A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

6 MONTHS ENDED 31 DECEMBER 2005

APPENDIX 4D

**(Previous Corresponding Reporting Period:
6 months ended 31 December 2004)**

Results for Announcement to the Market
for the six months ended 31 December 2005

Name of entity

AJ LUCAS GROUP LIMITED

ACN

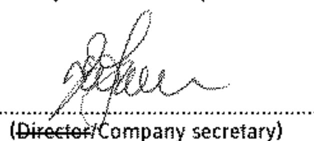
060 309 104

	Change			$A'000
Revenues from ordinary activities	Up 169%		to	94,548
Profit from ordinary activities after tax attributable to members	N/A	%	to	1,947
Net profit for the period attributable to members	N/A	%	to	1,947

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	20.0¢	71.5¢

Dividends	Amount per security	Franked amount per security
Interim dividend	Nil	N/A
Previous corresponding period	3.5¢	0%

1. An interim report for the six months ended 31 December 2005 is provided with the Appendix 4D information.
2. The interim report has been prepared in accordance with AASB 134 Interim Financial Reporting.
3. The Appendix 4D information is based on the interim financial report, which has been subject to review.
4. The audit review by the auditor is provided with the interim financial report.



Sign here: ....
(~~Director~~/Company secretary)

Print name: N J W Swan

Date: 6 March 2006

Commentary on the Results

for the six months ended 31 December 2005

After a disappointing year in 2005, the Company is now coming back on track. During the six month period ended 31 December 2005, revenue increased 169% to $94.5 million. This increase was experienced across all of the Company's activities. Net margins by activity also showed much improvement. However, the margins in the drilling division are still too low.

The performance by Lucas Stuart was particularly strong although the facilities management activities could be better. Lucas Stuart is making a big effort to diversify its business into facilities management and specialist civil engineering applications and it is expected that this will occur during this calendar year.

The pipeline division is extremely busy with projects being undertaken in Australia and New Caledonia. There is considerable activity forecast for gas and water pipelines within Australia during the next few years however, given the nature of these projects, they are attracting interest from overseas contractors as well as local participants. Competition therefore, is expected to be intense in relation to winning these projects.

All of the drilling operations at Lucas are now managed as one division with a view to being able to offer clients, particularly in the Coal Seam Gas (CSG) sector, a comprehensive, vertically integrated service. This will facilitate management of the Group's now considerable asset base as well as the technological side, which is increasing in importance. Horizontal Directional Drilling (HDD) revenue needs to be more consistent and the margins obtained more commensurate with the risk. As the surface to inseam (SIS) market continues to mature (and the knowledge required to achieve the production rates is learnt) the margins obtained in this area of activities should increase. Lucas is expecting significant capital expenditure in CSG during the next few years and has positioned itself accordingly.

Continued effort has been made during the period to resolve the outstanding commercial issues. While nothing concrete has been agreed, it is considered that these matters will be successfully concluded during the second half of this financial year (with the exception of the dispute between McConnell Dowell and BHPB in relation to the Minerva project, over which Lucas has little influence).

1. Summary of Financial Results

	Six months ended	
	Dec 2005	**Dec 2004**
Income Statement	**$ million**	**$ million**
Total revenue	94.5	35.1
EBITDA	5.5	(0.6)
EBIT	3.1	(2.5)
Net profit/(loss) before income tax	2.2	(3.1)
Profit/(loss) after tax	1.9	(2.6)
Other		
Net cash from operating activities	5.9	(4.0)
Basic earnings/(loss) per share (cents)	3.8¢	(5.0¢)
Diluted earnings/(loss) per share (cents)	3.7¢	(5.0¢)

	As at	
	Dec 2005	**June 2005**
Balance Sheet	**$ million**	**$ million**
Total assets	93.4	65.1
Net assets	21.2	19.2
Work in hand	110.9	90.0
NTA backing per security	20¢	16¢

2. Divisional Performance

Contributions from the major business divisions were as follows:

