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01 October 2004

The Australian Stock Exchange
Company Announcements Office
20 Bridge Street
SYDNEY NSW 2000

Dear Sir,

RE: 2004 ANNUAL REPORT

Please find attached the Company's 2004 Annual Report including its audited financial statements.

Net profit for the year attributable to members amounted to \$7.1 million equivalent to 14.6 cents per share. This compares with a profit of \$10.0 million (20.8 cents per share) previously reported to ASX on 31 August 2004 in the Preliminary Financial Report.

The reduction in reported earnings arises because of the Company's decision to provide for the outstanding balance as at 30 June 2004 under a judgment relating to a contractual dispute made on the Company by DrillTec GuT GmbH, a German company and our joint venture partner on a contract we undertook in Hong Kong over 2000 and 2001. This provision amounted to approximately \$3.5 million. The judgment is being appealed by the Company in the Federal Court in Germany on both jurisdictional grounds and points of law. While such actions are pending, this judgment cannot be pursued against assets of the Company in Australia without further legal process within Australia. The Company intends to fully defend its rights both in Germany and Australia.

Notwithstanding that the Company strongly refutes the merit of any claim made on it by DrillTec, and the process still required to be followed for any claim to be successful against Lucas, the Company has decided to provide in full for the amount of the outstanding amount 30 June 2004 as at under the judgment.

This provision is made under Accounting Standard AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' following the ASIC clarification of recognition of a liability arising from a court judgement. Following this clarification, Lucas has decided to provide for the amount outstanding in full notwithstanding that the appeal process has not been completed.



However, it is notable that there are significant differences between the circumstances underlying the ASIC clarification and those of Lucas. The Company is of the opinion that effectively no valid judgment has been made against it because the judgment was awarded in a jurisdiction outside Australia. Therefore, no provision is technically required under the Australian Accounting Standard in this instance. Lucas has therefore adopted a conservative stance.

Lucas' decision to provide for the whole of the amount outstanding under the judgment was made only on 30 September 2004 and additional work required to complete the accounts explains their late lodgement.

Lucas wishes to reiterate that it strongly denies the merit of the DrillTec claim and will vigorously defend the action.

Since year end, Lucas has secured a number of projects, in line with expectations, and anticipates continued strong growth. It regrets the late lodgement of the statutory accounts which have arisen only for technical and regulatory reasons.

For further information, please call Tim Herlihy, Chief Financial Officer, on 9809 6866.

Yours faithfully,



Nicholas Swan
Company Secretary
A J LUCAS GROUP LIMITED



A J LUCAS GROUP LIMITED

ABN 12 060 309 104

ANNUAL REPORT

2004

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A J Lucas Group Limited and its controlled entities

Directors' report

For the year ended 30 June 2004

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 2004 and the auditors' report thereon.

Directors

The directors of the Company throughout and since the end of the financial year unless otherwise stated were:

Name, qualifications and independence status	Age	Experience and special responsibilities
Allan Campbell BCom LLB Executive Chairman and CEO, member of Tender Review Committee	48	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 Executive Director, member of Tender Review Committee	57	Mr Lukas commenced employment with the Company in 1975 initially as a project manager before becoming general manager in 1977. He was appointed a director in 1985. After graduating in Civil Engineering from UNSW followed by post graduate studies at the Pipeline School of the University of Texas, he 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 Group General Manager and Executive Director, chairman of Tender Review Committee	54	Mr Stuart-Robertson is a qualified quantity surveyor with over 30 years experience in civil and building construction. He has considerable expertise in general construction and project cost reporting systems and also makes a vital contribution to the Group in his role as Tender Review Committee Chairman. He was Managing Director of Stuart Pty Limited at the time of its acquisition by the Company. He was previously a non-executive director of the Company and his role has been expanded to Group General Manager. He is also non-executive director of quantity surveyors John Hollis & Partners.

Directors' report

For the year ended 30 June 2004

Directors (continued)

Name, qualifications and independence status	Age	Experience and special responsibilities
Martin Green FCA Independent Non-Executive Director, Chairman of Audit Committee	59	Mr Green is a Fellow of the Institute of Chartered Accountants and has been in practice for 30 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 has served on various sub-committees of the Board including as Chairman of the due diligence committee on acquisitions. His commercial and financial experience play a vital role in assessing acquisition opportunities. 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.
Garry O'Meally BSc, BE Independent Non-Executive Director, member of Audit Committee	68	Mr O'Meally has over 40 years experience in the oil and gas industries, mainly with Australian Gas Light Company where he served as General Manager of AGL Gas Companies and later of AGL Petroleum. He was also General Manager, Queensland and Northern Territory, for Santos Limited and has consulted to many energy companies. He was appointed a non-executive director in 1999. He has also 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. Mr O'Meally's knowledge of the energy industries has been vitally important in the Group's expansion into its gas management activities.
Julian Gregory BA, LLB Independent Non-Executive Director, member of Audit Committee	47	Mr Gregory is a qualified lawyer with considerable commercial, financial and legal acumen and experience at senior levels within both the private and public sectors. He was previously managing director of international fund manager, the TP Group, prior to which he was a partner in the construction, infrastructure and government areas of Corrs Chambers Westgarth. He was appointed a non-executive director on 29 April 2004.

Directors' report

For the year ended 30 June 2004

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 of Directors		Audit committee		Tender Review committee	
	Held	Attended	Held	Attended	Held	Attended
Allan Campbell	14	14	-	-	21	14
Andrew Lukas	14	10	-	-	21	16
Ian Stuart-Robertson	14	13	3	3	21	21
Garry O'Meally	14	14	4	4	-	-
Martin Green	14	14	4	4	-	-
Julian Gregory	3	3	1	1	-	-

Corporate Governance Statement

The board of directors is responsible for the corporate governance of the Group. This statement outlines the main corporate governance practices. Unless otherwise stated, these practices were in place for the entire year.

Board of directors

The directors of the Company are accountable to shareholders for the proper management of the business and affairs of the Company.

The key responsibilities of the Board are to:

- establish and monitor the corporate strategies of the Company;
- ensure proper corporate governance;
- monitor the performance of management;
- ensure that appropriate risk management systems, internal controls and reporting systems and compliance frameworks are in place and operating effectively;
- monitor financial results;
- approve decisions concerning investments, acquisitions and dividends; and
- comply with reporting and other requirements of the law.

The Board's role and responsibilities are documented in a written Board Charter and is available on request.

Composition of the Board

The constitution of the Company provides that there must be between three and ten directors. Currently there are six directors, half of whom are independent non-executive and the rest executive. The executive directors are Mr Allan Campbell (the Chairman and Chief Executive Officer), Mr Ian Stuart-Robertson (Group General Manager) and Mr Andrew Lukas.

A J Lucas Group Limited and its controlled entities

Directors' report

For the year ended 30 June 2004

Prior to the acquisition of Stuart Pty Limited, ("Stuarts") a majority of the Board were non-executive although Mr Stuart-Robertson was not independent by virtue of his shareholding in the Company. Mr Stuart-Robertson was managing director of Stuarts and following the acquisition of Stuarts, became an executive director of AJ Lucas. Mr Julian Gregory, an independent non-executive director, was appointed to the Board in April 2004. The Board is committed to having a majority of independent non-executive directors and is undertaking a search to appoint another director to achieve this.

Directors are appointed for their industry specific expertise and commercial acumen. The Board believes that all the directors can make, and do make, quality and independent judgements in the best interest of the Company. Whilst the Chairman is also the Chief Executive Officer, his contribution to the Company is considered vital to direct the strategy of the Company in this still comparatively formative stage of the Company's growth. The directors are able to obtain independent advice at the expense of the Company.

Prior to the acquisition of Stuarts, the Board comprised only five directors and did not warrant a separate nomination committee. Instead, the Board assessed the performance of individual directors and the Board as a whole. The number of directors is now approaching levels where a separate nomination committee could contribute to the Board and the directors are considering the establishment of such a committee.

Ethical and responsible decision making

The Company has established a code of conduct to guide the directors and key executives in the management of the Company's affairs. The code of conduct includes disclosure of conflicts of interest and use of information not otherwise publicly known or available. Any director with an interest in matters under consideration by the Board must take no part in decisions relating to those matters.

Trading in Company securities

The Company has a share trading policy prohibiting directors and senior management and their associates from trading in the Company's securities other than in certain nominated periods (between two and thirty days following the release of the half yearly and annual results and the annual general meeting) and at such other times as the Board permits. Such persons must obtain prior approval before conducting any trade.

Integrity in financial reporting

The Board has established an Audit Committee which provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control systems, risk management systems, regulatory compliance and external audit.

The committee must consist of no less than two members all of whom must be independent non-executive directors. At least one member must have financial expertise and some members shall have an understanding of the industry in which the Company operates.

