



Cardno Limited

ABN 70 108 112 303

and its controlled entities

Interim Financial Reports
for the half-year ended
31 December 2005



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Directors' Report

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

The directors present their report together with the consolidated financial report of Cardno Limited and its controlled entities for the half-year ended 31 December 2005 and report thereon.

Directors

The directors of the Company in office during or since the end of the half-year ended 31 December 2005 are set out below:

John Massey (Chairman - Non-executive)
Graham Tamblyn (Deputy Chairman - Executive)
Andrew Buckley (Managing Director)
Ronald Fisher (Executive)
Trevor Johnson (Executive)
Ian Johnston (Non-executive)
Richard Kell (Executive) (resigned 28 October 2005)
Stephen Moss (Executive) (appointed 2 August 2005)
James Verco (Executive)

Company Secretary

Ronald Fisher (Company Secretary)
Mark Buggy (Additional Company Secretary) (appointed 25 October 2005)

International Financial Reporting Standards

The half-year to 31 December 2005 is the first time the consolidated entity has reported under the Australian Equivalents to International Financial Reporting Standards ("AIFRS"). The impact of changes to the consolidated entity's accounting policies resulting from the adoption of AIFRS is shown in Note 10 to the Interim Financial Report. The comparative results previously reported under Australian Generally Accepted Accounting Principles ("previous AGAAP") have been restated to comply with AIFRS.

It should be noted that the December 2004 half-year figures have been restated to comply with AIFRS.

Note 10 to the Interim Financial Report provides a full AGAAP to AIFRS reconciliation of the following consolidated financial statements:

- Balance sheet as at 1 July 2004 (AIFRS transition date);
- Balance sheet as at 31 December 2004;
- Balance sheet as at 30 June 2005;
- Income statement for the six month period ended 31 December 2004; and
- Income statement for twelve month period ended 30 June 2005.

Review of Results and Operations

For the half-year ended 31 December 2005, Cardno Limited achieved a profit after tax of \$7.118m which was 56.7% greater than the profit of \$4.541m for the December 2004 half-year.

Revenue for the December 2005 half-year was \$89.732m which was 101.8% greater than the December 2004 figure of \$44.465m. Fees from services and sale of goods was \$71.564m which was 75.0% greater than the December 2004 figure of \$40.904m.

Directors' Report

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

There are three main issues contributing to the significant growth in revenues and profits recorded for this half-year compared with the December 2004 half-year. They are:-

1. Business conditions for the Cardno group have remained solid in this half-year and this has driven continuing organic growth in existing businesses.
2. Cardno Acil Pty Ltd made a full 6 months contribution to the figures for the first time.
3. During the half-year the following acquisitions were made and contributed to the results for the first time:
 - Cardno Agrisystems formed by acquiring Agrisystems Limited
 - Cardno Eppell Olsen Pty Ltd formed by acquiring EOP Holdings Pty Ltd
 - Cardno Ullman & Nolan formed by acquiring Barton Enterprises Pty Ltd.

On 1 February, Cardno announced that the company's estimated full year results for the 2006 year will be between 15% and 20% higher than the pro-forma 2005 financial year after tax profit forecast contained in Cardno's May 2005 capital raising prospectus. This puts the forecast result for the 2006 financial year at between \$10.5m and \$10.9m.

Cardno has a seasonality of earnings in that the Group earns a higher proportion of its revenue and profit in the first half of the financial year.

The outlook for Cardno remains positive with good prospects for expanding the business through both organic growth and acquisitions.

Dividends

Shareholders registered on 24 March 2006 will be paid an increased fully franked interim dividend of 9 cents per share on 7 April 2006. This level of dividend is expected to be maintained for the final dividend.

Auditor's Independence Declaration

The lead 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 2005.

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.