Division	Revenue		Profit/loss Before Tax		Segment Margin	
	2005 $'m	2004 $'m	2005 $'m	2004 $'m	%	%
Pipelines	21.1	0.6	1.8	(1.6)	8.5	(37.5)
Directional Drilling (HDD)	17.5	3.0	0.3	(0.8)	1.7	(26.7)
Gas Management Services	13.2	11.5	1.3	1.8	9.8	15.6
Construction and FM	42.6	20.7	1.5	0.2	3.5	1.0
Other	0.1	-	(2.7)	(2.7)	-	-
Eliminations (inter-segment)	-	(0.7)	-	-	-	-
	94.5	35.1	2.2	(3.1)	2.3	(8.8)

Pipelines

The division showed a strong recovery with four projects either completed or underway, most notably the Yaté pipeline in Noumea. This project, with an estimated value of US$28 million, is proceeding satisfactorily despite difficult local circumstances. Both gross and segment margins are now closer to historical levels. Final certificates were received for the SEA Gas pipeline in January 2006 upon successful completion of rectification work during the defect period. Work in hand is $26 million.

Directional Drilling

Revenue increased by 483% compared to the prior comparative period to $17.5 million. Gross margins improved substantially but are still short of targeted levels. Segment margin is still not acceptable due to the high divisional overhead, principally depreciation and amortisation. Business development is still key due to the long lead times in securing projects. Current work in hand is approximately $9m.

Gas Management Services

Gas management services continued to enjoy strong organic growth during the period reflecting buoyant demand in the coal sector and acceptance of our technology together with growth of our services business. Revenue increased by 14.8% to $13.2 million. The segment margin of 9.8% has improved when compared to the margin at 30 June 2005 of 8.9%, although was not as high as in the prior comparative period (15.6%). This reflects the continuing technology development cost in the division as well the purchase of new rigs and associated plant during the period. Work in hand amounts to $7.4 million. The division is close to securing contracts which are longer term in nature (2-3 years) which will allow future investment to be underwritten.

Construction and FM

The Lucas Stuart business is now reaping the benefits of the previous year's investment and reorientation. Revenue increased by 51.4% to $42.6 million. Both gross and segment margins increased, due to better execution and a higher quality client. Work in hand has never been stronger at $67 million.

3. Other Income Statement Commentary

Income Tax

The income tax expense of $0.2 million includes an estimated $0.4million from research and development tax concessions. This reflects the Group's commitment to this area to maintain its market leadership in its business segments.

4. Balance Sheet

The major movements since 30 June 2005 are as follows:

Trade and other receivables

Trade debtors increased by $8.2 million (78%) to $18.7 million reflecting the 169% increase in revenue from services during the period. The other major movement is in other loans which increased by $1.3 million and relates to the loan to a director as disclosed in note 7 of the Interim Financial Report.

Inventories

Inventories increased by 118% to $29.6 million. This is again directly linked to the higher level of business activity with all business segments having higher work in progress particularly Lucas Stuart and Pipelines.

Plant and equipment

The increase of $4.5 million over the period reflects further investment in drilling rigs and associated plant in respect of the Gas Management and Directional Drilling business segments.

Trade and other payables

Trade and other payables increased by 124% to $45.3 million, again because of the higher level of business activity.

Interest-bearing loans and borrowings

The net increase of $1.7 million in interest-bearing loans and borrowings follows from the purchase of new plant and equipment to carry out the Company's increased order book.

5. AIFRS

The Interim Financial Report has been prepared in accordance with AIFRS under AASB134 for the first time. The amended accounting policies are disclosed in note 1 and the explanation of transition to AIFRS is included in note 8 of the Interim Financial Report. The changes are not considered material.

6. Summary

The outlook for all of Lucas' business activities is strong although competition is increasing. The principal risk factor relates to obtaining sufficient, quality people to undertake these projects. We have already experienced upward pressure on wage rates and good and experienced people are very hard to find with competition even resulting between clients and service providers.

Lucas intends to spend a great deal of effort in developing its Gloucester Basin asset during the balance of this calendar year and the beginning of 2007. This asset is considered to have substantial potential and accordingly, it is the intention of Lucas and Molopo Australia Limited, as joint venturers on this proposal, to fast track its exploration and development. Thus far, gas flows are extremely encouraging. It should be noted however that the Gloucester Basin while prospective, has an elevated risk profile until Phase II is complete.

