A J LUCAS GROUP LIMITED

ABN 12 060 309 104

ANNUAL REPORT

2003

A J Lucas Group Limited and its controlled entities

Contents

Chairman's Report

For the year ended 30 June 2003

Fellow shareholders,

Lucas is going well and our growing maturity is showing clear results. The goals we set when we listed four years ago have been achieved and Lucas has moved on to a new phase of corporate development.

This has been exciting, challenging and very hard work. We've had to go head-to-head with some very large companies that aren't shy about throwing their weight around.

The company has succeeded for a number of reasons. Essentially, it is because we try to be better and smarter than our competitors. This is not to say that Lucas always gets it right; we don't. But we try harder and we never give up. We always deliver.

We offer our clients a genuine alternative approach. One that's based on competence and integrity – and, by definition, on the quality of our people.

We have people employed at all levels with the right set of values and more than a high level of competence.

These people are the company. They're the ones who deliver, week in and week out. We expect a lot from them and they perform.

Lucas is built on these twin pillars of competence and integrity. We believe that these are enduring foundations and our success so far certainly affirms this.

The next two years are very important in our growth strategy as we capitalise on our success to date and improve the quality of our revenue and earnings stream.

We intend to develop our activities in the coal seam gas area, build on our pipeline and drilling successes to undertake further significant projects, expand our activities to include facilities management (operation and maintenance) and specialist civil engineering of infrastructure. This should take eighteen to twenty-four months to complete and, if successful, will see Lucas complete the transformation into a mature specialist engineering and infrastructure services business.

Through this, our emphasis on people and our proven business model will continue. The competition won't stop, but we believe our successful approach will be hard to duplicate because it's a direct reflection of our unique culture.

Lucas now has an adequate capital base. We definitely have the right people. The prospects in the marketplace are very bright and Lucas is well positioned within that marketplace. The board of directors are justifiably very proud of our company; very proud of our projects and our people. They are the true monuments to Lucas' success.

We thank you for your support during the year and look forward to continuing together during the next phase of Lucas' journey.

Allan Campbell
Executive Chairman

Pipelines

Lucas is the Australian industry leader in long-distance pipelines, responsible for more than 50% of the Australian pipelines built over the last seven years.

Two factors make us very positive about the pipeline business.

First is the expected growth in demand for gas and the need to carry gas from new sources.

The latest forecasts from the Australian Pipeline Industry Association (APIA) are for continuing growth in gas demand of around four percent each year until 2020 – taking natural gas to over 25% of Australia's energy supply.
The most important growth areas are gas used for industrial and minerals processing and power generation where natural gas' much lower greenhouse effects give it a major environmental advantage over coal.

Apart from growth in demand, the country's main source of gas to date, the Cooper Basin, is approaching the end of its life, so gas will need to be carried from new sources.

The second factor is our approach to the business. The traditional "contracting" approach is clearly obsolete in today's climate. In contrast, Lucas' partnership approach focuses on our clients' objectives and sets about achieving them.

By eliminating the adversary element from relationships with our clients, we can work more openly and faster, delivering gas sooner. In the end, everyone benefits. Our profit margin is more consistent, our clients get a more predictable price and delivery date. Everyone can focus on the same objective of delivering the finished product.

Our year's work: Pipelines

Our pipeline division is into the final stages of the SEA Gas Pipeline project. This is our largest project ever – in fact it's the country's largest pipeline project of the last year. Apart from size, the speed and breadth of this engineer/procure/construct project makes it an important landmark for us and the industry.

The South East Australia Gas Pipeline, SEA Gas, is a partnership between International Power, Origin Energy and TXU. It will supply gas to South Australia from Victoria's Minerva offshore gas field and later, the Thylacine and Geographe fields.

The 686km, 350/450mm diameter underground pipeline runs from Port Campbell, Victoria to Pelican Point in Adelaide, South Australia.

Lucas, in joint venture with Spie Capag Australia, won the design, procurement and construction contract in May 2002 against international competition.

Horizontal directional drilling (HDD)

Safe for personnel, the general public and the environment, HDD is simply the best way to carry pipelines and other utilities conduits under surface obstacles. Whether those obstacles are roads and rivers, entire cities or wilderness habitats, HDD avoids the danger, disruption and environmental damage of trenching. The installed pipe, deep below the ground, is safe from careless backhoes, stray anchors and sabotage.

The Lucas fleet of seven over-50 tonne drilling rigs is unmatched in the Asia-Pacific and is among the top four worldwide. We hold the outright record for the longest HDD crossing and have completed more drills over 1,000 metres than any other company in the world. The precision of our drilling has enabled previously "impossible" projects to be completed. So when we claim to be the world's leader in HDD, we mean it.

The technology and skills we've developed have expanded the market for our HDD solutions. Because we can drill further and more accurately, projects that were regarded as impractical for HDD – like the ones we successfully completed this year in Wollongong and Chatswood – become opportunities for us.

Although the direct cost of our engineered HDD can be higher than traditional trenching, this extra cost can often be directly recouped through reduced compensation, lower insurance and earlier completion. In cases where trenching is impossible, HDD really can make "impossible" projects possible.

We're focused on the top end of the market, technically and financially. Our depth of engineering experience and proprietary techniques, backed by our large range of equipment create very high barriers to entry for prospective competitors. The value we deliver our clients with these challenging projects is enormous – often critical to an overall project. This lets us deliver both exceptional value to our clients and a good dividend to our shareholders.

Our year's work: HDD

After setting a new world record for the longest HDD crossing last year in Tasmania, our HDD division has followed up this year with three more record-setting drills: two for Sydney Water in Wollongong and Chatswood and the Minerva Gas Field landfall.

The two projects for Sydney Water have redefined the capabilities of the HDD for sewers and open the way for a range of HDD work.

Illawarra Sewer
HDD eliminated a variety of environmental and community issues for Sydney Water by taking a new sewer mains directly from one side of Wollongong to the other without surface trenching or intermediate work sites. At 1,900 metres long, this is the world's longest HDD pressure sewer installation.

Chatswood SewerFix for Sydney Water
A new gravity sewer mains to increase the capacity of one of Sydney's busiest shopping and commercial centres, this bore is over 1,800 metres long, following a complex curved path with a steady grade of 1.46° over its entire length. This again sets an HDD record – as the world's longest gravity sewer.

Minerva landfall
The Minerva gas field is 12km offshore from Port Campbell National Park, home to the Twelve Apostles and some of Australia's most spectacular coastlines.

Lucas HDD has drilled a pair of bores 1,600m long: one to carry gas from the field; the other for the gas wells' chemical injection and hydraulic control lines. These start inland from the Park, travel below the Great Ocean Road, the sea cliffs and beach, emerging 800m offshore in 15m of water. This has avoided the mass of environmental and community safety risks with conventional trenching and was a key element in government approval of the project.

SEA Gas
The SEA Gas pipeline project has included seven directionally-drilled river crossings, including one under the Murray River.

Coal Seam Gas

A lot has happened in coal seam gas recently, as it has changed from a mine hazard and waste product to a viable resource industry.

Today, coal seam gas is contributing a growing proportion of Australia's energy needs. For example, an estimated 27% of Queensland's gas needs is currently coming from coal seam gas. ABARE estimates Australia has known recoverable reserves of at least 50,000 petajoules, making coal seam gas a major energy resource.

Since we established Lucas Coal Technologies in 2000, it has developed into Australia's most complete service to locate, drain and capture coal seam gas.

Coal mine gas drainage
For coal miners, seam gas is seen as a hazard. To release the gas, underground drilling rigs have traditionally been used. As an area is drained of gas, it can be safely mined.

Lucas' new surface to in-seam (SIS) drilling is making it practical to turn this waste product into a valuable energy source, to supply mine energy needs or for sale.

SIS drilling enables gas drainage to be done from the surface, instead of from the underground coal face itself. The advantages are obvious: it's much safer to keep our crews and equipment on the surface, away from potential outbursts of gas or water. It's also safer for other mine workers as gas flows aren't being carried through the active part of the mine. Gas can be drained well ahead of mining activity, simplifying mine management.

SIS technology has been under development by Lucas for over eight years, and since 2000 in collaboration with the Cooperative Research Centre Mining (CRC Mining). It's now set to become the dominant technique in mine gas drainage. Over the past year our work has been split equally between underground and SIS drilling. Next year we expect 80% of it to be SIS.

A complete service
Lucas is the only company in Australia offering both underground in-seam and surface to in-seam drilling, as well as a comprehensive mine exploration and gas management service.

Lucas' pipeline and HDD activities complement our gas expertise so we can design and build gathering and processing systems to take the gas to the market.

We can handle the entire job of turning a mine's gas hazards into a valuable resource, then delivering it to the market.

Gloucester Basin update
Our petroleum exploration licence for the Gloucester Basin in NSW in joint venture with Molopo Australia NL has given us another test bed to develop our SIS technology. Our strategy is to apply the technology to develop the field into a commercial gas source.

Our other bottom lines

Environment

The environment is a key factor in all of Lucas' activities. We strive to ensure our activities enhance rather than degrade the environment. All environmental risks from our work are identified and prevention and correction strategies developed and implemented.

Our HDD expertise is frequently employed to avoid damage to fragile, vulnerable or precious environments.

Our coal seam gas management is helping reduce the amount of unburnt methane directly vented to the atmosphere.

In pipelines, the final stage of our work is restoration, replacing the soil, restoring the contours and replanting with appropriate vegetation. Within a short time, you can't tell we've even been there.

Our work is subject to stringent monitoring by statutory authorities, local government and non-government organisations. Over the years we've had a small number of minor incidents. All have been corrected quickly and completely by our established procedures. We have never had an environmental incident with any long-term consequences.

We continue to develop our environmental processes towards ISO 14001 accreditation.

Safety and staff welfare

We've maintained our high standard of staff safety and completed the year without a single lost-time injury. Our lost-time injury frequency rate (LTIFR), the standard benchmark, has been zero for the last three years – against an industry average of 16.7. This pays off in lower insurance premiums and higher staff morale, which helps us continue to attract and retain the very best staff available.

ISO 9001:2000 Quality Certification

We've maintained our quality certification under the demanding ISO 9001:2000 standard with Bureau Veritas Quality International.

This statement outlines the main corporate governance practices that were in place throughout the year, which comply with the ASX Corporate Governance Council Guidelines, unless otherwise stated.

Board of directors and its committees

Role of the Board

The board is ultimately responsible for the management and control of the Lucas Group. Specifically, the role of the Board is to guide and oversee management, provide strategic direction, set and monitor goals and advance the Group's business.

Board processes

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Audit Committee. The Board has also established a framework for the management of the consolidated entity including a system of internal control and the establishment of appropriate ethical standards. Regular meetings of the Board are held, generally on a monthly basis. Detailed papers are circulated to all directors prior to every meeting.

The non-executive directors make a large and vital contribution to the Board functions and chair the Audit and Tender Review Committees. Additionally, they attend strategy meetings as required and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise. Additionally, the non-executive directors are encouraged to have contact with all levels of management.

Composition of the Board

The board comprises persons who understand the Group's business and industries in depth. Each contributes a specific set of skills and diverse business experience. All have excellent judgement, plenty of common sense and add real value.

Given the consolidated entity is still rapidly growing, the Chairman is currently an executive however non-executives comprise the majority of the board. Directors appointed by the board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re-election at least every three years. The board's size and composition is reviewed from time to time to maintain the right mix of expertise and judgment.

Non-executive directors' remuneration packages do not include any retirement allowances.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the Company and consolidated entity are set out in Note 34.

Board of directors and its committees (continued)

Directors' and officers' dealings in Company shares

Directors or officers may buy or sell securities of the Company but must first obtain the approval of the Chairman or, if unavailable, that of the Chairman of the Audit Committee.

