

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

Half-Year Financial Report

31 December 2003

Offices and officers

Principal registered office

Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822

Facsimile: 02 4271 6151

www.hydropmet.com.au

Company Secretary

Mr Pipvide S Tang

Offices

Hydropmet Corporation Limited

Hydropmet Operations (Southern) Limited

Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822

Facsimile: 02 4271 6151

www.Hydropmet.com.au

Hydropmet Operations (Tasmania) Pty Limited

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 8216 5500

Stock Exchange

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

Other information

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

Auditor

KPMG
PO Box 866
Wollongong NSW 2500

**Hydromet Corporation Limited and its controlled entities
For the half-year ended 31 December 2003**

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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 2003 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 Chairman Executive Director	Director since 1991- Deputy Chairman from September 2000 to January 2001 and appointed Chairman in January 2001.
Mr Gregory W Wrightson Executive Director and 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 Non-Executive Director	Director from 1991 to 1996 and since 1997 – Mr Tang was an Executive Director until August 2000.
Mr Timothy R Allen Non-Executive Director	Appointed Director in October 2001.
Mr Stephen Wolfe Non-Executive Director	Appointed Director in February 2004.

Review of operations

Consolidated results

The consolidated loss from ordinary activities for the half year ended 31 December 2003 attributable to members of the Company was \$1,463,000 (2002 Loss \$1,929,000).

The loss to December was primarily the result of the high cost of bringing the Electric Arc Furnace (EAF) dust/zinc sulphate production processes online and overcoming EAF dust variability issues which were affecting final zinc sulphate produced. These issues have now been addressed through process improvements, increased treatment fees and the sourcing of a further two EAF dust residue streams. Coupled with this high cost factor has been the A\$ influence on competitive imports of zinc sulphate from China.

Hydromet Corporation Limited and its controlled entities

Directors' report (cont'd)

We have also secured two other EAF dust sources which will improve the overall quality of dust received and therefore our zinc sulphate. Hydromet is now regarded as the only commercial processor of EAF dust in Australia.

Preliminary results for January and February 2004 reveal a return to profits due in part to improvements to the EAF dust project and new long term contracts principally with Exide and Falconbridge. We recently signed a three year contract with Falconbridge Norway for the ongoing processing of selenium enriched smelter residue. All the projects in which Hydromet is currently engaged with the exception of a short term profitable contract with Port Kembla Copper are of a long term nature and the Board confidently expects growing profitability for the foreseeable future.

Whilst our performance over the past eighteen months has been extremely disappointing compared to the business plan we have continued to identify opportunities of genuine value to the group. We have been able to improve the position over the six months to December 2003.

The Directors expect a material improvement as we introduce new projects outlined below and continue to develop others in our business plan. We have established a strong team of professionals who are becoming increasingly experienced in the affective treatment and recycling of difficult industrial wastes and who have been able to apply the considerable knowledge base gained to solve new challenges as they emerge in the Hydromet business.

The challenge and focus now is to successfully implement all projects under development and to take Hydromet to the next important stage of long term sustainable business development. With prospective revenue of up to \$20 Million per annum on the above projects we remain focused on bringing all these projects to fruition.

With projects completed and prospective activities involving every state in Australia, New Zealand, Norway and the United States, Hydromet's growing reputation and technology recognition both in here and overseas continues to validate the our unique solutions to a range of difficult hazardous waste disposal problems. We see opportunities for the application of our processes in overseas industrial waste disposal problems in particular those associated with the booming development and changing environmental management conditions emerging in China.

Projects and likely developments

During the six months to December 2003 Hydromet pursued a number of project opportunities including :

- Installation and commissioning of our immobilisation plant in Wellington New Zealand to treat 4,000 tonnes of lead slag at Exide Technologies smelter. Processing commenced in September. Commissioning delays were experienced with slag grade and work area limitations. Operating conditions were modified in January 2004 and we are now heading towards our targeted throughput rates. Exide, the environmental authorities and landfill operator in Wellington are very satisfied with the final immobilised product generated from our process and we expect to commence discussions to take over the lead slag management function at the smelter in the next month.