The Board does not intend to reintroduce a dividend until it is demonstrable that the Company's requirement for capital is satisfied. In view of the expansionary plans referred to above, it is unlikely that this will occur during this calendar year. The Company is very busy at the moment; well focused on achieving the business plan and rounding out the type of services offered. Continued success should see the Company well situated for the next two years.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR SIX MONTHS ENDED 31 DECEMBER 2005

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, it is recommended that this report is read in conjunction with the annual report as at 30 June 2005 together with any public announcements made by AJ Lucas Group Limited during the six months ended 31 December 2005 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

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Directors' Report

for the six months ended 31 December 2005

The Directors submit their report together with the interim financial report on the AJ Lucas Group consolidated entity, being the Company and its controlled entities, for the six months ended 31 December 2005.

DIRECTORS

The following persons were directors of the Company throughout the six months and up to the date of this report:

Allan Campbell (Chairman)
Martin Green
Julian Gregory
Andrew Lukas
Garry O'Meally
Ian Stuart-Robertson

RESULTS AND REVIEW OF OPERATIONS

A review of the consolidated entity's operations and the results of those operations for the six months are presented on pages 3 to 5 and form part of this report.

INTERIM DIVIDEND

The Directors have resolved not to pay an interim dividend (2005: 3.5 cents per share).

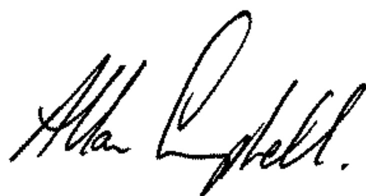
LEAD AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9 and forms part of this report.

ROUNDING OF AMOUNTS

The Company is of the kind specified in ASIC class order 98/0100. In accordance with that class order, amounts in the directors' report and financial report have been rounded to the nearest thousand dollars unless otherwise stated.

This report is made in accordance with a resolution of the Directors



Allan Campbell
Chairman

Sydney
6 March 2006

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half-year ended 31 December 2005 there have been:

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

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

KPMG

KPMG

Malcolm Kafer
Partner

Sydney

6 March 2006

Condensed Consolidated Interim Income Statement

for the six months ended 31 December 2005

	Consolidated	
	Dec 2005 $'000	**Dec 2004 $'000**
Revenue from rendering of services	94,472	35,048
Interest revenue	19	21
Other operating revenue	57	29
	94,548	35,098
Sub-contractor costs	(28,201)	(10,218)
Material costs	(38,876)	(10,461)
Plant & other construction costs	(6,610)	(3,647)
Employee expenses	(11,662)	(7,566)
Depreciation and amortisation expenses	(2,482)	(1,892)
Debt recovery and legal costs	(189)	(433)
Finance costs	(913)	(344)
Other expenses incurred in ordinary activities	(3,456)	(3,680)
Profit/(loss) before income tax	2,159	(3,143)
Income tax (expense)/benefit	(212)	590
Profit/(loss) for the period	1,947	(2,553)
Profit/(loss) attributable to members of the parent entity	1,947	(2,553)
Basic earnings/(loss) per share (cents)	3.8	(5.0)
Diluted earnings/(loss) per share (cents)	3.7	(5.0)

The condensed consolidated interim income statement is to be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Statement of Recognised Income and Expense

for the six months ended 31 December 2005

	Consolidated	
	Dec 2005 $'000	Dec 2004 $'000
Profit/(loss) for the period	1,947	(2,553)