Directors and officers must refrain from dealing in the Company's securities during any period commencing from the time they became aware of price sensitive information until the information is released to the Australian Stock Exchange (ASX). Without limiting the generality of the foregoing, Directors and officers must observe a quarantine period of one month prior to the end of an ASX reporting period until after the release of the relevant report. Where exceptional circumstances arise, a Director or officer wishing to deal in the Company's shares during a quarantine period may be authorised to do so by the Chairman or, if unavailable, by the Chairman of the Audit Committee. In accordance with the provisions of the Corporations Act 2001 and the ASX Listing Rules, directors advise the ASX of any transactions conducted by them of securities in the Company.

Where a director or officer has information relating to the Company not generally available to the market, he must not trade in, or tip others to trade in, the securities of the Company.

Directors acknowledge their legal obligations and restrictions in regard to the use of inside information in respect to the Company or any other corporation.

Independent professional advice and access to Company information

Each director has the right of access to all relevant information of the consolidated entity and to the Group's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the consolidated entity's expense. A copy of advice received by the director is made available to all other members of the Board

Remuneration

Advice is sought from independent external consultants as to the appropriate rate and structure of compensation for directors and senior executives to attract, retain and motivate appropriately qualified and experienced personnel.

Non-executive directors' base consultancy fees are presently $30,000 per annum, unchanged from 1999 when the Company listed on the Australian Stock Exchange. These consultancy fees cover all main Board activities and membership of Board appointed committees. At the 2002 AGM, shareholders approved the issue of 200,000 shares to the non-executive directors at nil cost in compensation for their contribution to the Board since 1998. Further details of directors' remuneration packages are set out in the directors' report and Note 33 to the financial statements.

Board committees

The board is supported by two sub-committees:

- the Audit committee, and
- the Tender Review committee.

Audit committee

The Audit committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity. It also gives the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

Board committees (continued)

The Audit committee comprises solely non-executive directors with the majority independent. The members of the committee during the year were:

Martin Green (Chairman)
Garry O'Meally
Ian Stuart-Robertson

The external auditors, the CEO and the CFO are invited to the Committee meetings at the discretion of the Committee.

The responsibilities of the Audit committee include:

- reviewing the financial report and other financial information distributed externally;
- monitoring corporate risk assessment processes;
- reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- reviewing external audit reports and reports provided by other financial advisers and consultants to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- liaising with the external auditors and ensuring that the annual audit and half-year statutory review are conducted in an effective manner;
- monitoring the internal control framework and considering enhancements;
- monitoring the procedures in place to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and other regulatory requirements; and
- monitoring the quality of the accounting and finance functions;
- reviewing the performance of the auditors. The external auditors were appointed in December 1995. The lead external audit partner was rotated during 2002/03.

Tender Review committee

The Tender Review committee is an essential element of the Group's risk management procedure. It reviews all Group tenders and operational contracts and assesses their potential risks. These include business, technical and environmental risks as well as financial risks including capital expenditure, foreign exchange and insurance. The members of the committee during the year were;

Ian Stuart-Robertson (Chairman),
Allan Campbell,
Andrew Lukas
Hamish Pryor

Risk Management

The Board is responsible for the Company's system of internal controls. The Board constantly monitors the operational and financial aspects of the Company's activities and, through the audit Committee, considers the recommendations and advice of the external auditors and other external advisers on the operational and financial risks that face the Group.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the consolidated entity has an appropriate internal control environment in place to manage key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, and the employment and training of suitably qualified and experienced personnel.

Quality assurance

Management has a strong commitment to a safe working environment, project quality control and customer satisfaction and is an accredited company under AS/NZS ISO 9001: 2000.

Ethical standards

The Company is committed to the avoidance of discriminatory practices that may be detrimental to the environment or the well being of its employees, customers and the public at large. The Board encourages and supports the development of a corporate culture based on sound relationships with shareholders, customers, suppliers, employees, governments and the community at large.

Shareholder participation

The Board values the opportunity to communicate with shareholders on a regular basis including the provision of comprehensive interim and full year reports and to meet with them annually.

The Board recognises that the annual meeting is an important forum at which shareholders can meet with the directors, and encourages shareholders to ask questions and make comments on the performance of the Company. In usual circumstances, all Directors will attend the annual meeting. The Board welcomes input from shareholders and encourages shareholders to submit questions in writing prior to the annual meeting so that an informed answer can be given.

Directors' report

For the year ended 30 June 2003

The directors present their report together with the financial report of AJ Lucas Group Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 and the auditors' report thereon.

Directors

The directors of the Company throughout and since the end of the financial year are:

Allan Campbell BCom LLB, Age 48

Chairman and CEO, member of Tender Review Committee

Mr Campbell acquired a controlling interest in the Company in 1995, following a successful career in investment banking and commerce, including property, construction and building materials. Since acquiring his shareholding, he has been responsible for the Company's strategic direction and has established its position as the leading outsource provider of infrastructure services in Australia.

Andrew Lukas BE, Age 56

Executive Director, member of Tender Review Committee

Mr Lukas commenced employment with the Company in 1975, initially as a project manager, becoming general manager in 1977 and was appointed a director in 1985. A graduate in Civil Engineering from UNSW with post graduate studies at the Pipeline School of the University of Texas, he previously gained valuable experience with Williams Brothers Company in the US and MacDonald Wagner & Priddle and Transfield in Australia. He pioneered the development of directional drilling in Australia and is an authority on this technology and pipeline installation. He is also a leading proponent of this technology in the development of the coal seam gas extraction industry in Australia.

He is an executive committee member and past President of the Australian Pipeline Industry Association (APIA), representing pipeline owners, operators and contractors.

Ian Stuart-Robertson AAIQS, Age 54

Non-Executive Director, chairman of Tender Review Committee and member of Audit Committee

Mr Stuart-Robertson is a qualified quantity surveyor with over 30 years experience in civil and building construction. He brings considerable expertise in project cost reporting systems and general construction planning and makes a vital contribution to the Group in his role as Tender Review Committee Chairman.

He is a non-executive director of quantity surveyors John Hollis & Partners and a director of construction company, Stuart Pty Ltd.

Directors (continued)

Garry O'Meally BSc, BE, Age 67

Non-Executive Director, member of Audit Committee

Mr O'Meally has worked in the oil and gas industries for over 40 years, mainly with Australian Gas Light Company where he served as General Manager of AGL Gas Companies and later of AGL Petroleum. After the sale of AGL's upstream assets, he became General Manager, Queensland and Northern Territory, for Santos Limited. Since leaving AGL, he has consulted to numerous energy companies.

He has been a non-executive director since 1999 and has served as President of the Australian Gas Association, as Councillor and Queensland Chairman of the Australian Petroleum Production and Exploration Association and as Executive Manager of APIA.

Martin Green FCA, Age 58

Non-Executive Director, Chairman of Audit Committee

Mr Green is a Fellow of the Institute of Chartered Accountants and has been in practice for 29 years, in the main specialising in business recovery and insolvency. He has substantial business and finance experience at senior levels and was appointed a non-executive director in 1999.

He is currently a Principal at Green Krejci, a former Honorary Director/Treasurer of the National Trust of Australia (NSW) and has served at various times in many public roles and capacities.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) held during the financial year and number of such meetings attended by each of the directors are:

	Board	**Audit committee**	**Tender Review committee**
Allan Campbell	17	N/A	11
Andrew Lukas	15	N/A	11
Ian Stuart-Robertson	16	4	11
Garry O'Meally	17	4	N/A
Martin Green	17	4	N/A
Total meetings held	17	4	11

Principal activities

The Group's principal activity over the year was the provision of infrastructure engineering services to the major utility sectors, principally the gas transmission and water and wastewater industries. The major services are pipeline construction and horizontal directional drilling. The Group also provides consulting and drilling services for the drainage and commercial exploitation of methane gas from coal seams.

There were no other significant changes in the nature of the activities of the consolidated entity during the year.

Review and results of operations

The Group recorded a consolidated profit after tax of $7,743,000, an $8,520,000 turnaround from the net loss of $777,000 reported in 2002. Group operating revenue increased by 126% to $151,162,000 from $66,782,000 in the previous year.

Much of the improvement was due to pipeline activities where profit before tax increased by $9,411,000 to $12,791,000 on increased turnover of $123,269,000. Margins were unchanged at 10.4%.

Directional drilling also showed a strong improvement with profit before tax increasing by 102% to $2,099,000 from $1,040,000 in the previous year. Margins strengthened to 11.0% from 4.1% in 2002.

The coal seam gas activities also showed improvement with operating revenue increasing by 129% to $8,782,000 from $3,843,000. Losses as a percentage of operating revenue decreased from 14.8% to 5.8% after expensing considerable research and development expenditure.

The results included an additional net provision for doubtful debts of $1,646,000 (2002: $590,000).

A detailed review of the Group's operations is set out on pages 2 to 5 of this report.

State of affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

Fully paid ordinary shares increased during the year as follows:	**2003 $'000**
- Private placement of 4,354,090 shares for cash at $1.10 per share to provide additional working capital of $4,789,000 less transaction costs of $146,000	4,643
- Issue of 4,090,900 shares for cash at $1.05 per share under a 1 for 10 rights issue to provide additional working capital of $4,295,000 less transaction costs of $131,000	4,164
- Issue of 200,000 shares under the Deferred Share Plan for no consideration. Fair value per share has not been recognised in the financial statements	-
- Issue of 50,000 shares resulting from the exercise of options under the Executive Share Option Plan at $1.00 per share	50
- Issue of 285,000 shares at an average price of $0.45 per share in lieu of fees and costs	129
Increase in fully paid capital	8,986

The Group purchased three drilling rigs and associated mud cleaning and ancilliary equipment for $1,500,000 during the year thereby doubling its capacity and positioning it for further growth. The price paid was a substantial discount to market value as it was acquired from a major international competitor's liquidation.

Dividends

	Cents per share	Total amount $'000	Franked/ Unfranked	Date of Payment
As proposed and provided for in last year's report				
Final – ordinary	4.0	1,457	unfranked	16 December 2002
In respect of the current financial year				
Paid or declared during the year				
Interim - ordinary	3.5	1,587	unfranked	24 June 2003
Paid or declared after end of year				
Final – ordinary	4.5	2,043	unfranked	16 December 2003
		3,630		
	Note			
Dealt with in the financial report as:				
Dividends	23	3,044		
Adjusted against opening retained earnings on adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	2	(1,457)		
		1,587		
Noted as a subsequent event	23	2,043		
		3,630		

Environmental regulations and native title

As infrastructure engineers, meeting stringent environmental and land use regulations, including native title issues, are an important element of our work. One of the key benefits of directional drilling is its ability to avoid or substantially mitigate environmental impact.

Lucas is committed to identifying environmental risks and engineering solutions to avoid, minimise or mitigate them. We work closely with all levels of government, landholders, Aboriginal Land Councils and other bodies to ensure our activities have minimal or no effect on land use and areas of environmental, archaeological or cultural importance.

Group policy requires all operations to be conducted in a manner that will preserve and protect the environment.

The Directors are not aware of any significant environmental incidents, or breaches of environmental regulations during or since the end of the year.

Events subsequent to balance date

Since 30 June 2003, the following events have occurred:

- the Group's finance facilities have been restructured resulting in a net increase in bank overdraft facilities from $2,500,000 to $4,000,000. In addition, as part of the restructuring, the Group now has an undrawn asset finance facility of $1,000,000 and an indemnity guarantee facility of $750,000 of which $350,000 is undrawn.

- A dividend was declared of 4.5 cents per share. Refer to Note 23 for further details.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Future developments

The consolidated entity will continue to pursue its policy of increasing the profitability and market share of its business activities. The consolidated entity purchased substantial drilling equipment towards the end of the financial year to increase its capacity in anticipation of further strong growth across all areas of its operations.

Additionally, the Company intends to expand its infrastructure capability to enhance the quality of its earnings. These include specialist civil engineering works and facilities management. This will be achieved by a combination of organic growth and acquisition.

