilot scale findings on work carried out over the July to December period and covering process efficacy, recovered acid quality and treatment costs. The next stage in project development will be subject to the review of our findings outlined in the report.

- Development work was conducted on another metal bi-product slag where Hydromet successfully applied its immobilisation technology to enable the treated waste to meet disposal criteria for landfill. Our proposal is under review with our client.

- The mercury immobilisation project in Hobart Tasmania has been delayed due to a delay at the landfill in preparation for receipt of the treated waste. We understand that the landfill will be ready to receive material by March 2005.

- We have continued to consider prospective acquisition opportunities capable of adding value to the group and having synergy with our existing business and industry. We are currently in discussion with parties where our objectives may be met.

Outlook for the rest of the financial year

Based on the current overall performance, we expect to see an improvement in profit in the second half of the financial year.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half-year ended 31 December 2004.

Rounding off

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

Greg Wrightson
Director

Dated at Wollongong this 22nd day of February 2005.

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001 to the directors of Hydromet Corporation Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2004 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporation Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Warwick Shanks
Partner

Place: Wollongong
Date: 22nd February 2005

Hydromet Corporation Limited and its controlled entities

Statement of financial performance
For the half-year ended 31 December 2004

		Consolidated	
	Note	**31 Dec 2004 $'000**	**31 Dec 2003 $'000**
Revenue from ordinary activities			
Revenue from sale of goods		3,862	855
Revenue from rendering of services		3,745	2,341
Other revenues from ordinary activities		134	97
Total revenue from ordinary activities		7,741	3,293
Expenses from ordinary activities			
Raw materials and consumables used		(890)	(431)
Direct production costs		(2,660)	(1,478)
Employee expenses		(1,762)	(1,423)
Depreciation and amortisation expenses		(695)	(758)
Borrowing costs		(170)	(106)
Consultants and professional services		(104)	(127)
Insurance expenses		(118)	(99)
Property rental and site costs		(13)	(103)
Other expenses from ordinary activities		(413)	(231)
Profit/(loss) from ordinary activities before related income tax expense		915	(1,463)
Income tax (expense)/benefit relating to ordinary activities	3	(55)	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity	5	860	(1,463)
Basic and diluted earnings/(losses) per share		0.32 cents	(0.541) cents

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

Hydromet Corporation Limited and its controlled entities

Statement of financial position
As at 31 December 2004

	Note	Consolidated 31 Dec 2004 $'000	30 June 2004 $'000
Current assets			
Cash assets		2,497	1,262
Receivables		2,910	3,315
Inventories		212	200
Total current assets		5,619	4,777
Non-current assets			
Property, plant and equipment		8,325	8,364
Exploration, evaluation and development expenditure		341	302
Intangibles		541	663
Total non-current assets		9,207	9,329
Total assets		14,826	14,106
Current liabilities			
Payables		1,549	1,698
Interest-bearing liabilities		72	73
Provisions		899	903
Total current liabilities		2,520	2,674
Non-current liabilities			
Interest-bearing liabilities		1,920	2,681
Provisions		653	678
Total non-current liabilities		2,573	3,359
Total liabilities		5,093	6,033
Net assets		9,733	8,073
Equity			
Contributed equity	4	64,000	63,200
Reserves		506	506
Accumulated losses	2	(54,773)	(55,633)
Total equity		9,733	8,073

The statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

Hydromet Corporation Limited and its controlled entities

Statement of cash flows
For the half-year ended 31 December 2004

	Consolidated	
	31 Dec 2004 $'000	**31 Dec 2003 $'000**
Cash flows from operating activities		
Cash receipts in the course of operations	8,111	3,010
Cash payments in the course of operations	(6,170)	(3,945)
Interest received	35	35
Borrowing costs paid	(162)	(106)
Net cash used in operating activities	1,814	(1,006)
Cash flows from investing activities		
Payments for property, plant and equipment	(534)	(307)
Payment for exploration, evaluation and development expenditure	(39)	-
Net cash used in investing activities	(573)	(307)
Cash flows from financing activities		
Lease payment	(45)	(33)
Repayments on borrowings	(34)	(152)
Proceeds from borrowings	73	1,083
Proceeds from convertible notes	-	1,000
Net cash provided by/(used in) financing activities	(6)	1,898
Net increase in cash held	1,235	585
Cash at the beginning of the financial period	1,262	1,261
Cash at the end of the financial period	2,497	1,846

