

# International Ferro Metals Limited

## Half-Year Financial Statements

for the six months ended 31 December 2005

## Directors' Report

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

### DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

The following directors were Directors for the half year and up to the date of this report:

- Anthony Grey
- Stephen Turner
- Ian Watson

The following directors were appointed during the current half year

- Xiaoping Yang (12 October 2005)
- Terence Willsteed (12 October 2005)
- Stephen Oke (16 November 2005)
- Tian Xia (16 November 2005)

### REVIEW AND RESULTS OF OPERATIONS

The IFM Group reported an unaudited loss of £18.4m (ZAR208.1m) for the six months ended 31 December 2005, of which £15.9m (ZAR183.3m) is attributable to the accounting treatment of the JISCO share subscription. This loss was in accordance with budgeted expenditure for this period in which IFM commenced construction of its ferrochrome facility in South Africa.

#### Highlights

- Admission to AIM on 30 September 2005, raising £80 million (ZAR924m)
- Project Finance of £79 million (ZAR912m) secured
- Guaranteed off take agreements for 64% of planned production
- Construction of the processing plant and related infrastructure commenced

On Admission to AIM the Company raised £80 million (ZAR924m) in new equity and secured project finance of £79 million (ZAR912m). Together with equity of £19 (ZAR221m) subscribed by JISCO this total finance of £178 million (ZAR2,057m) is sufficient for IFM to construct and operate a ferrochrome production facility capable of producing 267,400 tpa of charge chrome, with chromite ore being sourced from its own mine.

IFM has two guaranteed off take agreements for sale of its ferrochrome production. JISCO, a Chinese Stainless Steel producer and a major shareholder of IFM has guaranteed to purchase 120,000 tpa, and CoMetals, a New York listed metals trading company has guaranteed to purchase 50,000 tpa.

Construction commenced on 17 October 2005 with an estimated construction period of 18 months.

### **Post 31 December 2005**

Since 31 December 2005 the Company has acquired all the issued share capital in Purity Metals Holdings Limited, the owner of an 80% interest in Sky Chrome Mining (Proprietary) Limited, the owner of a chromite property having Indicated Mineral Resources of 28.4 million tonnes at 36.6% Cr<sub>2</sub>O<sub>3</sub> and Inferred Mineral Resources of 29.6 million tonnes at 36.6% Cr<sub>2</sub>O<sub>3</sub>. This acquisition gives the Company a total Indicated Mineral Resource of 53.35 million tonnes at 37.09%Cr<sub>2</sub>O<sub>3</sub> and Inferred Mineral Resource of 37.56 million tonnes at 36.84% Cr<sub>2</sub>O<sub>3</sub>. Full right of ownership will pass to IFM on final settlement of the purchase consideration. The Company received approval for the acquisition from the South African Competition Commission in February 2006.

Construction of the ferrochrome facility at Buffelsfontein is within its 5th month and is 28% complete. The project remains on target to begin production in 2007, reaching a production level of 267,400 tpa by the end of that year. Fixed price and fixed time construction contracts account for 87% of the Company's capital expenditure, up from 68% at the time of Admission to AIM.

### **ROUNDING**

The amounts contained in the half-year financial report have been rounded to the nearest ZAR1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

Stephen Turner  
Director  
Sydney, 31 March 2006

# Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	<i>CONSOLIDATED</i>	
	<i>2005</i>	<i>2004</i>
	<i>Notes</i>	<i>ZAR'000</i>
		<i>ZAR'000</i>
<b>Revenue</b>		
Sales Revenue		635
Cost of goods sold		(123)
<b>Gross profit</b>		512
<b>Other income/(expenses)</b>		
Interest Income		12,305
Accounting and audit fees		(1,896)
Consulting fees		(3,897)
Consumables		(20)
Depreciation expense		(155)
Entertainment		(238)
Feasibility study costs		(180)
Foreign exchange gain/(loss)		1,774
Guarantee fee		-
Insurance		(288)
Legal Fees		(4,175)
Loss on disposal of assets		(47)
Management fees		-
Professional fees		(4,035)
Salaries and Wages (including directors fees)		(9,553)
Travel and accommodation		(2,095)
Interest expense		(4,718)
Black Economic Empowerment costs		(6,900)
Loss on issue of shares to Jisco	3	(183,252)
Other expenses		(1,293)
<b>Loss before income tax</b>		(208,151)
Income tax expense		-
<b>Net profit / (loss) for the period</b>		(208,151)
<b>Profit / (loss) attributable to minority interests</b>		-
<b>Net profit / (loss) attributable to members of parent</b>		(208,151)
		<i>ZAR</i>
Earnings / (loss) per share (cents per share)		<i>ZAR</i>
– basic for profit for the half-year		(87.87)
– diluted for profit for the half-year		(87.87)
– dividends paid per share	2	-