Directors' and senior executives' emoluments

The board determines remuneration packages for directors and senior executives of the consolidated entity. The policy is to ensure packages reflect each individual's duties and responsibilities and that they are of a level to attract, retain and motivate people of the highest quality.

Executive directors and senior executives may receive bonuses based on the consolidated entity's performance (including operational results and cash flow). Options and other rights may also be issued under the consolidated entity's equity participation plans. Non-executive directors do not receive any performance related remuneration.

Details of the nature and amount of the remuneration of each director of the Company and each of the five highest remunerated executives of the Company and consolidated entity are:

	Base emolument $	Vehicle allowance $	Super $	Deferred shares issued[1] $	Rights Issued[2] $	Options[3] $	Other benefits $	Total $
Directors								
A Campbell	359,760	-	18,600	-	50,104	-	-	428,461
A Lukas	200,000	40,000	18,000	-	50,104	-	-	308,104
I Stuart-Robertson	30,000	-	-	61,605	-	-	-	91,605
G O'Meally	30,000	-	-	41,070	-	-	-	71,070
M Green	30,000	-	-	61,605	-	-	-	91,605
Executive officers (excluding directors) Consolidated entity								
H Pryor	337,922	-	-	-	-	-	-	337,922
K Lester	222,383	-	12,870	-	-	11,175	83,505	329,933
T Herlihy	200,000	15,000	20,000	-	-	-	2,237	237,237
P Shields	176,667	6,250	13,087	-	-	-	-	196,004
S Loneragan	158,375	7,500	14,254	-	-	3,725	-	183,854

1 The deferred shares were issued to the non-executive directors in recognition of their contribution to the Company over the three years since it listed in August 1999. Shareholders approved the issue at the annual general meeting held on 28 November 2002. The shares were issued for nil consideration. The fair value of the shares issued was $164,280 being the market price of the Company's shares on the Australian Stock Exchange on their date of allotment less a 26% deduction for the restrictions on their disposal. The deduction represents the discount in the present value of the shares at a 3.0% discount rate for 10 years. The fair value has not been recognised as an expense in the financial statements.

2 The rights to acquire shares in the Company were approved by shareholders at the annual general meeting held on 28 November 2002. The rights expire on 23 December 2007 and vest in three tranches, one third two years after their grant, a further third after three years and the balance after four years and may only be exercised if the consolidated entity achieves the performance hurdle.

To achieve the performance hurdle, the consolidated entity's earnings per share ("EPS") for the last three financial years (two financial years in respect of the first tranche) ended prior to the grant of any shares must equal or exceed the rate of 10% per annum growth over a deemed EPS base of 12.7 cents. If the performance hurdle is not achieved in respect of a tranche, the Board may re-evaluate the performance at the end of a subsequent year and allow the rights to be exercised if the hurdle is subsequently satisfied.

The fair value of the rights is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period form grant date to vesting date. Assuming the performance hurdle is satisfied and the rights are exercised, the shares will be issued for nil consideration. Accordingly, the value of the rights is the market value of the shares at the date of grant. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. The fair value has not been recognised as an expense in the financial statements.

3 The options were granted on 31 July 1999 and expire on 31 July 2004. The fair value of the options is calculated at the date of grant using a Black-Scholes model and is allocated to each reporting period evenly over the period from grant date to date of expiry. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. The fair value has not been recognised as an expense in the financial statements.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry date	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
31 July 1999	31 July 2004	$1.00	n/a	33.0%	5.0%	5.7%

Estimated volatility approximates the historic volatility in the Company's share price over the 3 months ended August 2003. The estimated life of the options granted is 5 years. Each option entitles the holder to purchase one ordinary share in the Company.

All options expire on the earlier of their expiry date or termination of the employee's employment. Options do not vest until three years after grant date and thereafter exercise is conditional on the Company's share price exceeding $1.30 on the date of exercise. In determining fair value, it has been assumed that the service period requirement and performance hurdle have a 100% probability of being met.

No options have been granted since the end of the financial year.

Directors' shareholdings and other interests

The relevant interest of each director and their director related entities in the share capital of the Company, as notified by the directors to the Australian Stock Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report are as follows:

	Ordinary Shares	Rights issued under Management Rights Plan
Allan Campbell	10,152,658	250,000
Andrew Lukas	6,121,500	250,000
Ian Stuart-Robertson	1,386,200	-
Martin Green	75,000	-
Garry O'Meally	109,180	-

Management Rights

During the financial year, the Company granted rights over unissued shares to the following directors:

	Number of rights granted	Expiry date
Directors		
Allan Campbell	250,000	23 December 2007
Andy Lukas	250,000	23 December 2007

No rights were granted since the end of the financial year.

Unissued shares under option or rights

At the date of this report unissued shares of the Company under option or rights are:

Expiry date	Exercise price	Number of shares
31 July 2004	$1.00	50,000
23 December 2007	$0.00	500,000

All options and rights expire on the earlier of their expiry date or termination of the employee's employment or cessation of the officer's service. In addition, the ability to exercise the options and rights is conditional on the consolidated entity achieving certain performance hurdles as described earlier in this report.

Neither the options nor the rights entitle the holders to participate in any share issue of the Company.

Shares issued on exercise of options

During or since the end of the financial year, the Company issued ordinary shares as result of the exercise of options as follows:

Number of share	Amount paid on each share
150,000	$1.00

There were no amounts unpaid on the shares issued.

Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify all directors and officers of the Company against all liabilities including expenses to another person or entity (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

No indemnity has been provided to the auditor of the Company.

Insurance Premiums

Since the end of the previous financial year, the Company has paid premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for the year ended 30 June 2003 and, since the end of the financial year, the Company has paid or agreed to pay premiums in respect of Directors' and Officers' insurance for the year ending 30 June 2004.

The directors have not included details of the nature of the liabilities covered or the premiums paid in respect of such insurance contracts, as disclosure of this is prohibited under the terms of the contracts.

Indemnification and insurance of officers and auditors (continued)

Rounding off

The Company is of a kind referred to in ASIC 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Sydney, this 30th day of September 2003

Signed in accordance with a resolution of the directors pursuant to s.298 (2) of the Corporations Act 2001.

Allan Stuart Campbell
Chairman

Ian Stuart-Robertson
Director

Statements of financial performance

For the year ended 30 June 2003

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Revenue from rendering services	3	151,162	66,782	-	-
Other revenue from ordinary activities	3	3,724	1,610	3,828	2,923
Total revenue	3	154,886	68,392	3,828	2,923
Project and construction costs		(113,667)	(44,258)	-	-
Employee expenses		(16,080)	(12,257)	-	-
Depreciation and amortisation expenses	4(b)	(5,183)	(3,325)	(120)	-
Borrowing costs	4(b)	(581)	(550)	(874)	(175)
Debt recovery and legal costs		(998)	(1,068)	-	(3)
Net foreign exchange loss		(117)	(921)	(331)	(234)
Other expenses incurred in ordinary activities		(7,501)	(6,689)	(30)	(1,844)
Profit/(loss) from ordinary activities before related income tax		10,759	(676)	2,473	667
Income tax (expense)/benefit relating to ordinary activities	6(a)	(3,016)	(101)	167	112
Net profit/(loss) attributable to members of the parent entity	22	7,743	(777)	2,640	779
Non-owner transaction changes in equity					
Increase in asset revaluation reserve:					
Fair value adjustment	21	1,058	-	-	-
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	24	8,801	(777)	2,640	779
Basic earnings/(loss) per share (cents)	7	18.9	(2.1)		
Diluted earnings/(loss) per share (cents)	7	18.6	(2.1)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 23 to 65.

A J Lucas Group Limited and its controlled entities

Statements of financial position

as at 30 June 2003

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
CURRENT ASSETS					
Cash assets	10	31,625	7,442	167	17
Receivables	11	26,791	17,649	57	2,494
Inventories	12	4,356	23,844	-	-
Other	13	329	339	-	-
Total Current Assets		63,101	49,274	224	2,511
NON-CURRENT ASSETS					
Receivables	11	-	-	54,579	42,611
Plant and equipment	14	17,053	13,775	-	-
Intangibles	15	-	276	-	-
Deferred tax assets	6(d)	2,065	1,730	730	653
Other	16	3,391	2,926	1,835	1,936
Total Non-Current Assets		22,509	18,707	57,144	45,200
Total Assets		85,610	67,981	57,368	47,711
CURRENT LIABILITIES					
Payables	17	41,573	40,407	269	245
Interest-bearing liabilities	18	3,509	2,986	1,500	1,265
Current tax liabilities	6(b)	1,444	4,078	-	-
Provisions	19	620	2,081	-	1,457
Total Current Liabilities		47,146	49,552	1,769	2,967
NON-CURRENT LIABILITIES					
Payables	17	-	-	12,866	12,050
Interest-bearing liabilities	18	2,049	3,597	-	-
Deferred tax liabilities	6(c)	5,443	322	-	-
Provisions	19	289	27	-	-
Total Non-Current Liabilities		7,781	3,946	12,866	12,050
Total Liabilities		54,927	53,498	14,635	15,017
Net Assets		30,683	14,483	42,733	32,694
EQUITY					
Contributed equity	20	18,178	9,192	18,178	9,192
Reserves	21	1,058	-	24,533	24,533
Retained profits/(accumulated losses)	22	11,447	5,291	22	(1,031)
Total Equity	24	30,683	14,483	42,733	32,694

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 23 to 65.

A J Lucas Group Limited and its controlled entities

Statements of cash flows

For the year ended 30 June 2003

		Consolidated		Company	
		2003	2002	2003	2002
	Note	$'000	$'000	$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		141,649	79,318	450	-
Cash payments in the course of operations		(117,853)	(54,614)	(490)	(362)
Interest received		956	104	822	38
Income taxes refunded		69	-	69	-
Income taxes paid		(159)	(1,408)	-	(389)
Borrowing costs paid		(581)	(550)	(874)	(175)
Net cash provided by/(used in) operating activities	30(b)	24,081	22,850	(23)	(888)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of plant and equipment		380	1,398	-	-
Loans to controlled entities		-	-	(6,889)	-
Repayment of loans by controlled entities		-	-	816	13,642
Payments for plant and equipment		(4,703)	(2,026)	-	-
Payments for purchase of investments		-	(2,552)	-	(1,946)
Loans to other entities		-	(3,297)	-	(2,611)
Payments for purchase of business		-	(1,405)	-	-
Net cash (used in)/provided by investing activities		(4,323)	(7,882)	(6,073)	9,085
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		9,134	-	9,134	-
Transaction costs from issue of shares		(277)	-	(277)	-
Repayment of borrowings – other		(31)	(2,054)	(31)	(1,124)
Proceeds of borrowing from related party		1,500	-	1,500	-
Repayment of borrowings from related entity		(565)	-	(565)	-
Proceeds of borrowings – other		-	2,105	-	1,265
Dividends paid		(3,044)	(3,999)	(3,044)	(3,999)
Finance lease payments		(1,999)	(1,069)	-	-
Net cash provided by/(used in) financing activities		4,718	(5,017)	6,717	(3,858)
Net increase in cash held		24,476	9,951	621	4,339
Cash at beginning of the year		6,971	(2,980)	(454)	(4,793)
Cash at end of the year	30(a)	31,447	6,971	167	(454)

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 23 to 65.

Index

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies that have been adopted in the preparation of this financial report are:

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

These accounting polices have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

Principles of consolidation

Controlled entities

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its controlled entities ("the consolidated entity"). A list of controlled entities appears in Note 28 to the financial statements.

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

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Joint Venture

A joint venture is an operation that is jointly controlled by the consolidated entity.