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements
For the half-year ended 31 December 2004

1 Statement of significant accounting policies

Basis of preparation of half-year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 “Interim Financial Reporting”, the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half year financial report is to be read in conjunction with the 30 June 2004 Annual Financial Report and any public announcements by Hydromet Corporation Limited and its controlled entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those applied in the 30 June 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

2 Accumulated losses

	Consolidated	
	31 Dec 2004 $’000	**31 Dec 2003 $’000**
Accumulated losses at the beginning of the half-year	(55,633)	(54,643)
Net profit/(loss) attributable to members of the parent entity	860	(1,463)
Accumulated losses at the end of the half-year	(54,773)	(56,106)

	Consolidated	
	31 Dec 2004 $'000	**30 June 2004 $'000**

3 Taxation

Future income tax benefit not taken to account

The potential future income tax benefit in controlled entities, which are companies, arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt	2,332	2,608

The potential future income tax benefit will only be obtained if:

- the relevant company derives future assessable income of a nature and an amount sufficient to enable to the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

	Consolidated	
	31 Dec 2004 $'000	**30 June 2004 $'000**

4 Contributed equity

Issued and paid-up capital		
295,131,585 (June 2004: 270,131,585) ordinary shares, fully paid	64,000	63,000
Other contributed equity		
June 2004: 1,000,000 redeemable convertible notes – equity portion	-	200
	64,000	63,200

	Consolidated	
	31 Dec 2004 $'000	30 June 2004 $'000

4 Contributed equity (cont'd)

Ordinary shares

Balance at the beginning of year	63,000	63,000
Shares issued		
25,000,000 (30 June 2004: Nil) shares issued under the conversion of $1,000,000 convertible notes	1,000	-
Balance at end of year	64,000	63,000

Ordinary shares

The voting rights attaching to the ordinary shares are set out in Rule 11.15 of the Company's Constitution.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

25,000,000 ordinary shares were issued during the half-year under the conversion of $1,000,000 convertible notes.

Options

On 19 December 2002 the Company issued a total of 10,000,000 ordinary shares options to directors pursuant to approval of shareholders at the annual general meeting held on 29 November 2002. These options have an exercise price of 8.0 cents and expire on 31 March 2007. There are differing vesting dates in four parcels of 2,500,000 vesting annually for four years commencing on 31 December 2003.

On any allotment the shares are fully paid up to the exercise price and will rank equally with all other fully paid shares.

On 28 August 2003 6,000,000 options fully vested, with an exercise price of 15.0 cents per option expired.

On 8 March 2004, the Company provided 30 employees to receive 5,315,000 options over ordinary shares for no consideration. Each option is convertible to one ordinary share at the exercise price of $0.08 per share. The options cannot be exercised before 16 February 2005 and expire on 16 February 2007.

No options were exercised during the half-year or prior year.

4 Contributed equity (cont'd)

Convertible notes

On 19 November 2003 Hydromet Corporation Limited issued 1,000,000 convertible notes at a principle value of $1. Interest is payable quarterly in arrears at the coupon rate of 9.25% until the notes are either converted or redeemed. Interest is accumulative in the event that an interest payment is not made. On 17 December 2004 all the convertible notes were converted to 25,000,000 ordinary shares.

5 Total equity reconciliation

	Consolidated	
	31 Dec 2004 $'000	**31 Dec 2003 $'000**
Total equity at beginning of the half-year	8,073	8,863
Total changes in parent entity interest in equity recognised in statement of financial performance	860	(1,463)
Transactions with owners as owners:		
■ Contributions of equity	800	-
Total equity at end of the half-year	9,733	7,400

6 Contingent liabilities

(a) Environmental contingent liabilities

Hazardous by-products are produced during the manufacturing processes carried on by Hydromet Operations (Southern) Limited, Minmet Operations Pty Limited and Hydromet Operations Limited. The controlled entities have established strict procedures to ensure that all such hazardous by-products are disposed of safely.