Hydromet Corporation Limited and its controlled entities

Directors' report (cont'd)

- Securing EAF dust feed from the largest generator in Australia to provide substantial zinc potential in our objective to again establish Hydromet as only zinc sulphate manufacturer in Australia. In so doing we will become the lowest cost producer which will facilitate our ability to compete against imports and a strong Australian Dollar. Our objective is to finalise an agreement with the client to enable this project to follow on after completion of the PKC project in May 2004.
- Obtaining NSW Environment Protection Authority approval to import up to 12,000 tonnes per annum of EAF dust from Victoria to Unanderra for zinc recycling. Approval has since been received in January 2004. This approval is a major breakthrough given the considerable obstacles to inter state movement of wastes and has been made possible by Hydromet's reputation in handling difficult wastes and added credibility achieved through our success in obtaining over 20 process approvals to treat hazardous wastes from NSW EPA over the past 3 years.
- Seeking to improve treatment fees particularly in the area of EAF dust processing. Hydromet's processes are expensive to operate and treatment fees are the mechanism used to cover ultimate disposal of residues from recycled feeds and cushion the affect of feed and process variability often experienced in the full scale plant operation. Improved fees are often negotiated on the basis of shared benefits where process improvements result in reduced costs or a more valuable recycled end product.
- Finalising agreement to immobilise up to 3,000 tonnes of mercury waste for Pasmaico in Hobart. The project has commenced in January 2004.
- Completion of a 220 tonne immobilisation contract for Australian Magnesium in Queensland. The waste was the result of a development project which ultimately concluded when Australian Magnesium ceased operations in mid 2003. This project came from referral and our growing reputation.
- Conducted arsenic trioxide immobilisation trials on behalf of two Western Australian gold miners in November 2003. The trials completed were very successful and negotiations are continuing with both parties to commence this work in WA over the next twelve months. The projects involve treating existing stockpiled waste along with ongoing daily arisings.
- Treated 65 tonnes of selenium/precious metal residue on behalf of Kennecott Copper (Utah) at our Minmet plant in Newcastle. This project was born out of our success with the Falconbridge project and between the two generators we hope to source up to 200 plus tonnes of feed for Minmet per annum. In addition to recently signing a three year contract with Falconbridge Norway, we are in final negotiations with Kennecott to secure a three year agreement for this feed.
- In line with previously unseen price escalation for selenium we have received orders for our product for the June 2004 half year at pricing double that realised in the December 2003 half year. This is a substantial benefit for Hydromet and will yield a minimum \$600,000 to \$700,000 additional over the next six months with the possibility of further improvement in the latter half of 2004. The increased price is being fuelled by China's insatiable demand for metals in its present major growth phase.

Hydromet Corporation Limited and its controlled entities

Directors' report (cont'd)

- Submitted an Environmental Impact Statement for the used lead acid battery recycling project and a Statement of Environmental Effects for the waste acid recycling project to Wollongong City Council for approval consideration. These projects are earmarked for our Unanderra site. Both applications remain in the approval process at this time and we expect a decision by end February.
- Installed pilot plant to carry out the next stage of development work on our waste acid recycling process to treat up to 7,000 tonnes of waste acid from a NSW oil refinery. This project is supported by an AusIndustry grant. We expect to commence on plant trials in February. Once the Hydromet process is proven we can expect substantial interest from a number of oil refineries both in Australia and overseas who will seriously consider our alternative to the present less environmentally friendly recycling process adopted around the world. This project has significant marketable potential and we expect to complete our pilot work within the next six months.
- Submitted a proposal to treat up to 2,000 of cadmium/cobalt waste on behalf of Pasminco in Hobart. This cobalt recycling process developed by Hydromet in 1996/97 extracts the cobalt in an intermediate form suitable for on processing by refineries in Europe and China. Cobalt has enjoyed a 400% value improvement also over the past six months and recycling of the Pasminco waste is now an attractive proposition. We expect a formal reply to our proposal in February.
- With the increasing world demand for cobalt metal we have commenced evaluation of options for the development of our Stanton Prospect mine lease in the Northern Territory. Recent metal price increases have valued the indicated resource at approximately \$120 Million compared to the original \$83 Million. The cobalt price has lifted due to increased demand and the reduced world output resulting from African producers being unreliable and inconsistent. We anticipate finalising a strategy for the future of Stanton within the June half year period.
- Via the issue of \$1 Million in Convertible Notes to Tennant Pty Limited backing Tennant's confidence and support of Hydromet we plan to explore and exploit joint opportunities from Tennant's trading and chemical manufacturing strengths and our own waste recycling disposal skills to the benefit of both parties over the coming years. As previously advised we look forward to Tennant's Managing Director Mr Stephen Wolfe joining the Hydromet Board in January and are confident the strategy will be invaluable to the Company.