Joint venture operations
The consolidated entity's interests in unincorporated joint ventures are brought to account by including its proportionate share of joint ventures' assets, liabilities and expenses and the consolidated entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint 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 joint ventures, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Goodwill

Goodwill, representing the excess of purchase consideration over the fair value of net assets acquired, is amortised on a straight line basis over the appropriate period during which benefits are expected to arise.

The unamortised balance of goodwill is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the statements of financial performance.

Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Rendering of services

Revenue from rendering services is recognised in proportion to the stage of completion of the contract when the stage of contract completion can be reliably measured.

Interest revenue

Interest income is recognised as it accrues.

Dividends

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

Revenue from dividends from other investments are recognised when received.

Asset sales

The gross proceeds of asset sales are included as revenue of the consolidated entity. The profit or loss on disposal of assets is brought to account at the date an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Construction Contracts

Recognition of profit
Revenue and expenses are recognised on an individual project basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and the following can be reliably estimated:

- total contract revenues to be received; and
- costs to complete.

Profits are not normally recognised until a project is at least 30% complete with the exception of design and construct contracts which are recognized from inception. Losses are recognised in the period they occur or are foreseeable.

1. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that costs will be recovered, revenue is recognised to the extent of the costs incurred.

Recognition of profits – Cost plus contacts
Revenue and expenses arising from cost plus contracts are recognised in the statements of financial performance by reference to the stage of completion of the contract when the following conditions are satisfied:

- it is probable that the economic benefits arising from the contract will flow to the consolidated entity; and
- costs related to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Stage of completion
Stage of completion is measured by reference to an assessment of total labour hours and other costs incurred to date as a percentage of estimated total costs for each contract, unless or alternative measurement method provides a more accurate indication of the stage of completion.

Borrowing costs

Borrowing costs include interest, foreign exchange losses and lease finance charges. Borrowing costs are expensed as incurred.

Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at rates of exchange in effect at the dates of the transactions. Foreign currency monetary balances at year end have been translated into Australian currency at the exchange rate ruling at balance date with exchange differences brought to account in the statement of financial performance as exchange gains or losses.

Translation of controlled foreign entities

The assets and liabilities of foreign operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Taxation

Income tax

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on profit from ordinary activities adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position at current taxation rates as a deferred tax asset or a deferred tax liability, as applicable.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Deferred tax assets relating to tax losses are only brought to account when their realisation is virtually certain.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Company.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

Receivables

Trade debtors

Trade debtors are recorded at amounts due less any provision for doubtful debts. The carrying amount of trade debtors approximates net fair value. Trade debtors are normally settled within 60 days.

Other debtors

Other debtors and amounts owing by related entities are carried at amounts due less any provision for doubtful debts, are repayable at call and are not subject to interest. The carrying amount of other debtors approximates net fair value.

Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Cash assets

Cash and short-term deposits are carried at face value of the amounts deposited. The carrying amounts of cash and short-term deposits approximate net fair value. Interest revenue is accrued at the market or contracted rates and is receivable at the conclusion of the deposit term.

Inventories

Materials and stores are carried at the lower of cost and net realisable value.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Construction work in progress

Work in progress is carried at cost plus profit recognised to date based on the value of work completed, less progress billing and less provision for foreseeable losses, allocated between amount due from customers and amounts due to customers (included in trade creditors).

Cost includes both variable and fixed costs directly related to specific contracts, and those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis. Costs which are expected to be incurred under penalty clauses and warranty provisions are also included.

Acquisition of assets

Unless otherwise stated, all assets acquired other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the purchase consideration plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising in the issue of equity instruments are recognised directly in equity. In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Expenditure is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate and the costs can be reliably measured.

Plant and equipment under construction

The cost of plant and equipment constructed by the consolidated entity includes the cost of materials and direct labour, an appropriate proportion of fixed and variable overheads and capitalised interest.

Subsequent additional costs

Costs incurred on plant and equipment subsequent to initial acquisitions 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.

Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets, the relevant cash flow have not been discounted to their present value.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

1. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Revaluations of non-current assets

Classes of non-current assets measured at fair value are revalued with sufficient regularity to ensure the carrying amount of each asset in the class does not differ materially from fair value at reporting date. Revaluation increments, on a class of assets basis, 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 class of asset and any excess is recognised as an expense.

Potential capital gains tax is only taken into account if the asset is held for sale.

Depreciation and amortisation

Items of plant and equipment are depreciated/amortised using the straight-line method so as to write off the net cost or other revalued amount of each asset over its estimated useful life to the consolidated entity. Depreciation and amortisation rates and methods are reviewed annually for appropriateness and were unchanged from the previous year. When changes are made, adjustments are reflected prospectively in current and future periods only. The depreciation rates used for each class of asset are as follows:

	2003	2002
Property, plant and equipment		
Plant and equipment	10-27%	10-27%
Motor Vehicles	15%	15%
Office Equipment	13-25%	13-25%
Computer Equipment	24-27%	24-27%
Leased plant and equipment	10%	10%
Intangibles		
Goodwill	3 years	3 years
Other non-current assets		
Research and development costs	3 years	3 years

Assets are depreciated or amortised from their date of acquisition or, in the case of internally constructed assets, from the time an asset is completed and held ready for use.

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.

1. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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.

Deferred Expenditure

Development or start up costs and charged against income as incurred, except to the extent that such costs, together with unamortised deferred or start up costs in relation to any project, are expected, beyond any reasonable doubt, to be recoverable.

The deferred costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial introduction of the service.

The unamortised balance of costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criteria for deferral continue to be met. When such costs are no longer considered recoverable, they are charged to the statement of financial performance for the financial period.

Research and development

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred.

The deferred costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial introduction of the service.

Exploration and development expenditure

Exploration and development expenditure costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are normally settled within 60 days.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Employee entitlements

Wages, salaries, annual leave and sick leave

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

Long service leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

Employee share and options plans

The Company adopted various employee incentive schemes on 28 November 2001. Rights to subscribe for shares subject to the performance hurdles being achieved and shares were issued under these plans during the financial year. The difference between the fair value of these rights and shares and the consideration received, if any, from the recipient is not expensed. Other than the costs incurred in administrating the schemes which are expensed as incurred, the schemes did not result in any expense to the consolidated entity.

Superannuation plan

Contributions to employee superannuation funds are charged against income as they are made. Further information is set out in Note 31.

Goods and services tax

Revenues, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST) except:
(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows 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 taxation authority are classified as operating cash flows.

2. CHANGES IN ACCOUNTING POLICIES

a) Employee benefits

The consolidated entity has applied the revised AASB 1028 "Employee Benefits" for the first time from 1 July 2002.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates the Company expects to pay as at each reporting date, not wage and salary rates current at reporting date.

There were no adjustments to the consolidated financial report as at 1 July 2002 as a result of this change as the amount was not material.

b) Provisions and contingent liabilities

The consolidated entity has applied AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" for the first time from 1 July 2002.

Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were announced after the end of the financial year.

The adjustments to the consolidated and Company financial reports as at 1 July 2002 as a result of this change are:

- $1,457,000 increase in opening retained profits
- $1,457,000 decrease in provision for dividends.

There was no impact on net profit for the current financial year to 30 June 2003.

c) Revaluation of non-current assets

The consolidated entity has elected under AASB 1041 "Revaluation of non-current Assets" to change the cost basis to the fair value basis to measure the owned and leased plant and equipment classes of its non-current assets from 1 July 2002. The change in methodology for accounting for plant and equipment was adopted because the cost basis was no longer considered reflective of the underlying value of the assets to the consolidated entity.

The current years valuation was prepared by an independent valuer except for the consolidated entity's proportion of the plant and equipment used on the Spie Capag Lucas joint venture which were valued by the directors. The methodology used in determining the fair value is described in Note 14. There was no impact on net profit for the current financial year to 30 June 2003. The increase in revaluation reserve is shown in Note 21.

d) Pro forma restatement of retained profits and provision for dividends

The pro forma restatement of retained profits and provision for dividends below show the information that would have been disclosed had the new accounting policies disclosed in this note always been applied.

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
	(restated)	**(restated)**	**(restated)**	**(restated)**
2. CHANGES IN ACCOUNTING POLICIES (cont.)				
Restatement of retained profits/(accumulated losses)				
Reported retained profit/(accumulated losses) at the end of the previous year	5,291	8,797	(1,031)	919
Increase in retained profit due to changes in accounting policies on adoption of:				
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	1,457	2,726	1,457	2,726
Restated retained profits at the beginning of the year	6,748	11,523	426	3,645
Net profits/(loss) attributable to members of the parent entity	7,743	(777)	2,640	779
Dividends recognised during the year	(3,044)	(3,998)	(3,044)	(3,998)
Restated retained profits at end of year	11,447	6,748	22	426
Restatement of provision for dividends				
Balance at end of year – as previously reported	-	1,457	-	1,457
Effect of change in accounting policy	-	(1,457)	-	(1,457)
Restated balance at end of year	-	-	-	-
3. REVENUE FROM ORDINARY ACTIVITIES				
Rendering of services revenue from operating activities	151,162	66,782	-	-
Other revenues:				
From operating activities				
Dividends:				
Related parties	-	-	3,000	2,885
Interest:				
Related parties	-	-	807	-
Other parties	956	104	15	38
From outside operating activities				
Gross proceeds from disposal of non-current assets	2,380	1,398	-	-
Other	388	108	6	-
Total other revenues	3,724	1,610	3,828	2,923
TOTAL REVENUE FROM ORDINARY ACTIVITIES	154,886	68,392	3,828	2,923

Notes to the financial statements

For the year ended 30 June 2003

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
4. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE				
(a) Individually significant items included in profit/(loss) from ordinary activities before income tax expense:				
Movement in provision for doubtful debts	1,646	590	67	1,861
Loss from discontinued operations	19	2,781	-	120
(b) Profit/(loss) from ordinary activities before income tax expense has been arrived at after charging/ (crediting) the following items:				
Depreciation of:				
Plant and equipment	2,586	1,972	-	-
Motor vehicles	40	54	-	-
Other fixed assets	200	146	-	-
	2,826	2,172	-	-
Amortisation of:				
Goodwill	266	430	120	-
Leased plant and equipment	1,112	670	-	-
Leased office equipment	62	8	-	-
Leased motor vehicles	77	79	-	-
Research and development expenditure	258	-	-	-
Bonding costs	582	-	-	-
Less: capitalised amortisation	-	(34)	-	-
	2,357	1,153	-	-
Total depreciation and amortisation	5,183	3,325	120	-
Net bad and doubtful debts expense including movement in provision for doubtful debts	1,646	590	67	1,861
Movement in provision for obsolete stock	(250)	250	-	-
Operating lease rental expense – minimum lease payments	209	324	-	-
Movement in provisions for employee entitlements	258	(198)	-	-
Unrealised net foreign exchange (gain)/loss	(86)	921	326	234
Realised foreign exchange loss	203	-	5	-
Net (gain)/loss on sales of non-current assets:				
Plant and equipment	(599)	59	-	-
Investments	-	(136)	-	-
	(599)	(77)	-	-
Borrowing costs:				
Related parties	-	-	807	-
Other parties				
- Bank loans and overdraft	169	238	67	175
- Finance charges on capitalised leases	412	312	-	-
	581	550	874	175

4. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE (cont.)

(c) Revision of accounting estimate

Future income tax benefit relating to tax losses

As a consequence of the substantive enactment of the Tax Consolidation legislation and since the consolidated tax group within the consolidated entity had not notified the Australian Taxation Office at the date of signing this report of the implementation date for tax consolidation, the consolidated entity has applied UIG 39 "Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances". There was no impact on the Company or the consolidated entity's future income tax benefit as a result of this.

