AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

INTERIM REPORT

6 MONTHS ENDED 31 DECEMBER 2008

APPENDIX 4D

**(Previous Corresponding Reporting Period:
6 months ended 31 December 2007)**

Results for Announcement to the Market

for the six months ended 31 December 2008

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

	Change		$A'000
Revenues from ordinary activities	Up 42.6%	to	292,801
Underlying earnings before interest and tax	Up 39.3%	to	18,536
Profit from ordinary activities after tax attributable to members	Up 1,846.4%	to	160,326
Net profit for the period attributable to members	Up 1,846.4%	to	160,326

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per ordinary security	179.2¢	22.2¢

Dividends	Amount per security	Franked amount per security
Interim dividend	5.0¢	0%
Previous corresponding period	3.5¢	100.0%

The directors declared the payment of an interim dividend of 5.0 cents per share to the holders of fully paid ordinary shares registered on 17 March 2009 to be paid on 27 March 2009.

1. An interim report for the six months ended 31 December 2008 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 audit review.
4. The review by the auditor is provided with the interim financial report.

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Company Secretary

NJW Swan

27 February 2009

Commentary on the Results

for the six months ended 31 December 2008

AJ Lucas Group Limited ("Lucas" or the "Group") revenue increased to $292.8 million, a 42.6% increase on the previous corresponding period. Underlying operating profit before financing costs increased by 39.3% to $18.5 million (2007: $13.3 million).

The period for Lucas was extremely active including the following significant events:

- Acquisition for $150 million of the Mitchell Drilling business; the other largest provider of drilling services to the Australian coal seam gas industry;
- Recapitalisation of the business through the issue of 5.5 million new shares at $5.30;
- Restructuring of the Group's borrowings through renegotiation of facilities and lengthening of the debt maturity profile to an average term of three years;
- Sale of the Group's coal seam gas equity interest in the Gloucester Basin.

As a result of these initiatives, Lucas is now the largest specialist driller for the coal and coal seam gas industries in Australia, has a diversified specialist civil engineering and infrastructure services business operating in key sectors of the Australian economy and no net borrowings.

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

	Six months ended		
	Dec 2008 $ million	Dec 2007 $ million	Change %
Total revenue	292.8	205.3	42.6
Underlying EBITDA	29.9	22.1	35.3
Reported EBITDA	248.4	18.8	1,221.3
EBIT	237.0	13.3	1,682.0
Net profit before income tax	229.2	11.0	1,983.6
Profit after tax	160.3	8.2	1,846.4
Basic earnings per share (cents)	242.5¢	15.1¢	1,506.0
Diluted earnings per share (cents)	232.7¢	14.4¢	1,516.0

The record net profit after tax of $160.3 million included a $153.0 million profit after tax from the sale of Lucas' interest in the Gloucester Basin. The realisation of this investment resulted in the Group having cash reserves of $234 million at balance date and no net borrowings. Since balance date, Lucas has built on these cash reserves with the disposal of its equity interest in Sydney Gas Limited, which realised a further $34.2 million.

The business mix, market positioning and balance sheet strength places Lucas in a strong position to continue to grow. The Group's strategy to target only selected infrastructure sectors, particularly energy and water, which have an essential need to maintain investment and increase capacity is critical to understanding the Group's strength.

Drilling services are provided almost entirely to the energy sector, with a small civil capability through HDD. The Group provides no services to the mining industry. Investment by the energy sector, particularly Liquid Natural Gas (LNG), has continued to show strong growth with expected strong demand for drilling and pipelines services as a result.

In anticipation of this growth outlook, Lucas is engaged in an internal reorganisation programme; with the recruitment of experienced senior management, investment in IT, upgrade of the systems and procedures, and relocation of various offices throughout Australia. These measures are expected to lift the Group's efficiency, elevate Lucas' capability on a broader range of projects, and improve project management and delivery capability. Notwithstanding a greater investment in fixed operating costs, Lucas believes that this reorganisation will increase margins and Group profitability.

Divisional Performance

- ***Drilling***

Drilling experienced strong growth, reflecting the contribution from Mitchell Drilling (the purchase of which was completed on 22 August 2008) and buoyant demand from both the coal and coal seam gas (CSG) industries. CSG drilling now comprises approximately half of the divisional revenue with the balance split between coal, trenchless technology and wellhead services. The divisional performance was as follows:

	2008			2007		
	Revenue $'000	EBITDA $'000	EBITDA Margin %	Revenue $'000	EBITDA $'000	EBITDA Margin %
Drilling	103,361	22,020	21.3	58,202	11,459	19.7

The acquisition of Mitchell Drilling has been extremely successful with both revenue and margin in line with budget. Rig utilisation throughout the period averaged 91% and continues at this level. A change in the business mix to include a greater proportion of CSG drilling accounts for much of the increase in EBITDA margin.

