AUSMELT LIMITED AND CONTROLLED ENTITIES
AUSMELT LIMITED ABN 72 005 884 355

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31st December 2005.

DIRECTORS

The names and details of the directors of Ausmelt Limited (the Company) in office during the half-year and until the date of this report are:

A C Larkin, ***FCPA, FAICD***	(Non-Executive Chairman)
Dr J M Floyd, ***AM, MSc, PhD, DIC, FTSE, FAusIMM(CP), CEng, MIMM, MCIM, MAIME, FAICD***	(Non-Executive Deputy Chairman)
P V Abbott, ***BB (Acc), ASCPA***	(Managing Director)
Dr C M Adam, ***BEng (Met), PhD (Qld)***	(Non Executive Director)
G F Lord, ***B Economics (Hons), MBA (Dist), ASSA, ASIA***	(Non-Executive Director)
Dr A R Collins, ***BSc (Hons), PhD (Sydney), FAusIMM, MAIG***	(Alternate Director)
Mr J O Reynolds, ***OAM, BSc HonFAusIMM***	(Alternate Director)

REVIEW AND RESULTS OF OPERATIONS

Ausmelt earned a net profit before tax of $2,086,726 for the six months ended 31st December 2005 (2004 – $185,640 loss). As a result of the return to profitability, the Company has taken advantage of previously unrecognised tax losses and the after tax net profit is $2,193,645 (2004 – $185,640).

The Company's core non-ferrous smelting technology business delivered a pre-tax contribution of $4,302,183 (2004 - $2,025,661) on revenues of $7,292,488 (2004 - $6,551,029).

The Company incurred commercialisation and market development costs of $530,000 (2004 - $483,644) relating to the AusIron® technology. The chemicals business recorded net costs of $321,553 for the AM2® mineral flotation reagent (2004 - $386,373) after recovery of $317,611 from the Federal Government Commercial Ready Grant. Net corporate overheads were steady at $1,363,904 (2004 - $1,341,284).

The increase in revenue and profitability reflected two major non-ferrous smelting technology supply contracts secured in July 2005. The company also won a number of smaller non-ferrous contracts in the half-year.

The full-year result will depend largely on new non-ferrous smelting business opportunities being converted to contracts before June 30.

Non-Ferrous Smelting

Ausmelt won two major contracts, worth a combined revenue of $14 million, during the half-year, to provide its Top Submerged Lance (TSL) smelting technology to substantial metals projects in Asia, along with additional smaller contracts with a total revenue of $2.6 million. These contracts included:

Major Project Contracts:

- a design and supply contract for a new nickel smelting and converting plant to be built by Jinchuan Group Limited, China's largest nickel producer, in the Gansu Province of China. This is the largest value contract that Ausmelt has won in China. It is also the Company's largest scale smelting and converting plant and the first to process nickel concentrates to high-grade matte. The contract is running on time and on budget. The basic engineering design phase is completed and the Company is now focussed on detailed design and equipment supply.

- an engineering design contract with a leading Japanese non-ferrous metal producer and recycler, Dowa Mining Co. Ltd. Dowa will construct a new smelting furnace using Ausmelt's TSL technology to process a wide variety of scrap and waste materials. Ausmelt has completed its basic engineering design and is awaiting further instructions from the client before commencing the detailed design and equipment procurement phase.

Other Contracts:

- a feasibility study for the construction of a new lead smelting facility in South America
- a process design services contract for use of Ausmelt technology to process lead concentrates and battery scrap for a facility in Russia.
- a contract with a major Australian gold miner under which Ausmelt conducted trials at its pilot plant in Dandenong to produce copper matte using Ausmelt's TSL technology.
- a design and supply contract for a copper smelting plant in the People's Republic of China. This is subject to Chinese Government regulatory approval which is currently being sought by the client.

On pre-existing projects; the hot commissioning of the HZL Lead plant in India is progressing well and the Russian copper plant at Kyshtym is under construction. The Russian plant is targeted to start up in the second half of the calendar year.

Chemicals

The Company has continued to evaluate and test the use of the AM2® chemical reagent with major mining companies in Australia, South Africa, Chile and Peru. Laboratory and flotation plant tests and trials on ores containing oxide minerals associated with copper, molybdenum, platinum and gold are showing economic increases in metal recoveries. Recent work has been directed towards establishing optimum conditions and consistent performance. In most cases potential customers are paying for trial quantities.

Satisfactory operations have now been established at a copper mine in Australia, which has become a regular purchaser of AM2® for use whenever oxide ore is treated.