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 director's report have been rounded off to the nearest thousand dollar, unless otherwise stated.

Signed in accordance with a resolution of directors:

A handwritten signature in black ink, appearing to read 'Greg Wrightson', with a large, stylized flourish extending from the end of the signature.

Greg Wrightson
Director

Dated at Wollongong this 25th day of February 2004.

Hydromet Corporation Limited and its controlled entities

**Statement of financial performance
For the half-year ended 31 December 2003**

		Consolidated	
	Note	31 Dec 2003 \$'000	31 Dec 2002 \$'000
Revenue from ordinary activities			
Revenue from sale of goods		855	294
Revenue from rendering of services		2,341	1,994
Other revenues from ordinary activities		97	192
Total revenue from ordinary activities		<u>3,293</u>	<u>2,480</u>
Expenses from ordinary activities			
Raw materials and consumables used		(431)	(998)
Direct production costs		(1,478)	(675)
Employee expenses		(1,423)	(1,432)
Depreciation and amortisation expenses		(758)	(617)
Borrowing costs		(106)	(22)
Consultants and professional services		(127)	(144)
Insurance expenses		(99)	(111)
Property rental and site costs		(103)	(148)
Other expenses from ordinary activities		(231)	(262)
Loss from ordinary activities before related income tax expense		<u>(1,463)</u>	<u>(1,929)</u>
Income tax (expense)/benefit relating to ordinary activities	3	<u>-</u>	<u>-</u>
Net loss attributable to members of the parent entity		<u>(1,463)</u>	<u>(1,929)</u>
Non-owner transaction changes in equity			
Net increase in accumulated losses on initial adoption of:			
■ Revised AASB 1028 “Employee Benefits”	2	<u>-</u>	<u>(13)</u>
Total changes in equity from non-owner related transactions attributable to members of the parent entity	6	<u>(1,463)</u>	<u>(1,942)</u>
Basic and diluted (losses)/earnings per share		(0.541)	(0.710)

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 16.

Hydromet Corporation Limited and its controlled entities

Statement of financial position

As at 31 December 2003

		Consolidated	
	Note	31 Dec 2003 \$'000	30 June 2003 \$'000
Current assets			
Cash assets		1,846	1,261
Receivables		1,866	1,369
Inventories		239	335
Total current assets		<u>3,951</u>	<u>2,965</u>
Non-current assets			
Property, plant and equipment		8,814	9,140
Exploration, evaluation and development expenditure		302	302
Intangibles		786	908
Total non-current assets		<u>9,902</u>	<u>10,350</u>
Total assets		<u>13,853</u>	<u>13,315</u>
Current liabilities			
Payables		1,798	1,582
Interest-bearing liabilities		135	74
Provisions		1,715	1,302
Total current liabilities		<u>3,648</u>	<u>2,958</u>
Non-current liabilities			
Interest-bearing liabilities		2,501	856
Provisions		104	638
Total non-current liabilities		<u>2,605</u>	<u>1,494</u>
Total liabilities		<u>6,253</u>	<u>4,452</u>
Net assets		<u>7,600</u>	<u>8,863</u>
Equity			
Contributed equity	4	63,200	63,000
Reserves		506	506
Accumulated losses	2	(56,106)	(54,643)
Total equity		<u>7,600</u>	<u>8,863</u>

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 16.