- ***Construction and Infrastructure***

During the period, the pipeline division was merged with the construction and infrastructure division reflecting their common management, shared overhead and overlapping customer base.

The division result was as follows:

	2008			2007		
	Revenue $'000	EBITDA $'000	EBITDA Margin %	Revenue $'000	EBITDA $'000	EBITDA Margin %
Construction and infrastructure	189,440	9,130	4.8	147,123	9,177	6.2

The result was adversely affected by a disappointing performance of the Bonaparte pipeline project in the Northern Territory. This project was undertaken in just six months and completed in December 2008. The combination of the difficult working conditions in remote terrain together with the tight deadline contributed to the adverse result.

The result was also adversely by the timing of settlement of claims and variations on two contracts, which are expected to be resolved in the second half of fiscal 2009. A reduction of building in the business mix and an increased contribution from infrastructure works should result in an improved divisional margin in the future.

Coal Seam Gas Assets

Lucas sold its investment in Gloucester Basin during December 2008 for $259 million realising a profit of $218 million before tax. Management considered that, having regard to developments in the market place, it was a prudent time to exit as this asset moved into the production stage, when significant development expenditure would have been required.

A similar logic was applied after balance date when deciding to sell the Group's shareholding in Sydney Gas Limited (SGL). Although SGL was considered to contain attractive acreage and considerable progress had been made towards identifying additional gas reserves, significant additional expenditure would have been required to prove up these reserves which would have diminished Lucas' returns from the investment.

Lucas remains active in the CSG and other unconventional hydrocarbons space. The Group retains its 15% interest in ATP651 in the Surat Basin where BG Limited, which owns the balance of the equity, has high expectations of proving up significant additional reserves. Lucas' share of the ATP651 gas reserves are 3.7 Bcf at 1P, 39.6 Bcf at 2P and 1208 Bcf at 3P. A significant drilling programme is currently being undertaken to prove up additional reserves. The Group also owns 60% of Arawn Energy in British Columbia. A second well has recently been drilled however, while the dewatering process continues, it is not yet possible to accurately assess the likely gas reserves. Lucas is assessing additional acreage in other prospective parts of the world.

Water

In addition to its continuing commitment to the development of unconventional hydrocarbon and sustainable energy assets, Lucas believes there is substantial scope for the development of water and waste water projects in which Lucas, acting as a developer, can achieve an outcome whereby infrastructure is created, an operating and maintenance earnings stream is created and, at the same time, equity ownership of the asset can be achieved.

Lucas believes there is substantial scope in water management during the forthcoming years and, in particular, in the management of water produced from coal seam gas production.

Cash Flow and Balance Sheet

Cash flow from operations was lower than during the previous year predominantly due to the strong growth in revenue and the timing of completion of several projects. Operating cash flow is expected to improve in the second half as new project works commence.

The balance sheet was restructured at the time of the Mitchell Drilling acquisition raising new equity of $29 million, lengthening the maturity profile of its debt and, after the Annual General Meeting in November, issuing $45 million of Redeemable Convertible Preference Shares (RCPS).

Following the sale of the Group's investments in Gloucester Basin and SGL, the Group has accumulated significant cash reserves and its gearing ratio has fallen to nil. Since balance date, the Group has repaid borrowings of $42 million and cancelled undrawn facilities of $15 million but has retained the balance of the cash for growth opportunities and the business.

Management is also considering various capital management initiatives. Lucas has already embarked on an on-market buy back and has purchased 854,000 shares to date, equivalent to 1.3% of its issued share capital at 31 December 2008 at a cost of $2.8 million.

Outlook

Lucas is well positioned to maintain its growth notwithstanding the current difficult economic environment. The Group's significant cash reserves and industry leadership in its business activities positions it strongly to benefit from any economic recovery and to weather any short term economic downturn.

In particular, at this stage, all the proposed LNG facilities to be based at Gladstone seem to be proceeding with planning work underway to allow the Final Investment Decision (FID) to be made. The earliest of these is expected within the current financial year. These projects are all reliant on significant coal seam gas reserves and it is expected that their demand for drilling services will continue to increase.