AM2® has also been tested recently on new deposits in Australia with good results and we expect the reagent to be incorporated into the plant design. The Company has continued to pursue the commercialisation of AM2 (in recovery of gold, platinum group metals and molybdenum) with the assistance of funding from a Federal Government Commercial Ready Grant. The grant provided funding of $317,611 during the half year and is scheduled to provide a further $822,058 over the next 14 months, on a dollar for dollar basis.

AusIron®

Plans to bring the AusIron® iron smelting demonstration plant into commercial operation, for the recycling of zinc bearing wastes and the treatment of zinc oxide ore, await the outcome of a review of ore mining and processing options currently being undertaken by the owner of an identified zinc oxide resource. Securing access to sufficient ore, suited to the proposed operations, is important to achieving a viable long-term outcome.

Ausmelt has completed feasibility work on plant modifications and operating costs for the proposed operation. Ore supply and product sale terms (dependent on feed ore characteristics) are the key outstanding items for determining feasibility.

The development of our AusIron® pig iron project, aimed at establishing the technology in commercial use, is continuing, with the proposed business case under internal study by a host steelmaker. A key strategic partner willing to contribute to both feasibility and project funding has been identified, conditional on the support of the host steelmaker. Given the scale of this development the Company continues to closely monitor its prospects.

Investments and the Future

The Company continued to hold exploratory discussions with a number of potential acquisition targets during the period.

Auditor's Independence Declaration

We have obtained the following independence declaration from our auditors, Ernst & Young.

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 8650 7777

Auditor's Independence Declaration to the Directors of Ausmelt Limited

In relation to our review of the financial report of Ausmelt Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R.C. Piltz
Partner
20 February 2006

Signed in accordance with a resolution of the Directors.

Paul Abbott

P V Abbott
Director

Melbourne, 20th February 2006

Condensed Income Statement
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Notes	*CONSOLIDATED* 2005 $	2004 $
Revenue	**2**	7,721,569	6,653,965
Cost of Sales	**2**	(1,396,000)	(2,880,857)
Gross Profit		6,325,569	3,773,108
Other income		10,287	-
Other expenses		(4,209,600)	(3,954,712)
Finance costs		(39,530)	(4,036)
Profit / (Loss) before income tax		2,086,726	(185,640)
Income tax expense / (benefit)	**8**	(106,919)	-
Profit / (Loss) after tax		2,193,645	(185,640)
Net profit / (loss) attributable to members of Ausmelt Limited		2,193,645	(185,640)
Earnings per share (cents per share)			
- basic for profit/(loss) for the half year		5.53	(0.47)
- diluted for profit/(loss) for the half year		5.53	(0.47)
- dividends paid per share	**3**	-	2.00

Condensed Balance Sheet
AS AT 31 DECEMBER 2005

	Notes	CONSOLIDATED	
		As at 31 December 2005	As at 30 June 2005
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents		4,939,118	1,129,113
Trade and other receivables		1,634,923	1,199,445
Inventories		1,978,082	3,337,953
Prepayments		341,452	364,555
Foreign exchange contract receivable		389,927	674,237
Accrued licence fee income		834,268	704,465
Total Current Assets		**10,117,770**	**7,409,768**
Non-current Assets			
Foreign exchange contract receivable		-	138,963
Investments		147,761	147,761
Property, Plant & Equipment		931,837	966,726
Intangible assets - Patents		828,193	701,625
Net deferred tax assets		286,319	213,335
Total Non-current Assets		**2,194,110**	**2,168,410**
TOTAL ASSETS		**12,311,880**	**9,578,178**
LIABILITIES			
Current Liabilities			
Trade and other payables		901,091	1,201,380
Foreign exchange contract gain		-	674,237
Contract revenue received in advance		1,284,722	-
Provisions		515,642	474,226
Total Non-current liabilities		**2,701,455**	**2,349,843**
Non-current Liabilities			
Foreign exchange contract gain		-	138,963
Provisions		404,621	350,162
Total Non-Current Liabilities		**404,621**	**489,125**
TOTAL LIABILITIES		**3,106,076**	**2,838,968**
NET ASSETS		**9,205,804**	**6,739,210**
EQUITY			
Issued Capital		10,454,529	10,454,529
Other reserves		272,949	-
Retained earnings		(1,521,674)	(3,715,319)
TOTAL EQUITY		**9,205,804**	**6,739,210**

