

WATPAC LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

The Directors present their report, together with the consolidated financial report for the half-year ended 31 December 2007 and the Review Report thereon.

Directors

The Directors of the Company at any time during or since the end of the half-year are:

Name	Period of directorship
Non-executive	
Mr Kevin W Seymour (Chairman)	Director since 1996
Mr Richard B McGruther (Deputy Chairman)	Director since 1993
Mr Robert J Lette	Director since 1996
Mr David M Little	Director since 1985
Mr Anthony G Bellas	Appointed 5 December 2007
Executive	
Mr Gregory K Kempton (Managing Director)	Director since 2002

Review of operations

The profit after tax for the half-year was \$15.856m (2006:\$12.259m). The half-year performance was achieved through contributions from all operating divisions and settlement of a number of development properties, including Skyline apartments and land at both Rochedale and Kingston in Brisbane.

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

The lead auditor's independence declaration is set out on page 2 and forms part of the Directors' Report for the half-year ended 31 December 2007.

Rounding off

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 and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Brisbane this sixth day of February 2008.

Signed in accordance with a resolution of the Directors.

R B McGruther – Deputy Chairman

G K Kempton – Managing Director



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

To: the Directors of Watpac Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial period ended 31 December 2007 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

Warren Austin
Partner

Brisbane
6 February 2008

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Consolidated interim income statement
For the six months ended 31 December 2007

In thousands of AUD

	31 December 2007	31 December 2006
Revenue	474,796	323,491
Cost of sales	(439,285)	(298,865)
Gross profit	35,511	24,626
Other income	5,769	1,975
Administrative expenses	(10,754)	(7,774)
Other expenses	(8,290)	(2,535)
Results from operating activities	22,236	16,292
Financial income	4,290	2,240
Financial expenses	(3,882)	(1,105)
Net financing income	408	1,135
Profit before tax	22,644	17,427
Income tax expense	(6,788)	(5,168)
Profit for the period attributable to equity holders of the parent	15,856	12,259
Basic earnings per share attributable to ordinary equity holders	13.78¢	12.61¢
Diluted earnings per share attributable to ordinary equity holders	13.33¢	12.53¢

The condensed notes on pages 7 to 12 are an integral part of these consolidated interim financial statements.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Consolidated interim statement of recognised income and expense
For the six months ended 31 December 2007

In thousands of AUD

	31 December 2007	31 December 2006
Net change in fair value of available-for-sale financial assets	(1,741)	2,404
Net change in fair value of available-for-sale financial assets transferred to profit and loss	-	(33)
Income and expense recognised directly in equity	(1,741)	2,371
Profit for the period	15,856	12,259
Total recognised income and expense for the period attributable to equityholders of the parent	14,115	14,630

Other movements in equity arising from transactions with owners as owners are set out in Note 8. The amounts recognised directly in equity are disclosed net of tax.

The condensed notes on pages 7 to 12 are an integral part of these consolidated interim financial statements.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Consolidated interim balance sheet
As at 31 December 2007

In thousands of AUD

	Notes	31 December 2007	30 June 2007
ASSETS			
Current assets			
Cash and cash equivalents		99,322	68,982
Trade and other receivables		110,731	83,353
Inventories		149,614	123,513
Total current assets		359,667	275,848
Non-current assets			
Property, plant and equipment	7	21,842	17,189
Inventories		186,299	182,833
Intangibles		34,204	15,616
Investments		14,387	16,008
Total non-current assets		256,732	231,646
Total assets		616,399	507,494
LIABILITIES			
Current liabilities			
Trade and other payables		188,437	160,624
Interest-bearing loans and borrowings		73,423	66,137
Employee benefits		4,931	3,455
Income tax payable		2,447	7,794
Total current liabilities		269,238	238,010
Non-current liabilities			
Trade and other payables		4,230	2,933
Interest-bearing loans and borrowings		134,328	123,208
Deferred tax liabilities		1,994	2,397
Employee benefits		496	245
Provisions		450	425
Total non-current liabilities		141,498	129,208
Total liabilities		410,736	367,218
Net assets		205,663	140,276
Equity			
Issued capital		159,094	95,653
Reserves		3,475	5,216
Retained earnings		43,094	39,407
Total equity	8	205,663	140,276

The condensed notes on pages 7 to 12 are an integral part of these consolidated interim financial statements.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Consolidated interim statement of cash flows
For the six months ended 31 December 2007