There is evidence that some major pipeline projects are being delayed. However, there is strong activity in smaller pipelines ($5 million to $30 million) with the Group securing work totalling approximately $70 million during the period. Demand for coal drilling services remains robust despite the deferral of several new mines and investment in additional coal export capacity.

A much greater effort is being placed on creating a third leg to Lucas' business – Operations and Maintenance/Other Services. A number of initiatives are underway and it is expected that further developments will occur during the balance of the financial year.

Summary

Having regard to the business mix and the current order book, the operating results in the second half are likely to exceed those of the first half despite reduced revenue. The full year 2008/09 underlying EBITDA is now expected to be in the range of $70 million to $72 million.

Longer term, despite the weak economic outlook, continued investment by the energy and water sectors suggests greater resilience in these activities than elsewhere in the economy. Lucas is strongly positioned to benefit from this but uncertainty regarding the timing of commencement of works makes forecasting challenging beyond the current year. However, the value of projects being tendered on is at a record level. Management remains confident that the favourable sector prospects and the Group's competitive position will underpin its continued growth.

While the outlook for the Australian economy must be viewed cautiously in the extreme, Lucas believes that the requirement for infrastructure in the energy, water and waste water sectors will, albeit not at the levels seen during the last two years, continue to be required. Public sector spending will assist in this connection.

It is foolish to think that the worldwide economic vicissitudes will not impact on Australia. They will, and most probably in a manner that is more severe than is being predicted. Lucas' strategy of remaining niche, focused and a superior supplier of infrastructure services, places the Group in a position whereby it is forecasting continued growth but at a slower rate. This is most probably a good position to be in as it allows the necessary infrastructure and corporate architecture to be put in place for the next stage of the Company's growth.

A J LUCAS GROUP LIMITED
ABN: 12 060 309 104

INTERIM FINANCIAL REPORT
FOR SIX MONTHS ENDED 31 DECEMBER 2008

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 2008 together with any public announcements made by AJ Lucas Group Limited during the six months ended 31 December 2008 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

AJ LUCAS GROUP LIMITED AND ITS CONTROLLED ENTITIES

Contents **Page**

Directors' Report

for the six months ended 31 December 2008

The directors present their report together with the consolidated financial report for the six months ended 31 December 2008 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the interim period are:

Executive	
Allan Campbell (Chairman)	Director since 1995
Ian Stuart-Robertson	Director since 1995
Non-executive	
Martin Green	Director since 1999
Andrew Lukas	Director since 1995
Garry O'Meally	Director since 1999

REVIEW OF OPERATIONS

A review of the Group's operations and the results of those operations are presented on pages 3 to 5 and form part of this report.

INTERIM DIVIDEND

The Directors have resolved to pay an interim unfranked dividend of 5.0 cents per share (half year ended 31 December 2007: 3.5 cents per share) payable on 27 March 2009.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead 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 for the six months ended 31 December 2008.

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 financial report and the directors' report have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors

Allan Campbell
Chairman

Sydney
26 February 2009

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 half-year ended 31 December 2008 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

Neil Cameron Smith
Partner

Sydney

26 February 2009

Condensed Consolidated Interim Income Statement
for the six months ended 31 December 2008

	Note	Consolidated Dec 2008 $'000	Dec 2007 $'000
Revenue	2	292,801	205,325
Total revenue		292,801	205,325
Other income	3	218,449	-
Sub-contractor costs		(45,739)	(37,905)
Material costs		(111,727)	(94,006)
Plant and other construction costs		(30,570)	(8,985)
Employee expenses		(70,687)	(39,655)
Depreciation expenses		(8,131)	(4,145)
Amortisation of intangible assets		(3,262)	(1,374)
Debt recovery and legal costs		(732)	(3,681)
Other expenses		(3,417)	(2,268)
Operating profit before net financing costs		236,985	13,306
Financial income		934	641
Financial expenses		(8,673)	(2,911)
Net financing costs		(7,739)	(2,270)
Profit before income tax		229,246	11,036
Income tax expense		(68,920)	(2,799)
Profit for the period		160,326	8,237
Profit attributable to members of the parent entity		160,326	8,237
Basic earnings per share (cents)		242.5	15.1
Diluted earnings per share (cents)		232.7	14.4

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 2008

	Consolidated Dec 2008 $'000	Consolidated Dec 2007 $'000
Exchange differences on translations of foreign operations	194	35
Income and expense recognised directly in equity	194	35
Profit for the period	160,326	8,237
Total recognised income and expense for the period	160,520	8,272