Condensed Cash Flow Statement
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Notes	*CONSOLIDATED* 2005 $	2004 $
Cash flows from operating activities			
Receipts from customers		9,628,098	3,971,300
Payments to suppliers and employees		(5,655,346)	(6,360,136)
Interest received		73,968	82,786
Income tax paid		(83,043)	-
Receipt of government grants		157,940	-
Interest and other costs of finance paid		(39,530)	(4,036)
Net cash flows from operating activities		**4,082,087**	**(2,310,086)**
Cash flows from investing activities			
Purchase of property plant & equipment		(65,413)	(107,251)
Payments for patents		(206,669)	(127,142)
Net cash flows from investing activities		**(272,082)**	**(234,393)**
Cash flows from financing activities			
Proceeds from issue of shares		-	12,399
Payment of dividends		-	(790,736)
NET CASH PROVIDED BY (USED IN)		-	**(778,337)**
Net increase/(decrease) in cash and cash equivalents		**3,810,005**	**(3,322,816)**
Cash and cash equivalents at beginning of period		1,129,113	4,580,174
Cash and cash equivalents at end of period		**4,939,118**	**1,257,358**

Condensed Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

		Attributable to equity holders of the parent			*Total Equity*
		Issued capital	**Retained earnings**	**Other reserves**	
	Notes	**$**	**$**	**$**	
At 1 July 2004	**4**	10,442,129	743,077	-	11,185,206
Net movement on cash flow hedges (Net of Tax)		-	-	-	-
Total income and expense for the period recognised directly in equity		-	-	-	-
Profit/(Loss) for the period		-	(185,640)		(185,640)
Total income and expense for the period		-	(185,640)	-	(185,640)
Exercise of options		12,400	-	-	12,400
Payment of dividend		-	(790,736)	-	(790,736)
At 31 December 2004		10,454,529	(233,299)	-	10,221,230

Condensed Statement of Changes in Equity (Continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

		Attributable to equity holders of the parent			*Total Equity*
	Notes	Issued capital $	Retained earnings $	Other reserves $	
At 1 July 2005	4	10,454,529	(3,715,319)	-	6,739,210
Net movement on cash flow hedges (Net of Tax)		-	-	272,949	272,949
Total income and expense for the period recognised directly in equity		-	-	272,949	272,949
Profit/(Loss) for the period		-	2,193,645	-	2,193,645
Total income and expense for the period		-	2,193,645	-	2,193,645
Exercise of options		-	-	-	-
Payment of dividend		-	-	-	-
At 31 December 2005	4	10,454,529	(1,521,674)	272,949	9,205,804

Notes to the Half Year Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Ausmelt Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Ausmelt Limited and its controlled entities during the half year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 “Interim Financial Reporting” and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:
- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,
to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) Basis of consolidation
The consolidated financial statements comprise the financial statements of Ausmelt Limited and its subsidiaries ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Notes to the Half Year Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(ii) Foreign currency translation
Both the functional and presentation currency of Ausmelt Limited and its Australian subsidiaries is Australian dollars (A$).

The functional currency of the overseas subsidiary (Ausmelt Technology Corporation Inc.) is Australian dollars (A$). Ausmelt Technology Corporation, which was registered in the United States of America, was dissolved on 26 April 2005.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

(iii) Property, plant and equipment
Cost and Valuation
Property, plant and equipment are brought to account at cost, less, where applicable, any accumulated depreciation or amortisation. Property, plant and equipment are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down.

Where applicable independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount o the item) is included in the income statement in the period the item is derecognised.

The depreciable amount of all fixed assets are depreciated over their useful lives commencing from the time the asset is held ready for use.

Depreciation
Depreciation is provided on a straight-line basis.

Major depreciation periods are:
- Lease improvements over the lease period
- Ausiron demonstration plant 10 years
- Other plant and equipment 3 to 5 years
- Office equipment 3 to 5 years
- Laboratory equipment 3 to 5 years

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of 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.

(iv) Borrowing costs
Borrowing costs are recognised as an expense when incurred.

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(v) Intangible assets
Acquired separately.
Intangible assets acquired separately are capitalised at cost.

The useful lives of these intangible assets are assessed to be finite and amortisation is charged over a period not exceeding eight years. This expense is taken to the income statement through the ‘operating expenses’ line item.

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs
Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	Patents	Development Costs
Useful lives	*Finite*	*Finite*
Method used	*8 years - Straight line*	*4 years - Straight line*
Internally generated / Acquired	*Acquired*	*Internally generated*
Impairment test / Recoverable amount testing	*Annually and where an indicator of impairment exists*	*Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment*

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(vi) Recoverable amount of assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the Half Year Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(vi) Recoverable amount of assets (continued)
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.