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
5. AUDITORS' REMUNERATION				
Audit services:				
Auditors of the Company	125,000	145,000	15,000	15,000
Other services				
Auditors of the Company				
Taxation services	76,000	-	-	-

	Consolidated		Company	
6. TAXATION	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
(a) Income tax expense				
Prima facie income tax expense/(benefit) calculated at 30% (2002:30%) on the profit/(loss) from ordinary activities	3,228	(203)	742	200
Increase in income tax expense due to:				
Amortisation of goodwill	44	129	-	-
Non-deductible expenses	15	50	-	2
Foreign exchange loss on translation of foreign subsidiary	-	264	-	-
Net movements in non-deductible provisions	714	-	-	-
Decrease in income tax expense due to:				
Net movements in non-deductible provisions	-	(182)	-	-
Rebateable dividend income	-	-	(900)	(326)
Research and development allowance	(551)	-	(9)	-
Foreign exchange gain on translation of foreign subsidiary	(351)	-	-	-
	3,099	58	(167)	(124)

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
6. TAXATION (cont.)				
Income tax under/(over) provided in prior year	(83)	43	-	12
Income tax expense/(benefit) attributable to profit/(loss) from ordinary activities	3,016	101	(167)	(112)
Income tax expense attributable to profit/(loss) from ordinary activities is made up of:				
Current tax provision	217	1,293	(90)	396
Future income tax benefit	(230)	(791)	(77)	(520)
Deferred income tax provision	3,112	(444)	-	-
Under/(over)-provision in prior year	(83)	43	-	12
	3,016	101	(167)	(112)
(b) Current tax liabilities				
Provision for current income tax				
Movements during the year:				
Balance at beginning of year	4,078	5,095	(69)	(76)
Income tax paid	(93)	(1,407)	69	(389)
	3,985	3,688	-	(465)
Current year's income tax expense on profit/(loss) from ordinary activities	217	1,293	(90)	396
Transfer current tax loss to wholly owned subsidiary	-	-	90	-
Transfer carried forward tax loss to future income tax benefit	74	-	-	-
Transfer current provision to deferred income tax liability	(2,017)	-	-	-
Translation gain on foreign tax payable	(732)	-	-	-
Under/(over) provision in prior year	(83)	(903)	-	-
	1,444	4,078	-	(69)
(c) Deferred tax liabilities				
Provision for deferred income tax				
Provision for deferred tax comprises the estimated expense at the applicable rate of 30% (2002: 30%) on the following items:				
Foreign profits not yet taxable in Australia	2,017	-	-	-
Difference between contract profit recognised for accounting and tax purposes	2,595	-	-	-
Timing differences	831	322	-	-
	5,443	322	-	-

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
6. TAXATION (cont.)				
(d) Deferred tax assets				
Future income tax benefit				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2002: 30%) on the following items.				
Tax losses carried forward	74	126	-	-
Timing differences	1,991	1,604	730	653
	2,065	1,730	730	653

7. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:	Consolidated 2003 $'000	Consolidated 2002 $'000
Net profit/(loss) after tax	7,743	(777)
Earnings used in calculating basic and diluted earnings per share	7,743	(777)
Basic earnings/(loss) per share (cents)	18.9	(2.1)
Diluted earnings/(loss) per share (cents)	18.6	(2.1)
Weighted average number of ordinary shares used to calculate basic earnings per share	40,937,063	36,415,000
Weighted average number of ordinary shares used to calculate diluted earnings per share	41,587,063	36,415,000

Options outstanding under the Executive Share Option Plan have been classified as potential ordinary shares in the calculation of diluted earnings per share as they are currently "in the money" and are therefore considered dilutive. The rights granted under the Management Rights Plan have also been classified as potential ordinary shares in the calculation of diluted earnings per share.

8. SEGMENT REPORTING

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business Segments

The consolidated entity is organised into four major operating divisions – pipelines, directional drilling, coal seam gas and network services. These divisions are the basis on which the consolidated entity reports its primary segment information. The principal services of each of these divisions are as follows:

Directional drilling	Trenchless installation of pipes, conduits or cables under obstacles using a surface drilling rig.
Pipelines	Construction and installation of pipelines including hydrostatic testing.
Coal seam gas	Application of directional drilling services to degasification of underground coal mines and recovery and commercialisation of coal seam gas.
Network services	IT&T solutions including network design and systems integration. The closure of this business was announced on 18 June 2002 with all activities ceased by 30 June 2002.

8. SEGMENT REPORTING (cont.)

Primary reporting – Business Segments

	Directional drilling		Pipelines		Coal seam gas		Network services		Other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue												
Operating revenue	19,093	25,097	123,269	32,565	8,782	3,843	-	5,277	18	-	151,162	66,782
Other revenue	2,207	1,433	982	80	381	28	128	-	26	69	3,724	1,610
Total segment revenue	21,300	26,530	124,251	32,645	9,163	3,871	128	5,277	44	69	154,886	68,392
Result												
Segment profit/(loss)	2,099	1,040	12,791	3,380	(509)	(570)	(19)	(2,781)	(3,603)	(1,745)	10,759	(676)
Profit/(loss) from ordinary activities before income tax											10,759	(676)
Income tax expense											(3,016)	(101)
Net profit/(loss) after income tax											7,743	(777)
Depreciation and amortisation	2,914	1,871	1,445	845	824	603	-	40	-	-	5,183	3,359
Non-cash expenses other than depreciation and amortisation	(3,878)	(1,506)	8,320	1,446	(492)	(330)	(386)	700	156	-	3,720	310
Assets	25,094	19,792	51,056	40,277	8,382	6,345	79	952	999	615	85,610	67,981
Liabilities	19,794	15,171	29,045	31,469	3,969	4,065	393	538	1,726	2,255	54,927	53,498
Acquisitions of plant and equipment	6,232	2,032	1,175	124	688	1,934	-	139	-	-	8,095	4,229

8. SEGMENT REPORTING (cont.)

Secondary reporting – Geographical Segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Australia		Asia/Pacific		Consolidated	
	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000
Operating revenue	151,162	55,823	-	10,959	151,162	66,782
Other revenue	3,528	1,609	196	1	3,724	1,610
Total revenue	154,690	57,432	196	10,960	154,886	68,392
Assets	82,027	64,025	3,583	3,956	85,610	67,981
Acquisitions of plant and equipment	8,095	4,229	-	-	8,095	4,229

9. DISCONTINUING OPERATIONS

On 18 June 2002, the Board announced its decision to discontinue the consolidated entity's network services activities. The profitability of this segment, subsequent to the acquisition of the business of Smart Communications Group Limited in November 2001, was unsatisfactory and diverting resources from the consolidated entity's other activities. As at 30 June 2002, the network services activity had ceased with one residual contract novated to another company within the consolidated entity. Full provision was made for all costs and liabilities relating to the cessation of this business activity.

Details of the financial performance, financial position and cash flows of the network services activities during the financial year are as follows:

	2003	2002
Financial Performance	$'000	$'000
Revenue from ordinary activities	128	5,277
Expenses from ordinary activities	(147)	(8,058)
(Loss) from ordinary activities before income tax expense	(19)	(2,781)
Income tax benefit relating to ordinary activities	-	667
Net (loss)	(19)	(2,114)
Financial position information as at 30 June		
Segment assets	79	952
Segment liabilities	(393)	538
Net assets/(liabilities)	(314)	414
Cash flow information for the year ended 30 June		
Net cash flows from operating activities	(19)	(749)
Net cash flows from investing activities	-	(1,439)
Net cash flows from financing activities	-	2,130
Total net cash flows	(19)	(58)

		Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
10.	**CASH ASSETS**					
	Cash at bank	30(a)	31,610	7,343	167	17
	Cash on hand	30(a)	15	99	-	-
			31,625	7,442	167	17
11.	**RECEIVABLES**					
	Current					
	Trade debtors		20,565	18,061	10	-
	Provision for doubtful debts		(2,229)	(3,132)	-	-
			18,336	14,929	10	-
	Retention bond		5,968	-	-	-
	Other receivables		2,293	293	-	-
	Other loan		2,078	2,424	-	2,425
	Provision for other loan		(2,078)	-	-	-
	Income tax refundable	6(b)	-	-	-	69
	Sundry debtors		194	3	47	-
			26,791	17,649	57	2,494
	Non-current					
	Loans to controlled entities	34	-	-	54,579	42,611
12.	**INVENTORIES**					
	Current					
	Materials and stores at cost		144	299	-	-
	Provision for obsolescence		-	(250)	-	-
			144	49	-	-
	Construction work in progress		4,212	23,795	-	-
			4,356	23,844	-	-

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
12. INVENTORIES (cont.)				
Construction work in progress comprises:				
Contract costs incurred to date	163,584	42,465	-	-
Profit recognised to date	19,593	5,638	-	-
	183,177	48,103	-	-
Less: Progress billings	(189,558)	(25,540)	-	-
Net construction work in progress	(6,381)	22,563	-	-
Net contracts in progress comprise:				
Amounts due from customers – inventories	2,562	23,795	-	-
Excess of progress billings over costs incurred – included in payables	(8,943)	(1,232)	-	-
13. OTHER CURRENT ASSETS				
Prepayments	329	339	-	-
14. PROPERTY, PLANT AND EQUIPMENT				
Leasehold Improvements				
At Cost	135	143	-	-
Accumulated depreciation	(47)	(35)	-	-
	88	108	-	-
Plant and equipment				
At Cost	-	12,442	-	-
Accumulated depreciation	-	(4,841)	-	-
At directors' valuation – June 2003	1,056	-		
At independent valuation – June 2003	10,534	-	-	-
	11,590	7,601	-	-
Leased plant and equipment				
At Cost	-	6,375	-	-
Accumulated depreciation	-	(1,360)	-	-
At independent valuation – June 2003	4,504	-	-	-
	4,504	5,015	-	-
Motor vehicles				
At Cost	235	298	-	-
Accumulated depreciation	(163)	(169)	-	-
	72	129	-	-

	Consolidated		Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
14. PROPERTY, PLANT AND EQUIPMENT (cont.)				
Leased motor vehicles				
Capitalised cost	507	507	-	-
Accumulated amortisation	(236)	(159)	-	-
	271	348	-	-
Furniture and fixtures				
At Cost	136	131	-	-
Accumulated depreciation	(76)	(60)	-	-
	60	71	-	-
Leased furniture and fixtures				
Capitalised Cost	15	15	-	-
Accumulated amortisation	(15)	(14)	-	-
	-	1	-	-
Office equipment				
At Cost	777	614	-	-
Accumulated depreciation	(481)	(310)	-	-
	296	304	-	-
Leased office equipment				
Capitalised Cost	238	203	-	-
Accumulated amortisation	(66)	(5)	-	-
	172	198	-	
Total property, plant and equipment net book value	17,053	13,775	-	-

Valuations of plant and equipment

Plant and equipment, including leased plant and equipment are measured on a fair value basis, being the amount for which the assets could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing. The current year's valuation was determined by an independent valuer except for the consolidated entity's proportion of the plant & equipment used on the Spie Capag Lucas joint venture, which were valued by the directors.

Capital gains tax has not been recognised in determining the revaluation to fair value. The capital gains tax payable if the assets were sold at reporting date at fair value would be $317,000.