In thousands of AUD

	31 December 2007	31 December 2006
Cash flows from operating activities		
Cash receipts from customers	548,368	367,718
Cash paid to suppliers and employees	(545,643)	(405,135)
Cash generated from operations	2,725	(37,417)
Interest received	4,055	2,240
Interest paid	(7,955)	(1,925)
Income taxes paid	(11,231)	(5,369)
Net cash used in operating activities	(12,406)	(42,471)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(5,821)	(1,477)
Proceeds from the sale of property, plant and equipment	240	1
Proceeds from sale of investments	-	902
Dividend received	236	-
Acquisition of subsidiary	(11,340)	-
Acquisition of other investments	(1,172)	(5,897)
Acquisition of property management rights	(6,195)	-
Net cash used in investing activities	(24,052)	(6,471)
Cash flows from financing activities		
Proceeds from borrowings	43,649	70,335
Repayment of borrowings	(25,243)	(24,542)
Dividends paid	(9,774)	(6,448)
Proceeds from issue of share capital	58,105	40,123
Proceeds from exercise of share options	61	-
Contribution from outside equity interest	-	114
Net cash from financing activities	66,798	79,582
Net increase/(decrease) in cash and cash equivalents	30,340	30,640
Cash and cash equivalents at 1 July	68,982	50,229
Cash and cash equivalents at 31 December	99,322	80,869

The condensed notes on pages 7 to 12 are an integral part of these consolidated interim financial statements.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES

Condensed notes to the consolidated interim financial statements

1. Reporting entity

Watpac 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 2007 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2007 is available upon request from the Company's registered office at 1st Floor, 1024 Ann Street, Fortitude Valley, QLD 4006 or at www.watpac.com.au.

2. 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 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 2007.

This consolidated interim financial report was approved by the Board of Directors on the sixth of February 2008.

The Company 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.

3. Significant accounting policies

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 2007.

4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. 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 that applied to the consolidated financial report as at and for the year ended 30 June 2007.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Condensed notes to the consolidated interim financial statements

5. Segment reporting

For six months ended 31 December 2007

<i>In thousands of AUD</i>	Construction		Property		Elimination		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Segment revenue	436,605	277,194	43,227	47,044	(5,036)	(747)	474,796	323,491
Unallocated income							5,769	1,975
							480,565	325,466
Segment result	21,642	10,221	2,143	6,761	609	(412)	24,394	16,570
Unallocated expenses							(2,158)	(278)
Results from operating activities							22,236	16,292
Net financing income							408	1,135
Income tax expense							(6,788)	(5,168)
Profit for the period							15,856	12,259

The Group comprises the following main business segments:

- Construction: Building, refurbishment, project management and construction management.
- Property: Development of commercial, retail, industrial and residential properties.

The Group's business segments operate wholly in Australia.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Condensed notes to the consolidated interim financial statements

6. Acquisition of subsidiary

Effective from 1 July 2007 the Group acquired JAD Group Holdings Ltd, a construction company in Victoria for \$11.34m in cash and \$1.5m in shares representing 308,642 shares at \$4.86.

The acquisition has the following effect on the Group's assets and liabilities.

<i>In thousands of AUD</i>	Recognised values on acquisition	Fair value adjustments	Pre- acquisition carrying amount
Property, plant and equipment	2,313	-	2,313
Intangible assets	96	-	96
Inventories	1,802	-	1,802
Trade and other receivables	21,895	-	21,895
Cash and cash equivalents	12,345	-	12,345
Deferred tax assets	819	-	819
Loans and borrowings	(657)	-	(657)
Employee benefits	(1,059)	-	(1,059)
Provisions	(96)	-	(96)
Income tax payable	(257)	-	(257)
Trade and other payables	(36,627)	-	(36,627)
Net identifiable assets and liabilities	574	-	574
Goodwill on acquisition	12,266	-	12,266
Consideration paid, satisfied in cash and shares	12,840	-	12,840
Issue of shares	(1,500)	-	(1,500)
Net cash outflow	11,340	-	11,340

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 company into the Group's existing construction business.

Pursuant to the purchase agreement, an additional sum of \$2.16m will become payable if certain performance hurdles are achieved during the year ending 30 June 2008.

7. Property, plant and equipment

Acquisition and disposals

During the six months ended 31 December 2007, the Group purchased assets at a cost of \$5,821,000 (six months ended 31 December 2006: \$1,477,000). Assets with a net book value of \$158,000 were disposed of during the six months ended 31 December 2007 (six months ended 31 December 2006:\$1,000), resulting in a \$82,000 profit on disposal (six months ended 31 December 2006: \$nil).

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Condensed notes to the consolidated interim financial statements