(vii) Investments
All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

(viii) Inventories
The unbilled portion of project contract revenue (work in progress) is brought to account as inventory. Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:
Work in progress - direct materials, labour and project management costs;
Raw materials – purchase cost on an average cost basis;
Finished goods – cost of direct materials, labour and transport costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(ix) Trade and other receivables
Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified

(x) Cash and cash equivalents
Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(xi) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xii) Employee benefits
Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

Notes to the Half Year Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xiii) Leases
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(xiv) Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. Invoices are raised for payment based on the achievement of contracted milestones.

The following specific recognition criteria must be met before revenue is recognised:

Rendering of services
Revenue for services is recognised where the contract outcome can be reliably measured, control of a right to be compensated for the services has been attained and a stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred. Revenue for the supply of goods is recognised when control of goods has passed to the buyer.

Licence fees
Revenue for technology licence fees is recognised when the right to use the technology has passed to the buyer.

Interest
Interest revenue is recognised when control of the right to receive the interest payment has passed to the consolidated entity.

(xv) Government grants
Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Grants relate to expense items and are recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(xvi) Income tax
Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

• except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

• in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

• except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

• in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xvii) Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

• where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

• 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 part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xviii) Derivative financial instruments
The Group uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

For all cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations
AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Designation of previously recognised financial instruments
Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions
AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 Januar 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139
The Group has elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	CONSOLIDATED		
	30-Jun-05	31-Dec-04	1-Jul-04
	$	$	$
Total equity under AGAAP	6,881,594	10,999,213	11,918,949
Adjustments to equity:			
Derecognition of deferred research costs (A)	-	(933,280)	(933,280)
Recognition of depreciation on plant under care and maintenance (B)	(195,386)	(151,146)	(106,905)
Tax effect of above adjustment (A)	-	279,984	279,984
Tax effect of above adjustment (B)	53,002	39,000	26,458
Total equity under AIFRS	6,739,210	10,233,771	11,185,206

(A) Under AASB 138 Intangible Assets, costs incurred in the research phase of the development of an internally generated intangible asset would be expensed. Under AGAAP the Company's accounting policy allowed for the capitalisation of such costs where future benefits are expected beyond reasonable doubt. (These research costs were written off at 30 June 2005 under AGAAP, the impact of which is reflected in part (ii) of this note.)

(B) Under AASB 116 Property, Plant and Equipment the Company would be required to depreciate plant under care and maintenance. Under AGAAP such depreciation is not required.

(C) The tax effect of the adjustments above (note (A) and (B)) led to a decrease in deferred tax liability. The total change in deferred tax liability is as follows:

	CONSOLIDATED		
	30-Jun-05	31-Dec-04	1-Jul-04
	$	$	$
Tax effect of the above adjustments - note (A)	-	279,984	279,984
Tax effect of the above adjustments - note (B)	53,002	39,000	26,458
Decrease in deferred tax liability	53,002	318,984	306,442

1 BASIS OF PREPARATION OF THE FINANCIAL REPORT (continued)

(e) Basis of accounting

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	CONSOLIDATED	
	Year ended 30-Jun-05 $	Half Year ended 31-Dec-04 $
Profit after tax as previously reported under AGAAP	(4,259,019)	(141,399)
Write-back of deferred research costs derecognised at transition date for AIFRS purposes (A)	933,280	-
Recognition of depreciation on plant under care and maintenance (B)	(88,481)	(44,241)
Tax effect of (A) and (B)	(253,440)	-
Profit after tax under AIFRS	(3,667,660)	(185,640)

(A) Under AASB 138 Intangible Assets costs incurred in the research phase of the development of an internally generated intangible asset would be expensed. At transition date under AIFRS $933,280 of research costs were expensed, as disclosed in part (i) of this note. Under AGAAP for the year ending 30 June 2005 all of the deferred development costs, including the $933,280 of research costs have been written off, therefore a write back is required to reflect AIFRS net profit.

(B) Under AASB 116 Property, Plant and Equipment the Company would be required to depreciate plant under care and maintenance that under existing Australian Accounting Standards does not require depreciation.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

Notes to the Half Year Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	CONSOLIDATED	
	2005	**2004**
	$	**$**
2 REVENUE AND EXPENSES		
(a) Specific Items		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(i) Revenue		
Rendering of services	4,615,118	4,493,724
Licence fee income	1,839,804	870,510
Sale of goods	875,068	1,206,945
Interest revenue	73,968	82,786
	7,403,958	6,653,965
(ii) Other income		
Government grants	317,611	-
Insurance claim received	10,287	-
	327,898	-
(ii) Expenses		
Depreciation	180,400	119,729
Employee benefits	95,875	60,583
Interest expense	39,530	4,036

(b) Nature of Contracts

As the timing of contract revenue is a product of the transactional terms agreed with clients, revenue and profits can vary materially between financial periods.