	Consolidated	Company
	2003	2003
	$'000	$'000
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Leasehold improvements		
Carrying amount at beginning of year	108	-
Disposals	(7)	-
Depreciation	(13)	-
Carrying amount at end of year	88	-

	Consolidated 2003 $'000	Company 2003 $'000
14. PROPERTY, PLANT AND EQUIPMENT (cont.)		
Plant and equipment, at fair value		
Carrying amount at beginning of year	7,601	-
Additions	7,388	-
Disposals	(1,207)	-
Depreciation	(2,586)	-
Revaluation	394	-
Carrying amount at end of year	11,590	-
Leased plant and equipment, at fair value		
Carrying amount at beginning of year	5,015	-
Additions	493	-
Disposals	(556)	-
Amortisation	(1,112)	-
Revaluation	664	-
Carrying amount at end of year	4,504	-
Motor vehicles, at cost		
Carrying amount at beginning of year	129	-
Disposals	(17)	-
Depreciation	(40)	-
Carrying amount at end of year	72	-
Leased motor vehicles, at cost		
Carrying amount at beginning of year	348	-
Amortisation	(77)	-
Carrying amount at end of year	271	-
Furniture and fixtures, at cost		
Carrying amount at beginning of year	71	-
Additions	5	-
Depreciation	(16)	-
Carrying amount at end of year	60	-
Leased furniture and fixtures, at cost		
Carrying amount at beginning of year	1	-
Amortisation	(1)	-
Carrying amount at end of year	-	-
Office equipment, at cost		
Carrying amount at beginning of year	304	-
Additions	163	-
Depreciation	(171)	-
Carrying amount at end of year	296	-

	Consolidated 2003 $'000	Company 2003 $'000
14. PROPERTY, PLANT AND EQUIPMENT (cont.)		
Leased office equipment, at cost		
Carrying amount at beginning of year	198	-
Additions	35	-
Amortisation	(61)	-
Carrying amount at end of year	172	-

		Consolidated		Company	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
15. INTANGIBLE ASSETS					
Goodwill – at cost		1,350	1,350	-	-
Accumulated amortisation		(1,350)	(1,084)	-	-
		-	266	-	-
Formation costs		-	10	-	-
		-	276	-	-
16. OTHER NON-CURRENT ASSETS					
Investments		-	-	49	169
Deferred expenditure		1,786	1,767	1,786	1,767
Research and development costs		741	1,159	-	-
Exploration & development expenditure – at cost		864	-	-	-
		3,391	2,926	1,835	1,936

The exploration and development expenditure relates to exploration and evaluation of the consolidated entity's interest in the Gloucester Basin.

		Consolidated		Company	
	Note	2003 $'000	2002 $'000	2003 $'000	2002 $'000
17. PAYABLES					
Current					
Trade creditors		21,928	8,145	8	1
Other creditors and accruals		10,503	31,030	62	244
Excess of progress billings over costs incurred		8,943	1,232	-	-
Loan from related entity		199	-	199	-
		41,573	40,407	269	245
Non-current					
Other loans – controlled entities	35	-	-	12,866	12,050

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
18. INTEREST-BEARING LIABILITIES					
Current					
Bank overdraft – secured	31(a)	178	471	-	471
Bank loans – secured		-	31	-	30
Lease liability	26	1,831	1,592	-	-
Other loan		-	128	-	-
Loan from related party		1,500	764	1,500	764
		3,509	2,986	1,500	1,265
Non-current					
Lease liability	26	2,049	3,597	-	-

Refer to Note 35(a) for details of the terms and conditions of the loan from the related party

Financing arrangements

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
The consolidated entity has access to the following lines of credit.				
Bank overdraft	2,500	986	2,500	986
Bank loans	-	31	-	31
	2,500	1,017	2,500	1,017
Total facilities utilised at balance date:				
Bank overdraft	178	471	-	471
Bank loans	-	31	-	31
	178	502	-	502
Total facilities not utilised at balance date:				
Bank overdraft	2,322	515	2,322	515
Bank loans	-	-	-	-
	2,322	515	2,322	515

Since year end, the Group's finance facilities have been restructured resulting in a net increase in the available bank overdraft facility from $2,500,000 to $4,000,000. In addition, as part of the restructuring, the Group also now has an undrawn asset finance facility of $1,000,000 and an indemnity guarantee facility of $750,000 of which #350,000 is undrawn.

18. INTEREST-BEARING LIABILITIES (cont.)

Bank overdrafts

The bank overdrafts are secured by a registered fixed and floating charge over all the assets of the consolidated entity and are subject to annual review. Interest on bank overdrafts is charged at prevailing market rates. The weighted average interest rate for all overdrafts at 30 June 2003 is 9.50% (2002: 8.75%).

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
19. PROVISIONS					
Current					
Dividends		-	1,457	-	1,457
Employee benefits	32	620	624	-	-
		620	2,081	-	1,457
Non-current					
Employee benefits	32	289	27	-	-
20. CONTRIBUTED EQUITY					
Issued and paid-up share capital					
45,394,990 (2002: 36,415,000) ordinary shares, fully paid		18,178	9,192	18,178	9,192
Movements during the year					
Balance at beginning of year 36,415,000 (2002: 36,550,000) shares		9,192	9,136	9,192	9,136
Shares issued					
- 4,354,090 (2002: nil) for cash pursuant to a private placement		4,789	-	4,789	-
- 4,090,900 (2002: nil) for cash pursuant to a prospectus		4,295	-	4,295	-
- Transaction costs arising from private placement and prospectus issues		(277)	-	(277)	-
- 200,000 (2002: nil) under the Deferred Share Plan		-	-	-	-
- 50,000 (2002: nil) from the exercise of options under the Executive Share Option Plan		50	-	50	-
- 285,000 (2001: 65,000) in payment of fees and costs		129	56	129	56
Balance at end of year		18,178	9,192	18,178	9,192

20. CONTRIBUTED EQUITY (cont.)

Holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at shareholders' meetings. In the event of a winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidations

Options and management rights

Refer Note 31

21. RESERVES

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Asset revaluation	1,058	-	-	-
Capital profits	-	-	24,533	24,533
	1,058	-	24,533	24,533
Movements during the year				
Asset revaluation				
Balance at beginning of year	-	-	-	-
Revaluation increment/(decrements):				
Plant and equipment	394	-	-	-
Leased plant and equipment	664	-	-	-
Balance at end of year	1,058	-	-	-

Nature and purpose of reserves

Asset revaluation

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets measured at fair value in accordance with AASB 1041.

Capital profits

The capital profits reserve represents profits from the sale of businesses to subsidiary entities.

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
22. RETAINED PROFITS/(ACCUMULATED LOSSES)				
Retained profits /(accumulated losses) at beginning of year	5,291	8,797	(1,031)	919
Net profit/(loss) attributable to members of the parent entity	7,743	(777)	2,640	779
Net effect on dividends from:				
Initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	1,457	-	1,457	-
Dividends recognised during the year	(3,044)	(2,729)	(3,044)	(2,729)
Total dividends	(1,587)	(2,729)	(1,587)	(2,729)
Balance at end of year	11,447	5,291	22	(1,031)

23. DIVIDENDS

	Cents per share	Total amount $'000	Franked/ Unfranked	Date of Payment
2003				
Interim - ordinary	3.5	1,587	unfranked	24 June 2003
2002 final dividend recognised when declared during the year. Refer Note 2 "Changes in accounting policies".				
Final - ordinary	4.0	1,457	unfranked	16 December 2002
Total amount		3,044		
2002				
Interim – ordinary	3.5	1,272	unfranked	7 June 2002
Final – ordinary	4.0	1,457	unfranked	16 December 2002
Total amount		2,729		

Subsequent events

Since the end of the financial year, the directors declared the following dividend:

	Cents per share	Total amount $'000	Franked/ Unfranked	Date of Payment
Final – ordinary	4.5	2,043	unfranked	16 December 2003

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2003 and will be recognised in subsequent financial reports.

	The Company 2003 $'000	The Company 2002 $'000
23. DIVIDENDS (cont.)		
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial year.	-	-

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liability
(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end
(c) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Change in measurement of dividend franking account

In accordance with the New Business Tax System (Imputation) Act 2002, the measurement basis of the dividend franking account changed on 1 July 2002 from an after-tax profits basis to an income tax paid basis.

The amount of franking credits available to shareholders disclosed as at 30 June 2003 has been measured under the new legislation and represents income tax paid amounts available to frank distributions. The balance disclosed as at 30 June 2002 has been measured under the legislation existing at 30 June 2002 and represents after-tax profits able to be distributed fully franked at the current tax rate.

The change in the basis of measurement does not change the underlying value of franking credits or tax offsets available to shareholders from the dividend franking account.

Comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis, the "franking credits available" balance as at 30 June 2003 would not have changed.

	Consolidated		Company	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
24. TOTAL EQUITY RECONCILIATION				
Total equity at beginning of year	14,483	17,933	32,694	34,588
Total changes in parent entity interest in equity recognised in statement of financial performance	8,801	(777)	2,640	779
Transactions with owners as owners:				
Contributions of equity	8,986	56	8,986	56
Dividends	(1,587)	(2,729)	(1,587)	(2,729)
Total equity at end of year	30,683	14,483	42,733	32,694

25. ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURE

(a) Interest rate risk exposure

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Maturing In			Non-Interest Bearing	Total
				Less than 1 year	1 to 5 years	More than 5 years		
		%	$'000	$'000	$'000	$'000	$'000	$'000
June 2003								
Financial Assets								
Cash assets	10	4.25	31,610	-	-	-	15	31,625
Receivables	11	-	-	-	-	-	26,791	26,791
			31,610				26,806	58,416
Financial Liabilities								
Bank overdraft	18	9.50	178	-	-	-	-	178
Payables	17	-	-	-	-	-	41,573	41,573
Lease liabilities	18	10.65	-	1,831	2,049	-	-	3,880
Employee benefits	19,32	-	-	-	-	-	909	909
Related party loans	17,18	7.50	1,500	-	-	-	199	1,699
			1,678	1,831	2,049	-	42,681	48,239
June 2002								
Financial Assets								
Cash assets	10	4.25	7,343	-	-	-	99	7,442
Receivables	11	-	-	-	-	-	17,649	17,649
			7,343				17,748	25,091
Financial Liabilities								
Bank overdraft	18	9.50	471	-	-	-	-	471
Payables	17	-	-	-	-	-	40,407	40,407
Dividends payable	19	-	-	-	-	-	1,457	1,457
Bank loans	18	8.75	-	31	-	-	-	31
Lease liabilities	18	10.65	-	1,592	3,597	-	-	5,189
Employee benefits	19,32	-	-	-	-	-	651	651
Related party loans	18	-	-	-	-	-	764	764
Other loans	18	-	-	-	-	-	128	128
			471	1,623	3,597	-	43,407	49,098

	Consolidated		Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
25. ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURE (cont.)				
(b) Foreign exchange risk				
The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies calculated at year-end exchange rates, are as follows:				
United States Dollars				
Amounts payable:				
Current	352	183	-	-
Amounts receivable:				
Current	1,452	2,425	-	2,425
Hong Kong Dollars				
Amounts payable:				
Current	3,169	3,722	-	-
Amounts receivable:				
Current	3,206	7,869	-	-

(c) Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The credit risk to the consolidated entity of trade debtors due from customers is concentrated in the engineering and construction industry.

(d) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

The net fair value of financial assets and financial liabilities are determined as follows:

- the net fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the net fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

The net fair value of the following financial assets and liabilities approximate the carrying value: cash assets, receivables, investments, bank overdraft, payables, dividens payable, bank loans, lease liabilities, employee benefits, related party loans and other loans

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
26. COMMITMENTS				
Capital expenditure commitments				
Plant and equipment contracted but not provided for and payable within 1 year	-	493	-	-
Finance lease payment commitments				
Finance lease commitments are payable:				
within 1 year	2,101	1,973	-	-
1 year or later and no later than 5 years	2,182	3,932	-	-
	4,283	5,905	-	-
Less: future lease finance charges	(403)	(716)	-	-
	3,880	5,189	-	-
Lease liabilities provided in the financial statements:				
Current	1,831	1,592	-	-
Non-current	2,049	3,597	-	-
	3,880	5,189	-	-

The consolidated entity leases plant and equipment under finance leases expiring from one to four years. At the end of the lease terms, the consolidated entity has the option to purchase the equipment.

Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
Within 1 year	32	113	-	-
1 year or later and no later than 5 years	-	31	-	-
	32	144	-	-

The consolidated entity leases one property under a non-cancellable operating lease expiring in September 2003. All other premises used by the consolidated entity are occupied on a month to month tenancy.