The principal roles of the Committee are to:

- assess whether the accounting methods and statutory reporting applied by management are consistent and comply with accounting standards and applicable laws and regulations;
- make recommendations on the appointment of the external auditors, assess their performance and independence and ensure that management responds to audit findings and recommendations;

Directors' report

For the year ended 30 June 2004

- discuss the adequacy and effectiveness of the Company's internal control systems and policies to assess and manage business risks and its legal and regulatory compliance programmes; and
- ensure effective monitoring of the Company's compliance with its codes of conduct and Board policy statements.

The Audit Committee meets with the external auditors at least twice a year. The committee is authorised to seek information from any employee or external party and obtain legal or other professional advice.

Timely and balanced disclosure

The Company has established policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements so that investors have equal and timely access to all material information. Any broker or analyst presentations is released to the ASX. The Company also posts all information disclosed with ASX on its website.

Clear communication with shareholders

The Company has a communication strategy to promote effective communication with shareholders. Communication procedures include emailing public announcements to shareholders where they have provided their address to the Company and after acknowledgement of receipt of the announcement by ASX.

The Company requests the external auditors to attend the annual general meeting and be available to answer shareholders' questions.

Risk identification and management

The Board has established policies on risk management. Risk assessment is conducted at the operational and financial levels through respectively the Tender Review and Audit Committees.

The systems of internal financial controls have been determined by senior management of the Company and are designed to provide reasonable but not absolute protection against fraud, material misstatement or loss. The Chief Executive Officer and Chief Financial Officer provide representation to the Audit Committee and the Board on the risk management compliance and control systems for the Group.

Encourage enhanced performance

The performance of committees, individual directors and key executives is evaluated regularly by the Board. The Board also regularly evaluates the Board.

There has been no formal performance evaluation of the Board, the members of the Board, committees or individual directors undertaken in the reporting period. The Board informally evaluates the performance of the Board, the members of the Board, committees and individual directors during each meeting of the Board. The Board believes that the individuals on the Board have made quality and independent judgements in the best interests of the Company on all relevant issues during the reporting period. There has been a formal performance evaluation of all key executives (other than the executive directors) during the reporting period.

Recognise interest of all stakeholders

The Company has established various codes of conduct to guide compliance with legal and other obligations to stakeholders and the community at large. These include ethical and work standards, employment practices including occupational health and safety and employment opportunities, environmental protection and authorised gains. The Company's compliance and that of its employees is monitored through internal audit.

Directors' report

For the year ended 30 June 2004

Principal Activities

The principal activities of the consolidated entity during the course of the financial year were the engineering, design and construction of projects relating to horizontal directional drilling ("HDD"), pipelines, degasification of coal mines and well head monitoring, gas exploration, building and civil engineering services, and facilities management.

The Company has now commenced the Third Phase of its corporate development which is designed to produce a stronger, more integrated and higher quality, maintainable earnings stream. This strategy is designed to:

- Ensure a more consistent cash flow from core businesses;
- Build annuity income streams;
- Exploit and commercialise the Company's proprietary technology;
- Leverage the Company's engineering expertise higher up the "food chain"; and
- Broaden the geographical spread of activities, particularly with respect to coal seam gas and HDD activities.

The key means of achieving the strategy are as follows:

- Secure a selected number of high profile larger projects for strategic clients in each of the pipeline, coal seam gas and HDD divisions.
- Maintain a relatively small fixed overhead which focuses on engineering expertise, innovation, commercial and risk management, regard to safety and environment and working with customers – the Company's core values and strengths.
- Grow the coal seam gas business into a fully integrated engineering consultancy, project management, drilling and gas management business providing a comprehensive range of degasification services.
- Create a facilities management / operations and maintenance capability for infrastructure that requires intellectual understanding as well as detailed knowledge, to service not only 'Lucas created' infrastructure but also third party infrastructure, particularly that owned by financial or non-operating owners.

The acquisition during the year of Stuart Pty Limited, a company with many years experience in construction (civil engineering) and facilities management, is a key component in the implementation of this strategy.

During the year, construction of the SEA Gas pipeline was completed, resulting in a decrease in turnover from the previous corresponding period.

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

Directors' report

For the year ended 30 June 2004

Review and Results of Operations

Company Overview

The Consolidated Entity achieved an operating earnings before interest and tax (EBIT) of \$12.7 million from operating revenues of \$116.8 million, a record result. This resulted in a net profit attributable to members of \$7.1 million.

The operating margin increased to 10.9% compared to 7.7% in 2003.

Summary of financial results

	2004	2003	Change
	\$'m	\$'m	%
Operating revenue	\$116.8	\$151.2	(22.7)
Total revenue	\$123.5	\$154.9	(20.3)
EBITDA	\$17.3	\$16.8	3.0
Operating EBIT	\$12.7	\$11.6	9.5
Net EBIT	\$6.5	\$10.4	(37.5)
Profit before tax	\$6.7	\$10.8	(37.9)
Net profit attributable to members	\$7.1	\$7.7	(7.7)
Total assets	\$84.4	\$85.6	(1.4)
Net assets	\$44.3	\$30.7	44.2
Operating margin	10.9%	7.7%	41.6
Earnings per share	14.6¢	18.9¢	(22.8)
Dividend per share	8.0¢	8.0¢	-
Net tangible assets per share	86.8¢	73.4¢	21.7

Operating EBIT & Margin

Earnings before interest and tax were adversely affected by a number of non-operating expenses, most particularly a contractual dispute with DrillTec Gut GmbH, a German Consolidated Entity and our joint venture partner on a contract performed over 2000 and 2001. At 30 June 2004 our German lawyers have confirmed approximately \$3.3 million is outstanding in respect of the judgment against the Consolidated Entity. The Consolidated Entity vigorously denies the merits of the claim, however has provided for the amount in full. An amount of \$1.7 million was also paid during the year under a guarantee to DrillTec given by a Director, which was indemnified by the Consolidated Entity. The Consolidated Entity intends to fully defend its position both in Germany and Australia including recovery of this guarantee payment.

The total of the non-operating expenses and their impact of the Consolidated Entity's result is shown in the following table:

	2004	2003	Change
	\$'m	\$'m	%
Operating EBIT	12.7	11.6	9.5
Less non-operating expenses			
Payment made to DrillTec under guarantee	(1.7)	-	
Provision against DrillTec contractual dispute	(3.3)	-	
Legal expenses	(1.0)	(1.0)	
Coal seam gas research and development	(0.2)	(0.2)	
Net EBIT	<u>6.5</u>	<u>10.4</u>	

A J Lucas Group Limited and its controlled entities

Directors' report

For the year ended 30 June 2004

Divisional performance

Contributions from the business divisions were as follows:

Division	Revenue		Profit before tax		Margin	
	2004	2003	2004	2003	2004	2003
	\$ m	\$m	\$m	\$m	%	%
Pipelines	55.8	123.3	6.8	12.8	12.2	10.4
HDD	12.9	19.1	2.8	2.1	21.7	11.0
Gas Management	13.8	8.7	1.2	(0.5)	8.7	(5.8)
Specialist Infrastructure	34.2	-	0.8	-	2.3	n/a

Pipelines

Pipeline revenue reduced by 54.7% as the SEA Gas project was concluded during the year. The Group also completed the Bass Gas project, a 70 km pipeline joining the shore crossing to the existing pipeline system at Pakenham.

Pipeline margin improved to 12.2% from 10.4% in part because of the timing of the stage of completion on the various pipeline contracts and the feasibility study on the Kangaroo Paw project.

Horizontal directional drilling (HDD)

HDD revenue declined by 32.4% to \$12.9 million. This reflected the long lead time between the award of new projects and their commencement due to the extensive planning and mobilisation required. Further, several new contracts, which the Group confidently expects to be awarded, have been delayed to 2004/05. The profit margin showed further improvement to 21.7% compared to 11.0% in the prior year. This reflects the higher margins obtained from projects undertaken in Asia. The HDD performance does not include the payment of \$1.7 million and the provision of \$3.3 million made in respect of the DrillTec contractual dispute as they are considered a non-operating expenses.

Gas management

Turnover again grew strongly increasing by 58.6% over the prior year to \$13.8 million. The division has now reached a size where it can comfortably cover its overheads and returned a profit of \$1.2 million, a margin of 8.7%. This was an excellent result given the division only achieved a break even level of turnover during the year and a margin during the first half of just 4.4%.

Specialist infrastructure services

Stuart Pty Limited, acquired during the year for \$1.24 million, earned \$0.8 million after tax and before Lucas overhead on a turnover of \$34.2 million. This was significant turnaround given the company lost \$0.3 million in the first half. The Stuart Group has been successfully integrated into Lucas and is already making a contribution to Group earnings.