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 2008

	Note	Consolidated Dec 2008 $'000	Consolidated Jun 2008 $'000
Current assets			
Cash and cash equivalents		234,010	16,612
Trade and other receivables		66,489	56,912
Construction work in progress		46,941	40,685
Assets classified as held for sale	4	28,775	-
Other		1,521	1,717
Total current assets		377,736	115,926
Non-current assets			
Property, plant and equipment		123,350	55,986
Intangible assets		122,369	27,731
Investments		8,742	26,156
Exploration assets		5,475	4,100
Total non-current assets		259,936	113,973
Total assets		637,672	229,899
Current liabilities			
Trade and other payables		74,636	83,074
Interest-bearing loans and borrowings	5	76,044	19,996
Current tax liability		65,836	114
Provisions		6,102	8,550
Total current liabilities		222,618	111,734
Non-current liabilities			
Interest-bearing loans and borrowings	5	140,462	51,036
Deferred tax liabilities		4,075	1,221
Provisions		924	748
Total non-current liabilities		145,461	53,005
Total liabilities		368,079	164,739
Net assets		269,593	65,160
Equity			
Issued capital	6	100,196	54,037
Reserves	6	3,222	2,236
Retained earnings	6	166,175	8,887
Total equity		269,593	65,160

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 2008

	Consolidated	
	Dec 2008 $'000	Dec 2007 $'000
Cash flows from operating activities		
Cash receipts from customers	279,336	156,975
Cash payments to suppliers and employees	(272,803)	(130,195)
Cash generated from operations	6,533	26,780
Interest received	386	332
Income taxes paid	-	(74)
Interest paid	(6,311)	(2,805)
Net cash from operating activities	608	24,233
Cash flows from investing activities		
Proceeds from sale of plant and equipment	50	934
Acquisition of property, plant and equipment	(23,985)	(13,390)
Payments for exploration, evaluation and development	(7,161)	(6,399)
Loans to related entity	(9,861)	(561)
Repayment of loans to related entity	-	263
Acquisition of subsidiary, net of cash acquired	(118,877)	(9,905)
Proceeds from sale of intangible development assets	259,000	-
Payment of transaction costs relating to sale of intangible development assets	(7,134)	-
Payment of deferred purchase consideration	(2,625)	(625)
Purchase of investments	(11,438)	(2,198)
Net cash from investing activities	77,969	(31,881)
Cash flows from financing activities		
Proceeds of issue of capital	28,276	-
Proceeds from borrowings	128,399	15,192
Payment of borrowing costs	(4,613)	-
Repayment of borrowings	(4,230)	(1,014)
Repayment of convertible notes	(726)	(1,500)
Payment of finance lease liabilities	(4,580)	(2,402)
Dividends paid	(3,038)	(1,362)
Net cash from financing activities	139,488	8,914
Net increase in cash and cash equivalents	218,065	1,266
Cash and cash equivalents at beginning of the period	15,745	12,559
Cash and cash equivalents at end of the period	233,810	13,825

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:

Cash and cash equivalents	234,010	14,859
Bank overdraft (included in interest-bearing loans and borrowings)	(200)	(1,034)
Net cash	233,810	13,825

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 as at and for the six months ended 31 December 2008 comprises the Company and its subsidiaries (together referred to as "Lucas" or the "Group") and the Group's interest in jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2008 is available upon request from the Company's registered office at 157 Church Street, Ryde NSW 2112 or at www.lucas.com.au.

i) Statement of compliance

The consolidated 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 Group as at and for the year ended 30 June 2008.

The consolidated interim financial report was approved by the Board of Directors on 26 February 2009.

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 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

ii) Significant accounting policies

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2008.

The Group has elected to change the classification of its business segments. The change followed a reorganisation of the Group's management structure and internal financial reporting arrangements. As a result of the change, the "Pipelines" business segment has now been included within the "Construction and Infrastructure" business segment.

Comparative information has been restated to reflect this change in accounting policy.

iii) Estimates

The preparation of interim financial reports in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting 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, the significant judgements made by management in applying the Group'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 2008.

2. Segment reporting

The consolidated entity comprises the following main business segments:

Drilling	Drilling services for the recovery and commercialisation of coal seam gas, degasification of underground coal mines, and the trenchless installation of pipes and conduits.
Construction and infrastructure	Civil engineering services for the construction of infrastructure, pipelines and buildings, together with facilities management.