27. CONTINGENT LIABILITIES

Details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote are set out below, as well as details of contingent liabilities and contingent assets, which although considered remote, the directors consider should be disclosed.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Bonding

The consolidated entity has insurance bonding in place totalling $18,608,000 (2002: $15,315,000) of which $12,800,000 (2002: $12,904,000) is on projects which are yet to achieve practical completion.

Litigation

Claims have been made by DrillTec GUT GmbH for $4.5 million on the Company and $1.5 million under a guarantee given by a director, who has been indemnified by the Company. These claims are in respect of work performed jointly on a contract now completed.

A judgement has been awarded against the Company in this amount. The Company and the directors dispute these claims and the judgement. The Company has appealed against the judgement and separately has lodged a counterclaim. The Company has recorded a liability of $3,100,000 in respect of the original disputed amount. There is therefore a contingent liability of $2,900,000.

Indemnities

Indemnities have been provided to directors, and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements. The current maximum exposure under this indemnity is $1.5 million which relates to the litigation noted above.

	Consolidated		Company	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
Total estimated contingent liabilities	15,674	12,917	15,674	12,917

28. CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Ownership Interest 2003 %	Ownership Interest 2002 %
Parent entity			
A J Lucas Group Limited			
Controlled entities			
A J Lucas Admin Pty Limited	Australia	100	100
A J Lucas Plant & Equipment Pty Limited	Australia	100	100
A J Lucas Drilling Pty Limited	Australia	100	100
A J Lucas Pipelines Pty Limited	Australia	100	100
A J Lucas Testing Pty Limited	Australia	100	100
Smart Electrical & Power Services Pty Limited	Australia	100	100
A J Lucas Joint Ventures Pty Limited	Australia	100	100
Coastal Sand Technologies Pty Limited	Australia	100	100
A J Lucas (Hong Kong) Limited	Hong Kong	100	100
A J Lucas Power Services Pty Limited	Australia	100	100
A J Lucas Coal Technologies Pty Limited	Australia	100	100

29. INTERESTS IN JOINT VENTURE OPERATIONS

Joint Venture Name	Principal Activities	Participation Interest 2003 %	Participation Interest 2002 %	Contribution to operating results of the consolidated entity 2003 $'000	Contribution to operating results of the consolidated entity 2002 $'000
Clough Lucas	Pipe laying and related construction activities	50	50	(66)	348
Clough Lucas Bundeena	Pipe laying and related construction activities	20	20	(69)	34
Lucas Downer	Design and installation of communications infrastructure	-	-	-	95
Agility Clough Lucas	Pipe laying and related construction activities	25	25	-	821
Spie Capag Lucas	Engineering, design, procurement & construction of pipeline	50	50	10,062	1,986

29. INTERESTS IN JOINT VENTURE OPERATIONS (cont.)

Included in the assets and liabilities of the consolidated entity are the following items which represent the consolidated entity's interest in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 1.

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
ASSETS				
Current assets				
Cash assets	28,732	6,976	-	-
Receivables	10,203	1,592	-	-
Inventories	-	23,351	-	-
Prepayments	-	339	-	-
Total current assets	38,935	32,258	-	-
Non-current assets				
Plant and equipment	430	1	-	-
Total non-current assets	430	1	-	-
Total assets	39,365	32,259	-	-
LIABILITIES				
Current liabilities				
Payables	32,823	28,866	-	-
Total current liabilities	32,823	28,866	-	-
Total liabilities	32,823	28,866	-	-

Commitments

The consolidated entity has commitments to all joint ventures of which it is a party to supply loan funds as and when needed. Failure to supply funds may result in exclusion from the joint ventures. It is not possible to estimate the funding requirements of the joint ventures.

		Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
30.	**NOTES TO THE STATEMENTS OF CASH FLOWS**					
(a)	**RECONCILIATION OF CASH**					
	For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short-term deposits at call. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:					
	Bank overdraft	18	(178)	(471)	-	(471)
	Cash at bank	10	31,610	7,343	167	17
	Cash on hand	10	15	99	-	-
	Total Cash		31,447	6,971	167	(454)
(b)	**RECONCILIATION OF PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES**					
	Profit/(loss) from ordinary activities after income tax		7,743	(777)	(2,437)	779
	Add/ (less) items classified as investing/financing activities:					
	Interest on capitalised leases		412	312	-	-
	(Gain) on sale of investments		-	(136)	-	-
	(Gain)/loss on sale of non-current assets		(599)	59	-	-

	Consolidated		Company	
	2003	**2002**	**2003**	**2002**
	$'000	**$'000**	**$'000**	**$'000**
30. NOTES TO THE STATEMENTS OF CASH FLOWS (cont.)				
Add /(less) non-cash items:				
Depreciation	2,826	2,172	-	-
Increase/(decrease) in provision for doubtful debts	1,646	590	-	
Increase/(decrease) in provision for stock obsolescence	(250)	250	-	-
Increase in provision for doubtful loans to controlled entity	-	-	-	1,684
Amortisation of:				
Leased assets	1,251	757	-	-
Goodwill	266	430	-	-
Research and development expenditure	258	-	-	-
Bonding Costs	582	-	-	-
Unrealised foreign exchange (gains)/losses	(86)	1,236	326	322
Increase/(decrease) in deferred tax liabilities	5,121	276	-	-
(Increase) in deferred tax assets	(335)	(711)	(77)	(520)
Increase/(decrease) in provisions for employee entitlements	258	(313)	-	-
Increase/(decrease) in current tax liabilities	(2,634)	(1,018)	-	7
Net cash provided by/(used in) operating activities before changes in assets and liabilities	16,459	3,127	(2,188)	2,272
Change in assets and liabilities during the financial year:				
(Increase)/decrease in receivables	(21,020)	18,223	12	-
(Increase)/decrease in other current assets	(10)	(231)	-	-
(Increase)/decrease in inventories	19,738	(23,116)	-	-
(Increase)/decrease in other non-current assets	(704)	-	120	-
(Increase)/decrease in loans to controlled entities	-	-	2,208	(2,830)
Increase/(decrease) in payables	9,618	24,847	(175)	(330)
Net cash provided by/(used in) operating activities	24,081	22,850	(23)	(888)

30. NOTES TO THE STATEMENTS OF CASH FLOWS (cont.)

(c) NON-CASH FINANCING AND INVESTMENT ACTIVITIES

During the year, the consolidated entity purchased plant and equipment with an aggregate fair value of $690,000 (2002: $3,089,000) by means of finance leases. A further $2,702,000 of plant and equipment was acquired in consideration for amounts owing to the Group. These purchases are not reflected in the statements of cash flows.

Additionally, during the year, the Company issued 200,000 fully paid shares to non-executive directors under the Deferred Share Plan and 145,000 fully paid shares to suppliers in payment of fees. No movement of cash was involved in these share issues.

(d) FINANCING ARRANGEMENTS

Refer note 18.

(e) BUSINESS ACQUISITION

On 7 November 2001, the Company acquired the business of Smart Communications Group Limited. Details of the acquisition are as follows:

	2003 $'000	2002 $'000
Consideration		
Cash	-	1,137
Acquisition costs	-	268
	-	1,405
Book value of net assets acquired		
Current assets		
Receivables (net)	-	1,806
Inventories	-	265
Total current assets	-	2071
Non-current assets		
Plant and equipment	-	105
Total non-current assets	-	105
Total	-	2,176
Current liabilities		
Employee entitlements	-	(771)
Total liabilities	-	(771)
Net assets acquired	-	1,405
Goodwill on acquisition	-	-
Net cash outflow on acquisition		
Cash consideration	-	1,405
Cash balances acquired	-	-
	-	1,405

	Note	Consolidated 2003 $'000	Consolidated 2002 $'000	Company 2003 $'000	Company 2002 $'000
31. EMPLOYEE BENEFITS					
Aggregate liability for employee benefits, including on-costs					
Current	19	620	624	-	-
Non-current	19	289	27	-	-
		909	651	-	-
The present value of employees' entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:					
Assumed rate of increase in wage and salary rates		2.5%	3.0%		
Discount rate		5.1%	5.25%		
Settlement term (years)		10	10		
Number of employees					
Number of employees at year end		188	86	5	5

Superannuation plans

The Company and certain controlled entities contribute to several defined contribution superannuation funds. Contributions on behalf of employees are payable based on various percentages of their gross salaries. The superannuation funds meet the requirements of the Insurance and Superannuation Commission and fulfil the consolidated entity's obligations under the superannuation guarantee legislation.

Equity-based plans

The Company has three employee incentive schemes approved by shareholders at the annual general meeting held on 28 November 2001. In addition, the Company has an executive share option plan which was established just prior to the Company's listing on the Australian Stock Exchange in August 1999. Total securities granted but unissued under these schemes cannot exceed 15% of the total number of shares on issue.

a) Executive share option plan

450,000 options were issued on 31 July 1999 to senior executives under the executive share option plan. No options had been issued under this plan since that date and no further options will be issued under this plan. Each option is convertible to one ordinary share at $1.00 per share provided the share price exceeds $1.30 at the date of exercise. All options expire on the earlier of 31 July 2004 or the termination of the employee's employment with the consolidated entity.

A summary of the options over unissued ordinary shares at the beginning and ending of the reporting period and movements during the year are set out below. The amount recognised in the financial statements of the Company and consolidated entity in relation to options exercised during the year is the consideration paid on the exercise of the options.

31. EMPLOYEE ENTITLEMENTS (cont.)

Grant date	Exercise date on or after	Expiry date	Exercise price	Number of options at beginning of year	Options expired/ cancelled	Options exercised	Number of options at end of year
2003							
31 July 1999	31 July 2002	31 July 2004	$1.00	300,000	(100,000)	(50,000)	150,000
2002							
31 July 1999	31 July 2002	31 July 2004	$1.00	400,000	(100,000)	-	300,000

The aggregate fair value of the options outstanding at year end was $55,875. 100,000 options have been exercised since the end of the reporting period.

b) Management rights plan

The Management Rights Plan ("MRP") is available to employees, non-executive directors and other persons at the discretion of the board. Nominated persons will be granted rights to acquire shares in the Company. The issue of these rights can take the form of the award of shares for no monetary consideration, traditional priced options or performance rights (which have no exercise price).

Following shareholder approval granted at the annual general meeting held on 28 November 2002, rights were granted to each of the executive directors to acquire fully paid shares in the Company. The rights vest in three tranches, one third two years after their grant, a further third after three years and the balance after four years and may only be exercised if the consolidated entity achieves the performance hurdle.

To achieve the performance hurdle, the consolidated entity's earnings per share ("EPS") for the last three financial years (two financial years in respect of the first tranche) ended prior to the grant of any shares must equal or exceed the rate of 10% per annum growth over a deemed EPS base of 12.7 cents. If the performance hurdle is not achieved in respect of a tranche, the Board may re-evaluate the performance at the end of a subsequent year and allow the rights to be exercised if the hurdle is subsequently satisfied. Assuming the performance hurdle is satisfied and the rights are exercised, the shares will be issued for nil consideration.

There are no voting or dividend rights attaching to the rights nor are there voting rights attaching to the unissued ordinary shares.

Details of rights over unissued ordinary shares at the beginning and ending of the reporting period and movements during the year are set out below.

Grant Date	Exercise date on or after	Expiry date	Exercise price	No. of rights at beginning of year	Rights granted	No. of rights on issue at end of year
23 Dec 2002	23 Dec 2004	23 Dec 2007	$0.00	-	166,666	166,666
23 Dec 2002	23 Dec 2005	23 Dec 2007	$0.00	-	166,666	166,666
23 Dec 2002	23 Dec 2006	23 Dec 2007	$0.00	-	166,667	166,667
				-	500,000	500,000

The aggregate fair value of the rights outstanding at year end was $555,000.

31. EMPLOYEE ENTITLEMENTS (cont.)

c) Deferred share plan

The Deferred Share Plan ("DSP") is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the consolidated entity ceases.

