A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

6 MONTHS ENDED 31 DECEMBER 2006

APPENDIX 4D

(Previous Corresponding Reporting Period:
6 months ended 31 December 2005)

Results for Announcement to the Market

for the six months ended 31 December 2006

Name of entity
AJ LUCAS GROUP LIMITED

ACN
060 309 104

	Change		$A'000
Revenues from ordinary activities	Down 9.3%	to	85,049
Profit from ordinary activities after tax attributable to members	Down 36.7%	to	1,232
Net profit for the period attributable to members	Down 36.7%	to	1,232

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	22.2¢	20.0¢

Dividends	Amount per security	Franked amount per security
Interim dividend	Nil	N/A
Previous corresponding period	Nil	N/A

1. An interim report for the six months ended 31 December 2006 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 review by the auditor is provided with the interim financial report.

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

Print name: N J W Swan

Date: 28 February 2007

Commentary on the Results

for the six months ended 31 December 2006

AJ Lucas Group Limited announces a net profit before tax for the six months ended 31 December 2006 of $1.6 million (2005: $2.2 million) a decrease of 23.9% on revenues of $85.0 million (2005: $94.5 million), a decrease of 10.1%. The Company views this result as disappointing, but not unexpected.

The Company forecast at the AGM that 2007 would be a record year, but that profitability for the first half would be lower than in the prior year comparative period. This was due to timing issues, business mix and the establishment costs associated with a significantly higher turnover. This has proved to be the case. Significant features of the result are:

- EBITDA increased 24% to $6.8 million (2005: $5.5 million).
- Delays in the commencement of projects reduced revenue by $35 million (with an associated gross margin reduction of $4.4 million).
- Under-recovery of plant and equipment costs (largely related to HDD and SIS) of some $2.5 million (2005:$ 2.2 million).
- Exceptional legal costs of $0.5 million relating to the settlement of a contractual dispute.

The results have also been impacted by the accounting treatment for intangibles as detailed below:

- Intangibles totalling $2.8 million were written off.
- Recognition of identifiable intangibles amounting to $3.9 million arising from the acquisition of customer contracts and relationships included in the purchase of McDermott Drilling, which resulted in a profit on acquisition.
- Amortisation costs of $0.8 million for the McDermott Drilling customer contracts and relationships referred to above.

The result demonstrates the inherent operating leverage existing within Lucas. When the plant and human resources are fully utilised, high margins are produced. The converse also applies.

A summary of the financial results for the first half compared with the prior year comparative period is as follows:

1. Summary of Financial Results

	Six months ended	
	Dec 2006 $ million	**Dec 2005 $ million**
Total revenue	85.0	94.5
EBITDA	6.8	5.5
EBIT	2.6	3.2
Net profit before income tax	1.6	2.2
Profit after tax	1.2	1.9
Net cash from operating activities	4.5	5.9
Basic earnings per share (cents)	2.3¢	3.8¢
Diluted earnings per share (cents)	2.3¢	3.7¢

The result masks the improvement in the underlying performance of the Group, which is expected to be seen during the calendar 2007 year. The delayed projects referred to above have now all commenced with much of the budgeted revenue and margin likely to be recovered in the second half. And work in hand increased by 13% during the period to $250 million at 31 December 2006.

A significantly improved second half is therefore anticipated with the full year result expected to be much as budgeted. The increased workload, allied to the continued rationalisation of plant and equipment, will reduce the under-recovery of plant expenditure over the remainder of the financial year.

2. Divisional Performance

Contributions from the major business divisions were as follows:

Division	Revenue		Profit/loss Before Tax		Segment Margin	
	Dec 2006 $'m	Dec 2005 $'m	Dec 2006 $'m	Dec 2005 $'m	%	%
Pipelines and directional drilling	27.0	38.7	0.6	2.1	2.2	5.4
Gas and coal drilling services	21.9	13.2	3.8	1.3	17.3	9.8
Construction and civil	36.1	42.6	-	1.5	0.0	3.5
Unallocated	0.0	0.1	(2.8)	(2.7)	-	-
Total	85.0	94.5	1.6	2.2	1.9	2.3

Pipelines and Directional Drilling (HDD)

The result for the pipeline division was adversely affected by a $1.8 million impairment charge in respect of the Pipeline Rights and a charge of $0.9 million (2005: $1.5 million) for under-recovery of HDD plant and equipment. On an operating basis however, the division performed well. In the absence of the impairment charge and the plant under-recovery, the division would have earned $3.3 million (2005: $3.6 million) equivalent to 12.2% of revenue (2005: 9.3%), close to the long-run margin expected from this activity.