	Segment revenue		Segment result before related income tax	
	Dec 2008	Dec 2007 Restated*	Dec 2008	Dec 2007 Restated*
	$'000	$'000	$'000	$'000
Drilling	103,361	58,202	5,444	5,636
Construction and Infrastructure	189,440	147,123	9,130	8,931
Other income	-	-	218,449	-
Unallocated expenses	-	-	(3,777)	(3,531)
Total	292,801	205,325	229,246	11,036

* See change in accounting policy – Note 1 (ii).

3. Other income

Other income comprises the net gain before tax on the sale of the Group's investment in Gloucester Basin coal seam gas reserve disclosed as an intangible development asset as at 30 June 2008.

4. Assets classified as held for sale

The Group's investment in Sydney Gas Limited (SGL) is presented as an asset held for sale following the execution by the Group on 23 December 2008 of a Pre-bid Acceptance Agreement with AGL Energy Limited (AGL). Under the terms of the agreement, and subject to a number of conditions precedent which were not satisfied at 31 December 2008, the Group agreed to sell 59,570,523 shares in SGL to AGL no later than two business days after SGL lodged its Target Statement with ASIC in response to AGL's offer to acquire all the issued share capital of SGL. The Board also resolved at the same time to sell the Group's other 20,937,684 shares in SGL to AGL at the same time as it accepted the offer in respect of the shares committed under the Pre-bid Acceptance Agreement.

The Group sold its entire shareholding in SGL on 21 January 2009 to AGL – see Note 11.

5. Loans and borrowings

During the six months ended 31 December 2008, all the convertible notes outstanding at 30 June 2008 were converted into equity at a 15% discount to the 30 day volume weighted average price (VWAP) on the date of conversion.

Further borrowings were drawn down in connection with the purchase of Mitchell Drilling (refer to Note 8). These included a senior debt facility totalling $77.7 million, a bridging loan and Redeemable Convertible Preference Shares.

The $45 million bridging loan was drawn down on 22 August 2008. Following shareholder approval at the annual general meeting held on 26 November 2008 of the issue of $45 million of Redeemable Convertible Preference Shares (RCPS), the shares were allotted on 8 December 2008 and the bridging loan repaid.

The principal terms of the RCPS are:

Term:	5 years
Ranking:	In priority to ordinary shares for the payment of dividends and the payment of capital on a winding up of the Company.
Dividend Rate:	11% per annum payable semi-annually and cumulative.

5. Loans and borrowings (continued)

Conversion Price: $7.20 per share subject to various anti-dilution terms including on:

- A bonus issue of Ordinary Shares
- A rights issue or placement where the issue price is less than 90% of the current market price.
- A special dividend or return of capital in excess of an annual yield of 3.5% of the VWAP.
- A buy-back at greater than 110% of the VWAP.

Voting Rights: No right to vote except:

- when a dividend is in arrears;
- to vary the rights of the RCPS or on certain other resolutions concerning the windup of the Company;
- to reduce the share capital;
- with regards to the disposal of any of the Group's businesses or to approve the terms of a buy-back.

6. 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	Retained earnings/ (accumulated losses) $'000	Total equity $'000
Balance 1 July 2008	54,037	580	1,656	8,887	65,160
Total recognised income and expense	-	194	-	160,326	160,520
Dividends to shareholders	-	-	-	(3,038)	(3,038)
Shares issued for business acquisition	17,139	-	-	-	17,139
Issue of ordinary shares	28,276	-	-	-	28,276
Conversion of Convertible Notes	744	-	-	-	744
Equity settled share based payments	-	-	792	-	792
Balance at 31 December 2008	100,196	774	2,448	166,175	269,593
Balance 1 July 2007	30,736	306	704	(1,308)	30,438
Reclassification of share based payments	(81)	-	81	-	-
Total recognised income and expense	-	35	-	8,237	8,272
Dividends to shareholders	-	-	-	(1,362)	(1,362)
Shares issued for business acquisition	625	-	-	-	625
Equity settled share based payments	-	-	530	-	530
Balance at 31 December 2007	31,280	341	1,315	5,567	38,503

7. Dividends

	Dec 2008 $'000	Dec 2007 $'000
Dividends recognised in the current half year by the Company are:		
Final dividend of 4.5 cents (2007: 2.5 cents) per share, 15% franked paid on 29 September 2008	3,038	1,362
Total dividends paid	3,038	1,362
Dividends not recognised at the half year		
In addition to the above dividends, since the half year end, the Directors have recommended the payment of an interim unfranked dividend of 5.0 cents (2007: 3.5 cents fully franked) per share at 30%. The aggregate amount of the proposed dividend expected to be paid on 27 March 2009 is not recognised as a liability at the half year end.	3,378	1,914

8. Acquisition of subsidiary

On 22 August 2008, the Group completed the acquisition of the business of Mitchell Drilling, one of the largest drilling and speciality services provider to the natural resources sector, most particularly coal seam gas in Queensland. The purchase price excluding acquisition costs amounted to $150.0 million and was satisfied by the issue of 2,645,503 ordinary shares in AJ Lucas Group to the vendor, 15.0 million in deferred consideration payable one year after acquisition, and the balance from a combination of the cash resources of the Group and increased borrowings.

