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AJ Lucas Group Limited

Annual General Meeting

25 November 2003

Chairman's address

Ladies and gentlemen,

Welcome to the annual general meeting for the AJ Lucas Group Limited.

2003 Result

The past year has been one of considerable success for the Company. Lucas achieved a record turnover and a record profit in the 2003 financial year. The technical and engineering achievements of the Company were leading edge; with, again, a number of world firsts. Our overall profit margin improved. The Coal Seam Gas division is now in a position where it is expected to produce a maiden profit in 2004.

Continuing success in occupational health and safety, environment and industrial relations are all hallmarks of our success; it hasn't been solely financial.

Some of the more notable achievements include:

- Lost time injury frequency rate is zero (we have not had a lost time injury in over three years).
- No environmental incidents of any significance.
- Zero industrial stoppages or incidents.
- Increase in shareholders' equity of 112%.
- Return on equity equivalent to 25.2%.

It is pleasing to note that the share price has responded - having increased from around $1.00 per share at the beginning of the year to approximately $2.12 per share today. An increase of over 100%. The Company is now capitalised at around $100 million.

As noted in our annual report, these achievements have been entirely due to the high quality of the Lucas people. I would like to take this opportunity to publicly acclaim the Board's gratitude to all of these people at all levels within and around the organisation for their efforts and contribution during the past few years. They are the real success of the Company.

Business has continued to go well since the end of the financial year. We have recently completed the purchase of the intellectual property rights, trade names and know-how of HDI Inc., one of the foremost HDD companies in the world, whose assets we acquired earlier in the year, and established AJ Lucas (USA) Inc. for a specific project in the Pacific Basin.

We completed the Chatswood SewerFix project for Sydney Water - and it has already won a Sydney Water internal award. We also completed the Minerva project, although a dispute has arisen between the principals of Minerva which has delayed Lucas' payments for this project. The HDD portion of the project has been completed and BHP Billiton have inserted the product pipes. We are confident on the basis of legal advice that we will receive payment in full for this project.

Short Term Strategy

Our success in 2003 allows us to enter the third phase of our business plan. This will take place during the next two to three years and is critical to the completion of our route to maturity.

While continuing with our existing business development and technical initiatives within pipelines, HDD and coal seam gas, Lucas intends to capitalise upon our very demonstrable successes of the past two years and create additional revenue streams to improve the quality and maintainability of our earnings streams.

Mr Lukas will address the meeting to more fully explain both the nature and ramifications of some of our more notable achievements.

More particularly, during the next three years Lucas intends to:

- Generate more consistent cash flows from its core businesses;
- Increase its market penetration in the South East Asian and Pacific region;
- Generate additional income streams and, in particular, long term or annuity income streams; and
- Further develop our skills and technology to maintain market leadership and broaden their range of applications.

Our strategy with respect to HDD and pipelines remains that of maintaining a significant market share while, at the same time, being involved in a select number of projects requiring substantial engineering and technical input. In relation to HDD these will occur within the Asia-Pacific region including Australia, whereas our pipeline activity will be confined to Australia. In relation to coal seam gas, we intend to continue to develop our high technology drilling methodologies, work with both the coal seam gas producers and coal mine operators as well as working on a small number of selected coal seam gas opportunities to which our technology can be applied - such as the Gloucester Basin.

We plan to extend our core business in two areas: facilities management and specialist civil engineering capabilities. We are particularly interested in management of infrastructure which involves a high degree of technology or telemetric applications for remote monitoring of linear distribution backbones such as pipelines; facilities management which requires systems, technology and a high degree of understanding of the engineering.

Our work on SEA Gas is a good example. This extends well beyond simply building the pipeline into the ancillary control stations, training, procedures development and documentation.

The creation of a facilities management and specialist civil engineering capability will both strengthen and diversify the Lucas revenue stream. We see it as logical that if Lucas has the ability to design and conceive and construct these facilities, then we should have the ability to maintain and operate them.

This is the rationale behind the acquisition of Stuart Pty Ltd, an explanatory memorandum in relation to which shareholders will have received as part of the notice convening the Annual General Meeting.

Stuart Pty Ltd

Stuart is a Company which is well known to Lucas as both companies have worked together in the past. In addition, both companies share common directors in the form of myself and Mr Stuart-Robertson. The value systems and approach to business of both organisations are very similar and, having considered the matter in some detail, the Board believes the two organisations as one unit will be stronger and generate a more acceptable risk profile.

The explanatory memorandum sets out relevant details relating to the acquisition.

Stuart is a medium-size construction company specialising in civil engineering, facilities management and construction. Its business has a proud history of more than 100 years. Stuart's projects are varied and range up to $25 million in value. Over the last three years, Stuart has averaged over $20 million in operating revenue, of which facilities management has been $4-$7 million.

The acquisition of Stuart will:

- Broaden Lucas' civil and specialised engineering capability, enabling Lucas to tender for larger civil projects we were previously unable to pursue.
- Provide greater project management depth and expertise and offer more career opportunities to employees.
- Establish a facilities management business and provide the expertise and credibility to leverage the Stuart facilities management business into the Lucas business and customer base.
- Achieve economies of scale by spreading Lucas' overhead costs over a broader base.

The proposed acquisition is not large. The purchase price, payable in Company shares, is tied to Stuart's performance and amounts to a maximum of 600,000 shares - a little over 1.3% of the Company's issued share capital. The acquisition of Stuart is expected to be both net asset and earnings per share positive from the first year of acquisition.

Prospects/Outlook

Generally speaking, the outlook for Lucas during the next three years is very positive.

That being said, the Company has to continue to win projects. The competition is ever ready to emulate what Lucas pioneers without having the engineering capability - we therefore have to remain "better and smarter" than our competition. The model of working with clients as partners and always delivering provides an edge which assists the client in knowing the project will meet its goals. While not all clients want such a partnership, those which do value them highly.

We have been working on a number of very interesting projects some of which are not in the public domain and all of which are very significant both in terms of nature and size of the project and financial consequences if Lucas is successful. The oil and gas and water sectors in particular are forecasting a great deal of activity during the next three years. Mining, resources, infrastructure upgrades, new facilities, government sponsored infrastructure and continuing real estate development are all projecting huge capital expenditure during the balance of the decade. Lucas is well positioned within these sectors to be a beneficiary.

Our goal remains to be niche and focused and offer a service which adds to the clients' business. Lucas does not aim to grow turnover indefinitely at the expense of margin and increased risk; we believe $150 million - $200 million per annum is the optimum. Rather, we aim to be a highly profitable business; one which produces net profits before tax in excess of 10% on a small capital base and a small but highly motivated overhead largely comprising quality people. The business and activity mix of Lucas is designed such that the vicissitudes of the business cycle and the mitigation of the inherent operating risk of each activity is addressed.

Our aim is to create a well balanced business that works with its customers to enhance their business by designing and installing quality infrastructure and offering a full service in relation to all aspects of the process. Clearly, this is a significant departure from a traditional contracting approach. As we enter the third phase of our programme, we are on track to deliver such a business to our shareholders within the next two to three years.

Corporate Governance

A great deal has been written lately on the subject of corporate governance. The ASX Corporate Governance Council has now issued its Principles of Good Corporate Governance and Best Practice Recommendations. Lucas accepts the Core Principles however, in applying these principles common sense must prevail and therefore, by definition, the application will vary from entity to entity.

At our stage of development we believe that it is desirable that both the Chairman and Chief Executive are vitally involved in the Company's activities. This prima facie conflict can be addressed by ensuring a majority of non-executive directors, ensuring transparency within the organisation, ensuring significant access between management and the Board and selecting, in the first place, only Board members and management who have the right value system, sound judgement and technical competence. We therefore believe that, in the case of Lucas, the merging of these two roles actually assists the business rather than hinders it. In due course, these roles will be separated. In the meantime, we believe that we have in place appropriate and proper procedures to ensure that any possible negative outcomes of combining these two roles do not materialise.

If the acquisition of Stuart is approved, Mr Stuart-Robertson will become an executive director of the Group. We therefore propose to appoint two new non-executive directors to maintain a majority on the Board of independent, non-executive directors. In any event, we believe the Company is now sufficiently mature to broaden the directorate to seven people. We would hope that these appointments can be made during the second half of the existing financial year. This is an activity in which all directors will participate. It is crucial that the Board remains a vital, cohesive and strong body to direct and lead the Company. Notwithstanding what may be written on the subject of corporate governance, it remains true that for all of the suggestions, prognostications and ruminations on the subject, one cannot legislate or draft codes of practice to ensure sagacious and wise counsel from all directors nor for honest, decent and proper behaviour from Board members. These are the essential requirements for a member of the Lucas Board.

In accordance with the ASX Core Principles we intend to publish our views on the applicability of the Core Principles to Lucas on our website.

Thank you for participating with us in this company. We look forward to much mutual benefit in the interesting times ahead.

Allan Campbell
Chairman and CEO
AJ Lucas Group Limited