Appendix 4 D

Half year report

Name of entity: **HydroMet Corporation Limited**

1. Details of the reporting period

Current period: 1 July 2005 – 31 December 2005

Previous corresponding period: 1 July 2004 – 31 December 2004

2. Results for announcement to the market

				$A'000
2.1 Revenues from ordinary activities	up	4.6%	to	7,954
2.2 Profit from ordinary activities after tax attributable to members	down	82.0%	to	253
2.3 Net Profit attributable to members	down	82.0%	to	253

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

2.5 Record date for determining entitlements to dividends	N/A

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 2005 attributable to equity holders of the Company was $252,523 (2004: $1,405,673).

Although the half year results were below those initially predicted it is somewhat satisfying to see that the companies efforts in developing sustainable long term profitability have resulted in a second December half year profit being realized.

Changing conditions in the Selenium market as outlined in our 2005 Annual Report and Chairman's address at the AGM in November 2005 resulted in a half year profit below expectations for the six months ended 31 December 2005. Although we processed feed in line with our plan, the selenium market began to decline both in demand and price from May 2005 and has continued to remain soft through to December and into January 2006. The principal cause for the fall in demand has been a significant decline in offtake by our established Chinese clients. The overheated market conditions of early 2005 reversed from May onwards with orders from China becoming scarce.

Selenium is used in glass manufacture, manganese alloy production and soil trace element supplementation. The Chinese market created extra demand in 2004 and early 2005 to support manganese alloy production however due to control measures adopted in China slowed demand from mid 2005.

Hydromet's strategy to combat these market elements is to establish selenium chemical value add options for the selenium where premiums above the metal price are accessible compared to the discounted prices which emerged during the December half year. Four product options have been identified with marketable product expected to become available from March/April 2006.

The selenium price fell from US$48 per lb in June 2005 to US$41 per lb as at 31 December 2005. Indications are that the Selenium price will fall further without any indication as to where the price will settle at this stage.

Hydromet's Unanderra operation continues to process Electric Arc Furnace (EAF) dust on behalf of Onesteel and Smorgon Steel. The six month interim treatment fee increase which enabled us to prove process improvements and processing rates ended on 31 October 2005. During the period we processed record levels of EAF dust through the plant and sold quality Zinc Sulphate into the Australian fertilizer industry. Unanderra returned to profits during the interim period.

We are currently in negotiation with Onesteel and Smorgon to finalize ongoing treatment fees and a further Research and Development programme to consider other zinc recovery options. With the current Zinc metal price at an historical high (A$2,500 per tonne) and prediction of continuing over 2006/07 opportunities for other recovery options have also improved.

Although Smorgon have announced their intention to place 22,000 tonne EAF dust on stockpile with a listed research and development company for future treatment at a zinc recovery project in Tasmania, the project is not expected to be operational before mid 2008 and commencement of the project will be subject to the success of a demonstration plant, bankable feasibility study and financing of the proposed processing plant.

The Lead Acid Battery recycling project moved closer with the placement of an order for supply of the battery breaker/separation equipment in December 2005. The equipment will be supplied by an American company with the plant constructed in Mexico by Lead Metal Technologies which has over 30 years experience in the field. Construction of a 1,200 m2 building to house the project is expected commence to in March. The battery breaker should arrive in Australia in July with commissioning in the September quarter. Lead metal is also enjoying strong pricing (A$1,350 per tonne) and demand with a number of secondary smelters keen to purchase Hydromet's lead products.

Other developments:

- Exide New Zealand. Hydromet continues to provide processing of lead slag from Exide's lead smelter in Wellington. Negotiations have commenced to licence Hydromet's lead slag immobilization technology to Exide to enable processing to pass to Exide. Hydromet will provide continuing technical support over a two year agreement. The agreement is subject to Exide's US head office approval and should be finalized by April 2006.

- Two specific arsenic immobilization applications are currently under review by the New South Wales Department of Environment and Conservation to enable Hydromet to treat up to 600 tonnes of waste per annum at our Unanderra plant on behalf of two Western Australian clients.