# Condensed Balance Sheet

AS AT 31 DECEMBER 2005

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		<i>As at</i>	<i>As at</i>
		<i>31 December 2005</i>	<i>30 June 2005</i>
		<i>ZAR'000</i>	<i>ZAR'000</i>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		600,188	15,574
Advance payment		83,485	-
Trade and other receivables		45,649	8,672
Prepayments		15,320	7,132
<b>Total Current Assets</b>		<b>744,642</b>	<b>31,378</b>
<b>Non-current Assets</b>			
Non-current receivables		13,100	-
Deposits		12,216	1,280
Property, plant and equipment		378,174	407
Other non current assets		3,728	24,692
<b>Total Non-current Assets</b>		<b>407,218</b>	<b>26,379</b>
<b>TOTAL ASSETS</b>		<b>1,151,860</b>	<b>57,757</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		50,695	7,247
Provisions		1,241	438
<b>Total Current Liabilities</b>		<b>51,936</b>	<b>7,685</b>
<b>Non-current Liabilities</b>			
Interest Bearing Loans and Borrowings		-	60,555
Provisions		4,784	-
<b>Total Non-current Liabilities</b>		<b>4,784</b>	<b>60,555</b>
<b>TOTAL LIABILITIES</b>		<b>56,719</b>	<b>68,240</b>
<b>NET ASSETS</b>		<b>1,095,141</b>	<b>(10,483)</b>
<b>EQUITY</b>			
Share Capital	3	1,340,492	48,212
Minority interest		20,000	-
Convertible note		-	5,977
Accumulated losses		(273,233)	(65,082)
Share based payments reserve		7,882	410
<b>TOTAL EQUITY</b>		<b>1,095,141</b>	<b>(10,483)</b>

# Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	<i>CONSOLIDATED</i>	
	<i>2005</i> ZAR'000	<i>2004</i> ZAR'000
<b>Cash flows from operating activities</b>		
Receipts from customers	635	-
Payments and advances to suppliers and employees (inclusive of GST)	(25,271)	(7,761)
Interest paid	(2,686)	(5,268)
<b>Net cash flows from operating activities</b>	<u>(27,322)</u>	<u>(13,029)</u>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(415,064)	(123)
Payments for acquisition of investment	(3,729)	-
Payments for development of bankable feasibility study	-	(2,807)
Prepaid mine acquisition costs	-	(1,067)
Interest received	12,305	46
<b>Net cash flows used in investing activities</b>	<u>(406,488)</u>	<u>(3,951)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares (net of issue costs)	1,055,978	8,726
Proceeds from issue of convertible note	-	20,000
Prepaid admission costs	-	(944)
Environmental deposit	(11,700)	-
Payment of borrowing costs	(11,881)	-
Repayment of shareholder loan	(16,512)	-
<b>Net cash flows from financing activities</b>	<u>1,015,885</u>	<u>27,782</u>
Net increase/(decrease) in cash and cash equivalents	582,075	10,803
Cash and cash equivalents at beginning of period	15,574	1,337
Effects of exchange rate changes on cash	2,538	-
<b>Cash and cash equivalents at end of period</b>	<u><u>600,187</u></u>	<u><u>12,140</u></u>

## Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED	Attributable to equity holders of the parent				Total	Minority Interest	Total equity
	Share Capital ZAR'000	Convertible note ZAR'000	Retained Earning-opening ZAR'000	Share-Based Payments Reserve ZAR'000			
<b>At 1 July 2004</b>	9,775	-	(24,231)	190	(14,266)	-	<b>(14,266)</b>
Loss for the period	-	-	(16,300)	-	(16,300)	-	<b>(16,300)</b>
Total income / expense for the year	9,775	-	(40,531)	190	(30,566)	-	<b>(30,566)</b>
Cost of share based payments	-	-	-	40	40	-	<b>40</b>
Issue of shares (net of costs)	9,156	-	-	-	9,156	-	<b>9,156</b>
Share placement costs	(430)	-	-	-	(430)	-	<b>(430)</b>
<b>At 31 December 2004</b>	<b>18,501</b>	<b>-</b>	<b>(40,531)</b>	<b>230</b>	<b>(21,800)</b>	<b>-</b>	<b>(21,800)</b>
<b>At 1 July 2005</b>	48,212	5,977	(65,082)	410	(10,483)	-	<b>(10,483)</b>
Share placement costs	(55,538)	-	-	-	(55,538)	-	<b>(55,538)</b>
Total income and expense for the year recognised directly in equity	(55,538)	-	-	-	(55,538)	-	<b>(55,538)</b>
Loss for the period	-	-	(208,151)	-	(208,151)	-	<b>(208,151)</b>
Total income / expense for the year	(55,538)	-	(208,151)	-	(263,689)	-	<b>(263,689)</b>
Cost of share based payments	-	-	-	7,472	7,472	-	<b>7,472</b>
Issue of shares	1,328,159	-	-	-	1,328,159	-	<b>1,328,159</b>
Conversion of Global Eagle convertible note	-	-	-	-	-	20,000	<b>20,000</b>
Conversion of RAB convertible note	19,659	(5,977)	-	-	13,682	-	<b>13,682</b>
<b>At 31 December 2005</b>	<b>1,340,492</b>	<b>-</b>	<b>(273,233)</b>	<b>7,882</b>	<b>1,075,141</b>	<b>20,000</b>	<b>1,095,141</b>

# Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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## 1 BASIS OF PREPARATION OF THE HALF-YEAR 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 International Ferro Metals 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 International Ferro Metals 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

This half-year general purpose financial report has been prepared in accordance with applicable Accounting Standards including AASB 134 "Interim Financial Reporting, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This financial report has been prepared in accordance with the historical cost convention, except for certain assets, which, as noted, are at fair value. 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 except for AASB 132 "Financial Instruments: Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement". The company has applied the exemption permitted by AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" from having to apply AASB 123 and AASB 139 to the comparative period. 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.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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(c) **Summary of significant accounting policies**

(i) **Basis of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by International Ferro Metals Limited (IFM) at the end of the reporting period. The Company and its controlled entities together are referred to as the Group. The effects of all transactions between entities in the Group are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

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

(ii) **Revenue recognition**

Revenue consists primarily of interest revenue that is bought to account on an accrual basis using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Revenue from the sale of Chromite is recognised where significant risks and rewards of the ore has transferred to the customer. Risks and rewards are considered passed to the customer upon delivery to the customer.

(iii) **Receivables**

All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 30 days from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis and a provision for non recovery is made accordingly. Debts which are known to be uncollectible are written off.

(iv) **Trade and other creditors**

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days.

(v) **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.

(vi) **Property, plant and equipment**

*Cost and Valuation*

Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment in value.

*Depreciation*

Depreciation is provided on a straight-line basis over the estimated useful life of the asset, other than mine properties and equipment, which are depreciated on a unit of production basis to an estimated residual value.

Major depreciation periods are 5 to 15 years for non-mining plant and equipment or the lease term for leasehold improvements.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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### Summary of significant accounting policies (continued)

#### *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.

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. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units 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, the estimated future cash flows are discounted to their present 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) **Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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 assets and 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.

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.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax to be recovered.