From 22 August 2008 to 31 December 2008, the Mitchell Drilling business contributed profit before tax of $6.5 million. If the acquisition had occurred on 1 July 2008, management estimates that the consolidated revenue would have been $311.7 million and consolidated profit before tax for the period would have been $232.1 million for the six months ended 31 December 2008.

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
Cash and cash equivalents	1,409	-	1,409
Trade and other receivables	1,081	-	1,081
Plant and equipment	50,500	11,672	38,828
Deferred tax asset	538	-	538
Intangibles	8,456	8,456	-
Trade and other payables	(92)	-	(92)
Provisions	(1,827)	-	(1,827)
Tax liability	(229)	-	(229)
Net identifiable assets and liabilities	59,836	20,128	39,708
Goodwill on acquisition	103,720		
Consideration*	163,556		
Cash acquired	(1,409)		
Liabilities assumed	(11,736)		
Deferred cash consideration	(15,000)		
Share consideration	(16,534)		
Net cash out-flow	118,877		

* includes incidental costs of $13.1 million

8. Acquisition of subsidiary (continued)

The Group commissioned an independent expert to conduct an analysis of the fair value of the assets and liabilities of the Mitchell Drilling business on its acquisition. Following this analysis, the Group has provisionally determined a fair value of $8.5 million for customer contracts and relationships, separate from the goodwill on acquisition. The Group also provisionally determined a fair value of plant and equipment of $50.5 million.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business' workforce and the synergies expected to be achieved from integrating the business into the existing consolidated entity.

9. Contingent assets and liabilities

Insurance bonds increased by a net $5.4 million during the period increasing the gross amount outstanding to $27.1 million. Practical completion has been granted on projects in respect of $12.5 million of this amount. Bank Indemnity guarantees decreased by a net $0.8 million during the period reducing the amount outstanding to $3.4 million.

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

10. Related parties

Transactions with key management personnel.

During the period under review, movements on the loan amount made to Mr Campbell, the Company's Chairman and Chief Executive Officer, were as follows:

	$
Balance owing at 30 June 2008	6,063,617
New amounts loaned	9,861,358
Amounts repaid	(6,696,731)
Interest payable in the reporting period	525,415
Balance owing at 31 December 2008	9,753,659

The loans advanced to Mr Campbell have been on-lent to a third party in connection with the possibility of advancing Lucas' business interests. Mr Campbell receives no financial benefit personally as a result of these transactions, and has entered into this arrangement solely for the benefit of the Group. He remains however, principally liable in relation to this arrangement. The loan is secured by a Deed of Guarantee and Indemnity. Interest is payable at 12.5% per annum.

11. Events subsequent to balance sheet date

Since the balance sheet date, 854,000 shares in the Company, equivalent to 1.3% of its issued share capital at 31 December 2008, have been bought back pursuant to the on-market buy-back announced on 9 October 2008 at a total cost of $2.8 million.

On 27 January 2009, the Group received $34.2 million being the sale proceeds of its shareholding in Sydney Gas Limited (SGL) following the acceptance of the offer by AGL Energy Limited to acquire all the issued share capital of SGL. The total cost of the investment was $28.8 million. This sale has not been reflected in the interim financial report.

Other than these events, together with the declaration of the interim dividend for the year ending 30 June 2009 (refer to note 7), there have been 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 Group as at 31 December 2008 and of its performance 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
26 February 2009

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

We have reviewed the accompanying interim financial report of AJ Lucas Group Limited, which comprises the condensed consolidated interim balance sheet as at 31 December 2008, condensed consolidated interim income statement, condensed consolidated statement of recognised income and expense and condensed consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 11 and the directors' declaration set out on pages 10 to 19 of the Group 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 half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing 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 a conclusion 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 Interim and Other Financial Reports 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 Group's financial position as at 31 December 2008 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

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

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 Group's financial position as at 31 December 2008 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

Neil Cameron Smith
Partner

Sydney

26 February 2009