3 DIVIDENDS PAID AND PROPOSED

	2005	2004
Equity dividends on ordinary shares:		
(a) Dividends paid during the half year		
Final unfranked dividend for financial year 30 June 2005: Nil (2004: 2.00 cents)	-	790,736

	As at 31 December 2005	*As at 30 June 2005*
	$	**$**
4 ISSUED CAPITAL		
Ordinary shares		
Issued and fully paid	10,454,529	10,454,529
Movements in ordinary shares on issue	**$**	**$**
Value of shares at beginning	10,454,529	10,442,129
Value of shares issued during the half year ended 31 December 2005	-	-
Value of shares issued during the financial year ended 30 June 2005	-	12,400
Value of shares at the period end	10,454,529	10,454,529
	No. of Shares	***No. of Shares***
Number of shares at beginning	39,656,824	39,536,824
Number of shares issued during the half year ended 31 December 2005	-	-
Number of shares issued during the financial year ended 30 June 2005	-	120,000
Number of shares at the period end	39,656,824	39,656,824

Notes to the Half Year Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

5 SEGMENT REPORTING

Business segments

The following table presents the revenue and profit before tax information regarding business segments for the half-year periods ended 31 December 2005 and 31 December 2004.

	Continuing Operations						*Corporate*		*Consolidated*	
	Non-Ferrous		Ferrous		Chemicals					
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$	$	$
Segment Revenue	7,292,476	6,551,029	-	-	365,412	20,150	73,968	82,786	7,731,856	6,653,965
Segment Result	4,302,183	2,025,661	(530,000)	(483,644)	(321,553)	(386,373)	(1,363,904)	(1,341,284)	2,086,726	(185,640)

Notes to the Half Year Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

6 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

7 SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the half year to 31 December 2005 which significantly affect or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

8 ADDITIONAL INFORMATION
Income tax expense

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the half year ended 31 December 2005 and 2004 is as follows:

	2005 $	2004 $
Accounting profit before tax	2,086,726	(185,640)
At the statutory income tax rate of 30% (2004: 30%)	626,018	(55,692)
Adjustments in respect of current income tax of previous years	(6,922)	-
Research and development (R&D) concessions	(8,318)	(16,251)
Other	2,827	1,527
Non recognition of current period tax losses as a future tax benefit	-	70,416
Utilisation of tax losses **not** previously recognised	(720,524)	-
Income tax expense / (benefit) reported in income statement at effective income tax rate of (5)% (2004: 0%)	(106,919)	-

Income tax losses not recognised as at 31 December 2005 $221,659 (30 June 2005: $ 942,173).

Directors Declaration

In accordance with a resolution of the directors of Ausmelt Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134 “Interim Financial Reporting” and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Paul Abbott

P Abbott
Managing Director

Melbourne, 20 February 2006

ERNST & YOUNG

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Independent review report to members of Ausmelt Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Ausmelt Limited (the company) and the entities it controlled during the half year, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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 of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, 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 the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present 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.

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.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our review of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

ERNST & YOUNG

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Ausmelt Limited and the entities it controlled during the half year is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half year ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

R.C. Piltz

R.C. Piltz
Partner
Melbourne
20 February 2006

Appendix 4D

Half Year Report

Ausmelt Limited – ABN 72 005 884 355

For the Financial Period ended 31 December 2005

Results for announcement to the market

Ausmelt today announced a net profit before tax of $2,086,726 (up 1224.1 %), for the half-year financial period ended 31 December 2005, compared to a loss of $185,640 for the previous corresponding period. As a result of the return to profitability, the Company has taken advantage of previously unrecognised tax losses from prior periods and the after tax net profit for the half-year is $2,193,645 (up 1281.7 %) compared to a loss of $185,640 in the previous corresponding period.

Revenues for the period increased to $ 7,731,856 (up 16.2 %) from $6,653,965 in the half year to 31 December 2004.

Net tangible assets per security with the comparative figure for the previous corresponding period.

The net tangible asset backing per ordinary security as at 31st December 2005 was 21.13 cents, compared with 22.32 cents for the previous corresponding period.

Details of entities over which control has been gained or lost during the period.

Not applicable.

Details of individual and total dividends or distributions and dividend or distribution payments

Refer Financial Statements

Details of associates and joint venture entities.

Not applicable.

For foreign entities, which set of accounting standards is used in compiling the report.

Not applicable.