Hydromet Corporation Limited and its controlled entities

Statement of cash flows

For the half-year ended 31 December 2003

	Consolidated	
	31 Dec 2003 \$'000	31 Dec 2002 \$'000
Cash flows from operating activities		
Cash receipts in the course of operations	3,010	7,778
Cash payments in the course of operations	(3,945)	(9,318)
Interest received	35	123
Borrowing costs paid	(106)	(22)
Net cash used in operating activities	<u>(1,006)</u>	<u>(1,439)</u>
Cash flows from investing activities		
Proceeds from sale of non-current assets	-	21
Payments for property, plant and equipment	(307)	(2,234)
Net cash used in investing activities	<u>(307)</u>	<u>(2,213)</u>
Cash flows from financing activities		
Repayments on borrowings	(185)	(181)
Proceeds from borrowings	1,083	372
Proceeds from convertible notes	1,000	-
Dividends paid	-	(350)
Net cash provided by/(used in) financing activities	<u>1,898</u>	<u>(159)</u>
Net (decrease)/increase in cash held	585	(3,811)
Cash at the beginning of the financial period	<u>1,261</u>	<u>6,777</u>
Cash at the end of the financial period	<u>1,846</u>	<u>2,966</u>

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 16.

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

1 Statement of significant accounting policies

(a) 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 the requirements of the Corporations Act 2001, Accounting Standard AASB 1029 *Interim Financial Reporting*, the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views. This half year financial report is to be read in conjunction with the 30 June 2003 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 from the Corporations Act 2001.

The consolidated half-year financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

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 2003 Annual Financial Report.

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

Financial position

The consolidated entity incurred a loss from ordinary activities of \$1,463,000 for the half year ended 31 December 2003.

Main factors affecting the result were:

- Electric arc furnace dust feed quality where the recovery of zinc for production of zinc sulphate was adversely affected of high levels of magnesium in the dust having a direct affect on our final product. The impact was to lower the quality of our zinc sulphate resulting in it failure to meet equivalent market product specification and diminishing its saleability.
- High cost to immobilise EAF dust when unsuitable for zinc recovery.
- The impact of heavily discounted zinc sulphate sourced from China and a strong Australian dollar combining to lower prices by up to 33%.

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

1 Statement of significant accounting policies

(a) Basis of preparation of half-year financial report (cont'd)

Financial position

- Commissioning issues encountered with implementation of the lead slag project in Wellington, New Zealand.

At 31 December 2003, the consolidated entity had positive net assets of \$7,600,000 and positive working capital of \$303,000.

Hydromet's Directors have been addressing the difficulties of the December 2003 half-year by concentrating on ensuring as far as possible that the majority if not all projects under development are achieved within the forecast timeframe. These projects are listed below. Management has continued to address operational costs and is currently conducting optimisation reviews of existing processes to capitalise on process improvements and determine areas where cost reductions can be made. At the same time an increase in the treatment fee of one of our clients has been negotiated which will improve the financial outcome on this project.

The Company has the following projects at various stages of development:

- Additional 15,000 tonnes per annum EAF feed of suitable quality for use in zinc sulphate manufacture.
- Developing additional zinc product recycling options to maximise realisable revenues from the total 20,000 tonnes per annum EAF feed available from existing generators in Australia.
- Increasing lead slag immobilisation project in New Zealand on a permanent basis.
- Securing an ongoing agreement to immobilise mercury waste in Tasmania.
- Agreements to immobilise waste arsenic trioxide stockpiles and ongoing arisings for potential Western Australia clients.
- Sourcing additional selenium waste streams suitable for recovery through the Minmet plant.
- Finalising evaluation and scope of the used lead acid battery recycling project.
- Completing vital pilot plant trials on oil refinery spent sulphuric acid. Successful completion of this trial work will enable Hydromet to access the recovered acid for its zinc sulphate process providing substantial cost savings.
- Recycling of valuable cobalt from a 2,000 tonne waste stockpile.

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

1 Statement of significant accounting policies

(a) Basis of preparation of half-year financial report (cont'd)

Financial position

- Strategic options to capitalise on the reserves of our Stanton Prospect mine lease given the improved world Cobalt market.
- Develop business opportunities in partnership with Tennant Pty Limited.

On the basis of the above, the consolidated half-year financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

2 Accumulated losses

	Consolidated	
	31 Dec 2003 \$'000	31 Dec 2002 \$'000
Accumulated losses at the beginning of the half-year	(54,643)	(49,774)
Net loss attributable to members of the parent entity	(1,463)	(1,929)
Net effect of initial adoption of:		
■ Revised AASB 1028 "Employee Benefits"	-	(13)
Dividends	-	(403)
Accumulated losses at the end of the half-year	<u>(56,106)</u>	<u>(52,119)</u>

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

		Consolidated	
	Note	31 Dec 2003 \$'000	30 June 2003 \$'000

3 Taxation

(a) *Future income tax benefit not taken to account*

The potential future income tax benefit arising from tax losses and timing differenced has not been recognised as an asset because recovery of tax losses is not virtually certain

<u>2,390,421</u>	<u>2,390,421</u>
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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.