Income tax expense (ITE)

This year the Company had an income tax benefit of \$104,000. The reduction principally came about because of a \$1.0 million benefit from research and development grant tax concessions and \$2.0 million from the change in tax legislation relating to taxation on overseas earnings.

Net loss attributed to outside equity interest

As noted above, Stuart made a net after tax loss during the first half of \$0.3 million. Whilst effective control of Stuart passed to Lucas from 1 July 2003, beneficial ownership only occurred from 1 January 2004. The first half loss has therefore been excluded from the results.

Directors' report

For the year ended 30 June 2004

Significant movements in Statement of Financial Position

Cash and payables reduced substantially from last year principally due to the completion of the SEA Gas project during the year. Inventories increased because of the acquisition of Stuart Pty Ltd (\$6.7 million), the growth of the gas management services business (\$2.6 million) and various HDD projects.

Review of Principal Businesses

Horizontal Directional Drilling (HDD)

Lucas' strategy is to focus on projects which require a large degree of engineering and HDD expertise. Lucas provides a drilling and engineering services capability as well as execution of projects. This strategy allows maximum utilisation of physical and human resources and provides better opportunity for margin enhancement and risk management.

Lucas is currently working with clients on a number of projects in Australia, South East Asia and the Pacific Region. The Company has submitted tenders for, or is currently negotiating contracts totalling approximately \$57 million in value in Australia and South East Asia. We remain optimistic about all our potential HDD projects.

Domestic competition has increased with two new HDD contractors entering the Australian market. This is a reflection of the growing maturity of HDD technology and market acceptance of it to solve infrastructure problems. Lucas however remains the biggest participant in the Australian market and the only HDD business to offer technical and engineered solutions.

Pipelines

The SEA Gas and Bass Gas pipelines have been completed successfully and handed over to the respective clients.

The principal thrust of the pipeline division has been to secure several of the larger projects planned in the next few years together with winning our market share of the smaller projects.

The outlook for the pipeline sector is very positive during the next 3-5 year time horizon. Pipelines however, by their very nature, are "spiky" in terms of revenue and care must be taken over which projects to tender. Lucas has a carefully considered plan in relation to prospective pipeline projects, having regard to risk and value add.

Gas Management Services

This business has grown 450% during the past two years and is expected to double again during the current financial year.

Lucas has now undertaken projects for all of the major coal mine companies in New South Wales and Queensland and established a market reputation as an innovative and cost effective solution provider. During the year, the Company completed for Oaky Creek Coal Mine in North Queensland the largest degasification project ever from the surface, with results that manifestly demonstrate the benefits of employing this technology.

The Company is continuing to develop further technologies in the surface to seam area and its involvement in the CRC for Mining Technology and Equipment is expected to produce favourable results and new methodologies ready for commercial exploitation in 2005.

Specialist Infrastructure Services

The acquisition and integration of Stuart has been very successful. Stuart produced a maiden profit after tax and before Lucas overhead of \$0.8m. The total purchase consideration was 600,000 ordinary shares in the Company.

A J Lucas Group Limited and its controlled entities

Directors' report

For the year ended 30 June 2004

The purchase was earnings per share accretive from the date of acquisition. Additional senior management has been recruited and the business is being repositioned following the formulation of a new business plan.

Facilities Management/Operations & Maintenance

The services provided to the Sydney Opera House continue to grow. A memorandum of understanding has now been executed in relation to the purchase of a facilities management services provider specialising in the light industrial food and beverages sector most particularly in the aviation industry. This acquisition would strongly complement our existing facilities management services provided at the Opera House and is expected to further spearhead the growth of this division.

State of affairs

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

	2004
	\$'000
Fully paid ordinary shares increased during the year as follows:	
- Private placement of 5,000,000 shares for cash at \$2.00 per share to provide additional working capital of \$10,000,000 less transaction costs of \$301,000	9,699
- Issue of 350,000 shares as initial consideration for the acquisition of Stuart Pty Limited	651
- Issue of 100,000 shares resulting from the exercise of options under the Executive Share Option Plan at \$1.00 per share	100
- Issue of 59,280 shares under the Employee Share Acquisition Plan	-
Increase in fully paid capital	<u>10,450</u>

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year are shown in the following table. Dividends paid were unfranked but the final dividend for 2003/04 will be franked at 50%.

	Cents per share	Total amount \$'000	Franked/ Unfranked	Date of Payment
<i>Declared and paid during the year</i>				
Final 2003 ordinary	4.5	2,048	unfranked	16 December 2003
Interim 2004 ordinary	3.5	1,779	unfranked	24 June 2004
		<u>3,827</u>		
<i>Declared after end of year</i>				
Final 2004 ordinary	4.5	2,302	50% franked	16 December 2004
		<u>6,129</u>		
<i>Dealt with in the financial reports as:</i>				
- Dividends		3,827		
- Noted as a subsequent event		2,302		
		<u>6,129</u>		

Directors' report

For the year ended 30 June 2004

The final dividend declared after the year end in respect of the full year results was left unchanged at 4.5 cents per share. The Board decided to leave the dividend unchanged, making 8.0 cents for the year, despite the increase in earnings per share, to conserve the Company's financial resources because of the attractive prospects for 2004/05.

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 reporting date

Since 30 June 2004, the following events have occurred:

- The Company paid the residual deferred consideration for the acquisition of Stuart with the issue of 250,000 shares in the Company.
- The Company has entered into a Memorandum of Understanding to purchase a business which provides facilities management service to the food and beverages sector specialising in the aviation industry.
- A dividend was declared of 4.5 cents per share. Refer to Note 21 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.

Likely developments

Lucas, at the completion of its Phase Three growth phase, aims to be a niche, focused, vertically integrated infrastructure services business with an emphasis on the oil and gas, water and waste water, mining, property and construction sectors. The structure of the business is designed to weather the various business and sector cycles, with a low fixed cost base directed towards high margin business, requiring engineering excellence and innovation, and involving a number of complementary but self supporting income streams. This will be achieved by continued investment in the Company's technologies, targeted marketing and selected acquisitions.

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Directors' report

For the year ended 30 June 2004

Directors' and senior executives' emoluments

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages are considered by the Board as a whole and include a mix of fixed and incentive pay reflecting short and long-term performance objectives. Each individual is assessed on their contribution to the Group and their remuneration structured in a manner consistent with their ability to influence the outcome of their business division.

Executive directors and senior executives may receive bonuses generally in the form of equity. Rights are issued under the Management Rights Plan (made in accordance with thresholds set in place approved by shareholders at the 2001 AGM) either with or without performance hurdles depending on the individual.

Non-executive directors do not receive any performance related remuneration but may be issued shares as part of their fees. All equity based remuneration is made in accordance with plans approved by shareholders.

The remuneration policy provides that directors and senior executives may maintain loans from the Company. All such loans are made at commercial rates and therefore do not represent a benefit to the recipient or attract fringe benefit tax. Interest on the loans is payable quarterly in arrears. No loan amounts have been written down as the balances are considered fully collectible.

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 remuneration salary/fees \$	Other benefits \$	Super- annuation \$	Rights Issued ¹ \$	Other benefits ² \$	Total \$
Directors						
<i>Executives</i>						
A Campbell	364,410	-	-	100,208	7,000	471,618
A Lukas	232,062	9,402	18,000	100,208	7,000	366,672
I Stuart-Robertson	213,500	-	-	-	7,000	220,500
<i>Non-executive</i>						
G O'Meally	30,000	-	-	-	7,000	37,000
M Green	30,000	-	-	-	7,000	37,000
J Gregory	27,525	-	-	-	1,000	28,525
Executive officers (excluding directors)						
Consolidated entity						
K Lester	277,361	-	12,870	188,400	1,000	479,631
T Herlihy	201,109	30,650	20,000	104,667	1,000	357,426
B Tredinnick	130,144	37,580	12,240	62,800	1,000	243,764
M Tonkin	134,318	15,000	10,800	188,400	1,000	349,518
J Stuart-Robertson	115,000	48,922	10,350	104,667	1,000	279,939

Directors' report

For the year ended 30 June 2004

- 1 The rights to acquire shares in the Company were approved by shareholders at the annual general meeting held on 28 November 2001. 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 from grant date to vesting date. Assuming the performance hurdle is satisfied, where set, 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.
- 2 Fees of \$27,525 paid to Mr Gregory comprised fees for consultancy services provided at normal market rates.

The remuneration amounts disclosed in Note 29 differ from those in this table due to differences in definitions of remuneration between the Corporations Act 2001 and AASB1046 *Director and Executive Disclosure by Disclosing Entities*.