JOHN C MASSEY
Chairman

Brisbane
21 February 2006

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, in relation to the review of Cardno Limited and its controlled entities for the half-year ended 31 December 2005 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 21 February 2006



WILLIAM BUCK
Chartered Accountants



RQ COLE
Partner

Statutory Financial Statements

Consolidated Income Statement

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

	Note	Consolidated	
		31-Dec-05 \$'000	31-Dec-04 \$'000
Revenues from ordinary activities	2	89,732	44,465
Cost of services and employee costs		64,338	28,050
Administration expenses		1,453	300
Consultancy expenses		318	409
Depreciation and amortisation expenses	3	1,606	1,117
Distribution expenses		134	126
Marketing expenses		265	182
Financing costs	3	2,061	215
Occupancy expenses		2,607	2,118
Printing and office supplies		566	507
Bad debts		140	207
Computer related expenses		344	344
Insurance expenses		1,431	920
Non-recoverable travel expenses		737	546
Communication expenses		586	366
Other expenses from ordinary activities		2,840	2,563
		79,426	37,970
Profit / (loss) before income tax (expense) / benefit		10,306	6,495
Income tax (expense) / benefit		(3,188)	(1,954)
Profit for the period		7,118	4,541
Basic earnings per share (cents per share)		18.12	12.73
Diluted earnings per share (cents per share)		15.41	12.70

Statutory Financial Statements

Consolidated Balance Sheet

Cardno Limited and its Controlled Entities as at 31 December 2005

	Note	Consolidated	
		31-Dec-05 \$'000	30-Jun-05 \$'000
CURRENT ASSETS			
Cash and cash equivalents		8,503	44,391
Trade and other receivables		27,764	15,765
Inventories		23,443	19,243
Other current assets		1,848	1,282
TOTAL CURRENT ASSETS		61,558	80,681
NON-CURRENT ASSETS			
Receivables		821	821
Property, plant and equipment		8,231	7,312
Deferred tax assets		3,970	3,451
Intangible assets		46,651	40,023
Investments		32	-
Other non-current assets		372	496
TOTAL NON-CURRENT ASSETS		60,077	52,103
TOTAL ASSETS		121,635	132,784
CURRENT LIABILITIES			
Trade and other payables		15,100	40,058
Short term borrowings		2,546	2,317
Current tax liabilities		1,626	119
Short term provisions		5,536	3,874
Other current liabilities		11,688	6,390
TOTAL CURRENT LIABILITIES		36,496	52,758
NON-CURRENT LIABILITIES			
Trade & other payables		-	7,045
Long term borrowings	5	38,151	40,720
Deferred tax liabilities		5,583	5,334
Long term provisions		3,092	2,681
TOTAL NON-CURRENT LIABILITIES		46,826	55,780
TOTAL LIABILITIES		83,322	108,538
NET ASSETS		38,313	24,246
EQUITY			
Issued capital	6	29,809	19,656
Reserves		(34)	24
Retained earnings		8,538	4,566
TOTAL EQUITY		38,313	24,246

The accompanying notes form part of this financial report.

Statutory Financial Statements

Consolidated Statement of Change in Equity

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

	Note	Share Capital Ordinary \$'000	Retained Profits \$'000	Reserves		Total \$'000
				Foreign Exchange \$'000	Asset Revaluation \$'000	
BALANCE AT 1 JULY 2004		17,758	1,430	96	-	19,284
Shares issued		1,875	-	-	-	1,875
Profit attributable to members of parent entity		-	4,541	-	-	4,541
Dividends paid or provided for	4	-	(1,625)	-	-	(1,625)
Restatement of functional currency		-	-	(140)	-	(140)
BALANCE AT 31 DECEMBER 2004		19,633	4,346	(44)	-	23,935
Shares issued		23	-	-	-	23
Profit attributable to members of parent entity		-	2,397	-	-	2,397
Dividends paid or provided for		-	(2,177)	-	-	(2,177)
Revaluation of property, plant and equipment		-	-	-	68	68
BALANCE AT 30 JUNE 2005		19,656	4,566	(44)	68	24,246
Shares issued during the year		10,153	-	-	-	10,153
Profit attributable to members of parent entity		-	7,118	-	-	7,118
Dividends paid or provided for	4	-	(3,146)	-	-	(3,146)
Restatement of functional currency		-	-	10	-	10
Transfer to retained earnings		-	-	-	(68)	(68)
BALANCE AT 31 DECEMBER 2005		29,809	8,538	(34)	-	38,313

Consolidated Cash Flow Statement

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

	Consolidated	
	31-Dec-05 \$'000	31-Dec-04 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	243	221
Finance costs	(1,852)	(38)
Dividends received	-	51
Receipts from customers	80,354	45,135
Sundry income received	383	481
Payments to suppliers and employees	(76,711)	(38,995)
Income tax paid	(2,001)	(1,379)
NET CASH PROVIDED BY OPERATING ACTIVITIES	416	5,476
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash paid on acquisition of controlled entities	(32,776)	(5,085)
Proceeds from sale of property, plant & equipment	1,095	86
Payments for investments	(32)	-
Payments for property, plant & equipment	(1,989)	(625)
NET CASH USED IN INVESTING ACTIVITIES	(33,702)	(5,624)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	9,605	1,423
Repayment of borrowings	(7,440)	(650)
Finance lease principal payments	(1,621)	(791)
Dividends paid	(3,146)	(3,475)
NET CASH USED BY FINANCING ACTIVITIES	(2,602)	(3,493)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(35,888)	(3,641)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	44,391	12,165
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	8,503	8,524

The accompanying notes form part of this financial report.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

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 2005 encompasses the Company and its subsidiaries (together referred to as the "consolidated entity").

The financial report was authorised for issue by the directors on 21 February 2006.

(a) 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*, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB"), the Corporations Act 2001 and other authoritative pronouncements of the Australian Accounting Standards Board.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The interim financial report of the consolidated entity also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first AIFRS consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First Time adoption of Australian equivalents to International Financial Reporting Standards*. 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, however, the basis of its preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRS. This report must also be read in conjunction with any public announcements made by Cardno Limited during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in Note 10. This note includes reconciliations of equity and profit or loss for comparative periods reported under previous AGAAP to those reported for those periods under AIFRS.

(b) Basis of Preparation

The financial report is presented in Australian dollars.

The financial statements have been prepared in accordance with the historical cost convention and, except where stated, do not take into account changing money values or current valuation of non-current assets.

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.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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 the judgements about carrying values of asset and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT.

(b) Basis of Preparation cont.

The preparation of the consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous AGAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards — AIFRS, as required by AASB 1. The impact of the transition from previous AGAAP to AIFRS is explained in Note 10.

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

(c) Principles of Consolidation

Controlled entities

The results of the controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associate entities are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

(d) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the consolidated balance sheet.

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

(e) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT.

(e) Foreign Currency Transactions and Balances cont.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- revenues and expenses are translated at approximating the foreign exchange rates prevailing at the dates of the transactions.
- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- equity and retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(f) Revenue Recognition

Revenue is recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Sale of goods

Revenue from the sale of goods is recognised (net of rebates, discounts and other allowances) upon the delivery of goods to the customer.

Consulting revenue

Revenue is recognised when the service is provided. For long term contracts, revenue and expenses are recognised in accordance with the percentage of completion method. Where a loss is expected to arise from a contract, the loss is recognised immediately as an expense. The percentage of completion is determined by costs to date versus total project costs.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

Dividends

Dividend revenue is recognised net of any franking credits.

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

Revenue from dividends is recognised when dividends are received.

(g) Net Financing Costs

Net financing costs comprise borrowing costs, interest income and foreign exchange gains and losses. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings and foreign exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT.

(g) Net Financing Costs cont.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take a substantial period of time to get ready for their intended use or sale. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is the amount incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(h) Income Tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(i) Leased Assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the lease.

(j) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. Interest income is recognised as it accrues. The recoverability of trade receivables is reviewed on an ongoing basis. An estimate for doubtful debts is made when collection of the full nominal amount is no longer probable. Bad debts are written off as incurred.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT.

(k) Inventories

(i) Consulting Business – Work in Progress

Work in progress represents the cost of unbilled labour and expenses. If a loss is anticipated on completion, the work in progress is reduced to the level of recoverability.

(ii) International Business – Long Term Contracts

Long term contract work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the consolidated entity's activities in general.