The result also includes a conservative approach to profit recognition on the Goro project. This project is now nearing completion (expected in April/May) coinciding with construction work on the Western Corridor project of the Eastern Pipeline in Brisbane commencing. The last four months have been spent carrying out detailed engineering, design, costing and planning work on this project.

The market for pipelines is extremely busy (particularly water pipelines) however, it is noted that additional contractors have entered the market (particularly at the lower contracting end of the market) and experienced, quality people are difficult to attract and retain.

Lucas' pipeline capabilities and engineering skills place the Company in a good position to win additional gas and water pipeline projects scheduled for construction over the next two years. The Company is currently negotiating and/or tendering on several water and gas pipeline projects, ranging in size from $10 million to $150 million, and is hopeful of being awarded a number of these.

Gas and Coal Drilling Services

The drilling business continued its strong growth reflecting buoyant market conditions. McDermott Drilling, purchased in July 2006, has now been fully integrated and contributed $1.9 million during the period, performing as expected. Following the acquisition, Lucas now offers a full service drilling capability covering vertical, horizontal and surface to inseam drilling.

The pre-tax profit margin increased to 17.3% from 9.8% in the prior year comparative period. The result for the current period included $0.8 million charge for amortisation of customer contracts and relationships included in the acquisition of McDermott Drilling. The result was also affected by $1.6 million (2005: $0.7 million) for under-recovery of SIS plant and equipment and $3.9 profit recognised on the acquisition of McDermott Drilling for its customer contracts and relationships. Without these adjustments, the net profit margin would have amounted to 10.5% (2005: $15.2%) of revenue.

The deterioration in margin reflects the continuing difficulties in the surface to seam operations owing to the complexity of the operation, the unknown nature of ground conditions and the fact that, as a nascent industry, there is yet to be an accepted execution model. The Company believes in the industry and the technology required to extract the gas and that it is worth persevering with this activity. Margins, in the meantime, really do not justify the investment in high technology plant and skilled personnel. The next six months are critical to Lucas continuing with this activity.

The distinguishing feature that Lucas brings to its drilling services is the ability to engineer and design the work: necessitating a high degree of technical ability in addition to the practical execution experience. It is this feature that the market requires at present; with a requirement to increase production and decrease costs.

Consequently, the division (with the exception of SIS) is running at almost full capacity. This is expected to continue in the foreseeable future. Long term arrangements are being put in place for underground, vertical and horizontal drilling activities (for degasification and exploration drilling) for clients such as AGL at Camden, BHPB in the Gunnedah Basin, Eastern Star at Narrabri, Anglo at Bulga and Xstrata and Arrow at Moranbah.

Construction and Civil

The construction and civil division commenced the period with a record order book and a very strong financial performance was expected in the first half. Delays in some clients obtaining the necessary building approvals, most particularly the Ivy Project in George Street, Sydney ($68 million) and the new Hyundai headquarters in Ryde ($45 million), however held up the start of a number of projects. Consequently, revenue from this activity declined by 15.3% to $36.1 million (2005: $42.6 million).

Since the end of the half year, both these projects have commenced and solid progress has been made although it is unlikely that they can be accelerated sufficiently for the division to attain its originally forecast revenue of $100 million in this financial year. This is unlikely to have a material impact on the Group's consolidated result.

The facilities management (FM) business again failed to meet expectations and lost $0.25 million during the period. While we continue to seek out acquisition opportunities to give this activity critical mass, the fact is that management has been preoccupied with the surging growth of the Group's other activities. Given the recent financial performance of this activity together with its small scale, the decision was made to write off all its goodwill during the period, amounting to $1.0 million.

In the absence of this impairment and the FM operating loss, the divisional operating profit before tax would have been $1.2 million equivalent to pre-tax margin of 3.4%, similar to that achieved in the previous financial year comparative period.

The Company's strategy regarding facilities management and operations and maintenance remains steadfast and Lucas intends to pursue this aspect of its business with significantly more vigour over the balance of 2007. The present situation is not satisfactory and will not continue.

3. Prospects

Notwithstanding the relatively slow start to the financial year, the Group still expects to attain its previously forecast revenue for the financial year of $220 million at an EBITDA margin of around 6% - 8%. The second half will therefore be much stronger as the delayed projects come on stream, many of which have commenced already.