Management Rights granted to directors and senior executives

During the financial year, the Company granted rights for no consideration over unissued shares in AJ Lucas to the following five most highly remunerated officers of the Company as part of their remuneration:

Officers	Number of rights granted	Expiry date
Kevin Lester	180,000	28 May 2009
Tim Herlihy	100,000	28 May 2009
Brett Tredinnick	60,000	28 May 2009
Mark Tonkin	180,000	28 May 2009
John Stuart-Robertson	100,000	28 May 2009

No rights were granted to directors during the financial year. No rights have been 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
23 December 2007	\$0.00	500,000
28 May 2009	\$0.00	1,172,000

All rights expire on the earlier of their expiry date or termination of the employee's employment or cessation of the officer's service. 24,000 rights have been cancelled since the end of the financial year because of the cessation of the employee's employment. In addition, the ability to exercise the rights issued to the executive directors is conditional on the consolidated entity achieving certain performance hurdles as described earlier in this report.

The rights do not entitle the holders to participate in any other share issue of the Company.

Directors' report

For the year ended 30 June 2004

Shares issued on exercise of rights

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

Number of shares	Amount paid on each share
111,000	\$Nil

There were no amounts unpaid on the shares issued.

Directors' shareholdings and other interests

The relevant interest of each director and their director related entities in the shares and rights over shares issued by 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	10,056,750	250,000
Andrew Lukas	6,121,500	250,000
Ian Stuart-Robertson	1,386,750	-
Martin Green	75,000	-
Garry O'Meally	109,180	-

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 2004 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 2005.

Directors' report

For the year ended 30 June 2004

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 2004.

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

A J Lucas Group Limited and its controlled entities
Statements of financial performance
For the year ended 30 June 2004

		Consolidated		Company	
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from rendering services	2	116,760	151,162	-	-
Other revenue from ordinary activities	2	6,773	3,724	948	3,828
Total revenue	2	123,533	154,886	948	3,828
Subcontractor costs		(36,006)	(43,193)	-	-
Material costs		(36,779)	(47,740)	-	-
Plant and other construction costs		(12,510)	(22,734)	-	-
Employee expenses		(21,388)	(16,080)	-	-
Depreciation and amortisation expenses	3(b)	(4,633)	(5,183)	(30)	(120)
Borrowing costs	3(b)	(986)	(581)	(892)	(874)
Debt recovery and legal costs		(981)	(998)	-	-
Net foreign exchange loss		-	(117)	-	(331)
Write-off of subsidiary loans		-	-	(1,208)	-
Other expenses incurred in ordinary activities		(3,572)	(7,501)	(72)	(30)
Profit/(loss) from ordinary activities before related income tax		6,678	10,759	(1,254)	2,473
Income tax benefit/(expense) relating to ordinary activities	5(a)	104	(3,016)	(1,308)	167
Profit/(loss) from ordinary activities after related income tax		6,782	7,743	(2,562)	2,640
Net loss attributable to outside equity interest		270	-	-	-
Net profit/(loss) attributable to members of the parent entity	20	7,052	7,743	(2,562)	2,640
Non-owner transaction changes in equity (Decrease)/increase in asset revaluation reserve:					
Fair value adjustment	19	(94)	1,058	-	-
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	22	6,958	8,801	(2,562)	2,640
Basic earnings per share (cents)	6	14.6	18.9		
Diluted earnings per share (cents)	6	14.4	18.6		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 22 to 72.

A J Lucas Group Limited and its controlled entities
Statements of financial position
as at 30 June 2004

		Consolidated		Company	
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
CURRENT ASSETS					
Cash assets	8	14,203	31,625	229	167
Receivables	9	25,676	26,791	-	57
Inventories	10	18,559	4,356	-	-
Other	11	-	329	-	-
Total Current Assets		58,438	63,101	229	224
NON-CURRENT ASSETS					
Receivables	9	-	-	57,940	54,579
Plant and equipment	12	18,509	17,053	-	-
Intangible assets	13	2,918	1,786	1,786	1,816
Deferred tax assets	5(d)	1,598	2,065	1,518	730
Other	14	2,969	1,605	1,260	19
Total Non-Current Assets		25,994	22,509	62,504	57,144
Total Assets		84,432	85,610	62,733	57,368
CURRENT LIABILITIES					
Payables	15	20,778	41,573	465	269
Interest-bearing liabilities	16	5,857	3,509	-	1,500
Current tax liabilities	5(b)	1,359	1,444	-	-
Provisions	17	4,419	620	-	-
Total Current Liabilities		32,413	47,146	465	1,769
NON-CURRENT LIABILITIES					
Payables	15	-	-	10,627	12,866
Interest-bearing liabilities	16	2,599	2,049	-	-
Deferred tax liabilities	5(c)	4,847	5,443	4,847	-
Provisions	17	309	289	-	-
Total Non-Current Liabilities		7,755	7,781	15,474	12,866
Total Liabilities		40,168	54,927	15,939	14,635
Net Assets		44,264	30,683	46,794	42,733
EQUITY					
Contributed equity	18	28,628	18,178	28,628	18,178
Reserves	19	964	1,058	14,533	24,533
Retained profits/(accumulated losses)	20	14,672	11,447	3,633	22
Total Equity	22	44,264	30,683	46,794	42,733

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 22 to 72.

A J Lucas Group Limited and its controlled entities

Statements of cash flows

For the year ended 30 June 2004

		Consolidated		Company	
		2004	2003	2004	2003
Note		\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
		124,273	141,649	57	450
		(142,763)	(117,853)	(72)	(490)
		1,148	956	115	822
		115	69	-	69
		-	(159)	-	-
		(986)	(581)	(57)	(874)
Net cash provided by/(used in) operating activities	28(b)	(18,213)	24,081	43	(23)
CASH FLOWS FROM INVESTING ACTIVITIES					
		3,355	380	-	-
		-	-	(4,057)	(6,889)
		-	-	-	816
		(3,290)	(4,703)	-	-
		(2,076)	-	-	-
		(2,018)	-	-	-
		-	-	(197)	-
		1,659	-	-	-
Net cash (used in) by investing activities		(2,370)	(4,323)	(4,254)	(6,073)
CASH FLOWS FROM FINANCING ACTIVITIES					
		10,100	9,134	9,799	9,134
		(301)	(277)	-	(277)
		-	(31)	-	(31)
		-	1,500	-	1,500
		(1,699)	(565)	(1,699)	(565)
		-	-	-	-
		(3,827)	(3,044)	(3,827)	(3,044)
		(2,597)	(1,999)	-	-
Net cash provided by financing activities		1,676	4,718	4,273	6,717
Net (decrease)/increase in cash held		(18,907)	24,476	62	621
Cash at beginning of the year		31,447	6,971	167	(454)
Cash at end of the year	28(a)	12,540	31,447	229	167

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 22 to 72.

Notes to the financial statements

For the year ended 30 June 2004

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Notes to the financial statements

For the year ended 30 June 2004

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 fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 26 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.

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Principles of consolidation (cont.)

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.

Goods and services tax

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

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or a liability in the statement of financial position.

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.

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 other than construction contracts

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.

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Revenue recognition (cont.)

Dividends

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

Revenue from dividends from other investments is 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 total contract revenue and costs to complete can be reliably estimated.

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.

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. An expected loss is recognised immediately as an expense.

Recognition of profits – Cost plus contracts

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 an alternative measurement method provides a more accurate indication of the stage of completion.

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 reporting date have been translated into Australian currency at the exchange rate ruling on that 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, including controlled entities, that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at reporting 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.

Borrowing costs

Borrowing costs include interest, foreign exchange losses and finance charges in respect of finance leases. Borrowing costs are expensed as incurred.

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 future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt or, if relating to tax losses, when realisation is virtually certain.

Tax Consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 26. The implementation date for the tax-consolidated group is 1 July 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Taxation (cont.)

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a “stand-alone basis” so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity’s obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

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.

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.

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.

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Inventories

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

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 that are expected to be incurred under penalty clauses and warranty provisions are also included.

Investments

Controlled entities

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

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 issue is used as fair value except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising in the issue of equity instruments are recognised directly in equity. Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the consolidated entity if a similar borrowing was obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

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

Assets under construction

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and borrowing costs for assets which are likely to take more than 12 months to get ready for their intended use on sale are also capitalised.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefit, in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Otherwise, the costs are expensed as incurred.

Notes to the financial statements

For the year ended 30 June 2004

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.

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.

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.

Intangible Assets

Intangible assets are initially measured at cost and are amortised over the periods the benefits are expected to arise.

Deferred Expenditure

Development or start up costs are 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.

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, currently over three years, commencing with the commercial introduction of the service.

Exploration, evaluation and development expenditure

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation 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 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.