- Further investigation into other likely low grade selenium/precious metal bearing residues will be undertaken during the June half year to identify low cost feed to support our Selenium chemical product business.

- With the copper price at AU$6,000 per tonne we are evaluating recovery and chemical production from a range of copper bearing residues currently processed at our Newcastle facility.

3. Net tangible assets per security

	31 December 2005	**31 December 2004**
Net tangible assets per share (cents)	3.16	2.51

4. Control gained or lost over entities during the period

N/A

5. Details of dividends/distributions

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

+ See chapter 19 for defined terms.

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend	Date of payment
5.3	**Final dividend:** Current year	- ¢	- ¢	- ¢	
5.4	Previous year	- ¢	- ¢	- ¢	
5.5	**Interim dividend:** Current year	- ¢	- ¢	- ¢	
5.6	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

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

2005/2006

Condensed Consolidated Interim Financial Report

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 six months ended 31 December 2005

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 2005 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
Non-executive	
Mr Timothy R Allen (Deputy Chairperson)	Director since 2001 and appointed Deputy Chairperson in February 2006.
Mr Stephen H Kwan	Director since 1991.
Mr Stephen Wolfe	Appointed February 2004.
Executive	
Dr Lakshman D Jayaweera (Chairperson)	Director since 1991. Appointed Deputy Chairperson from September 2000 to January 2001 and Chairperson in January 2001.
Mr Gregory W Wrightson	Director since 1998 and appointed Managing Director in September 2000.
Mr Pipvide S Tang	Director from 1991 to 1996 and since 1997. Appointed Finance Director in September 2004.

Review of operations

Consolidated results

The consolidated profit from ordinary activities for the half year ended 31 December 2005 attributable to equity holders of the Company was $252,523 (2004: $1,405,673).

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- Two specific arsenic immobilization applications are currently under review by the New South Wales Department of Environment and Conservation to enable Hydromet to treat up to 600 tonnes of waste per annum at our Unanderra plant on behalf of two Western Australian clients.

Directors' report (continued)

- Further investigation into other likely low grade selenium/precious metal bearing residues will be undertaken during the June half year to identify low cost feed to support our Selenium chemical product business.

- With the copper price at A$6,000 per tonne we are evaluating recovery and chemical production from a range of copper bearing residues currently processed at our Newcastle facility.

- The Cobalt bearing Stanton Prospect mining lease located in the Northern Territory is under discussion with potential joint venture partners to develop the resource further with the prospect of an offtake agreement for Hydromet to value add the cobalt concentrate to cobalt chemicals.

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

The lead auditor's independence declaration is set out on page 34 and forms part of the directors' report for the half-year ended 31 December 2005.

Rounding off

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, as varied by Class Order 05/0641 dated 26 July 2005 and, in accordance with those Class Orders, 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 8 March 2006 at Wollongong

Hydromet Corporation Limited and its controlled entities

Condensed consolidated interim income statement
For the six months ended 31 December 2005

In thousands of AUD	**Note**	**31 Dec 2005**	**31 Dec 2004**
Revenue from sales of goods		3,026	3,862
Revenue from rendering of services		4,928	3,745
Total revenue		7,954	7,607
Other income		183	134
Raw materials and consumables used		(1,782)	(890)
Direct production costs		(3,018)	(2,660)
Employee expenses		(2,124)	(1,762)
Depreciation and amortisation expenses		(232)	(138)
Financial expenses		(99)	(181)
Consultants and professional services		(149)	(104)
Insurance expenses		(116)	(118)
Property rental and site costs		(14)	(13)
Other expenses		(350)	(414)
Profit before income tax		253	1,461
Income tax expense	3	-	(55)
Profit for the period		253	1,406

Condensed consolidated interim statement of recognised income and expenses for the six months ended 31 December 2005

Total recognised income and expense for the period attributable to equity holders of the parent		253	1,406
Basic and diluted earnings per share attributable to ordinary equity holders	5	0.086 (cents)	0.517 (cents)

The income statement and statement of recognised income and expenses is to be read in conjunction with the notes to the interim financial statements set out on pages 7 to 30.