The condensed consolidated interim statement of recognised income and expense is to be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Balance Sheet

at 31 December 2005

	Note	Consolidated December 2005 $'000	Consolidated June 2005 $'000
Current assets			
Cash and cash equivalents		2,187	4,060
Trade and other receivables		21,251	11,626
Inventories		29,629	13,584
Other		996	786
Total current assets		54,063	30,056
Non-current assets			
Plant and equipment		25,187	20,687
Intangible assets		7,007	7,007
Deferred tax assets		2,672	2,847
Other		4,484	4,475
Total non-current assets		39,350	35,016
Total assets		93,413	65,072
Current liabilities			
Trade and other payables		45,380	20,229
Interest-bearing loans and borrowings		5,504	6,309
Income tax payable		19	896
Provisions		1,658	1,402
Total current liabilities		52,561	28,836
Non-current liabilities			
Interest-bearing loans and borrowings		16,080	13,568
Provisions		3,619	3,514
Total non-current liabilities		19,699	17,082
Total liabilities		72,259	45,918
Net assets		21,153	19,154
Equity			
Issued capital		29,236	29,236
Reserves	3	704	652
Accumulated losses	4	(8,787)	(10,734)
Total equity attributable to equity holders of the parent	5	21,153	19,154

The condensed consolidated interim balance sheet is to be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Statement of cash flows

for the six months ended 31 December 2005

	Consolidated	
	Dec 2005 $'000	Dec 2004 $'000
Cash flows from operating activities		
Cash receipts from customers	72,870	40,217
Cash payments to suppliers and employees	(65,173)	(43,900)
Interest received	19	21
Income taxes paid	(922)	-
Interest paid	(913)	(344)
Net cash from operating activities	5,881	(4,006)
Cash flows from investing activities		
Proceeds from sale of plant and equipment	767	672
Payments for plant and equipment	(3,680)	(3,897)
Exploration, evaluation and development expenditure (net)	(90)	(575)
Loans to related entity	(1,348)	-
Payment for purchase of business	-	(2,383)
Net cash from investing activities	(4,351)	(6,183)
Cash flows from financing activities		
Repayment of borrowing from related entity	(186)	-
Dividends paid	-	(1,479)
Lease and hire purchase payments	(1,770)	(1,746)
Issue of convertible notes	-	9,050
Net cash from financing activities	(1,956)	5,825
Net decrease in cash and cash equivalents	(426)	(4,364)
Cash and cash equivalents at beginning of the period	494	12,540
Cash and cash equivalents at end of the period	68	8,176

Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand, at bank and short term deposits at call, net of outstanding overdrafts. Cash as at reporting date as shown in the statement of cash flows is reconciled to the related items in the income statement as follows:

	Dec 2005 $'000	Dec 2004 $'000
Cash assets	2,187	11,768
Bank overdraft (included in interest-bearing liabilities)	(2,119)	(3,592)
Net cash	68	8,176

The condensed consolidated interim statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to the condensed consolidated interim financial statements

for the six months ended 31 December 2005

1. Significant accounting policies

AJ Lucas Group Limited (the "Company") is a company domiciled in Australia. The interim financial report of the Company for the six months ended 31 December 2005 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in jointly controlled operations and assets.

(i) Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS").

This is the consolidated entity's first interim financial report prepared in accordance with AIFRS and AASB 1 *"First time Adoption of Australian Equivalents to International Financial Reporting Standards"*. The interim financial report does not include all the information required for a full annual financial report.

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

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 8. This note includes reconciliations of equity and profit for comparative periods reporting under previous Australian GAAP to those reported for those periods under AIFRS.

(ii) Basis of preparation

The financial report is presented in Australian dollars. The amounts in the consolidated financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

This financial report has been prepared in accordance with the historical cost convention and, except where stated, does not take into account changing money values or fair values of assets.

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

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

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

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

The preparation of the interim financial report in accordance with AASB 134 "Interim Financial Reporting" resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these interim financial statements. They have also been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to

Australian Accounting Standards - AIFRS, as required by AASB 1. The impact of the transition from previous GAAP and AIFRS is explained in note 8. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current reporting period. The accounting policies used have been consistently applied by each entity in the consolidated entity.

(iii) Basis of consolidation

Controlled entities

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company (the parent entity) and its controlled entities ("the consolidated entity"). The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Joint venture

A joint venture is an entity over whose activities the consolidated entity has joint control established by contractual agreement.

Joint venture operations

The consolidated entity's interests in unincorporated joint ventures and jointly controlled assets are brought to account by including in its financial statements its proportionate share of the joint ventures' assets, liabilities and expenses and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses arising from intragroup transactions, are eliminated on consolidation.