Depreciation and amortisation

All assets, including intangibles, are depreciated/amortised using the straight-line method over their estimated useful lives, taking into account estimated residual values, except for finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset. 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. 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 and amortisation rates used for each class of asset are as follows:

	2004	2003
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	10 years	10 years
Other non-current assets		
Research and development costs	3 years	3 years

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

Interest bearing liabilities

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in Note 15 Payables "Other creditors and accruals".

Employee entitlements

Wages, salaries and annual leave

Liabilities for employee entitlements to wages, salaries and annual 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 such as workers compensation, insurance and payroll tax.

Notes to the financial statements

For the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Employee entitlements (cont.)

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 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 recipients was not expensed. Other than the costs incurred in administering 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 30.

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.

Notes to the financial statements

For the year ended 30 June 2004

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
2. REVENUE FROM ORDINARY ACTIVITIES				
Rendering of services revenue from operating activities	116,760	151,162	-	-
Other revenues:				
<i>From operating activities</i>				
Net foreign exchange gain	1,755	-	-	-
Dividends:				
Related parties	-	-	-	3,000
Interest:				
Related parties	-	-	833	807
Other parties	1,148	956	115	15
<i>From outside operating activities</i>				
Gross proceeds from disposal of non-current assets	3,355	2,380	-	-
Other	515	388	-	6
Total other revenues	6,773	3,724	948	3,828
TOTAL REVENUE FROM ORDINARY ACTIVITIES	123,533	154,886	948	3,828
3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE/(REVENUE)				
(a) Individually significant items included in profit/(loss) from ordinary activities before income tax expense/(revenue):				
Payment and provision in respect of claim made by DrillTec GUT GmbH	5,003	-	-	-
Movement in provision for doubtful debts	(4,291)	1,646	-	67
Write off non-collectable intercompany receivables	-	-	1,208	-

Notes to the financial statements

For the year ended 30 June 2004

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

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
(b) Profit/(loss) from ordinary activities before income tax expense/(revenue) has been arrived at after charging/ (crediting) the following items:				
Depreciation of				
Plant and equipment	1,945	2,586	-	-
Motor vehicles	52	40	-	-
Other fixed assets	229	200	-	-
	<u>2,226</u>	<u>2,826</u>	<u>-</u>	<u>-</u>
Amortisation of:				
Goodwill	37	266	30	120
Leased plant and equipment	1,514	1,112	-	-
Leased office equipment	63	62	-	-
Leased motor vehicles	62	77	-	-
Research and development expenditure	355	258	-	-
Bonding costs	376	582	-	-
	<u>2,407</u>	<u>2,357</u>	<u>30</u>	<u>-</u>
Total depreciation and amortisation	<u>4,633</u>	<u>5,183</u>	<u>30</u>	<u>120</u>
Net bad and doubtful debts expense including movement in provision for doubtful debts	(4,291)	1,646	-	67
Movement in provision for obsolete materials	-	(250)	-	-
Operating lease rental expense – minimum lease payments	167	209	-	-
Movement in provisions for employee entitlements	(100)	258	-	-
Movement in provision for contractual dispute	3,313	-	-	-
Unrealised net foreign exchange (gain)/loss	(357)	(86)	-	326
Realised net foreign exchange (gain)/loss	(1,397)	203	-	5
Net gain on sales of non-current assets:				
Plant and equipment	(256)	(599)	-	-
Borrowing costs:				
Related parties	-	-	833	807
Other parties				
- Bank loans and overdraft	267	169	59	67
- Finance charges on capitalised leases	719	412	-	-
	<u>986</u>	<u>581</u>	<u>892</u>	<u>874</u>

Notes to the financial statements

For the year ended 30 June 2004

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

(c) Revision of accounting estimate

Deferred tax balances

As a consequence of the enactment of the Tax Consolidation legislation and the Company, as the head entity in a tax-consolidated group, implementing tax consolidation from 1 July 2003, the head entity has applied UIG 52.

The introduction of the Tax Consolidation legislation had no material impact on the tax balances of the consolidated entity. The Company has chosen to elect the transitional method and has retained the existing tax cost base of all assets.

The Company acquired the Stuart Group of companies during the year and the tax cost base of this group was reset to market value. The acquisition included franking credits of \$1,500,000 which may be used to frank future dividends paid by the Company.

The Group has also entered into a tax funding agreement to preserve the tax consolidation treatment of income tax balances.

4. AUDITORS' REMUNERATION

Audit services:

	Consolidated		Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Auditors of the Company	167,142	125,000	16,000	15,000

Other services

Auditors of the Company				
Taxation services	66,400	76,000	-	-

A J Lucas Group Limited and its controlled entities
Notes to the financial statements
For the year ended 30 June 2004

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
5. TAXATION				
(a) Income tax expense				
Prima facie income tax expense/(benefit) calculated at 30% (2003:30%) on the profit/(loss) from ordinary activities	2,004	3,228	(376)	742
Increase in income tax expense due to:				
Amortisation of goodwill	11	44	9	-
Non-deductible expenses	26	15	-	-
Depreciation attributable to asset revaluation	72	-	-	-
Foreign exchange loss on translation of foreign subsidiary	117	-	-	-
Foreign income	530	-	258	-
Sundry items	247	-	-	-
Net movements in non-deductible provisions	-	714	887	-
Decrease in income tax expense due to:				
Net movements in non-deductible provisions	(81)	-	-	-
Rebateable dividend income	-	-	-	(900)
Research and development allowance	(603)	(551)	-	(9)
Foreign subsidiary income non-assessable	(1,906)	-	-	-
Foreign exchange gain on translation of foreign subsidiary	-	(351)	-	-
	415	3,099	778	(167)
Individually significant income tax items:				
Net deferred tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidated group upon implementation of Tax Consolidation	-	-	3,684	-
Recovery of income tax expense under a tax funding agreement at transition	-	-	(3,684)	-
	415	3,099	778	(167)
Income tax under/(over) provided in prior year	(519)	(83)	530	-
Income tax expense/(revenue) attributable to profit/(loss) from ordinary activities	(104)	3,016	1,308	(167)

Notes to the financial statements

For the year ended 30 June 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
5. TAXATION (cont.)				
Income tax expense/(revenue) attributable to profit/(loss) from ordinary activities is made up of:				
Current tax provision	(2,632)	217	244	(90)
Future income tax benefit	981	(230)	534	(77)
Deferred income tax provision	2,066	3,112	-	-
Under/(over) provision in prior year	(519)	(83)	530	-
	104	3,016	1,308	(167)
(b) Current tax liabilities				
<i>Provision for current income tax</i>				
Movements during the year:				
Balance at beginning of year	1,444	4,078	-	(69)
Income tax refund/(paid)	115	(93)	-	69
	1,559	3,985	-	-
Current year's income tax expense on profit from ordinary activities	(2,632)	217	(244)	(90)
Transfer current tax loss to wholly owned subsidiary	-	-	244	90
Transfer carried forward tax loss to future income tax benefit	1,888	74	-	-
Transfer current provision to deferred income tax liability	-	(2,017)	-	-
Translation gain on foreign tax payable	(75)	(732)	-	-
Under/(over) provision in prior year	619	(83)	-	-
	1,359	1,444	-	-
(c) Deferred tax liabilities				
<i>Provision for deferred income tax</i>				
Provision for deferred tax comprises the estimated expense at the applicable rate of 30% for Australian entities and the relevant rates for foreign entities on the following items:				
Foreign profits not yet taxable in Australia	-	2,017	-	-
Difference between contract profit recognised for accounting and tax purposes	4,315	2,595	4,315	-
Timing differences	532	831	532	-
	4,847	5,443	4,847	-

Notes to the financial statements

For the year ended 30 June 2004

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
5. 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% for Australian entities and the relevant rates for foreign entities on the following items:

Tax losses carried forward	-	74	-	-
Timing differences	1,598	1,991	1,518	730
	<u>1,598</u>	<u>2,065</u>	<u>1,518</u>	<u>730</u>

The potential future income tax benefit will be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the relevant company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company in realising the benefit.

6. EARNINGS PER SHARE

Classification of securities as potential ordinary shares

The following securities have been classified as potential ordinary shares and included in diluted earnings per share:

- (a) options outstanding under the Executive Share Option Plan
- (b) rights granted and outstanding under the Management Rights Plan

Further details of these securities are contained in Note 30.

A J Lucas Group Limited and its controlled entities
Notes to the financial statements
For the year ended 30 June 2004

6. EARNINGS PER SHARE (cont.)

	2004 Number	2003 Number
<i>Weighted average number of shares used as the denominator</i>		
Number for basic earnings per share		
Ordinary shares	48,281,371	40,937,063
Number for diluted earnings per share		
Ordinary shares	48,281,371	40,937,063
Effect of rights on issue under Management Rights Plan	621,415	500,000
Effect of options on issue under Executive Share Option Plan	-	150,000
	<u>48,902,786</u>	<u>41,587,063</u>

Subsequent to reporting date, 250,000 ordinary shares were issued as the deferred purchase consideration for the acquisition of all the shares in Stuart Pty Limited. Refer to Note 32 for details. These shares have not been included in the calculations of basic and diluted EPS as at 30 June 2004

7. 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 comprises the following main business segments based on the consolidated entity's reporting system:

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.
Gas management services	Application of directional drilling services to degasification of underground coal mines and recovery and commercialisation of coal seam gas.
Specialist infrastructure services	Construction, facilities management and civil engineering services

A J Lucas Group Limited and its controlled entities

Notes to the financial statements

For the year ended 30 June 2004

7. SEGMENT REPORTING (cont.)

Primary reporting – Business Segments

	Directional drilling		Pipelines		Gas management services		Specialist infrastructure services		Other		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue														
External segment revenue	16,590	21,300	58,169	124,251	13,953	9,163	34,264	-	557	172	-	-	123,533	154,886
Inter-segment revenue	4,463	2,475	-	-	-	-	-	-	-	-	(4,463)	(2,475)	-	-
Total segment revenue	21,053	23,775	58,169	124,251	13,953	9,163	34,264	-	557	172	(4,463)	(2,475)	123,533	154,886
Result														
Segment result	⁽ⁱ⁾ (2,213)	2,099	6,813	12,791	1,170	(509)	783	-	125	(3,622)	-	-	6,678	10,759
Profit from ordinary activities before income tax													6,678	10,759
Income tax expense													104	(3,016)
Net profit													6,782	7,743
Depreciation and amortisation	2,252	2,914	1,069	1,445	1,262	824	50	-	-	-	-	-	4,633	5,183
Non-cash expenses other than depreciation and amortisation	-	-	-	3,564	-	-	-	-	-	156	-	-	-	3,720
Assets														
Segment assets	22,372	25,094	31,044	51,056	16,044	8,382	13,188	-	1,784	1,078	-	-	84,432	85,610
Liabilities														
Segment liabilities	12,096	19,794	7,078	29,045	8,372	3,969	11,622	-	1,000	2,119	-	-	40,168	54,927
Acquisitions of non-current assets	5,633	6,232	1,441	1,175	1,542	688	1,368	-	-	-	-	-	9,984	8,095

(i) Included in the segment result is a non-operating expense of \$5,003,000 in respect of the payment and provision relating to the contractual dispute with DrillTec.

A J Lucas Group Limited and its controlled entities

Notes to the financial statements

For the year ended 30 June 2004

7. SEGMENT REPORTING (cont.)

Secondary reporting – Geographical Segments

Geographical segment revenue and assets are based on the respective geographical location of customers and assets.

	Australia		Asia/Pacific		Consolidated	
	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating revenue	114,853	151,162	1,907	-	116,760	151,162
Other revenue	6,684	3,528	89	196	6,773	3,724
Total revenue	121,537	154,690	1,996	196	123,533	154,886
Assets	82,423	82,027	2,009	3,583	84,432	85,610
Acquisitions of non-current assets	9,984	8,095	-	-	9,984	8,095

		Consolidated		Company	
	Note	2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
8. CASH ASSETS					
Cash at bank and on hand	28(a)	14,203	31,625	229	167

9. RECEIVABLES

Current

Trade debtors	15,281	20,565	-	10
Less: Provision for doubtful trade debtors	(107)	(2,229)	-	-
	15,174	18,336	-	10
Accrued revenue	5,803	5,968	-	-
Retentions	75	5,968	-	-
Other receivables	293	2,293	-	-
Other loans	4,017	2,078	-	-
Provision for other loans	-	(2,078)	-	-
Sundry debtors	314	194	-	47
	25,676	26,791	-	57

Included in trade debtors, accrued revenue and other loans are amounts of \$1,738,000 (2003: \$nil), \$5,803,000 (2003: \$nil) and \$3,662,000 (2003: \$nil) respectively. These relate to transactions in the ordinary course of business with Nerdlihc Company Inc., an overseas oil exploration company which holds exploration licenses in the Canning Basin and proposes to construct the Kangaroo Paw Pipeline from its licensed areas to the coast.

Non-current

Loans to controlled entities	31	-	-	57,940	54,579
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Notes to the financial statements

For the year ended 30 June 2004

	Note	Consolidated		Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
10. INVENTORIES					
Materials and stores		144	144	-	-
Construction work in progress		18,415	4,212	-	-
		<u>18,559</u>	<u>4,356</u>	<u>-</u>	<u>-</u>
<i>Construction work in progress comprises:</i>					
Contract costs incurred to date		264,541	163,584	-	-
Profit recognised to date		28,745	19,593	-	-
		<u>293,286</u>	<u>183,177</u>	<u>-</u>	<u>-</u>
Less: Progress billings		(276,875)	(187,908)	-	-
		<u>16,411</u>	<u>(4,731)</u>	<u>-</u>	<u>-</u>
Net construction work in progress					
Net construction work in progress comprises:					
Amounts due from customers – inventories		18,415	4,212	-	-
Excess of progress billings over costs incurred – included in payables		(2,004)	(8,943)	-	-
		<u>16,411</u>	<u>(4,731)</u>	<u>-</u>	<u>-</u>
11. OTHER CURRENT ASSETS					
Prepayments		-	329	-	-
		<u>-</u>	<u>329</u>	<u>-</u>	<u>-</u>
12. PROPERTY, PLANT AND EQUIPMENT					
Leasehold Improvements					
At Cost		105	135	-	-
Accumulated amortisation		(49)	(47)	-	-
		<u>56</u>	<u>88</u>	<u>-</u>	<u>-</u>
Plant and equipment					
At directors' valuation – June 2004		3,972	1,056	-	-
Accumulated depreciation		(406)	-	-	-
At independent valuation – June 2003		7,335	10,534	-	-
Accumulated depreciation		(1,489)	-	-	-
		<u>9,412</u>	<u>11,590</u>	<u>-</u>	<u>-</u>

Notes to the financial statements

For the year ended 30 June 2004

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
12. PROPERTY, PLANT AND EQUIPMENT (cont.)				
Leased plant and equipment				
At directors' valuation – June 2004	5,282	-	-	-
Accumulated amortisation	(737)	-	-	-
At independent valuation – June 2003	4,179	4,504	-	-
Accumulated amortisation	(733)	-	-	-
	<u>7,991</u>	<u>4,504</u>	<u>-</u>	<u>-</u>
Capital works in progress				
At Cost	271	-	-	-
	<u>271</u>	<u>-</u>	<u>-</u>	<u>-</u>
Motor vehicles				
At Cost	366	235	-	-
Accumulated depreciation	(229)	(163)	-	-
	<u>137</u>	<u>72</u>	<u>-</u>	<u>-</u>
Leased motor vehicles				
Capitalised cost	241	507	-	-
Accumulated amortisation	(137)	(236)	-	-
	<u>104</u>	<u>271</u>	<u>-</u>	<u>-</u>
Furniture and fixtures				
At Cost	116	136	-	-
Accumulated depreciation	(57)	(76)	-	-
	<u>59</u>	<u>60</u>	<u>-</u>	<u>-</u>
Leased furniture and fixtures				
Capitalised Cost	-	15	-	-
Accumulated amortisation	-	(15)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Office equipment				
At Cost	1,295	777	-	-
Accumulated depreciation	(925)	(481)	-	-
	<u>370</u>	<u>296</u>	<u>-</u>	<u>-</u>
Leased office equipment				
Capitalised Cost	237	238	-	-
Accumulated amortisation	(128)	(66)	-	-
	<u>109</u>	<u>172</u>	<u>-</u>	<u>-</u>
Total property, plant and equipment net book value	<u>18,509</u>	<u>17,053</u>	<u>-</u>	<u>-</u>

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 knowledgeable and willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which the other parties would be willing to pay. The current year's valuation was determined by directors, taking into account the prior year independent valuation, additions and disposals during the year and market movements. The valuation in the prior year was determined by an independent valuer on the basis of open market values for existing use.

Tax has not been recognised in determining the revaluation to fair value. The tax payable if the assets were sold at reporting date at fair value would be \$Nil (2003:\$317,000).

Notes to the financial statements

For the year ended 30 June 2004

12. PROPERTY, PLANT AND EQUIPMENT (cont.)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

The Company owns no property, plant and equipment.