Hydromet Corporation Limited and its controlled entities

Condensed consolidated interim balance sheet
As at 31 December 2005

In thousands of AUD	Note	31 Dec 2005	30 June 2005
Current assets			
Cash and cash equivalents		1,301	3,442
Trade and other receivables		3,904	2,809
Inventories		1,954	2,621
Total current assets		7,159	8,872
Non-current assets			
Property, plant and equipment		7,395	7,010
Exploration, evaluation and development assets		372	372
Intangible assets		664	664
Total non-current assets		8,431	8,046
Total assets		15,590	16,918
Current liabilities			
Trade and other payables		2,148	4,096
Interest-bearing loans and borrowings		1,155	754
Employee benefits		416	415
Provisions		800	502
Total current liabilities		4,519	5,767
Non-current liabilities			
Interest-bearing loans and borrowings		164	519
Employee benefits		121	99
Provisions		810	810
Total non-current liabilities		1,095	1,428
Total liabilities		5,614	7,195
Net assets		9,976	9,723
Equity			
Issued capital	4	64,000	64,000
Accumulated losses	4	(54,024)	(54,277)
Total equity	4	9,976	9,723

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 7 to 30.

Hydromet Corporation Limited and its controlled entities

Condensed consolidated interim statement of cash flows
For the six months ended 31 December 2005

In thousands of AUD	**31 Dec 2005**	**31 Dec 2004**
Cash flows from operating activities		
Cash receipts from customers	6,984	8,111
Cash paid to suppliers and employees	8,508	(6,170)
Cash generated from operations	(1,524)	1,941
Interest received	58	35
Interest paid	(99)	(162)
Net cash from operating activities	(1,565)	1,814
Cash flows from investing activities		
Acquisition of property, plant and equipment	(652)	(534)
Proceeds from sale of property, plant and equipment	31	-
Exploration, evaluation and development expenditure	-	(39)
Net cash used in investing activities	(621)	(573)
Cash flows from financing activities		
Payment of finance lease liabilities	(35)	(45)
Repayments of borrowings	-	(34)
Proceeds from borrowings	80	73
Net cash used in financing activities	45	(6)
Net increase in cash and cash equivalents	(2,141)	1,235
Cash and cash equivalents at 1 July	3,442	1,262
Cash and cash equivalents at 31 December	1,301	2,497

The statement of cash flows is to be read in conjunction with the notes to the interim financial statements set out on pages 7 to 30.

Hydromet Corporation Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

1 Significant accounting policies

Hydromet Corporation Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates.

The condensed consolidated interim financial report was authorised for issue by the directors on 7 March 2006.

(a) Statement of compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, including AASB 1048 'Interpretation and Application of Standards' (September 2005) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB and for the purposes of this report are called Australian equivalents to IFRS ("AIFRS") to distinguish from previous Australian GAAP.

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards.* The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must also be read in conjunction with any public announcements made by Hydromet Corporation Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 11. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRSs.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical costs basis, except that land assets are stated at their deemed cost.

1 Significant accounting policies (continued)

(b) Basis of preparation (continued)

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, as varied by Class Order 05/0641 dated 26 July 2005 and, in accordance with those Class Orders, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year ended 30 June 2006. The entity has elected to early adopt the following revised accounting standards:

- UIG 4 – Determining whether an Arrangement contains a lease.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purpose of the transition to Australian Accounting Standards – AIFRSs, as required by AASB 1. The impact of the transition from previous GAAP to AIFRSs is explained in note 11. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

1 Significant accounting policies (continued)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial report from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements.

(d) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in term of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy j). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards – AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

1 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases.

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expenses as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

• buildings and freehold improvements	40 years
• plant and equipment	4-8 years
• office equipment and fixtures	4-8 years
• motor vehicles	4-7 years

The residual value, if not insignificant, is reassessed annually. Depreciation and amortisation rates and methods and the useful life of assets are reviewed annually for appropriateness.

(f) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development.

1 Significant accounting policies (continued)

(f) Intangible assets (continued)

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy j).

(ii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy j).

Expenditure on internally generated goodwill and brands is recognised in profit and loss as an expense as incurred.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The Hydroproc process, which has an indefinite useful life, is systematically tested for impairment at each annual balance sheet date.

(g) Trade and other receivables

Trade and other receivable are stated at their amortised cost less impairment losses (see accounting policy j).

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1 Significant accounting policies (continued)

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy h) and deferred tax assets (see accounting policy q), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy j(i)).

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of receivables with similar risk profiles and a collective assessment of impairment is performed. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1 Significant accounting policies (continued)

(j) Impairment (continued)

(ii) Reversals of impairment

An impairment loss in respect of receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there is an indication that the loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Interest-bearing borrowings

Interest-bearing borrowings, including debentures, are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

The interest expense recognised in the income statement is calculated using the effective interest rate method.

(l) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

1 Significant accounting policies (continued)

(l) Employee benefits (continued)

(iii) Share-based payment transactions

The share option programme allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes Option Pricing model or the Intrinsic Value Measurement method, taking into account the terms and conditions upon which the options were granted. Where the share options have a fair value greater than nil, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(iv) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as cars, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(m) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risk specific to the liability.

Site restoration

In accordance with the consolidated entity's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the value of the restoration provision at the end of the reporting period.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

1 Significant accounting policies (continued)

(o) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the processing of industrial residues is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed and based on conditions specified in the contract and/or the licence issued by the Department of Environment and Conservation. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(ii) Government grants

A research and development grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the consolidated entity will comply with the conditions attaching to it. Grants that compensate the consolidated entity for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the consolidated entity for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

(p) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest in the remaining balance of the liability.

(iii) Net financing costs

Financing costs comprising interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

1 Significant accounting policies (continued)

(q) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Hydromet Corporation Limited.

(r) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

1 Significant accounting policies (continued)

(s) Goods and service tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(t) Exploration, evaluation and development expenditure

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

Exploration, evaluation and development costs are stated at cost less impairment losses (see accounting policy j).

2 Segment reporting

Business segment

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

Geographical segments

The consolidated entity operates processing plants geographically in Australia and New Zealand. The Company considers the New Zealand operation is engaged in providing industrial residue treatment services under similar economic and political conditions as those experienced by its Australian operations, and without currency or special risk significantly different to those experienced in Australia.

3 Income taxes

Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied on the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset as the recovery of tax losses is not probable, and the recovery of timing differences is not probable.

4 Capital and reserves

Reconciliation of movement in capital and reserves
Attributable to equity holders of the parent

For the six months ended 31 December 2004

Consolidated *In thousands of AUD*	**Share capital**	**Accumulated losses**	**Total equity**
Balance at 1 July 2004	63,506	(55,633)	8,073
Total recognised income and expense	-	860	860
Contributions of equity	1,000	-	800
Balance at 31 December 2004	64,506	(54,773)	9,733

For the six months ended 31 December 2005

Consolidated *In thousands of AUD*	**Share capital**	**Accumulated losses**	**Total equity**
Balance at 1 July 2005	64,000	(54,277)	9,723
Total recognised income and expense	-	253	253
Balance at 31 December 2005	64,000	(54,024)	9,976

4 Capital and reserves (continued)

Share capital

The consolidated entity recorded the following amounts within shareholders' equity as a result of the issuance of ordinary shares.

For the six months ended 31 December 2005

	Share Capital	
In thousands of AUD	**31 Dec 2005**	**30 June 2005**
Issuance of ordinary shares	-	1,000

	Ordinary Shares	
In thousands of shares	**2005**	**2004**
On issue at 1 January	295,132	270,132
Issued for cash	-	25,000
On issue at 31 December – fully paid	295,132	295,132

5 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2005 was based on the profit attributable to ordinary shareholders of $252,523 (six months ended 31 December 2004: $1,405,673) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 295,131,585 (six months ended 31 December 2004: 272,169,628), calculated as follows:

Profit attributable to ordinary shareholders
For the six months ended 31 December 2005
In thousands of AUD

	2005	**2004**
Profit attributable to ordinary shareholders	253	1,406

Weighted average number of ordinary shares
For the six months ended 31 December 2005
In thousands of shares

Issued ordinary shares at 1 July	295,132	248,110
Effect of shares issued in December 2004	-	24,060
Weighted average number of ordinary shares at 31 December	295,132	272,170

6 Interest-bearing loans and borrowings

This note provides information about debt and equity securities issued and repaid during the periods presented.

Redeemable convertible notes
For the six months ended 31 December 2005
In thousand of AUD

	2005	**2004**
Carrying amount of liabilities at 1 July	-	800
Conversion of convertible notes to ordinary shares	-	800
Carrying amount of liability at 31 December	-	-

The $800,000 of redeemable convertible notes, together with $200,000 redeemable convertible notes classified as contributed equity, were converted on 17 December 2004 for the issue of 25,000,000 ordinary shares.

Debentures
For the six months ended 31 December 2005
In thousand of AUD

	2005	**2004**
Carrying amount of liabilities at 1 July	1,096	1,800
Repayment of debentures	-	-
Carrying amount of liability at 31 December	1,096	1,800

The debentures were issued in 2003. The face value of each debenture is $1. The debentures have a term of three years from the date of issue, and attract an interest rate of 12% per annum, to be paid in arrears, semi-annually on 31 March and 30 September, respectively. The debenture holders have a fixed and floating charge over the assets of the company and its controlled entities. $700,000 debentures were repaid during May and June 2005 under early repayment option offered to all debenture holders.

7 Employee benefits

Superannuation commitments

The consolidated entity provides employee benefits under several defined contribution plans for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees.

7 Employee benefits (continued)

The consolidated entity has no interest in these superannuation plans (other than as a contributor) and is not liable for the performance of the plans, nor the obligations of the plans.

Expense recognised in the consolidated interim income statement

For the six months ended 31 December 2005, the consolidated entity recognised expense of $188,437 (six months ended 31 December 2004: $172,605).

Share-based payments

The consolidated entity has an Employee Share Option Plan (ESOP) approved by the shareholders at the company's annual general meeting on 29 September 2000.

The ESOP is available to all eligible employees to receive options over ordinary shares for no consideration. Each option is convertible to one ordinary share. The exercise price of the option is determined in accordance with the rules of the plan. The entitlement of each employee was determined by the Board.

To be eligible, employees must be employed by any entity in the consolidated entity at the time of grant. Share options are issued in the name of the participating employee.

On 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 8 cents per share. The options could not be exercised before 16 February 2005 and expire on 16 February 2007.

On 19 December 2002 the company issued a total of 10,000,000 ordinary share 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 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.

Share options issued to directors are recorded in contributed equity at fair value evenly over the period from grant date to vesting date. The options were independently valued at a fair value of $Nil at the date of grant using the Black-Scholes Option Pricing model.

Share options issued to employees pursuant to the ESOP are recorded in contributed equity at fair value and allocated to each reporting period proportionately over the period from grant date to vesting date. The options have been valued at a fair value of $Nil at the date of grant using the intrinsic value measurement method.

No options were granted or exercised during the six months ended 31 December 2005.

8 Contingencies

In October 2005, a party brought a Supreme Court action against a wholly-owned subsidiary. The subsidiary was named the Twelfth Third Party along with another twelve defendants. The event happened in 1987 and involved share trading transactions between parties. The subsidiary was alleged, along with others, to have knowingly participated in and assisted in breaches of fiduciary duty by the directors of its then holding company, and is allegedly liable to pay unspecified equitable compensation, and is allegedly jointly and severally liable to pay damages to that holding company.

Hydromet Corporation Limited acquired the subsidiary in August 1995 and was not involved in or had knowledge of the subject transactions. The company is investigating and trying to obtain information about the event in order to prepare the defence. No provision was recorded in this early stage of investigation.

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 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 been 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) Limited;
- Hydromet Operations (NT) Pty Limited;
- Enviromet Operations Pty Limited; and
- Hydromet Corporation Debenture Nominees Pty Limited

9 Related parties

Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits and post-employment benefits. Key management personnel received total compensation of $301,280 for the six months ended 31 December 2005 (twelve months ended 30 June 2005: $549,561). Total remuneration is included in “employee expenses”.

Other related party transactions

During the six months ended 31 December 2005, the consolidated entity purchased goods from a party related to a director to the amount of $42,303 (twelve months ended 30 June 2005: $111,770).

In the twelve months ended 30 June 2005, related parties to three non-executive directors provided secretarial and consulting services to the consolidated entity to the amount of $73,313. No services were provided by these parties during the six months ended 31 December 2005.

10 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2005, the consolidated entity acquired assets with a cost of $651,911 (six months ended 31 December 2004: $533,927). Assets with a net book value of $34,291 were disposed of during the six months ended 31 December 2005 (six months ended 31 December 2004: nil).

Capital expenditure commitments

In thousands of AUD	**31 Dec 2005**	**30 June 2005**
Plant and equipment		
Contracted but not provided for and payable:		
Within one year	872	-
Total	872	-

11 Explanation of transition to AIFRS

As stated in note 1(a), these are the consolidated entity's first consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRSs.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous Australian GAAP).

An explanation of how the transition from previous Australian GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany the tables.

11 Explanation of transition to AIFRS (continued)

Reconciliation of equity

In thousands of AUD	Note	Previous GAAP	Effect of transition to AIFRSs 1 July 2004	AIFRSs	Previous GAAP	Effect of transition to AIFRSs 31 December 2004	AIFRSs	Previous GAAP	Effect of transition to AIFRSs 30 June 2005	AIFRSs
Assets										
Cash and cash equivalents		1,262	-	1,262	2,497	-	2,497	3,442	-	3,442
Trade and other receivables		3,315	-	3,315	2,910	-	2,910	2,809	-	2,809
Inventories		200	-	200	212	-	212	2,621	-	2,621
Total current assets		4,777	-	4,777	5,619	-	5,619	8,872	-	8,872
Exploration, evaluation and development		301		301	340	-	340	372	-	372
Property, plant & equipment	b, f	8,364	(1,979)	6,385	8,325	(1,545)	6,780	8,183	(1,173)	7,010
Intangible assets	e	664	-	664	542	122	664	419	245	664
Total non-current assets		9,329	(1,979)	7,350	9,207	(1,423)	7,784	8,974	(928)	8,046
Total assets		14,106	(1,979)	12,127	14,826	(1,423)	13,403	17,846	(928)	16,918

Hydromet Corporation Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

11 Explanation of transition to AIFRS (continued)

Reconciliation of equity

In thousands of AUD	Note	Previous GAAP	Effect of transition to AIFRSs 1 July 2004	AIFRSs	Previous GAAP	Effect of transition to AIFRSs 31 December 2004	AIFRSs	Previous GAAP	Effect of transition to AIFRSs 30 June 2005	AIFRSs
Liabilities										
Trade and other payables		1,698	-	1,698	1,549	-	1,549	4,096	-	4,096
Interest bearing loans and borrowings		73	-	73	72	-	72	754	-	754
Employee benefits		368	-	368	397	-	397	415	-	415
Provisions		535	-	535	502	-	502	502	-	502
Total current liabilities		2,674	-	2,674	2,520	-	2,520	5,767	-	5,767
Interest bearing loans and borrowings	h	2,681	(29)	2,652	1,920	(18)	1,902	526	(7)	519
Employee benefits		118	-	118	93	-	93	99	-	99
Provisions	g	560	250	810	560	250	810	560	250	810
Total non-current liabilities		3,359	221	3,580	2,573	232	2,805	1,185	243	1,428
Total liabilities		6,033	221	6,254	5,093	232	5,325	6,952	243	7,195
Net assets		8,073	(2,200)	5,873	9,733	(1,655)	8,078	10,894	(1,171)	9,723
Equity										
Issued capital		63,200	-	63,200	64,000	-	64,000	64,000	-	64,000
Reserves	c	506	(506)	-	506	(506)	-	506	(506)	-
Retained earnings	b,c,e, f,g,h	(55,633)	(1,694)	(57,327)	(54,773)	(1,149)	(55,922)	(53,612)	(665)	(54,277)
Total equity attributable to equity holders of the parent		8,073	(2,200)	5,873	9,733	(1,655)	8,078	10,894	(1,171)	9,723

11 Explanation of transition to AIFRS (continued)

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note (i).

(a) As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1, as discussed below.

(b) Consistent with AIFRSs, the consolidated entity has elected to measure land at its fair value at the date of transition to AIFRSs and use that fair value as its deemed cost. Under previous GAAP, land was measured at cost.

The effect in the consolidated entity is to increase *Property, plant and equipment* at 1 July 2004, 31 December 2004 and 30 June 2005 by $991,580, resulting in land having a deemed cost value of $2,786,160. There is no effect on the income statement for the six months ended 31 December 2004 or for the year ended 30 June 2005.

(c) Under AIFRSs, any asset revaluation reserve balance relating to land and buildings will be derecognised at transition date and adjusted against retained earnings. For the consolidated entity, at 1 July 2004, 31 December 2004 and 30 June 2005, an amount of $355,688 was reclassified from the asset revaluation reserve to retained earnings, and an amount of $150,000 was also classified from a general reserve to retained earnings.

The amount represents the balance on the revaluation reserve at 1 July 2004 in respect of assets that are measured on the basis of deemed cost under AIFRS. As this adjustment has not changed the carrying value of property, plant and equipment, there was no impact on depreciation for the year ended 30 June 2005.

(d) Under AIFRSs, the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as other income. For the consolidated entity an amount of $2,827 was reclassified from other income to other expenses for the year ended 30 June 2005.

(e) From 1 July 2004, the Hydroproc Process, an acquired intangible asset with a cost value of $2,217,323, is no longer amortised under AIFRS, but is tested annually for impairment. As a result of this change, the amortisation charge of the Hydroproc Process was written back by $122,322 for the six months ending 31 December 2004 and by $244,644 for the year ended 30 June 2005.

The Hydroproc Process intangible asset has been assessed as having an indefinite useful life on the basis that its primary use is in the treatment of industrial waste residues, which is to be undertaken by the consolidated entity for an indefinite period.

11 Explanation of transition to AIFRS (continued)

(f) Under previous GAAP, the recoverable amount of plant and equipment was assessed on an undiscounted basis, using higher long-term growth assumptions than are permissible under AIFRSs. Under AIFRS, an impairment loss of $2,970,929 existed at the date of transition.

The recoverable amount of impaired plant and equipment has been assessed as nil based upon value-in-use and using a pre-tax discount rate reflecting current market assessments. The impairment loss has been recognised on the basis that the cash generating units' ability to generate net cash inflows was uncertain at transition date.

The effect in the consolidated entity is to decrease *Retained earnings* and *Property, plant and equipment* by $2,970,929 at 1 July 2004, by $2,536,600 at 31 December 2004 and by $2,163,875 at 30 June 2005; and to reduce the *Depreciation charge* by $434,329 for the six months ended 31 December 2004 and by $807,054 for the year ended 30 June 2005.

(g) An obligation exists to restore certain customers' sites for the effect of the consolidated entity's operations. Under previous GAAP, the cost of rectification was recognised as an expense when incurred. In accordance with AIFRSs, a provision for refurbishment costs of $250,000 was recognised on transition date in the consolidated entity at the time of the obligating event.

As the timing of when the expenditure will be required to be incurred is uncertain, and could be within 12 months, the provision has not been discounted. The effect on the consolidated entity is to decrease the *Opening balance retained earnings* account by $250,000 at 1 July 2004, 31 December 2004 and 30 June 2005.

(h) Under IFRSs, debt establishment costs expensed were recalculated based on an effective interest rate method and recognised as part of the liability. The effect is a decrease in interest bearing liabilities of $29,162 and a decrease in retained losses of $29,612 at 1 July 2004; an increase in interest bearing liabilities of $11,146 and an increase in interest expenses of $11,146 at 31 December 2004 and an increase in interest bearing liabilities of $22,291 and an increase in interest expenses of $22,291 at 30 June 2005.