(iv) 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. In these circumstances, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

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

(v) Revenue recognition

Services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of the work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the costs incurred or to be incurred cannot be measured reliably.

Construction contracts

Revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated.

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that costs will be recovered, revenue is recognised to the extent of the costs incurred. An expected loss is recognised immediately as an expense.

Cost plus contracts

Revenue and expenses arising from cost plus contracts are recognised in the income statement by reference to the stage of completion of the contract when the following conditions are satisfied:

- it is probable that the economic benefits arising from the contract will flow to the consolidated entity; and
- costs related to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Stage of completion

Stage of completion is measured by reference to an assessment of total labour hours and other costs incurred to date as a percentage of estimated total costs for each contract, unless an alternative measurement method provides a more accurate indication of the stage of completion.

Asset sales

The net proceeds of asset sales are recognised at the date an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is recognised in other income.

Interest revenue

Interest income is recognised as it accrues using the effective interest method.

Dividends

Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from investments in jointly controlled entities and other investments is recognised when declared and receivable.

(vi) Expenses

Finance costs

Finance costs, including the coupon payments on the convertible notes are recognised as expenses in the period in which they are incurred. Finance costs include interest on bank overdrafts and borrowings, amortisation and discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and certain exchange differences arising from foreign currency borrowings.

Operating lease payments

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

Finance lease payments

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

(vii) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the foreign exchange rate at the date of the transaction. Foreign currency monetary balances at the balance sheet date are translated into Australian currency at the exchange rate ruling on that date with exchange differences brought to account in the income statement.

(viii) Income tax

Income tax

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

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

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

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

Tax consolidation

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

(ix) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit/(loss) attributable to members of the Company, excluding any costs of servicing equity (other than ordinary shares and converting notes classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company outstanding during the financial period.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(x) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash at bank and call deposits for the purposes of the statement of cash flows. Net cash includes cash on hand, at bank and short-term deposits at call, net of bank overdrafts.

(xi) Trade and other receivables

Contract and trade debtors include all net receivables from construction and other contracting services including profit recognised to date less cash received. The collectibility of contract and trade debtors is assessed at reporting date and provision for impairment made for any doubtful debts.

Other debtors and amounts owing by related entities are carried at amortised cost less impairment losses. Related entity receivables are subject to interest at commercial rates and are repayable in accordance with their applicable agreement.

(xii) Inventories

Materials and stores are carried at the lower of cost and net realisable value.

Construction work in progress

Work in progress is stated at cost plus profit recognised to date based on the value of work completed, less progress billing and less provision for foreseeable losses, allocated between amounts due from customers and amounts due to customers (included in Payables).

Cost includes an allocation of variable and fixed costs based on normal operating capacity, and those costs directly related to specific contracts.

(xii) Investments

Investments in controlled entities are carried in the Company's financial statements at cost less any impairment in value.

(xiv) Plant and equipment

Owned assets

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment in value. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

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

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

Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment in value.

Subsequent costs

Subsequent costs incurred on an item of plant and equipment is included in its carrying amount where the enhanced future economic benefits embodied within the item arising from the subsequent cost will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment	10-27%
Motor vehicles	15%
Office equipment	13-25%
Computer equipment	24-27%
Leased plant and equipment	10%

The residual value, if not insignificant, is reassessed annually.

(xv) Intangible assets

Goodwill

Business combinations prior to 31 December 2003

In accordance with AASB 1, the consolidated entity has elected to apply AASB 3 Business Combinations to acquisitions from 31 December 2003. Accordingly goodwill amortisation on these acquisitions subsequent to 31 December 2003 have been restated in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004.

Business combinations since 31 December 2003

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash and generating units and is no longer amortised but is tested annually for impairment or more frequently if indicators of impairment exist.

Research and development

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

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

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

Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure

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

Amortisation

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with indefinite useful lives are systematically tested for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative period are as follows:

- Capitalised development costs 3-5 years

(xvi) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories, construction contract assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

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

Goodwill and intangible assets with an indefinite life were tested for impairment at 1 July 2004, the date of transition to AIFRSs and at 30 June 2005 and provision made for impairment in value were appropriate.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where the carrying amount of an asset is greater than its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. 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. The decrement in the carrying amount is recognised as an expense in the reporting period in which the impairment loss occurs.

Reversals of impairment

Impairment losses in respect of goodwill and available-for-sale investments are not reversed. Reversals of other impairment losses are recognised in the income statement unless the asset has been previously revalued, in which case the reversal is recognised in the income statement only to the extent that it reverses an impairment loss that was previously recognised in the income statement. Any additional increase in the carrying amount of the asset is treated as a revaluation increase.

(xvii) Exploration, evaluation and development expenditure

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

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

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

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

(xviii) Trade and other payables

Trade and other payables are stated at amortised cost. Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

(xix) Interest-bearing borrowings

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

(xx) Financial instruments issued

The convertible notes issued by the Company are financial instruments, and the holder has the option to convert them into ordinary shares of the Company. Accordingly, they are classified as compound instruments. The liability component is measured as the present value of the principal and interest obligations, discounted at the prevailing market rate for a similar liability that does not have an equity component. The residual of the net proceeds received on issuing the instrument is classified as equity.

Interest expense on compound instruments is determined based on the liability component and includes the actual interest paid to holders. The liability accrues over the life of the instruments to the original face value if they are not previously converted. There are no dividends associated with the equity component.

(xxi) Employee benefits

Wages, salaries, annual leave and sick leave

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

Long service leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bond at reporting date that have maturity dates approximating the terms of consolidated entity's obligations.

(xxii) Share based payment transactions

Certain employees are entitled to participate in share ownership schemes. The fair value of rights granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period being the period during which the employees become unconditionally entitled to the rights. The fair value of rights granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the rights were granted. The amount recognised in expense is adjusted to reflect the actual number of share rights that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(xxiii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

2. Segment reporting

Segment information is presented in the interim financial statements in respect of the consolidated entity's business segments, which are its primary basis of segment reporting.

	Total revenue from ordinary activities		Segment profit/(loss) before related income tax	
	Dec 2005 $'000	Dec 2004 $'000	Dec 2005 $'000	Dec 2004 $'000
Directional drilling	17,522	3,037	322	(804)
Pipelines	21,134	550	1,775	(1,562)
Gas management services	13,168	11,524	1,249	1,856
Construction and facilities management	42,648	20,704	1,539	150
Unallocated	76	50	(2,726)	(2,783)
Eliminations (inter-segment)	-	(767)	-	-
Total	94,548	35,098	2,159	(3,143)

Notes to the condensed consolidated interim financial statements

for the six months ended 31 December 2005

3. Reserves

	Consolidated	
	Dec 2005	Jun 2005
	$'000	$'000
Employee compensation reserve		
Balance at beginning of reporting period	652	46
Rights vesting	52	606
Balance at end of reporting period	704	652

4. Accumulated losses

	Consolidated	
	Dec 2005	Jun 2005
	$'000	$'000
(Accumulated losses)/retained profits at beginning of the period	(10,734)	15,641
Net loss attributable to members of the parent entity	1,947	(22,266)
Dividends declared	-	(4,109)
Accumulated losses at end of the period	(8,787)	(10,734)

5. Total equity reconciliation

	Consolidated	
	Dec 2005	Jun 2005
	$'000	$'000
Total equity at beginning of the period	19,154	44,315
Total recognised income and expense	1,947	(22,266)
Contributions of equity	52	1,214
Dividends to shareholders	-	(4,109)
Total equity at end of the period	21,153	19,154

At various times throughout the half year ended 31 December 2005, the Company issued 176,000 ordinary shares pursuant to the exercise of rights under the Management Rights Plan. No consideration was payable on the exercise of the rights in accordance with their terms of issue.

6. Contingent liabilities

Insurance bonds increased by a net $2,628,000 during the period increasing the gross amount outstanding to $13,201,000. Practical completion has been granted on projects in respect of $5,275,000 of this amount. Bank Indemnity guarantees decreased by a net $1,343,000 during the period reducing the amount outstanding to $1,799,000.