Consolidated	Leasehold Improvements	Plant & Equipment	Leased Plant & Equipment	Capital works in progress	Motor Vehicles	Leased Motor Vehicles	Furniture & Fixtures	Office Equipment	Leased Office Equipment	Total
Carrying amount at beginning of year	88	11,590	4,504	-	72	271	60	296	172	17,053
Additions	-	3,074	5,282	271	117	-	28	82	-	8,854
Acquisition of Stuart Pty Limited	-	-	-	-	-	-	-	193	-	193
Disposals	(21)	(3,213)	(281)	-	-	(105)	(12)	-	-	(3,632)
Depreciation	(11)	(1,945)	-	-	(52)	-	(17)	(201)	-	(2,226)
Amortisation	-	-	(1,514)	-	-	(62)	-	-	(63)	(1,639)
Revaluation	-	350	-	-	-	-	-	-	-	350
Revaluation decrement	-	(444)	-	-	-	-	-	-	-	(444)
Carrying amount at end of year	56	9,412	7,991	271	137	104	59	370	109	18,509

Notes to the financial statements

For the year ended 30 June 2004

		Consolidated		Company	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
13. INTANGIBLE ASSETS					
Goodwill					
at cost		1,130	1,350	150	150
Accumulated amortisation		(37)	(1,350)	(150)	(120)
		1,093	-	-	30
Formation costs		39	-	-	-
Pipeline rights		1,786	1,786	1,786	1,786
		2,918	1,786	1,786	1,816
14. OTHER NON-CURRENT ASSETS					
Investments		19	-	1,260	19
Deferred expenditure		16	-	-	-
Research and development costs		426	741	-	-
Exploration, evaluation and development expenditure – at cost		2,508	864	-	-
		2,969	1,605	1,260	19
The exploration, evaluation and development expenditure relates to exploration and evaluation of the consolidated entity's interest in the Gloucester and Bowen Basins.					
15. PAYABLES					
Current					
Trade creditors		15,328	21,928	45	8
Other creditors and accruals		3,296	10,503	420	62
Excess of progress billings over costs incurred		2,004	8,943	-	-
Loan from related entity		150	199	-	199
		20,778	41,573	465	269
Non-current					
Other loans – controlled entities	31	-	-	10,627	12,866

A J Lucas Group Limited and its controlled entities

Notes to the financial statements

For the year ended 30 June 2004

		Consolidated		Company	
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
16. INTEREST-BEARING LIABILITIES					
Current					
Bank overdraft – secured	28(a)	1,663	178	-	-
Lease liabilities	24	4,194	1,831	-	-
Loan from related party		-	1,500	-	1,500
		<u>5,857</u>	<u>3,509</u>	<u>-</u>	<u>1,500</u>
Non-current					
Lease liabilities	24	<u>2,599</u>	<u>2,049</u>	<u>-</u>	<u>-</u>
Financing arrangements					
The consolidated entity has access to the following lines of credit.					
Bank overdraft		3,738	2,500	3,738	2,500
Bank indemnity guarantees		2,304	-	-	-
Bank standby letter of credit		735	-	-	-
		<u>6,777</u>	<u>2,500</u>	<u>3,738</u>	<u>2,500</u>
Total facilities utilised at balance date:					
Bank overdraft		1,663	178	-	-
Bank indemnity guarantees		2,304	-	-	-
Bank standby letter of credit		735	-	-	-
		<u>4,702</u>	<u>178</u>	<u>-</u>	<u>-</u>
Total facilities not utilised at balance date:					
Bank overdraft		2,075	2,322	3,738	2,500
Bank indemnity guarantees		-	-	-	-
Bank standby letter of credit		-	-	-	-
		<u>2,075</u>	<u>2,322</u>	<u>3,738</u>	<u>2,500</u>

Bank facilities

The bank overdraft, indemnity guarantee and standby letter of credit are all secured by a registered fixed and floating charge over all the assets of the consolidated entity and are subject to annual review. Interest on the bank overdraft is charged at prevailing market rates. The weighted average interest rate for the overdraft at 30 June 2004 is 9.60% (2003: 9.50%).

Finance lease facility

The consolidated entity's lease liabilities are secured by the leased assets of \$8,204,000 (2003: \$5,000,000), and in the event of default, the assets revert to the lessor.

Notes to the financial statements

For the year ended 30 June 2004

	Note	Consolidated		Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
17. PROVISIONS					
Current					
Employee benefits	30	1,106	620	-	-
Provision for contractual dispute					
Movement during the year		3,313	-	-	-
		<u>4,419</u>	<u>620</u>	<u>-</u>	<u>-</u>
Non-current					
Employee benefits	30	309	289	-	-
		<u>309</u>	<u>289</u>	<u>-</u>	<u>-</u>
18. CONTRIBUTED EQUITY					
Issued and paid up share capital					
50,904,270 (2003: 45,394,990) ordinary shares, fully paid		28,628	18,178	28,628	18,178
Movements during the year					
Balance at beginning of year					
45,394,990 (2002: 36,550,000) shares		18,178	9,192	18,178	9,192
Shares issued					
- 5,000,000 (2003: 4,354,090) for cash pursuant to a private placement		10,000	4,789	10,000	4,789
- Nil (2003: 4,090,900) for cash pursuant to a prospectus		-	4,295	-	4,295
- Transaction costs arising from private placement and prospectus issues		(301)	(277)	(301)	(277)
- 350,000 (2003: Nil) in consideration for acquisition of Stuart Pty Limited		651	-	651	-
- Nil (2003: 200,000) under the Deferred Share Plan		-	-	-	-
- 100,000 (2003: 50,000) from the exercise of options under the Executive Share Option Plan		100	50	100	50
- Nil (2003: 285,000) in payment of fees and costs		-	129	-	129
- 59,280 (2003: Nil) issued under Employee Share Acquisition Plan		-	-	-	-
		<u>28,628</u>	<u>18,178</u>	<u>28,628</u>	<u>18,178</u>
Balance at end of year		28,628	18,178	28,628	18,178

Notes to the financial statements

For the year ended 30 June 2004

18. 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 liquidation.

Options and management rights

Refer Note 30

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
19. RESERVES				
Asset revaluation	964	1,058	-	-
Capital profits	-	-	14,533	24,533
	964	1,058	14,533	24,533
Movements during the year				
<i>Asset revaluation</i>				
Balance at beginning of year	1,058	-	-	-
Revaluation increment/(decrements):				
Plant and equipment	(94)	394	-	-
Leased plant and equipment	-	664	-	-
Balance at end of year	964	1,058	-	-
<i>Capital Profit</i>				
Balance at beginning of year	-	-	24,533	24,533
Transfer to retained profits	-	-	(10,000)	-
Balance at end of year	-	-	14,533	24,533

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.

A J Lucas Group Limited and its controlled entities

Notes to the financial statements

For the year ended 30 June 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
20. RETAINED PROFITS/ (ACCUMULATED LOSSES)				
Retained profits/(accumulated losses) at beginning of year	11,447	5,291	22	(1,031)
Transfer from reserves	-	-	10,000	-
Net profit/(loss) attributable to members of the parent entity	7,052	7,743	(2,562)	2,640
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	(3,827)	(3,044)	(3,827)	(3,044)
Total dividends	(3,827)	(1,587)	(3,827)	(1,587)
Retained profit/(accumulated losses) at end of year	14,672	11,447	3,633	22

21. DIVIDENDS

	Cents per share	Total amount \$'000	Franked/ Unfranked	Date of Payments
Dividends recognised in the current year by the Company are:				
2004				
Interim 2004 – ordinary	3.5	1,779	unfranked	24 June 2004
Final 2003 – ordinary	4.5	2,048	unfranked	16 December 2003
Total amount		3,827		
2003				
Interim 2003 – ordinary	3.5	1,587	unfranked	24 June 2003
Final 2002 – ordinary	4.0	1,457	unfranked	16 December 2002
Total amount		3,044		

Subsequent events

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

Final – ordinary	4.5	2,304	50% franked	16 December 2004
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The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2004 and will be recognised in subsequent financial reports.

Notes to the financial statements

For the year ended 30 June 2004

		The Company	
		2004	2003
		\$'000	\$'000
21.	DIVIDENDS (cont.)		
	Dividend franking account		
	30% franking credits available to shareholders of the Company for subsequent financial year.	1,508	-

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

Tax Consolidation legislation

On 1 July 2003, AJ Lucas Group Limited and its wholly-owned Australian subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 June 2004 has been measured under the new legislation as those available from the tax-consolidated group.