(i) The above changes increased (decreased) the deferred tax asset as follows

In thousands of AUD	**Note**	**1 July 2004**	**31 Dec 2004**	**30 June 2005**
Property, plant and equipment	f	890	736	624
Refurbishment provision	g	75	75	75
Inventory	d	-	-	(3)
Land valuation	b	(297)	(297	(297)
Net deferred tax asset not recognised		668	514	399

11 Explanation of transition to AIFRS (continued)

(i) Under previous GAAP, the consolidated entity did not recognise a deferred tax asset for the carry forward of unused tax losses. In accordance with AIFRSs, such losses are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The potential future income tax benefit arising from tax losses and temporary differences has not been recognised as an asset on the basis that the recovery of tax losses is not probable.

(j) The effect of the above adjustments on retained earnings is as follows:

In thousands of AUD	**Note**	**1 July 2004**	**31 Dec 2004**	**30 June 2005**
Property, plant and equipment	f	2,971	2,537	2,164
Refurbishment provision	g	250	250	250
Debt establishment cost	h	(29)	(18)	(7)
Reclassification of reserve	c	(506)	(506)	(506)
Revaluation of land	b	(992)	(992)	(992)
Amortisation of Hydroproc Process	e	-	(122)	(244)
Total adjustment to equity attributable to equity holders of the parent		1,694	1,149	665

(k) Explanation of material adjustments to the cash flow statement for 2005

There were no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

Hydromet Corporation Limited and its controlled entities

Notes to the condensed consolidated interim financial statements

11 Explanation of transition to AIFRS (continued)

Reconciliation of profit for 2005

In thousands of AUD	Note	Previous GAAP	Effect of transition to AIFRSs	AIFRS	Previous GAAP	Effect of transition to AIFRSs	AIFRS
		For the six months ended 31 Dec 2004			For the year ended 30 Jun 2005		
Revenue from sales of goods		3,862		3,862	8,951		8,951
Revenue from rendering of services		3,745		3,745	7,274		7,274
Total revenue		7,607		7,607	16,225		16,225
Other income	d	134		134	282	(3)	279
Raw materials and consumables used		(890)		(890)	(2,897)		(2,897)
Direct production costs		(2,660)		(2,660)	(5,154)		(5,154)
Employee expenses		(1,762)		(1,762)	(3,520)		(3,520)
Depreciation and amortisation expenses	e,f	(695)	557	(138)	(1,433)	1,052	(381)
Financial expenses	h	(170)	(11)	(181)	(269)	(22)	(291)
Consultants and professional services		(104)		(104)	(348)		(348)
Insurance expenses		(118)		(118)	(235)		(235)
Property rental and site costs		(13)		(13)	(65)		(65)
Other expenses	d	(414)		(414)	(513)	3	(510)
Profit before income tax		915		1,461	2,073		3,103
Income tax expense		(55)		(55)	(52)		(52)
Profit for the period Attributable to Equity holders of the parent		860		1,406	2,021		3,051
Basic and diluted earnings per share from continuing operations (AUD)		0.316 (cents)		0.517 (cents)	0.713 (cents)		1.076 (cents)

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 4 to 30, 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 2005 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 134 *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 and the subsidiaries identified in Note 8 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 8th day of March 2006.

Signed in accordance with a resolution of the directors:

Gregory Wrightson
Director

Independent review report to the members of Hydromet Corporation Limited

Scope

We have reviewed the financial report of Hydromet Corporation Limited ("the Company") for the half-year ended 31 December 2005, consisting of the condensed consolidated interim statement of income, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes 7 to 30 and the directors' declaration set out on page 31. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards.*

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These 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.

Statement of continued independence

The lead auditors' independence declaration provided to the directors of Hydromet Corporation Limited dated 7 March 2006 and included on page 34, would be unchanged if provided to the directors as at the date of this report.

Statement

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 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 2005 and of its performance for the half-year ended on that date; and

   ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

Independent review report to the members of Hydromet Corporation Limited (cont'd)

Statement (cont'd)

(b) other mandatory financial reporting requirements in Australia.

KPMG

Warwick Shanks
Partner

Signed in Wollongong this 8th day of March 2006.

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, in relation to the review for the financial period ended 31 December 2005 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

Signed in Wollongong this 7th day of March 2006.