200,000 shares were issued during the reporting period. The issue was made to the non-executive directors in recognition of their contribution to the Company over the three years since it listed in August 1999. Shareholders approved the issue at the annual general meeting held on 28 November 2002. The shares were issued for nil consideration. The fair value of the shares issued was $164,280 being the market price of the Company's shares on the Australian Stock Exchange on their date of allotment less a 26% reduction for the restrictions on their disposal. The reduction represents the discount in the present value of the shares at a 3.0% discount rate for 10 years. The fair value has not been recognised as an expense in the financial statements.

d) Employee share acquisition plan

The Employee Share Acquisition Plan ("ESAP") is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. Eligible employees are entitled every year to free shares with a value up to $1,000. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment with the consolidated entity ceases. The board has the discretion to vary this restriction.

The ESAP complies with current Australian tax legislation, enabling employees to have up to $1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income. The fair value of shares issued during the reporting period at their issue date is the market price of the Company's shares on the Australian Stock Exchange at the close of trading on each of the issue dates less a 20% reduction for the restrictions on disposal. No shares were issued under the ESAP during the year.

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
32. DIRECTORS' REMUNERATION				
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities, directly or indirectly, from the Company or any related party.	990,845	427,604	990,845	427,604

32. DIRECTORS' REMUNERATION (cont.)

The number of directors of the Company whose income from the Company or any related party falls within the following bands:

	Company	
	2003	2002
$30,000 - $39,999	-	3
$70,000 - $79,999	1	-
$90,000 - $99,999	2	-
$170,000 - $179,999	-	2
$300,000 - $309,999	1	-
$420,000 - $429,999	1	-

33. EXECUTIVES' REMUNERATION

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Total income of executive officers of entities in the consolidated entity working mainly in Australia and receiving $100,000 or more from the entity for which they are executive officers or from any related party	2,761,452	2,226,113	936,568	337,604

The number of executive officers of the Company and of controlled entities whose income from the Company or any related party, and from entities in the consolidated entity falls within the following bands:

	Consolidated 2003	Consolidated 2002	Company 2003	Company 2002
$110,000 - $119,999	-	1	-	-
$120,000 - $129,999	-	1	-	-
$130,000 - $139,999	2	1	-	-
$140,000 - $149,999	1	2	-	-
$150,000 - $159,999	1	4	-	-
$160,000 - $169,999	-	2	-	1
$170,000 - $179,999	2	1	-	1
$180,000 - $189,999	2	-	-	-
$200,000 - $209,999	-	1	-	-
$230,000 - $239,999	1	-	-	-
$240,000 - $249,999	-	1	-	-
$300,000 - $309,999	1	-	1	-
$320,000 - $329,999	1	-	-	-
$330,000 - $339,999	1	-	-	-
$420,000 - $429,999	1	-	1	-

34. RELATED PARTIES

a) Directors

The names of each person holding the position of director of A J Lucas Group Limited during the financial year are Messrs. A S Campbell, A J Lukas, I Stuart-Robertson, M J Green and T G O'Meally.

Details of director's remuneration and superannuation payments are set out in Note 32.

Other than as detailed in this Note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

On 31 May 2001, as a condition of the sale of DrillTec GUT GmbH and the continued supply of equipment and personnel to projects undertaken by the consolidated entity, Mr Campbell provided a personal guarantee for amounts which may become due. The maximum amount of this guarantee is $1,304,347. The consolidated entity has indemnified Mr Campbell for any amount payable as a result of this guarantee.

Directors' holdings of shares and share options

The interests of directors of the Company and their director-related entities in shares and share options of the Company at year end are set out below:

	2003 No. Held	2002 No. Held
Ordinary shares	17,844,538	16,030,189
Share options under Executive Share Option Plan	-	100,000
Rights under Management Rights Plan	500,000	-

Directors' transactions in shares and rights over shares

During the year, directors purchased 10,800 shares on-market. Also during the year, directors and their director related entities subscribed for 1,604,049 new shares at $1.05 per share being their full entitlement in the Company's one for 10 rights issue. Additionally, 200,000 new fully paid shares were issued to the non-executive directors during the year under the Deferred Share Plan and 500,000 rights over shares were granted to the executive directors following shareholder approval granted on 28 November 2002. Refer to Note 31 for further details.

Other transactions with director related entities

Mr Campbell, a director of the Company, has an interest as a director in Argyll Capital Partners Limited which provides consulting services to the consolidated entity in the ordinary course of business and on normal terms and conditions. The consulting income received by this director related entity is included in directors' remuneration (refer to Note 32).

Mr Stuart-Robertson is a shareholder and director of Stuart Pty Limited and Mr Campbell is also a director of this company. Stuart Pty Limited has provided services to the consolidated entity in the ordinary course of business and on normal terms and conditions. Services totalling $559,424 (2002: $nil) were charged by Stuart Pty Limited during the year all of which was paid by year end.

Mr Campbell also has an interest in CB Excavating Pty Ltd which rents plant and equipment to the consolidated entity in the ordinary course of business and on normal terms and conditions. Services totalling $56,260 (2002: $99,353) were charged by CB Excavating during the year and an amount of $19,064 (2002: $10,322) was outstanding at year end.

34. RELATED PARTIES (cont.)

During the financial year, A J Lucas Holdings Pty Limited, a company controlled by Messrs Campbell, Lukas and Stuart-Robertson, provided loan funds interest free to the consolidated entity for working capital purposes. The balance of this loan as at the end of the financial year was $199,000 (2002: $764,309). Separately, Mr Campbell loaned $1,500,000 to the consolidated entity without security to facilitate the purchase of various drilling rigs and related equipment. Interest is charged on this loan at normal secured funding rates.

b) Transactions within the wholly-owned group

Details of interests in wholly owned controlled entities are set out in Note 28. These companies trade with each other from time to time on normal commercial terms.

During the year, a pipeline related loan was assigned from the Company to AJ Lucas Pipelines Pty Limited for its face value of $2,078,000.

The aggregate amounts included in the profit/(loss) from ordinary activities before income tax expense that resulted from transactions between entities in the consolidated entity are:

	2003 $'000	2002 $'000
Dividend revenue from wholly-owned controlled entity	3,000	2,885
Receivables:		
Aggregated amount receivable from wholly-owned controlled entities of the Company:		
Coastal Sand Technologies Pty Limited	55	55
Less: Provision for doubtful loan	(55)	(55)
	-	-
A J Lucas Drilling Pty Limited	6,120	316
A J Lucas Testing Pty Limited	1,645	2,246
A J Lucas Pipelines Pty Limited	5,668	2,160
A J Lucas Joint Ventures Pty Limited	9,975	2,680
A J Lucas Admin Pty Limited	13,433	22,441
A J Lucas Power Services Pty Limited	3	3
A J Lucas Coal Technologies Pty Limited	4,518	1,831
A J Lucas Plant & Equipment Pty Limited	13,217	10,934
	54,579	42,611
Payables:		
Aggregate amount payable to wholly-controlled entities of the Company:		
A J Lucas (Hong Kong) Limited	12,866	12,050

35. EVENTS SUBSEQUENT TO BALANCE DATE

Since 30 June 2003, the following events have occurred:

- the Group's finance facilities have been restructured resulting in a net increase in bank overdraft facilities from $2,500,000 to $4,000,000. In addition, as part of the restructuring, the Group now has an undrawn asset finance facility of $1,000,000 and an indemnity guarantee facility of $750,000 of which $350,000 is undrawn.

- A dividend was declared of 4.5 cents per share. Refer to Note 23 for further details.

The directors are not aware of any other event that has arisen since the end of the year that may significantly affect the consolidated entity's operations, its results or its state of affairs in subsequent financial years.

Directors' declaration

For the year ended 30 June 2003

In the opinion of the directors:

1(a) the financial statements and notes, set out on pages 19 to 65, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Allan Stuart Campbell	**Ian Stuart-Robertson**
Director	**Director**

30 September 2003

KPMG

To the members of A J Lucas Group Limited

Independent audit report

For the year ended 30 June 2003

Scope

We have audited the financial report of A J Lucas Group Limited for the financial year ended 30 June 2003, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 33, and the directors' declaration set out on pages 19 to 66. 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 year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards 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 Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of A J Lucas Group Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2003 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Malcolm Kafer

Malcolm Kafer
Partner

Sydney,
30 September 2003

SHAREHOLDING DETAILS

The shareholder information set out below was applicable as at 31 August 2003.

(a) Distribution of equity holdings

Number held	Number of Investors Ordinary Shares	Options
100,001 and over	22	1
10,001 - 100,000	413	-
5,001 - 10,000	508	-
1,001 - 5,000	1,141	-
1 - 1,000	253	-
Total	2,337	1

14 shareholders held less than a marketable parcel of ordinary shares.

b) Twenty largest shareholders

Name	Number of Ordinary Shares held	% of Issued Shares
A J Lucas Holdings Pty Limited	17,490,000	38.53
Amalgamated Dairies Limited	2,090,000	4.60
Commodity Traders (NZ) Limited	1,770,000	3.90
National Nominees Limited	1,601,985	3.53
Westpac Custodian Nominees Limited	1,157,954	2.55
New Zealand Guardian Trust Company Limited	639,882	1.41
Questor Financial Services	433,317	0.95
Auckland Medical Research Foundation	418,000	0.92
New Zealand Guardian Trust Company Ltd	330,000	0.73
Bruce Birnie Pty Ltd	320,000	0.70
Gwynvill Trading Pty Ltd	300,000	0.66
Wightholme Nominees Pty Ltd <PF Burke Group Super fund A/C>	300,000	0.66
NZ Guardian Trust Company Ltd	290,950	0.64
Commonwealth Custodial	266,980	0.59
Queensland Investment Corporation	193,977	0.43
Maminda Pty Ltd	125,000	0.28
Mr Paul Neville Griffin	121,000	0.27
Edrus Limited	116,248	0.26
Mr Geoffrey Henry Kimpton & Mrs Margaret Jo Kimpton	110,000	0.24
Primdonn Nominees Pty Limited	110,000	0.24
Total	28,185,293	62.09

c) Substantial shareholders

Name	Number of Ordinary shares held	
A J Lucas Holdings Pty Limited	17,490,000	38.53

UNQUOTED EQUITY SECURITIES

Options to acquire ordinary shares at an exercise price of $1.00 expiring 31 July 2004

Kevin Lester holds 150,000 options representing 100% of the total number on issue. 100,000 of these were exercised after year-end.

VOTING RIGHTS

Ordinary shares

In accordance with clause 9.8 of the Constitution of the Company, on a show of hands, every shareholder present in person or by proxy or representative has one vote and on a poll, every shareholder present in person or by proxy or representative has:
(a) in respect of fully paid shares, one vote for every share held; and
(b) in respect of partly paid shares, such number of votes as bears the same proportion to the total number of such shares held as the amount of the paid up issue price bears to the total price.

Options

Options do not carry a right to vote.

DIRECTORY

Company Secretary

Mr. Nicholas Swan

Registered office

Ground Floor
157 Church Street
RYDE NSW 2112
Tel +61 2 9809 6866
Fax +61 2 9807 6088

Share registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
ADELAIDE SA 5000

GPO Box 1903
ADELAIDE SA 5001

Enquiries within Australia:	1300 556 161
Enquiries outside Australia:	+61 3 9615 5970
Email:	web.queries@computershare.com.au
Website:	www.computershare.com

Stock Exchange

The Company is listed on the Australian Stock Exchange with the code 'AJL'. The home exchange is Sydney.

Auditors

KPMG
45 Clarence Street
Sydney NSW 1213

Legal Advisors

Minter Ellison
Aurora Place
88 Phillip Street
Sydney NSW 2000

Bankers

ANZ Bank
67 Albert Street
Chatswood NSW 2067