Provisions have been made in the accounts for the estimated costs of disposal of these by-products on hand at 31 December 2004. These provisions are sufficient to meet the disposal requirements of current environmental legislation. However, these operations are subject to rapidly changing environmental legislation in various jurisdictions and future obligations to meet changing environmental legislation could involve the consolidated entity in costly work. The directors are not aware of any impending changes to the requirements or of any current breaches of legislation which are material in nature.

6 Contingent liabilities (cont'd)

(b) Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998 the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- HydroMet Operations Limited;
- HydroMet Operations (Southern) Limited;
- HydroMet Operations (Tasmania) Pty Limited;
- HydroMet Operation (NT) Pty Limited; and
- Enviromet Operations Pty Limited.
- Hydromet Corporation Debenture Nominees Pty Limited

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements
For the half-year ended 31 December 2004

7 Segment information

Business segment

The consolidated entity operates in one business segment which is the treatment of industrial residues using hydrometallurgical processing technology.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the processing plant where the services are provided to customers. Segment assets are based on the geographical location of the assets:

The consolidated entity's business segments operate geographically in Australia and New Zealand and involve in the treatment of industrial residues.

Geographical segments	Australia		New Zealand		Consolidated	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003	31/12/2004	31/12/2003
	$'000	$'000	$'000	$'000	$'000	$'000
External segment revenue by location of processing plant	6,689	3,247	1,052	46	7,741	3,293
	31/12/2004	30/6/2004	31/12/2004	30/6/2004	31/12/2004	30/6/2004
	$	$	$	$	$	$
Segment assets by location of assets	14,180,020	13,019,014	646,325	1,087,339	14,826,345	14,106,353
Acquisitions of non-current assets	515,591	431,756	18,336	114,377	533,927	546,133

8 Event subsequent to reporting date

International Financial Reporting Standards

For reporting period beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This half-year financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ending on 31 December 2004.

8 Event subsequent to reporting date (cont'd)

International Financial Reporting Standards (cont'd)

The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The board will establish a project to achieve transition to IFRS reporting, beginning with the half-year ended 31 December 2005 being the first financial year under IFRS. The Company's implementation project will consist of three phases as described below.

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

It is planned that this phase will be completed in most respects by 28 February 2005.

8 Event subsequent to reporting date (cont'd)

International Financial Reporting Standards (cont'd)

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- Formulating revised accounting policies and procedures for compliance with IFRS requirements.
- Identifying potential financial impacts as at the transition date and for subsequent financial years prior to adoption of IFRS.
- Developing revised IFRS disclosures.
- Designing accounting and business processes to support IFRS reporting obligations.
- Identifying and planning required changes to financial reporting and business source systems.
- Developing training programs for staff.

The Company will commence its design phase as soon as the assessment and planning phase is completed. It is expected to be completed by 30 April 2005.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the Company has not yet commenced the implementation phase.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- Revaluation increments and decrements relating to revalued property, plant and equipment and intangible assets will be recognised on an individual asset basis, not a class of assets basis.
- Goodwill and intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised.

Hydromet Corporation Limited

Directors' declaration

In the opinion of the directors of Hydromet Corporation Limited ("the Company"):

1 the financial statements and notes set out on pages 5 to 15, are in accordance with the Corporations Act 2001, including:

   a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2004 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

   b) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

3 there are reasonable grounds to believe that the Company subsidiaries identified in Note 6(b) will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418.

Dated at Wollongong this 22nd day of February 2005.

Signed in accordance with a resolution of the directors:

Gregory Wrightson
Director

KPMG

Independent review report to the members of Hydromet Corporation Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 18 to the financial statements, and the directors' declaration set out on pages 5 to 16 for the Hydromet Corporation Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2004. The Consolidated Entity comprises Hydromet Corporation Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

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

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and

   ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Warwick Shanks
Partner

Place: Wollongong

Date: 22 February 2005