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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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### Summary of significant accounting policies (continued)

#### (viii) Goods and services tax

Revenues, 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, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

#### (ix) Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

#### (x) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

#### (xi) Foreign currency translation

##### *Translation of foreign currency transactions*

The functional currency of International Ferro Metals Limited and its subsidiaries is the South African Rand (“ZAR”) as this is the currency in which group primarily generates and expends cash. Given that shareholders are largely domiciled in Australia, the United Kingdom and the United States, the directors have chosen the ZAR, being the group’s functional currency, as being the most appropriate currency in which to present the financial statements.

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 retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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### Summary of significant accounting policies (continued)

**(xii) Feasibility expenditure**

Costs incurred relating to the feasibility study are expensed as incurred until the period in which management considers that a bankable feasibility study is complete and the Company decides to continue with the Project. Following this time costs directly related to the feasibility study are deferred as a non-current asset and will be amortised over the life of the mine on a units of production basis.

**(xiii) Mine acquisition costs**

Deferred mine acquisition costs relate to the prepaid purchase consideration for the Buffelsfontein mine, including incidental costs directly associated with the purchase. These costs are deferred until ownership of the Project is completed. At this point the balance is transferred to Property, Plant and Equipment and amortised on a unit of production basis over the life of the mine.

**(xiv) Convertible notes**

The component of convertible notes that exhibit characteristics of a liability is recognised as a liability on the balance sheet. On the issue of the convertible notes, the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as a non-current liability until converted into shares, extinguished or redeemed. The increase in the liability due to the passage of time is recognised as a finance cost.

Issue costs allocated to the debt portion are included in the book value of the liability and included in the effective interest method when measuring amortised cost (refer note (ix) above).

**(xv) 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

The estimated costs of rehabilitating a mine are generally included in the capital cost of the mine. Changes in estimates of the liability are dealt with on a prospective basis.

**(xvi) Share-based payment transactions**

The Group provides benefits to employees (including directors) of the Group and other service providers or strategic equity partners in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a black scholes method.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of International Ferro Metals Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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### Summary of significant accounting policies (continued)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Where shares are issued at a discount to fair value either by reference to the current market price or by virtue of the Group providing financing for the share purchase on favourable terms, the value of the discount is considered a share based payment. The value of the discount is capitalised as an intangible asset when the recognition criteria set out in xcii) below, otherwise the value of the discount is expensed.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### (xvii) Intangible assets

Intangible assets are recognised at cost where future economic benefits are embodied in a contractual right or a right that is specific. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the 'administrative expenses' line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

### (xviii) Exploration and evaluation costs

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not at balance date reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

At the commencement of mine construction exploration and evaluation costs are transferred to property, plant and equipment.

### (xix) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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### Summary of significant accounting policies (continued)

(xx) **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:

*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 January 2005.

*Exemption from the requirement to restate comparative information for AASB 132 and AASB 139*

The Group has not 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.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

### (d) 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

	<i>CONSOLIDATED</i>		
	<i>30-Jun-05</i>	<i>31-Dec-04</i>	<i>01-Jul-04</i>
	<i>ZAR'000</i>	<i>ZAR'000</i>	<i>ZAR'000</i>
Total equity under AGAAP	(10,483)	(20,482)	(14,266)
<i>Adjustments to equity:</i>			
Recognition of share-based payment reserve (A)	410	230	190
Recognition of share-based payment expense (A)	(410)	(230)	(190)
Total equity under AIFRS	<u>(10,483)</u>	<u>(20,482)</u>	<u>(14,266)</u>

(A) Share based payment costs are charged to the income statement under AASB 2 "Share-based Payments", with a corresponding entry to equity, but not under previous AGAAP. This has caused a decrease in profit for the year.

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

	<i>CONSOLIDATED</i>	
	<i>Year ended</i>	<i>Half-Year ended</i>
	<i>30-Jun-05</i>	<i>31-Dec-04</i>
	<i>ZAR'000</i>	<i>ZAR'000</i>
Loss after tax as previously reported	(36,527)	(16,260)
Recognition of share-based payment expense (A)	(220)	(40)
Profit after tax under AIFRS	<u>(36,747)</u>	<u>(16,300)</u>

#### (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 (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

### 2 DIVIDENDS PAID AND PROPOSED

No dividends have been paid or proposed with respect to the half years 31 December 2005 and 31 December 2004.