(l) Property, Plant and Equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (o)), except for freehold land which is accounted for on a fair value basis. The cost of self-constructed assets includes the cost of materials and direct labour, an appropriate proportion of fixed and variable overheads and capitalised borrowing costs. The cost of self-constructed assets and acquired assets include:

- (i) the initial estimate of the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and;
- (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

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

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

Subsequent costs

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Where these costs represent separate components they are accounted for as separate assets and are separately depreciated over their useful lives.

Costs incurred on property, plant and equipment which do not meet the criteria for capitalisation are expensed as incurred.

Revaluations

Freehold land has been accounted for on a fair value basis. Revaluation increments are recognised in the asset revaluation reserve except for amounts reversing a decrement previously recognised as an expense, which are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same asset and any excess is recognised as an expense.

In respect of revaluation increments recognised on freehold land measured at fair value, no provision for capital gains tax has been recognised as there is no intention to dispose of the assets.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT.

(l) Property, Plant and Equipment cont.

Depreciation

Items of property, plant and equipment, including buildings but excluding freehold land are depreciated over their estimated useful lives using the reducing balance method or straight line method. The depreciation rate for each class of asset is as follows:

Property, Plant and Equipment	2005	2004
Buildings	2.5%	2.5%
Laboratory equipment, instruments and amenities	13 – 24%	13 – 24%
Equipment and motor vehicles	15 – 24%	15 – 24%
Leasehold improvements	20 – 25%	N/A
Office furniture and equipment	9 – 33%	9 – 33%

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Assets temporarily not in use or those that are in the process of being sold are not depreciated.

(m) Non-Current Assets Held for Sale

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable Accounting Standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

(n) Intangible Assets

Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy (o)).

Negative goodwill arising on an acquisition is recognised directly as an expense.

Business combinations prior to 1 July 2004

In accordance with AASB 1, the consolidated entity has elected not to restate business combinations on transition to AIFRS. Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous AGAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been restated in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004 (see Note 10).

Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses (see accounting policy (o)).

Subsequent expenditure

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

Amortisation

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

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT.

(o) Impairment

The carrying amount of the consolidated entity's assets, other than inventories (see accounting policy (k)), and deferred tax assets (see accounting policy (h)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, an impairment test is performed.

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

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

Goodwill was tested for impairment at 1 July 2004, the date of transition to AIFRS, even though no indication of impairment existed.

Calculation of recoverable amount

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (ie. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade accounts payable are normally settled within 60 days. Trade and other payables are stated at cost.

(q) Interest Bearing Borrowings

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

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONT.

(r) Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the period end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Long-term service benefits

The provisions for employee entitlements to long service leave and other deferred employee benefits represent the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date and include related on-costs. In determining the liability for long service leave, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures.

Liabilities for employee entitlements which are not expected to be settled within 12 months are discounted using the rates attached to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

Employee option scheme

The Company has granted options to certain employees under an employee option scheme. Under this scheme, the directors may issue options to persons whom they wish to reward for strong performance.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(s) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal, equitable or constructive obligation as a result of a past event, and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. If the effect is material, provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

(t) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and investments in money market instruments.

(u) Segment Reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

	Consolidated	
	31-Dec-05 \$'000	31-Dec-04 \$'000
2. REVENUE FROM ORDINARY ACTIVITIES		
Revenue from operating activities		
Fees from services and sale of goods	71,564	40,904
Fees from recoverable expenses	17,541	2,727
Total revenues from operating activities	89,105	43,631
Revenue from non-operating activities		
Dividends received	-	51
Interest received	243	218
Proceeds on sale of property, plant and equipment	27	73
Other	357	492
Total revenue from non-operating activities	627	834
Revenue from ordinary activities	89,732	44,465
3. EXPENSES AND LOSSES/(GAINS)		
Depreciation		
Motor vehicles	29	7
Plant & equipment	456	164
Total Depreciation	485	171
Amortisation of non-current assets		
Motor vehicles under lease	162	258
Plant & equipment under lease	773	614
Work Contracts	186	74
Total Amortisation	1,121	946
Total Depreciation & Amortisation	1,606	1,117
Bad and doubtful debts	140	207
Financing costs		
Interest charges	1,679	65
Finance charges	198	147
Borrowing costs	184	3
Total Financing Costs	2,061	215
Rental expense relating to operating leases		
Minimum lease payments	2,084	1,768
4. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES		
(a) Dividends proposed and not recognised as a liability		
100% franked dividend at 30%	3,713	1,625

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

4. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES CONT.

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

	Cents per share	Total Amount \$'000	Franked / Unfranked	Date of payment
31 December 2005 - 2005 Final Dividend	8	3,146	Franked	6 October 2005
For comparison:				
31 December 2004 - 2004 Final Dividend	4.5	1,625	Franked	15 November 2004

Franked dividends paid during the year were fully franked at the tax rate of 30%. A prelisting unfranked dividend of 6 cents per share was paid to prelisting shareholders on 5 July 2004.

Subsequent to reporting date

Since 31 December 2005, the directors have declared the following dividend:

	Cents per share	Total Amount \$'000	Franked / Unfranked	Date of payment
2006 Interim dividend	9	3,713	Franked	7 April 2006

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 2005 and will be recognised in subsequent financial reports.

5. LONG TERM BORROWINGS

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

	Consolidated	
	31-Dec-05 \$'000	30-Jun-05 \$'000
Lease liability	3,035	3,451
Hire purchase liability	92	84
Convertible notes	33,444	33,444
Forward exchange contract	553	541
Commercial bill	1,027	3,200
	38,151	40,720

6. ISSUED CAPITAL

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

Balance at the end of the year

	31-Dec-05 No. of shares	30-Jun-05 No. of shares	31-Dec-05 \$'000	30-Jun-05 \$'000
Balance at the beginning of the period	36,290,956	35,344,992	19,656	17,758
Shares issued during the period:				
- Shares issued for cash	3,385,596	765,294	9,605	1,423
- Employee Tax Exempt Share Acquisition Plan	154,872	180,670	506	444
- Employee Performance Equity Plan	-	-	42	31
Balance at the end of the year	39,831,424	36,290,956	29,809	19,656

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 Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

8. BUSINESS COMBINATIONS

During the half-year the group acquired 100% of the issued capital of EOP Holdings Pty Ltd (Eppell Olsen), Agrisystems Limited and Barton Enterprises Pty Ltd (Ullman & Nolan) and their subsidiaries. The effective date of all acquisitions was 1 July except EOP Holdings Pty Ltd which was 4 July 2005.

The acquired businesses contributed revenues of \$12,012,427 and net profit of \$620,641 to the Group for the half-year.

At the date of acquisition, the acquired entities were involved in providing professional services in the engineering and management fields. 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

Purchase Consideration	\$'000
Cash consideration	8,633
Vendor liability	988
Direct costs relating to the acquisitions	208
Total purchase consideration	9,829
Fair value of net identifiable assets acquired	3,319
Goodwill	6,510

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

	Acquirees' carrying amount \$'000	Fair Value \$'000
Cash	(122)	(122)
Receivables	7,631	7,631
Property, plant and equipment	918	918
Inventories	2,336	2,336
Creditors & Borrowings	(5,221)	(5,221)
Provisions	(2,263)	(2,263)
Work Contracts	-	40
Net identifiable assets acquired	3,279	3,319
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration		9,829
Less: Balances acquired		
Cash		1,513
Bank Overdraft		(1,635)
		(122)
Outflow of cash		9,951

9. SEGMENT INFORMATION

The group operates principally as a provider of professional services in the engineering and management 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 locations of the responsible Cardno entity. The consolidated entity's geographical segments reported are Australia, UK and Africa, North America and Asia Pacific.

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

9. SEGMENT INFORMATION CONT.

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							<u>(3,188)</u>
Profit from ordinary activities after related income tax expense							<u>7,118</u>

Half-Year Ended 31 December 2004	Australia \$'000	Asia Pacific \$'000	UK & Africa \$'000	North America \$'000	TOTAL \$'000	Eliminations \$'000	Grouped \$'000
Total Revenue	39,889	3,687	-	1,220	44,796	(331)	44,465
Total Result	6,076	258	-	161	6,495	-	6,495
Income tax (expense)/benefit							<u>(1,954)</u>
Profit from ordinary activities after related income tax expense							<u>4,541</u>

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

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

10. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

These are the consolidated entity's first consolidated interim financial reports for the period covered by the first AIFRS annual consolidated financial reports prepared in accordance with Australian Accounting Standards - AIFRS.