Apart from the above, there were no material changes in contingent liabilities during the period.

7. Share based payments

The Company issues rights (over ordinary shares) to employees under the terms of the Management Rights Plan. The terms and conditions of the plan and rights made during the year ended 30 June 2005 are disclosed in the 2005 annual financial report.

No new rights were awarded during the period under review.

During the six months ended 31 December 2005, the consolidated entity recognised an expense of $52,000 in relation to rights granted in previous years.

	May 2004 Grant	Jun 2005 Grant
Fair value of rights and assumptions for the six months ended 31 December 2005		
Share price on grant date	$1.66	$1.52
Exercise price	Nil	Nil
Expected volatility	38%	39%
Expected dividends	5.4%	5.6%
Risk-free interest rate	5.6%	5.1%

8. Related parties

On 1 December 2005, the Company made a loan to Mr Campbell, the Company's Chairman of the Board of Directors and Chief Executive Officer, of $1,347,709 which is included as a current asset within trade and other receivables. The loan was initially made for 90 days and, subsequent to the end of the financial period, was extended for a further 90 days. The loan is now repayable on or before 30 May 2006. Interest is payable at 12.5% per annum and has been paid to 1 March 2006. The loan is secured by a Deed of Guarantee and Indemnity

9. Explanation of transition to AIFRS

As stated in note 1, this is the consolidated entity's first interim financial report for part of the period covered by the first AIFRS annual consolidated financial report prepared in accordance with Australian Accounting Standards - AIFRS.

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

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

An explanation of how equity transition from previous Australian GAAP to AIFRS has affected the consolidated entity's financial performance and cash flows is set out in the following tables and accompanying notes.

Reconciliation of equity			**Consolidated**	
	Note	**As at 30 June 2005 $'000**	**As at 31 Dec 2004 $'000**	**As at 1 July 2004 $'000**
Total equity under previous GAAP		18,923	39,984	44,264
Equity compensation reserve		704	652	46
Adjustments to retained earnings				
- Goodwill amortisation written back	(i)	285	57	37
- Impairment write down	(i)	(250)	-	-
- Increase in deferred tax asset	(vi)	196	105	14
- Equity compensation reserve	(iii)	(704)	(652)	(46)
		(473)	(490)	5
Total equity under AIFRS		19,154	40,146	44,315

Notes to the condensed consolidated interim financial statements

for the six months ended 31 December 2005

Reconciliation of profit		**Consolidated**	
	Note	**12 months ended 30 Jun 2005**	**6 month ended 31 Dec 2004**
Net loss after tax as reported under AGAAP		(21,840)	(2,366)
Goodwill amortisation written back	(i)	248	57
Share based payments expense	(iii)	(606)	(349)
Impairment write down	(i)	(250)	-
Total adjustments before tax		(608)	(292)
Income tax expense	(vi)	182	105
Total AIFRS adjustments		(426)	(187)
Net loss after tax under AIFRS		(22,266)	(2,553)

There were no material adjustments to the cash flow statement as a result of transition to AIFRS.

Notes to the reconciliations of equity and profit

(i) Business combinations

In accordance with AASB 1, the consolidated entity has elected to apply AASB 3 Business Combinations to acquisitions from 31 December 2003. (Refer note 1 accounting policy sub note (xv) Intangible Assets).

Goodwill

Previous AJ Lucas Group accounting policy was to amortise goodwill on a straight-line basis over 20 years. Under AIFRS, goodwill is no longer amortised but must be tested for impairment annually. As noted above, the consolidated entity has elected to apply AASB 3 Business Combinations to acquisitions from 31 December 2003. Accordingly, goodwill amortisation on these acquisitions subsequent to 31 December 2003 have been restated in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004.

Goodwill amortisation was written back by $285,000 for the year ended 30 June 2005 and by $57,000 for the six months ended 31 December 2004.

The adjusted goodwill amount was tested for impairment on transition to AIFRS and at 30 June 2005 and written down by $250,000. This test was performed at the appropriate cash generating unit levels.