### 3 ISSUED CAPITAL

*Ordinary shares*

Issued and fully paid

	<i>CONSOLIDATED</i>	
	<i>Dec-05</i>	<i>Jun-05</i>
	<i>ZAR'000</i>	<i>ZAR'000</i>
	1,340,492	48,212
	<i>Thousands</i>	<i>ZAR'000</i>
<i>Movements in ordinary shares on issue</i>		
At 1 July 2005	63,483,618	48,212
Issue of shares pursuant to the company's AIM listing	228,571,429	924,247
Issue of shares to Jisco	107,085,000	403,912
Issue of shares on conversion of the RAB convertible note	10,767,665	19,659
Issue of shares to Resource Capital Fund	375,911	-
Share issue costs	-	(55,538)
At 31 December 2005	410,283,623	1,340,492

- (a) The company issued shares to Jiuquan Iron and Steel Group Company Limited ("Jisco") on the basis set out in the Admission document dated 26 September 2005. Under these terms, Jisco were issued 107,085,000 shares in the company, representing 26.1% of the issued capital following the IPO, for a consideration of US\$34 million (ZAR403,912,000). Based on the exchange rate existing at the date of the IPO, this represents a discount to the fair value of the shares of ZAR183,252,000. The value of this discount represents the intangible value that Jisco provided in promoting the company and ensuring a successful IPO. As this intangible value does not meet the recognition criteria as an intangible asset, it has been expensed during the period.

The proforma balance sheet provided in the company's AIM Admission Document was prepared on the basis that a component of the discounted share price offered to Jisco was in return for the execution of the offtake agreement. In preparing the 31 December 2005 half year financial statements the Directors consider that there is no determinable value in the offtake agreement because standard, arms length commissions are payable under it.

### 4 SEGMENT REPORTING

The Group operates predominantly in one business segment and in the one geographical area, that being the development of an integrated chromite and processing facility in South Africa.

# Notes to the Half-Year Financial Statements (continued)

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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### 5 EVENTS AFTER THE BALANCE SHEET DATE

Since 31 December 2005 the Company has acquired all the issued share capital in Purity Metals Holdings Limited for US\$9 million, the owner of an 80% interest in Sky Chrome Mining (Proprietary) Limited, the owner of a chromite property having Indicated Mineral Resources of 28.4 million tonnes at 36.6% Cr<sub>2</sub>O<sub>3</sub> and Inferred Mineral Resources of 29.6 million tonnes at 36.6% Cr<sub>2</sub>O<sub>3</sub>. This acquisition gives the Company a total Indicated Mineral Resource of 53.35 million tonnes at 37.09% Cr<sub>2</sub>O<sub>3</sub> and Inferred Mineral Resource of 37.56 million tonnes at 36.84% Cr<sub>2</sub>O<sub>3</sub>. Full right of ownership will pass to IFM on final settlement of the purchase consideration. The Company received approval for the acquisition from the South African Competition Commission in February 2006.

On 25 January 2006, IFML capitalised its subsidiary, IFMSA for an amount of ZAR 1,045 million through a combination of equity (approximately ZAR 350 million) and debentures (approximately ZAR 695 million). As part of this capitalisation procedure, IFML made an investment of ZAR 695 million in preference shares in a UK financial institution which is secured by a put against a AA rated banking entity. IFMSA has raised these debentures using the preference share investment as collateral.

# Directors' Declaration

In accordance with a resolution of the directors of International Ferro Metals Limited, I state that:

1. 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.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 31 December 2005.

On behalf of the Board

Stephen Turner  
Director

Sydney, 31 March 2006

## Independent review report to members of International Ferro Metals 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, accompanying notes to the financial statements, and the directors' declaration for International Ferro Metals Limited (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 company, and that complies with Accounting Standards 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 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 company'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.

**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 International Ferro Metals Limited is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of International Ferro Metals Limited at 31 December 2005 and of its performance for the period 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



Michael Elliott  
Partner  
London  
31 March 2006