8. Capital and reserves

Reconciliation of movement in capital and reserves

<i>In thousands of AUD</i>	Attributable to equity holders of the parent				Minority interest	Total equity
	Share capital	Fair value reserve	Retained earnings	Total		
Balance at 1 July 2006	24,535	677	27,183	52,395	721	53,116
Total recognised income and expenses	-	2,371	12,259	14,630	-	14,630
Shares issued under dividend reinvestment plan	1,484	-	-	1,484	-	1,484
Tax exempt shares issued to employees	72	-	-	72	-	72
Share options exercised by employees	161	-	-	161	-	161
Share issued under rights issue	39,962	-	-	39,962	-	39,962
Share based payments	200	-	-	200	-	200
Dividends to shareholders	-	-	(7,933)	(7,933)	-	(7,933)
Contribution from outside equity interest	-	-	-	-	114	114
Balance at 31 December 2006	66,414	3,048	31,509	100,971	835	101,806
Balance at 1 July 2007	95,653	5,216	39,407	140,276	-	140,276
Total recognised income and expenses	-	(1,741)	15,856	14,115	-	14,115
Shares issued under dividend reinvestment plan	2,396	-	-	2,396	-	2,396
Tax exempt shares issued to employees	60	-	-	60	-	60
Share options exercised by employees	61	-	-	61	-	61
Shares issued *	59,605	-	-	59,605	-	59,605
Share based payments	1,319	-	-	1,319	-	1,319
Dividends to shareholders	-	-	(12,169)	(12,169)	-	(12,169)
Balance at 31 December 2007	159,094	3,475	43,094	205,663	-	205,663

* The \$59.6 million includes the issue of 10,155,173 fully paid ordinary shares at \$5.80 per share via private placement, on 30th July 2007 to raise \$57.7 million after fees.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Condensed notes to the consolidated interim financial statements

8. Capital and reserves (continued)

Dividends

The following dividends were declared and paid by the Group:

For the six months ended 31 December 2007

In thousands of AUD

28 September 2007: \$0.11 per qualifying ordinary share
 fully franked (29 September 2006:\$0.08 fully franked)

	2007	2006
	12,169	7,933
	12,169	7,933

9. Employee benefits

Share-based payments

Employee Share Option Plan – 2004 Scheme

At 1 July 2004, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity. The terms and conditions of the share option programme and grants made during the year ended 30 June 2007 were disclosed in the most recent annual financial report. No options were granted under these terms since 30 June 2007.

The following details options exercised between 1 July 2007 and 31 December 2007:

Grant date	Exercise date on or after	Expiry date	Exercise price \$	Target share price \$	Options exercised
2 April 2004	2 April 2004	1 April 2009	0.35	0.65	12,500
2 April 2004	2 April 2004	1 April 2009	0.35	0.80	12,500
2 April 2004	2 April 2004	1 April 2009	0.70	0.91	25,000
2 April 2004	2 April 2004	1 April 2009	0.70	1.12	25,000
3 June 2005	3 June 2005	1 April 2009	0.70	0.91	12,500
3 June 2005	3 June 2005	1 April 2009	0.70	1.12	12,500
					100,000

Employee Share Option Plan – 2006 Scheme

A new employee share option plan was approved by the shareholders at the 2006 Annual General Meeting, under which 6,435,000 options over ordinary shares were issued to the Managing Director, senior management and employees for no consideration. The terms and conditions of the share option programme and grants made during the year ended 30 June 2007 were disclosed in the most recent annual financial report. No options were granted under these terms since 30 June 2007.

No options under this plan were exercised during the six months ended 31 December 2007.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Condensed notes to the consolidated interim financial statements

9. Employee benefits (continued)

Share-based payments (continued)

Tax Exempt Share Plan

On 5 September 2007, the Group granted shares to eligible employees under the Tax Exempt Share Plan ("TESP") which was approved by the Directors on 19 April 2007. The TESP is available to all eligible employees to acquire ordinary shares in the Company for no consideration. Full-time employees are entitled up to \$1,000 of free shares. Shares issued under TESP rank equally with other fully paid ordinary shares.

To be eligible, employees must complete at least 3 years full time service. Shares are issued in the name of the participating employee. They vest to the employee at the earlier of three years from the date of issue or the date employment ceases. The TESP has no conditions that could result in a recipient forfeiting ownership of shares.

No consideration is received by the Company from the employees.

The TESP complies with current Australian Tax legislation, enabling permanent employees to receive up to \$1,000 of free shares, in respect of an employee share scheme, excluded from their assessable income.

The fair value of shares issued during the reporting period is the market price of the Company on the Australian Stock Exchange as at close of trading on the issue date.

11,529 shares at a fair value of \$5.2756 were issued to employees on 5 September 2007.

10. Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2007 annual financial report.

WATPAC LIMITED AND ITS CONTROLLED ENTITIES
Directors' declaration

In the opinion of the Directors of Watpac Limited ("the Company"):

1. the financial statements and notes set out on pages 3 to 12 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 2007 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; 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.

Dated at Brisbane this sixth day of February 2008.

Signed in accordance with a resolution of the Directors.

R B McGruther – Deputy Chairman

G K Kempton – Managing Director

WATPAC LIMITED AND ITS CONTROLLED ENTITIES

Independent auditor's review report to the members of Watpac Limited

We have reviewed the accompanying interim financial report of Watpac Limited ('the Company'), which comprises the consolidated interim balance sheet as at 31 December 2007, income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes 1 to 10 and the Directors' declaration 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 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 Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express 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 an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2007 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 Watpac 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the interim financial report of Watpac 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 2007 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

Warren Austin
Partner
Brisbane
6th February 2008