As a result of the above, the carrying amount of goodwill as at 30 June 2005 was $5,147,000 a net increase of $35,000 and at 31 December 2004 was $5,206,000, a net increase of $94,000.

(ii) Research and development

The Group's previous accounting policy under AGAAP was to capitalise research expenditure where future benefits was expected beyond reasonable doubt. Under AIFRS, expenditure on research activities will be expensed as incurred.

Under AIFRS, expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses.

All research expenditure previously capitalised under AGAAP had been fully amortised at the transition date. Accordingly, no adjustment was required on the change to AIFRS either at the transition date or for the year ended 30 June 2005. Development costs have been reviewed against the recognition criteria and tested for impairment. No impairment losses have been recognised.

(iii) Share based payments

AJ Lucas Group provides equity based compensation to staff in the form of management rights over shares and shares issued under the Employee Share Acquisition Plan. Under AGAAP, no expense was recognised for the issue of these securities to employees. Under AIFRS, such securities are expensed based on the fair value of the instrument at grant date, recognised over the relevant period of service i.e. the vesting period.

In accordance with AASB 1, no retrospective adjustment has been made for management rights issued prior to 7 November 2002 or rights issued after 7 November 2002 which vested before 1 January 2005.

At 1 July 2004, retained earnings were reduced by $46,000 and a corresponding equity compensation reserve created to recognise share based payments expense on transition to AIFRS. The recognition of share based payments as an expense subsequent to transition resulted in an increase of employee costs of $349,000 for the six months to December 2004 and $606,000 for the year ended 30 June 2005.

(iv) Revenue from ordinary activities

Although not affecting the net profit of the consolidated entity, the adoption of AIFRS has resulted in a number of transactions being recorded on a "net" rather than a "gross" basis. In addition, the adoption of AIFRS has resulted in the reclassification of proceeds from sale of non-current assets from revenue from ordinary activities to other income and expense items in the income statement.

As a consequence, revenue from ordinary activities for the six months to December 2004 decreased by $602,000 and expenses decreased by $666,000. The net loss on the sale of non-current assets of $64,000 is included within plant and other construction costs in the income statement.

(v) Plant and equipment

Plant and equipment are measured at cost under AIFRS. However, as permitted by the election available under AASB 1, at transition date certain items of plant and equipment were recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition.

The asset revaluation reserve balance of $964,000 relating to these assets was derecognised at transition date and transferred to retained earnings. As carrying amounts, depreciation rates and useful economic lives did not change in the financial year ended 30 June 2005, there was no effect on the income statement for this year under AIFRS.

(vi) Income tax

Following transition to AIFRS, the income tax balances has been calculated based on the "balance sheet approach" replacing the "income statement approach" used under previous AGAAP.

The "income statement approach" calculated income tax on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, were carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

The "balance sheet approach" recognises deferred tax balances when there is a difference between the carrying value of an asset or liability for accounting purposes and its tax base. Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

There is no impact on the consolidated entity as a result of this change in approach other than impacts that have arisen as a result of AIFRS adjustments. The impact of other AIFRS transition adjustments identified above increases retained earnings by $14,000 at 1 July 2004, $105,000 at 31 December 2004 and $196,000 at 30 June 2005. As a result of the above, the deferred tax asset also increased by these amounts.

10. Events subsequent to balance date

There were no significant events subsequent to reporting date.

AJ LUCAS GROUP LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of AJ Lucas Group Limited (the 'Company'):

1. the accompanying financial statements and notes are in accordance with the Corporations Act 2001, including:

    a. giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows, for the six months ended on that date; and

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

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

Signed in accordance with a resolution of the directors.

Chairman

Sydney
6th March 2006

Independent review report to the members of AJ Lucas Group Limited

Scope

We have reviewed the financial report of AJ Lucas Group Limited ("the Company") for the half-year ended 31 December 2005, consisting of the condensed consolidated interim statement of income, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes 1 to 10 and the directors' declaration set out on pages 10 to 26. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards.*

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

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

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

(a) the Corporations Act 2001, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
   ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Malcolm Kafer
Partner

Sydney
6 March 2006

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