(b) *Revision of accounting estimate*

As at the date of signing this report, the tax consolidated group within the consolidated entity had not formally determined a tax consolidation implementation date. The tax-consolidated group continues to apply UIG 39 *Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balance*. No adjustments to future income tax benefits were required during the half-year as a result of applying UIG 39.

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

4 Contributed equity

(a) Ordinary shares (cont'd)

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.

During the half-year 6,000,000 options fully vested, with an exercise price of 15.0 cents per option expired.

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

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.

The notes may be converted to ordinary shares in the company at the option of the note holder under the following terms:

- at the rate of \$0.04 per share at the first conversion date being any day in the first 365 days after the issue of the last note; and
- at the rate of \$0.043 per share at the second conversion date being any day in the second 365 days after the issue of the last note.

If the subscriber fails to convert the notes by either of the conversion dates, then the company must on or before the Redemption date being 912 days after the issue of the last note, redeem all the notes at the redemption price plus any accrued interest. The notes have been accounted for as compound financial instruments. A market discount rate has been used to determine the value of the liability component of the notes.

Prior to conversion, the notes do not entitle the Subscriber to any voting rights in the company. Following conversion, the shares have the same voting rights as any other ordinary shares in the company.

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

5 Dividends

Dividends paid or provided for in the current and comparative periods by Hydromet Corporation Limited are:

	Cents per share	Total amount \$'000	Franked/ Unfranked	Date of payment
2003 Nil				
2002 Final ordinary	0.15	403	Franked	25 October 2002

Consolidated

31 Dec 2003 \$'000	31 Dec 2002 \$'000
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6 Total equity reconciliation

Total equity at beginning of the half-year	8,863	13,679
Total changes in parent entity interest in equity recognised in statement of financial performance	(1,463)	(1,942)
Transactions with owners as owners:		
■ Contributions of equity	-	53
■ Dividends	-	(403)
Total equity at end of the half-year	<u>7,400</u>	<u>11,387</u>

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

7 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 2003. 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.

(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 Limited and its controlled entities

Notes to the financial statements

For the half-year ended 31 December 2003

8 Segment reporting

The consolidated entity operates predominately in Australia, treating industrial residues using hydrometallurgical processing technology.

9 Economic dependency

The Company and consolidated entity earns the majority of its revenue through the application of its Hydroproc technologies in discrete projects performed under contract. A prerequisite to the majority of these applications is approval from the relevant State Governments' Environmental Protection Agency (EPA). Due to the nature of treating industrial residues the Company must obtain EPA approval for some specific processes utilised.

Without appropriate approval these projects would be significantly restricted. Such approvals are only granted after the EPA carries out rigorous examination of the submission.

To date Hydromet has been successful in obtaining over twenty specific approvals for treatment technologies developed by the Company. The Companies growing reputation in the field of waste recycling and immobilisation is now nation wide with interest from off shore also emerging for a number of our unique processes.

For the half-year ended 31 December 2003 waste treatment fees comprised 72% of total operating revenues earned with recycled product sales and other revenue comprising the balance.

The Company earned these treatment fees from the following major clients:

■ Port Kembla Copper	24%
■ Onesteel	22%;
■ Falconbridge	8%;
■ Australian Metal Recovery	4%;
■ Comsteel	4%
■ Kennecott	4%

10 Event subsequent to reporting date

Since 31 December 2003, Hydromet have signed a three year contract with Falconbridge Norway for the ongoing processing of selenium enriched smelted residue.

Hydromet Corporation Limited

Directors' declaration

In the opinion of the directors of Hydromet Corporation Limited:

- 1 the financial statements and notes set out on pages 6 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 2003 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;
- 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 the subsidiaries identified in Note 7(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 25 day of February 2004.



Signed in accordance with a resolution of the director:

Gregory Wrightson
Director

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 to the financial statements, and the directors' declaration for the Hydromet Corporation Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2003. 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.

kpmg

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 2003 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 professional reporting requirements in Australia.

KPMG

Chris Hollis
Partner

Place: Wollongong

Date: