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Cardno Limited

ABN 70 108 112 303

and its controlled entities

Interim Financial Report
for the half-year ended 31 December 2006



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Directors' Report

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

The directors present their report together with the consolidated financial report of Cardno Limited ("the Company") and its controlled entities for the half-year ended 31 December 2006 and report thereon.

Directors

The directors of the Company in office during or since the end of the half-year ended 31 December 2006 are set out below:

John Massey (Chairman - Non-executive)
Graham Tamblyn (Deputy Chairman - Executive)
Andrew Buckley (Managing Director - Executive)
Ronald Fisher (Executive and Company Secretary) (resigned 7 July 2006)
Jeffrey Forbes (Executive and Company Secretary) (appointed 10 July 2006)
Trevor Johnson (Executive)
Ian Johnston (Non-executive)
Stephen Moss (Executive) (resigned 22 December 2006)
James Verco (Executive)

Company Secretary

Ronald Fisher (Company Secretary) (resigned 7 July 2006)
Jeffrey Forbes (Company Secretary) (appointed 10 July 2006)
Mark Buggy (Additional Company Secretary)

Review of Results and Operations

Cardno Limited achieved a profit after tax of \$8.29m for the half-year ended 31 December 2006, an increase of 16.4% over the December 2005 half-year profit of \$7.12m.

Revenue for the December 2006 half-year was \$111.08m which is 23.8% higher than the December 2005 figure of \$89.73m. Fees for services, recoverable costs and sale of goods were \$110.65m which is 24.2% higher than the December 2005 figure of \$89.11m.

It is expected that there will be less seasonality in the company's results in the current year compared with previous years.

Two main factors contributed to the significant growth in revenues and profits:

1. Business conditions for the Cardno group have generally remained strong which has driven continuing organic growth in existing businesses.
2. During the half-year, the following acquisitions were made and contributed to the results for the first time:
 - Cardno Stanwill formed by acquiring Stanwill Consulting Engineers.
 - Cardno Grogan Richards formed by acquiring Grogan Richards Consulting Engineers.
 - Cardno Saraceni formed by acquiring Saraceni Engineering Group Pty Ltd.

The outlook for Cardno continues to be strong with good prospects for expanding the business through both organic growth and acquisitions both in Australia and internationally.

Directors' Report

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

Dividends

A fully franked interim dividend of 10 cents per share has been declared, which is a 11.1% increase over the corresponding period last year.

Auditor's Independence Declaration

The auditor's independence declaration under Section 307C of the Corporations Act is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2006.

Rounding of Amounts

The consolidated entity is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of directors.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'John Massey', with a horizontal line drawn through the middle of the signature.

JOHN C MASSEY
Chairman

Brisbane
20 February 2007

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the directors of Cardno Limited

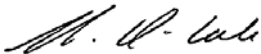
I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements of 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.

Signed at Brisbane 20 February 2007.



WILLIAM BUCK
Chartered Accountants



R Q COLE
Partner

Consolidated Income Statement

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

	Note	Consolidated	
		31-Dec-06 \$'000	31-Dec-05 \$'000
Revenues from ordinary activities	2	111,077	89,732
Raw materials, sub-contractor costs and consumables used	3	88,956	70,729
Depreciation and amortisation expenses	3	2,212	1,606
Financing costs	3	1,600	2,061
Other expenses		6,855	5,030
		99,623	79,426
Profit/(loss) before income tax		11,454	10,306
Income tax expense		3,168	3,188
Net profit/(loss) for the year		8,286	7,118
Basic earnings per share (cents per share)*		17.86	18.12
Diluted earnings per share (cents per share)		16.15	15.41

* The reduction in basic earnings per share is largely due to the substantial conversion of convertible notes to shares at each of the previous 6 monthly conversion dates.

Consolidated Balance Sheet

Cardno Limited and its Controlled Entities as at 31 December 2006

	Note	Consolidated	
		31-Dec-06 \$'000	30-Jun-06 \$'000
CURRENT ASSETS			
Cash and cash equivalents		9,844	17,508
Trade and other receivables		37,523	25,365
Inventories		26,493	26,099
Other current assets		2,990	1,386
TOTAL CURRENT ASSETS		76,850	70,358
NON-CURRENT ASSETS			
Trade and other receivables		821	821
Other financial assets		31	34
Property, plant and equipment		11,763	10,055
Deferred tax assets		4,924	4,249
Intangible assets		60,611	50,896
Other non-current assets		124	248
TOTAL NON-CURRENT ASSETS		78,274	66,303
TOTAL ASSETS		155,124	136,661
CURRENT LIABILITIES			
Trade and other payables		18,572	19,917
Interest-bearing loans and borrowings		15,325	9,254
Current tax liabilities		1,580	1,038
Short term provisions		7,545	6,922
Other current liabilities		14,203	9,922
TOTAL CURRENT LIABILITIES		57,225	47,053
NON-CURRENT LIABILITIES			
Trade and other payables		-	387
Interest-bearing loans and borrowings	5	22,798	33,802
Deferred tax liabilities		5,923	6,106
Long term provisions		3,354	3,059
TOTAL NON-CURRENT LIABILITIES		32,075	43,354
TOTAL LIABILITIES		89,300	90,407
NET ASSETS		65,824	46,254
EQUITY			
Issued capital	6	52,040	35,942
Reserves		(240)	(58)
Retained earnings		14,024	10,370
TOTAL EQUITY		65,824	46,254

The balance sheet is to be read in conjunction with the notes to the consolidated financial statements set out on pages 10 to 14.

Consolidated Statement of Changes in Equity

Cardno Limited and its Controlled Entities for the half-year ending 31 December 2006

	Note	Issued Capital		Retained Earnings		Reserves		Total
		Ordinary				Forex	ARR	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
BALANCE AT 1 JULY 2005		19,656	4,566	(44)	68			24,246
Shares issued		10,153	-	-	-	-	-	10,153
Profit for the period		-	7,118	-	-	-	-	7,118
Dividends paid or provided	4	-	(3,146)	-	-	-	-	(3,146)
Restatement of functional currency		-	-	10	-	-	-	10
Revaluation of property, plant and equipment		-	-	-	(68)	-	-	(68)
BALANCE AT 31 DECEMBER 2005		29,809	8,538	(34)	-	-	-	38,313
BALANCE AT 1 JULY 2006		35,942	10,370	(58)	-	-	-	46,254
Shares issued		4,999	-	-	-	-	-	4,999
Notes converted to shares		11,099	-	-	-	-	-	11,099
Profit for the period		-	8,286	-	-	-	-	8,286
Dividends paid or provided	4	-	(4,632)	-	-	-	-	(4,632)
Restatement of functional currency		-	-	(182)	-	-	-	(182)
BALANCE AT 31 DECEMBER 2006		52,040	14,024	(240)	-	-	-	65,824

The statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial statements set out in pages 10 to 14.

Consolidated Cash Flow Statement

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

	Consolidated	
	31-Dec-06 \$'000	31-Dec-05 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	116,248	80,737
Dividends received	30	-
Interest received	155	243
Finance costs paid	(1,352)	(1,852)
Cash paid to suppliers and employees	(109,235)	(76,711)
Income tax paid	(3,449)	(2,001)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	2,397	416
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries, net of cash acquired	(11,511)	(13,249)
Payments for investments	-	(32)
Additions to intangibles	(2)	-
Proceeds from sale of property, plant & equipment	135	1,095
Payments for property, plant & equipment	(1,329)	(1,989)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	(12,707)	(14,175)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	4,239	9,605
Payments of vendor liability	(1,146)	(19,527)
Proceed/(Repayment) of borrowings	6,014	(9,061)
Dividends paid	(4,632)	(3,146)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,475	(22,129)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS HELD	(5,835)	(35,888)
CASH AND CASH EQUIVALENTS AT 1 JULY	15,679	44,391
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9,844	8,503

The cash flow statement is to be read in conjunction with the notes to the consolidated financial statements set out on pages 10 to 14.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Cardno 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").

The consolidated interim financial report was authorised for issue by the directors on 20 February 2007.

(a) Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB134 Interim Financial Reporting, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board (AASB), Corporations Act 2001 and other authoritative pronouncements of the Australian Accounting Standards Board.

The consolidated 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. This report must be read in conjunction with any public announcements made by Cardno Limited during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(b) Significant accounting policies

The financial report is presented in Australian dollars. The accounting policies applied by the consolidated entity in this consolidated 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.

The accounting policies have been consistently applied throughout the consolidated entity for the purposes of this consolidated interim financial report.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

	Consolidated	
	31-Dec-06 \$'000	31-Dec-05 \$'000
2. REVENUE FROM ORDINARY ACTIVITIES		
Revenue from operating activities		
Fees from services and sale of goods	91,343	71,564
Fees from recoverable expenses	19,306	17,541
Total revenue	110,649	89,105
Revenue from non-operating activities		
Interest received	155	243
Other	273	384
Total revenue from non-operating activities	428	627
Revenue	111,077	89,732
3. EXPENSES AND LOSSES/(GAINS)		
Raw materials, sub-contractor costs and consumables used	88,956	70,729
Depreciation		
Motor vehicles	122	29
Plant & equipment	812	456
Total Depreciation	934	485
Amortisation of non-current assets		
Works contracts	80	186
Motor vehicles under lease	258	162
Plant & equipment under lease	940	773
Total Amortisation	1,278	1,121
Total Depreciation & Amortisation	2,212	1,606
Bad and doubtful debts	326	140
Finance costs		
Interest charges	1,288	1,679
Finance charges – finance lease and hire purchases	188	198
Convertible note establishment costs	124	184
Total finance costs	1,600	2,061
Rental expense relating to operating leases		
Minimum lease payments	2,553	2,084
4. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES		
(a) Dividends proposed and not recognised as a liability		
100% franked dividend at 30% (2005: 30%)	5,272	3,713

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

4. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES CONTINUED

(b) During the reporting period, the Company paid dividends as follows:

	Cents per share	Total Amount \$'000	Franked / Unfranked	Date of payment
31 December 2006 – 2006 Final Dividend	10	4,632	Franked	6 October 2006
For comparison:				
31 December 2005 – 2005 Final Dividend	8	3,146	Franked	6 October 2005

(c) Subsequent to reporting date

Since 31 December 2006 the Directors have declared the following dividend:

	Cents per share	Total Amount \$'000	Franked / Unfranked	Date of payment
2007 Interim Dividend	10	5,272	Franked	13 April 2007

The financial effect of this dividend has not been brought to account in the consolidated entity's financial statements for the half-year ended 31 December 2006 and will be recognised in subsequent financial reports.

5. LONG TERM INTEREST BEARING LOANS AND BORROWINGS

Lease liability
Hire purchase liability
Convertible notes
Forward exchange contract
Commercial loan

	Consolidated	
	31-Dec-06 \$'000	30-Jun-06 \$'000
Lease liability	3,362	3,146
Hire purchase liability	103	173
Convertible notes	18,796	29,895
Forward exchange contract	520	561
Commercial loan	17	27
	22,798	33,802

6. ISSUED CAPITAL OF CARDNO LIMITED

Balance at the beginning of the period

Shares issued during the period:

- Shares issued for cash
- Employee Tax Exempt Share Acquisition Plan
- Employee Performance Equity Plan
- Options Exercised
- Conversion of Convertible Notes

Balance at the end of the year

	31-Dec-06 No. of shares	30-Jun-06 No. of shares	31-Dec-06 \$'000	30-Jun-06 \$'000
Balance at the beginning of the period	41,835,776	36,290,956	35,942	19,656
Shares issued during the period:				
- Shares issued for cash	715,746	3,970,602	3,523	12,131
- Employee Tax Exempt Share Acquisition Plan	142,065	154,872	676	505
- Employee Performance Equity Plan	-	-	84	101
- Options Exercised	291,000	-	716	-
- Conversion of Convertible Notes	4,439,714	1,419,346	11,099	3,549
Balance at the end of the year	47,424,301	41,835,776	52,040	35,942

All shares are ordinary shares and have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of members.

7. CONTINGENT LIABILITIES

As at the date of this report, there is no current litigation or pending or threatened litigation which would not be covered by professional indemnity insurance or has not already been provided for in the accounts of the consolidated entity, or which is likely to have a material effect on the financial performance of the consolidated entity.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

8. BUSINESS COMBINATIONS

During the half-year the group acquired the net assets of Stanwill Consulting Engineers with an effective acquisition date of 1 July 2006, Saraceni Engineering Group Pty Ltd with an effective acquisition date of 1 October 2006 and Grogan Richards Consulting Engineers with an effective acquisition date of 1 November 2006.

The acquired businesses contributed revenues of \$3,543,327 and net profit of \$380,914 to the consolidated entity for the half-year. If all of the acquisitions had been effective 1 July 2006, the contributed revenues would have been \$9,557,488 and the net profit would have been \$1,568,984.

At the date of acquisition, the acquired entities were involved in providing professional services for physical infrastructure. No individual entity represented a material acquisition and consequently the information supplied below is in aggregate for all the entities acquired during the half-year.

Aggregated information for all acquisitions

	\$'000
Purchase Consideration	
Cash consideration	11,165
Vendor liability	1,090
Direct costs relating to the acquisitions	292
Total purchase consideration	<u>12,547</u>
Fair value of net identifiable assets acquired	2,756
Goodwill	<u>9,791</u>

The assets and liabilities arising from the acquisitions are as follows:

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	133	133
Receivables	4,953	4,953
Property, plant and equipment	908	908
Inventories	525	525
Bank overdraft	(479)	(479)
Creditors & borrowings	(1,551)	(1,551)
Provisions	(1,733)	(1,733)
Net identifiable assets acquired	<u>2,756</u>	<u>2,756</u>

Outflow of cash to acquire subsidiary, net of cash acquired

Cash consideration	11,165
Less: Balances acquired	
Cash	133
Bank overdraft	(479)
	<u>(346)</u>
Outflow of cash	<u>11,511</u>

9. SEGMENT INFORMATION

The group operates principally as a provider of professional services in physical and social infrastructure fields.

Inter-segment pricing is determined on an arm's length basis.

Geographical Segments

In presenting information on the basis of primary segments, segment revenue and results are based on the geographical location of the assets. The consolidated entity's geographical segments reported are Australia, UK and Africa, North America and Asia Pacific.

Notes to the Consolidated Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2006

9. SEGMENT INFORMATION CONTINUED

Geographical Segments continued

Half-Year Ended 31 December 2006	Australia \$'000	Asia Pacific \$'000	UK & Africa \$'000	North America \$'000	TOTAL \$'000	Eliminations \$'000	Grouped \$'000
Total Revenue	96,174	7,314	6,277	1,452	111,217	(140)	111,077
Total Result	10,552	756	(38)	184	11,454	-	11,454
Income tax (expense)/benefit							(3,168)
Profit from ordinary activities after related income tax expense							8,286

Half-Year Ended 31 December 2005	Australia \$'000	Asia Pacific \$'000	UK & Africa \$'000	North America \$'000	TOTAL \$'000	Eliminations \$'000	Grouped \$'000
Total Revenue	79,871	2,443	6,298	1,207	89,819	(87)	89,732
Total Result	9,284	625	225	172	10,306	-	10,306
Income tax (expense)/benefit							(3,188)
Profit from ordinary activities after related income tax expense							7,118

The group provides engineering related software products which has not been reported separately as it represents less than 10% of sales to external customers.

10. SUBSEQUENT EVENTS

On 8 January 2007, 5,273,219 ordinary shares were issued as a result of convertible note conversions.

On 2 February 2007, 22,685 ordinary shares were issued for cash.

An interim dividend of 10 cents per share fully franked was declared on 20 February 2007.

Directors' Declaration

Cardno Limited and its Controlled Entities For the half-year ended 31 December 2006

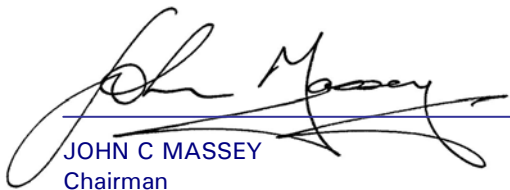
In accordance with a resolution of the directors of Cardno Limited, we state that:

- (a) The financial statements and notes set out in pages 6 to 14.
- i. comply with Accounting Standards and other mandatory professional reporting requirements;
 - ii. give a true and fair view of the consolidated entities' financial position as at 31 December 2006 and its performance, as represented by the results of their operations and their cash flows, for the period 1 July 2006 to 31 December 2006; and
- (b) in the directors' opinion:
- i. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
 - ii. the financial statements and notes are in accordance with the Corporations Act 2001.

Signed in accordance with a resolution of the directors

At Brisbane on 20 February 2007

On behalf of the Board



JOHN C MASSEY
Chairman

Independent Audit Report

To the Members of Cardno Limited

Scope

We have reviewed the financial report of Cardno Limited for the half-year ended 31 December 2006 as set out on pages 6 to 15. The company's directors are responsible for the financial report. 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. 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 Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional 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/Australian Stock Exchange Limited.

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 provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Statement

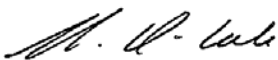
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cardno Limited is not in accordance with:

- a. the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - ii. Complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- b. other mandatory professional reporting requirements in Australia.

Signed at Brisbane, 20 February 2007.



WILLIAM BUCK
Chartered Accountants



R Q COLE
Partner

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