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

RECONCILIATION OF EQUITY

	Note	CONSOLIDATED			CONSOLIDATED			CONSOLIDATED		
		AGAAP \$'000	01-Jul-04 Transaction Impact \$'000	AIFRS \$'000	AGAAP \$'000	31-Dec-04 Transaction Impact \$'000	AIFRS \$'000	AGAAP \$'000	30-Jun-05 Transaction Impact \$'000	AIFRS \$'000
CURRENT ASSETS										
Cash and cash equivalents		12,165	-	12,165	8,524	-	8,524	44,391	-	44,391
Trade and other receivables		9,944	-	9,944	12,871	-	12,871	15,765	-	15,765
Inventories		5,425	-	5,425	6,785	-	6,785	19,243	-	19,243
Other current assets		263	-	263	555	-	555	1,282	-	1,282
		27,797	-	27,797	28,735	-	28,735	80,681	-	80,681
NON CURRENT ASSETS										
Receivables		-	-	-	-	-	-	821	-	821
Property, plant and equipment	(e)	4,992	7	4,999	5,948	7	5,955	7,305	7	7,312
Deferred tax assets	(a)	2,566	89	2,655	2,557	89	2,646	3,370	81	3,451
Intangible assets	(b)	7,657	-	7,657	12,457	211	12,668	40,136	(113)	40,023
Other non-current assets		-	-	-	-	-	-	496	-	496
		15,215	96	15,311	20,962	307	21,269	52,128	(25)	52,103
TOTAL ASSETS		43,012	96	43,108	49,697	307	50,004	132,809	(25)	132,784
CURRENT LIABILITIES										
Trade and other payables	(c)	7,407	(89)	7,318	8,239	(80)	8,159	40,091	(33)	40,058
Short term borrowings		1,159	-	1,159	1,854	-	1,854	2,317	-	2,317
Current tax liabilities		966	-	966	1,407	-	1,407	119	-	119
Short term provisions		4,262	-	4,262	2,851	-	2,851	3,874	-	3,874
Other current liabilities	(d)	3,154	-	3,154	4,475	-	4,475	6,390	-	6,390
		16,948	(89)	16,859	18,826	(80)	18,746	52,791	(33)	52,758

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

10. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONT.

RECONCILIATION OF EQUITY CONT.

	Note	CONSOLIDATED			CONSOLIDATED			CONSOLIDATED		
		AGAAP	01-Jul-04 Transaction Impact	AIFRS	AGAAP	31-Dec-04 Transaction Impact	AIFRS	AGAAP	30-Jun-05 Transaction Impact	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
NON CURRENT LIABILITIES										
Trade & other payables		-	-	-	-	-	-	7,045	-	7,045
Long term borrowings		2,747	-	2,747	2,612	-	2,612	40,720	-	40,720
Deferred tax liabilities	(a)	1,814	300	2,114	1,943	300	2,243	5,034	300	5,334
Long term provisions		2,104	-	2,104	2,468	-	2,468	2,681	-	2,681
		6,665	300	6,965	7,023	300	7,323	55,480	300	55,780
TOTAL LIABILITIES		23,613	211	23,824	25,849	220	26,069	108,271	267	108,538
NET ASSETS		19,399	(115)	19,284	23,848	87	23,935	24,538	(292)	24,246
EQUITY										
Contributed equity	(d)	17,647	111	17,758	19,070	563	19,633	19,070	586	19,656
Reserves		-	-	-	-	-	-	68	-	68
Retained profits	(g)	1,752	(322)	1,430	4,778	(432)	4,346	5,400	(834)	4,566
Foreign currency translation reserve	(f)	-	96	96	-	(44)	(44)	-	(44)	(44)
		19,399	(115)	19,284	23,848	87	23,935	24,538	(292)	24,246

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

10. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONT.

RECONCILIATION OF PROFIT 2005

	Note	CONSOLIDATED			CONSOLIDATED		
		AGAAP \$'000	31-Dec-04 Transaction Impact \$'000	AIFRS \$'000	AGAAP \$'000	30-Jun-05 Transaction Impact \$'000	AIFRS \$'000
Revenue from Ordinary Activities		44,465	-	44,465	100,105	-	100,105
Cost of services & employee costs	(d)	27,598	452	28,050	68,117	474	68,591
Administration expenses		300	-	300	550	-	550
Consultancy expenses		409	-	409	1,188	-	1,188
Depreciation & amortisation expenses	(b)	1,328	(211)	1,117	3,028	113	3,141
Distribution expenses		126	-	126	287	-	287
Marketing expenses		182	-	182	482	-	482
Financing costs	(c)	212	3	215	398	25	423
Occupancy expenses		2,118	-	2,118	4,216	-	4,216
Printing & office supplies		507	-	507	951	-	951
Bad debts		207	-	207	(54)	-	(54)
Computer related expenses		344	-	344	752	-	752
Insurance expenses		920	-	920	2,162	-	2,162
Non-recoverable travel expenses		546	-	546	1,115	-	1,115
Communication expenses		366	-	366	743	-	743
Other expenses from ordinary activities	(b), (c)	2,694	(131)	2,563	5,735	(83)	5,652
		37,857	113	37,970	89,670	529	90,199
Operating profit (loss) before abnormal items and income tax		6,608	(113)	6,495	10,435	(529)	9,906
Income tax attributable to operating profit (loss)	(a)	1,957	(3)	1,954	2,985	(17)	2,968
Operating profit (loss) after income tax		4,651	(110)	4,541	7,450	(512)	6,938
Retained profits (accumulated losses) at the beginning of the financial year		1,752	(322)	1,430	1,752	(322)	1,430
Total available for appropriation		6,403	(432)	5,971	9,202	(834)	8,368
Dividends provided for or paid		(1,625)	-	(1,625)	(3,802)	-	(3,802)
Retained profits (accumulated losses) at the end of the financial year		4,778	(432)	4,346	5,400	(834)	4,566

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

10. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONT.

NOTES TO THE RECONCILIATION OF EQUITY

(a) Tax Adjustments

The consolidated entity has applied AASB112 from 1 July 2004 which uses the balance sheet approach instead of the previous income statement liability approach in recognising deferred tax assets and deferred tax liabilities.

The effect in the consolidated entity is to debit/(credit):

	01-Jul-04 \$'000	31-Dec-04 \$'000	30-Jun-05 \$'000
Deferred tax assets	89	89	81
Deferred tax liabilities	(300)	(300)	(300)
Income tax expenses	-	-	(14)
Retained earnings (opening balance)	300	300	344
Share capital – costs associated with equity raising – over 5 years	(89)	(89)	(111)

(b) Intangible Assets

The consolidated entity has elected to apply the elections under AASB 1 to not restate business combinations prior to the date of the transition to AIFRS. Goodwill is no longer amortised under AIFRS, but is tested annually for impairment.

The effect in the consolidated entity is to debit/(credit):

	01-Jul-04 \$'000	31-Dec-04 \$'000	30-Jun-05 \$'000
Intangible assets – work contracts	-	79	1,571
Intangible assets – goodwill	-	(79)	(1,571)
Accumulated amortisation (non-current)	-	211	(113)
Depreciation & amortisation expenses	-	74	148
Retained earnings (opening balance)	-	(285)	(35)

(c) Accounts Payable

The consolidated entity has applied AASB121 from 1 July 2004 which requires the financial position of the entity be translated into a different presentation currency using the method detailed in note (f):

The consolidated entity has applied AASB117 requiring leases expense to be recognised on a straight-line basis over the lease term. In the event that there is a determinable escalation of lease payments, the lease expense recognised has been amortised for the commencement of the lease, such that the expense is not escalated annually, but recognised on a straight-line basis.

The effect in the consolidated entity is to debit/(credit):

	01-Jul-04 \$'000	31-Dec-04 \$'000	30-Jun-05 \$'000
Other expenses from ordinary activities – foreign currency	(89)	(89)	(89)
Other expenses from ordinary activities – operating leases	-	9	9
Other expenses from ordinary activities	-	-	47
Foreign currency translation reserve	89	89	89
Share capital	-	(9)	(56)

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

10. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONT.

NOTES TO THE RECONCILIATION OF EQUITY CONT.

(d) Equity Contributed

On adoption of AIFRS, the consolidated entity has recognised an expense for all share-based remuneration. In terms of options, an expense will be recognised over the relevant vesting period.

The effect in the consolidated entity is to debit/(credit):

	01-Jul-04 \$'000	31-Dec-04 \$'000	30-Jun-05 \$'000
Share capital – costs associated with equity raising – over 5 years	22	22	22
Deferred tax expense	89	89	89
Contributed equity	-	(452)	(474)
Employee costs – issue of employee tax exempt shares	-	444	444
Employee costs – issue of options to employees	-	8	30
Other expenses from ordinary activities – operating leases	-	9	9
Retained profit	(111)	(120)	(120)

(e) Property, plant and equipment

Consistent with AASB121, the consolidated entity has translated the financial position of the entity into a different presentation currency using the method detailed in note (f).

The effect in the consolidated entity is to debit/(credit):

	01-Jul-04 \$'000	31-Dec-04 \$'000	30-Jun-05 \$'000
Foreign currency translation reserve	7	7	7
Retained profit (opening balance)	(7)	(7)	(7)

(f) Foreign currency translation reserve

The consolidated entity has applied AASB121 from 1 July 2004 which requires the financial position of the entity be translated into a different presentation currency using the following methods:

- asset and liabilities of each balance sheet shall be translated at the closing rate at the date of that balance sheet.
- income and expense for each income statement shall be translated at exchange rates at the date of the transactions; and
- all resulting exchange differences shall be recognised as a separate component of equity.

Both Cardno MBK PNG Ltd and XP Software Inc were accounted for as “integrated” operations under existing Australian Standards.

The effect in the consolidated entity is to debit/(credit):

	01-Jul-04 \$'000	31-Dec-04 \$'000	30-Jun-05 \$'000
Foreign currency translation reserve	(96)	44	44
Retained earnings (opening balance)	-	(140)	(140)
Property, plant & equipment	7	7	7
Payables	89	89	89

Notes to the Consolidated Interim Financial Statements

Cardno Limited and its Controlled Entities for the half-year ended 31 December 2005

10. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONT.

NOTES TO THE RECONCILIATION OF EQUITY CONT.

(g) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Note	01-Jul-04 \$'000	31-Dec-04 \$'000	30-Jun-05 \$'000
Share capital – costs associated with equity raising – over 5 years	(d)	(22)	(22)	(44)
Intangible assets – goodwill	(b)	-	211	(113)
Deferred tax assets	(a)	89	89	81
Deferred tax liabilities	(a)	(300)	(300)	(300)
Employee costs – issue of employee tax exempt shares	(d)	-	(444)	(444)
Employee costs – issue of options to employees	(d)	-	(8)	(30)
Other expenses from ordinary activities	(c)(d)	7	(2)	(28)
Foreign currency translation reserve	(f)	(96)	44	44
Total adjustment to retained earnings		(322)	(432)	(834)

Directors' Declaration

Cardno Limited and its Controlled Entities For the half-year ended 31 December 2005

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

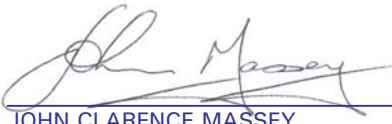
- (a) The financial statements and notes set out in pages 6 to 27
 - i. comply with Accounting Standards and other mandatory professional reporting requirements;
 - ii. give a true and fair view of the consolidated entities' financial position as at 31 December 2005 and its performance, as represented by the results of their operations and their cash flows, for the period 1 July 2005 to 31 December 2005; 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 21 February 2006

On behalf of the Board



JOHN CLARENCE MASSEY
Chairman

To the members of Cardno Limited

Scope

We have reviewed the financial report of Cardno Limited for the half-year ended 31 December 2005 as set out on pages 6 to 28. 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 2005 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.



WILLIAM BUCK
Chartered Accountants



RQ Cole
Partner

Dated 21 February 2006

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