Australia's chronic under-investment in infrastructure in recent times has now become very apparent. The nationwide drought has created a dramatic demand for new water pipelines and the rapid development of the coal seam gas industry, the continuing demand for clean energy and Australia's booming resources sector, have created a strong demand for new gas pipelines.

Lucas is well positioned to benefit from this situation.

4. Coal Seam Gas Assets (incl. Gloucester Basin)

As foreshadowed at the AGM, the Company has now established a separate coal seam gas team, based in Melbourne. This team has responsibility to develop the Company's coal seam gas assets and, more particularly, to develop this side of Lucas' business.

The Company's principal coal seam gas asset, the Gloucester Basin, has now commenced Phase II, following agreement between the joint venture partners in February 2007. This calls for a programme of 12 core wells, 3 production pilots, an aeromagnetic programme and seismic reprocessing involving a capital spend of approximately $13 million to $15 million over the next 18 months.

Until this exercise has been completed, the Gloucester Basin must be considered high risk.

The Company believes that it is unwise to impute any significant value to the Gloucester Basin in Lucas' share price until such time as the joint venture has the information (produced by Phase II) to assess the viability of the Gloucester Basin accurately. This is some time off.

Stock market speculation in the sector generally, in so far as undeveloped properties are concerned and, specifically as the Gloucester Basin is concerned, is not helpful to any investor (or potential investor) and could lead to disappointment. The Company will keep the market informed as progress unfolds.

5. Convertible Notes

The Company has 10 million $1.00 redeemable convertible notes, convertible into ordinary shares at a minimum price of $2.00 each, maturing on 28 December 2007. As they are redeemable within 12 months, the liability has been included as a current liability which largely explains why the Group currently has a deficiency in working capital. Unless these notes convert, it will be necessary to either refinance them or to replace them out of a new equity issue.

6. Finance

Having regard to the capital requirements of the Company, the Board has decided not to declare an interim dividend for the half year ended 31 December 2006. The situation regarding the recommencement of dividends will be kept under review and reconsidered as financial circumstances and the capital requirements of the Group are addressed.

The Company previously indicated that it was reviewing its capital requirements going forward and, in particular, capital required for further development of the coal seam gas assets. This exercise has now been completed and the Company is presently considering options regarding a capital raising exercise for these purposes.

7. Summary

The outlook for all of Lucas' business activities remains strong although competition is increasing. Work-in-hand increased $29 million to $250 million as at 31 December 2006, an increase of 13% compared to 30 June 2006. This was a result of new contract awards, expansion of existing contracts and contributions from McDermott Drilling Pty Limited.

As previously reported, the principal risk factor relates to obtaining sufficient, quality people to undertake the work secured. We have already experienced upward pressure on wage rates and good and qualified people are hard to attain.

In summary, the outlook for the Group is very encouraging; substantial expenditure on infrastructure is expected to persist for several years and the Group is strongly positioned to benefit from this.

A J LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR SIX MONTHS ENDED 31 DECEMBER 2006

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 2006 together with any public announcements made by AJ Lucas Group Limited during the six months ended 31 December 2006 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 2006

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 2006.

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
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 6 and form part of this report.

INTERIM DIVIDEND

The Directors have resolved not to pay an interim dividend (2005: $Nil).

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 10 and forms part of this report.

ROUNDING OF AMOUNTS

The Company is of the kind specified in ASIC class order 98/100. 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
28 February 2007

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of AJ Lucas Group Limited

I state that, to the best of my knowledge and belief in relation to the review for the financial half-year ended 31 December 2006 there have been:

- no contraventions of the audit independence requirements of the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Malcolm Kafer
Partner

Sydney

28 February 2007

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

Condensed Consolidated Interim Income Statement

for the six months ended 31 December 2006

	Consolidated	
	Dec 2006 $'000	Dec 2005 $'000
Services revenue	85,049	94,472
Other revenue	-	57
Total Revenue	85,049	94,529
Sub-contractor costs	(34,954)	(28,201)
Material costs	(19,216)	(38,876)
Plant & other construction costs	(7,324)	(6,610)
Employee expenses	(14,572)	(11,662)
Depreciation and amortisation expenses	(4,193)	(2,482)
Debt recovery and legal costs	(694)	(189)
Profit on acquisition of business	3,890	-
Impairment of intangibles	(2,779)	-
Other expenses incurred in ordinary activities	(3,131)	(3,277)
Results from operating activities	2,076	3,232
Financial income	747	19
Financial expenses	(1,179)	(1,092)
Profit before income tax	1,644	2,159
Income tax expense	(412)	(212)
Profit for the period	1,232	1,947
Profit attributable to members of the parent entity	1,232	1,947
Basic earnings per share (cents)	2.3	3.8
Diluted earnings per share (cents)	2.3	3.7

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 2006

	Consolidated	
	Dec 2006 $'000	Dec 2005 $'000
Exchange differences on translations of foreign operations	119	-
Income and expense recognised directly in equity	119	-
Profit for the period	1,232	1,947
Total recognised income and expense for the period	1,351	1,947

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 2006

	Note	Consolidated December 2006 $'000	Consolidated June 2006 $'000
Current assets			
Cash and cash equivalents		5,081	5,889
Trade and other receivables		20,226	20,380
Assets classified as held for sale		1,732	1,828
Construction work in progress		21,539	25,570
Other		207	509
Total current assets		48,785	54,176
Non-current assets			
Plant and equipment	5	31,244	21,110
Intangible assets	6	8,417	7,747
Deferred tax assets		4,321	4,603
Investments		64	57
Exploration assets		4,912	3,819
Total non-current assets		48,958	37,336
Total assets		97,743	91,512
Current liabilities			
Trade and other payables		32,685	40,190
Interest-bearing loans and borrowings		22,167	6,989
Income tax payable		534	-
Provisions		2,180	1,705
Total current liabilities		57,566	48,884
Non-current liabilities			
Interest-bearing loans and borrowings		11,603	16,802
Provisions		3,640	3,590
Total non-current liabilities		15,243	20,392
Total liabilities		72,809	69,276
Net assets		24,934	22,236
Equity			
Issued capital	7	30,583	29,236
Reserves	7	704	704
Accumulated losses	7	(6,353)	(7,704)
Total equity		24,934	22,236

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 2006

	Consolidated	
	Dec 2006 $'000	Dec 2005 $'000
Cash flows from operating activities		
Cash receipts from customers	99,913	72,870
Cash payments to suppliers and employees	(94,256)	(65,173)
Interest received	45	19
Income taxes refunded/(paid)	2	(922)
Interest paid	(1,171)	(913)
Net cash from operating activities	4,533	5,881
Cash flows from investing activities		
Proceeds from sale of plant and equipment	227	767
Payments for plant and equipment	(3,277)	(3,680)
Exploration, evaluation and development expenditure (net)	(1,119)	(90)
Loans to related entity	(534)	(1,348)
Payment for purchase of business	(100)	-
Net cash from investing activities	(4,803)	(4,351)
Cash flows from financing activities		
Repayment of borrowing from related entity	(483)	(186)
Proceeds from borrowings	3,513	-
Repayment of borrowings	(5,424)	-
Payment of finance lease liabilities	(1,192)	(1,770)
Net cash from financing activities	(3,586)	(1,956)
Net decrease in cash and cash equivalents	(3,856)	(426)
Cash and cash equivalents at beginning of the period	1,411	494
Cash and cash equivalents at end of the period	(2,445)	68

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 balance sheet as follows:

	Dec 2006 $'000	Dec 2005 $'000
Cash assets	5,081	2,187
Bank overdraft (included in interest-bearing liabilities)	(7,526)	(2,119)
Net cash	(2,445)	68

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

1. Significant accounting policies

AJ Lucas Group Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in jointly controlled entities.

(i) Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

The consolidated interim financial report was approved by the Board of Directors on 28 February 2007.

The financial report is presented in Australian dollars. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Director's Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(ii) Significant accounting policies

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

(iii) Basis of preparation

Going Concern

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

The consolidated entity's interim balance sheet shows a working capital deficiency of $8.8 million. This arises largely because of the classification of 10 million $1.00 redeemable convertible notes as a current liability as they mature on 28 December 2007 together with the acquisition funding and debt acquired on the purchase of McDermott Drilling Pty Limited. Previously, the notes were classified as a non-current liability. The notes are convertible into ordinary shares at a minimum price of $2.00 per share.

The consolidated entity received cash flow from operations of $4.5 million during the period. Management projects that turnover for the full financial year will be in the order of $220 million with an EBITDA in the range of 6% - 8% and generate positive cash flow from operations. Management also proposes to increase the amount of expenditure on its Gloucester Basin project over the next 18 months to establish the recoverability of the gas reserves in situ.

Management is confident that it will be able to meet its expenditure plans and commitments from a combination of cash flow from operations, issue of new equity and/or refinance of its existing borrowing facilities. Accordingly, no adjustments have been made to the financial report to take account of any changes that would be required relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

(iv) Estimates

The preparation of an interim financial report in conformity with Australian Accounting Standards 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.

In preparing this consolidated interim financial report, with the exception of the recoverable amount of intangible assets (note 6), the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2006.

The provision for tax is based on the estimated effective tax rate for the forecast result for the full financial year.

2. Change in accounting policies

The following standards and amendments are available for early adoption at 31 December 2006, but have not been applied in this interim financial report:

AASB 7 *Financial Instruments: Disclosures*

AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

The above are applicable for annual reporting period beginning on or before 1 January 2007.

3. Segment reporting

AJ Lucas Group is a diversified infrastructure services and construction group. The Group has 283 employees and a client base that includes government and major corporations. The Consolidated entity comprises the following main business segments:

Pipelines including directional drilling	Construction and installation of pipelines, trenchless installation of pipes and conduits and hydrostatic testing.
Gas and coal drilling services	Drilling services to degasification of underground coal mines, recovery and commercialisation of coal seam gas and associated services.
Construction and civil	Construction, facilities management and civil engineering.

	Segment revenue		**Segment profit/(loss) before related income tax**	
	Dec 2006 $'000	**Dec 2005 $'000**	**Dec 2006 $'000**	**Dec 2005 $'000**
Pipelines and directional drilling	27,045	38,656	609	2,097
Gas and coal drilling services	21,886	13,168	3,790	1,249
Construction and civil	36,118	42,648	4	1,539
Unallocated	-	57	(2,759)	(2,726)
Total	85,049	94,529	1,644	2,159

4. Profit before tax

Profit before tax includes the following expenses:

	Consolidated	
	Dec 2006 $'000	Dec 2005 $'000
Expenses		
Depreciation of plant and equipment	3,379	2,482
Amortisation of customer contracts & relationships	814	-
Total depreciation and amortisation	4,193	2,482
Impairment of facilities management goodwill	993	-
Impairment of pipelines rights	1,786	-

5. Plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2006, the consolidated entity acquired assets with a cost of $13,101,000 (December 2005: $8,025,000), including assets acquired through business combinations (see note 8) of $9,858,000 (December 2005: $nil). These were funded either through leases or out of the consolidated entity's cash flow.

Assets with a carrying amount of $148,000 were disposed of during the six months ended 31 December 2006 (December 2005: $648,000), resulting in a gain on disposal of $79,000 (December 2005: $119,000 gain).

6. Intangible assets

Facilities management

As a result of an impairment indicator, the consolidated entity performed an impairment test of goodwill at period end. As a result of this testing, the carrying amount of the facilities management cash-generating unit, which comprises operations of the Construction and Civil segment (see note 3), was determined to be higher than its recoverable amount and an impairment loss of $993,000 (December 2005: $nil) was recognised. The impairment loss was allocated fully to goodwill. The impairment resulted from operating losses in facilities management with no immediate prospect of an improvement in performance.

The facilities management impairment test was based on discounted values of future cash flows which determined a nil recoverable value. Accordingly, an impairment charge was made to reduce the goodwill value to nil.

The recoverable amount of the facilities management cash-generating unit was based on value in use calculations. Those calculations used cash flow projections based on actual operating results and the two year business plan. A pre-tax discount rate of 12.5% percent was used in discounting the projected cash flows.

Pipeline rights

Pipeline rights amounting to $1,786,000 were brought forward at the beginning of the reporting period. This intangible asset related to a payment made to obtain the rights to engineer and construct the infrastructure necessary to transport oil and gas produced or generated from Nerdlihc Inc's exploration permits in the Canning Basin in Western Australia to a location on the coast for their shipping and export.

The exploration permits expired during the period. Accordingly, management considered that there was no future value in the pipelines rights and that their value was fully impaired. As a result, an impairment charge of $1,786,000 was made in this period.

7. Capital and reserves

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

	Share capital $'000	Translation reserve $'000	Employee equity benefits reserve $'000	Accumulated losses $'000	Total equity $'000
Balance 1 July 2006	29,236	-	704	(7,704)	22,236
Total recognised income and expense	-	119	-	1,232	1,351
Shares issued:					
Business acquisition	1,000	-	-	-	1,000
Share based payments	347	-	-	-	347
Balance at 31 December 2006	30,583	119	704	(6,472)	24,934
Balance 1 July 2005	29,236	-	652	(10,734)	19,154
Total recognised income and expense	-	-	-	1,947	1,947
Equity settled share based payments	-	-	52	-	52
Balance at 31 December 2005	29,236	-	704	(8,787)	21,153

8. Acquisition of subsidiary

On 31 July 2006, the Company acquired McDermott Drilling Pty Limited, a New South Wales based drilling company, for a consideration of $8.0 million of which $4.0 million was deferred and is payable in equal instalments on the first three anniversary dates after the date of acquisition. The initial consideration was funded as to $1.0 million through the issue of 1,333,333 shares at an issued price of $0.75 cents per share, being a discount of 2.5% to their market price at the date of purchase, with the balance by a combination of the Group's resources and debt. In the period to 31 December 2006, McDermott Drilling contributed net profit before interest and tax of $1,874,000. If the acquisition had occurred on 1 July 2006, the contribution to net revenue would have been $9,068,000 and net profit would have been $1,823,000.

The acquisition had the following effect on the consolidated entity's assets and liabilities:

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Trade and other receivables	3,595		3,595
Plant and equipment	9,858	4,981	4,877
Other assets	1,628		1,628
Trade and other payables	(1,063)		(1,063)
Other financial liabilities	(4,989)		(4,989)
Provisions	(1,041)		(1,041)
Net identifiable assets and liabilities	7,988	4,981	3,007
Goodwill on acquisition	411		
Consideration	8,399		
Less deferred consideration payable	(4,000)		
Less consideration satisfied by the issue of shares	(1,000)		
Less debt funding and other finance	(3,499)		
Net cash outflow	(100)		

The consideration above includes acquisition costs of $399,000.

The Company commissioned an independent expert to conduct an analysis of the fair value of the assets and liabilities of McDermott Drilling Pty Limited on its acquisition. Following this analysis, the Company has provisionally determined a carrying value of $3,890,000 for customer contracts and relationships, separate from the goodwill on acquisition.

9. Contingent liabilities

Insurance bonds increased by a net $3.2 million during the period increasing the gross amount outstanding to $12.9 million. Practical completion has been granted on projects in respect of $3.3 million of this amount. Bank Indemnity guarantees increased by a net $0.3 million during the period increasing the amount outstanding to $1.9 million.

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

10. Related parties

During the previous financial year, the Company made a loan to Mr Campbell, the Company's Chairman and Chief Executive Officer. Movement on the loan amount during the current period was:

	$
Balance owing at 30 June 2006	2,612,026
New amounts loaned during the reporting period	534,092
Interest payable in the reporting period	174,587
Balance owing at 31 December 2006	3,320,705

During the reporting period, the terms of the loan were varied and approved by the Board including that Andial Pty Limited irrevocably direct any and all dividends received from its shareholding in AJ Lucas Group in repayment of any loan amount outstanding until repaid in full. The loan is repayable by 30 June 2008 and interest is payable at 12.5% per annum. Andial Pty Limited, formerly known as AJ Lucas Holdings Pty Limited, is a company associated with the executive directors of AJ Lucas Group being Messrs Campbell, Lukas and Stuart-Robertson. During the period, the amount loaned by Andial to AJ Lucas Group at 1 July 2006 amounting to $474,639, was repaid in full together with interest accruing during the period at an interest rate of 8.75% per annum of $8,470.

11. Income tax expense

The consolidated entity's consolidated effective tax rate was 25% for the six months ended 31 December 2006 (2005: 10%). In the prior period, R&D Tax Concessions lowered the effective rate of tax. While a similar concession is available in the current period, adjustments have been made to the effective tax rate for the impact of recognition of intangible assets, amortisation/ impairment of intangible assets and the forecast full year effective tax rate.

12. 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 2006 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.

Allan Campbell
Chairman

Sydney
28th February 2007

Independent auditor's review report to the members of AJ Lucas Group Limited

Report on the Financial Report

We have reviewed the accompanying interim financial report of AJ Lucas Group Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in income and expenses and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes (1 to 12) and the directors' declaration (set out on page 20) of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of AJ Lucas Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG, an Australian partnership, is part of the KPMG International network. KPMG International is a Swiss cooperative.

Independent auditor's review report to the members of AJ Lucas Group Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of AJ Lucas Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB *134 Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

KPMG

Malcolm Kafer
Partner

Sydney

28 February 2007

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