		Consolidated		Company	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Note					
22.	TOTAL EQUITY RECONCILIATION				
	Total equity at beginning of year	30,683	14,483	42,733	32,694
	Total changes in parent entity interest in equity recognised in statement of financial performance	6,958	8,801	(2,562)	2,640
	Transactions with owners as owners:				
	Contributions of equity	18	10,450	10,450	8,986
	Dividends	21	(3,827)	(3,827)	(1,587)
	Total equity at end of year		44,264	46,794	42,733

Notes to the financial statements

For the year ended 30 June 2004

23. 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:

		Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Maturing in			Non- Interest Bearing	Total
	Note	%	\$'000	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	\$'000	\$'000
2004								
<i>Financial Assets</i>								
Cash assets	8	4.75	14,203	-	-	-	-	14,203
Receivables	9	-	-	-	-	-	25,676	25,676
			14,203	-	-	-	25,676	39,879
<i>Financial Liabilities</i>								
Provision	17	6.50	3,313	-	-	-	-	3,313
Bank overdrafts	16	9.60	1,663	-	-	-	-	1,663
Payables	15	-	-	-	-	-	18,624	18,624
Lease liabilities	16	10.65	-	4,194	2,599	-	-	6,793
Employee benefits	17,30	-	309	-	-	-	1,106	1,415
Related party loans	15	-	-	-	-	-	150	150
			5,285	4,194	2,599	-	19,880	31,958
2003								
<i>Financial Assets</i>								
Cash assets	8	4.25	31,610	-	-	-	15	31,625
Receivables	9	-	-	-	-	-	26,791	26,791
			31,610	-	-	-	26,806	58,416
<i>Financial Liabilities</i>								
Bank overdrafts	16	9.50	178	-	-	-	-	178
Payables	15	-	-	-	-	-	32,431	32,431
Lease liabilities	16	10.65	-	1,831	2,049	-	-	3,880
Employee benefits	17,30	-	289	-	-	-	620	909
Related party loans	15,16	7.50	1,500	-	-	-	199	1,699
			1,967	1,831	2,049	-	33,250	39,097

Notes to the financial statements

For the year ended 30 June 2004

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
23. 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				
<i>Amounts payable:</i>				
Current	97	352	-	-
<i>Amounts receivable:</i>				
Current	9,532	1,452	-	-
Hong Kong Dollars				
<i>Amounts payable:</i>				
Current	12	3,169	-	-
<i>Amounts receivable:</i>				
Current	153	3,206	-	-

(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 consolidated entity has a credit risk exposure to Nerdlike Company Inc., an overseas oil exploration company, which holds various exploration licenses in the Canning Basin and proposes to construct the Kangaroo Paw pipeline from its licensed areas to the coast. As at 30 June 2004, this exposure amounted to \$1,738,000 (2003: \$nil) included in trade debtors and 5,803,000 (2003: \$nil) included in accrued revenue and \$3,662,000 (2003 \$nil) included in other loans.

Other than the concentration of credit risk described above, the consolidated entity is not materially exposed to any individual customer.

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

Notes to the financial statements

For the year ended 30 June 2004

23. ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURE (cont.)

(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, bank loans, lease liabilities, employee benefits, related party loans and other loans.

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
24. COMMITMENTS				
Refer to Note 27 for joint venture commitments.				
Finance lease payment commitments				
Finance lease commitments are payable:				
within 1 year	1,377	2,101	-	-
1 year or later and no later than 5 years	6,014	2,182	-	-
	7,391	4,283	-	-
Less: future lease finance charges	(598)	(403)	-	-
Total lease liability	6,793	3,880	-	-
Lease liabilities provided in the financial statements:				
Current	4,194	1,831	-	-
Non-current	2,599	2,049	-	-
Total lease liability	6,793	3,880	-	-

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.

A J Lucas Group Limited and its controlled entities
Notes to the financial statements
For the year ended 30 June 2004

24. COMMITMENTS (cont.)

Non-cancellable operating lease expense commitments

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

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Within 1 year	107	32	-	-
	107	32	-	-

The consolidated entity leases properties under non-cancellable operating leases expiring in six to nine months. The leases generally provide the consolidated entity with a right of renewal.

25. 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 & Bank Indemnity Guarantees

The consolidated entity has insurance bonding in place totalling \$10,465,048 (2003: \$18,608,000) of which \$600,000 (2003: \$12,800,000) is on projects which are yet to achieve practical completion.

The consolidated entity has bank Indemnity Guarantees in place totalling \$2,304,441 (2003: nil) of which \$1,889,933 (2003: nil) is on projects which are yet to achieve practical completion. In addition, bid bonds of A\$735,290 (2003: nil) were outstanding at 30 June 2004.

Litigation in Jurisdictions outside Australia

As previously reported, the Company and entities within the Consolidated Entity are engaged in litigation with DrillTec GUT GmbH in Germany over a contract undertaken in 2000 and 2001. There are a number of legal actions which are being vigorously pursued by the Consolidated Entity. At 30 June 2004 our German lawyers have confirmed approximately \$3.3 million is outstanding in respect of the judgment against the Company. This is being appealed to the Federal Court in Germany on both jurisdictional grounds and points of law. While these actions are pending, our legal advice confirms that this judgement cannot be enforced in Australia and, in any event, this judgement cannot be pursued against assets of the Consolidated Entity in Australia without further legal process within Australia.

Notwithstanding this advice, the Consolidated Entity has provided for the full amount. Additionally, the Consolidated Entity has paid \$1.7 million under a guarantee previously given by a Director, which was indemnified by the Consolidated Entity. Full provision has been made for the amount outstanding notwithstanding the payment made under the guarantee because of the uncertainty regarding right of set off. The Consolidated Entity intends to fully defend its position both in Germany and Australia to recover all monies previously paid and reverse the provision.

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 under these indemnities. There is no known current exposure under these indemnities.

	Consolidated		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Total estimated contingent liabilities	3,225	15,674	3,225	15,674

A J Lucas Group Limited and its controlled entities
Notes to the financial statements
For the year ended 30 June 2004

26. CONTROLLED ENTITIES

Particulars in relation to controlled entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2004 %	2003 %
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
Lucas Coal Seam Gas Pty Limited ⁽ⁱ⁾	Australia	100	100
A J Lucas Coal Technologies Pty Limited	Australia	100	100
A J Lucas (USA) Inc. ⁽ⁱⁱ⁾	USA	100	-
Stuart Pty Limited ⁽ⁱⁱⁱ⁾	Australia	100	-
Wholly owned subsidiaries of Stuart Pty Ltd			
Ketrim Pty Limited	Australia	100	-
Stuart Painting Service Pty Ltd	Australia	100	-
Lucas Stuart Projects Pty Ltd	Australia	100	-

- (i) AJ Lucas Power Services Pty Limited changed its name during the year to Lucas Coal Seam Gas Pty Limited
(ii) AJ Lucas (USA) Inc. was incorporated during the year
(iii) Stuart Pty Limited was purchased during the year. See Note 28(c) for further details.

27. INTERESTS IN JOINT VENTURE OPERATIONS

Joint Venture Name	Principal Activities	Participation Interest		Contribution to operating results of the consolidated entity	
		2004 %	2003 %	2004 \$'000	2003 \$'000
Clough Lucas	Pipe laying and related construction activities	50	50	52	(66)
Clough Lucas Bundeena	Pipe laying and related construction activities	20	20	42	(69)
Spie Capag Lucas	Engineering, design, procurement & construction of pipeline	50	50	4,116	10,062
Lucas Molopo	Exploration for methane gas	75	75	-	-

Notes to the financial statements

For the year ended 30 June 2004

27. 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	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
ASSETS				
Current assets				
Cash assets	10,195	28,732	-	-
Receivables	2,114	10,203	-	-
Total current assets	12,309	38,935	-	-
Non-current assets				
Plant and equipment	-	430	-	-
Total assets	12,309	39,365	-	-
LIABILITIES				
Current liabilities				
Payables	4,852	32,823	-	-
Total liabilities	4,852	32,823	-	-

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.

In respect of the Lucas Molopo joint venture, it is a condition of the Petroleum Exploration License (PEL 285) that \$2.5 million be spent by April 2005 of which the consolidated entity is required to fund 75%.

Notes to the financial statements

For the year ended 30 June 2004

	Note	Consolidated		Company	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
28. NOTES TO THE STATEMENTS OF CASH FLOWS					
(a) RECONCILIATION OF CASH					
For the purposes of the statements of cash flows, cash includes cash at bank and on hand. 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:					
Cash assets	8	14,203	31,625	229	167
Bank overdraft	16	(1,663)	(178)	-	-
Total Cash		12,540	31,447	229	167
(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		6,782	7,743	(2,562)	2,640
Add/ (less) items classified as investing/financing activities:					
Interest on capitalised leases		743	412	-	-
Gain on sale of non-current assets		(256)	(599)	-	-

Notes to the financial statements

For the year ended 30 June 2004

	Consolidated		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
28. NOTES TO THE STATEMENTS OF CASH FLOWS (cont.)				
Add /(less) non-cash items:				
Depreciation	2,226	2,826	-	-
Increase/(decrease) in provision for doubtful debts	(2,213)	1,646	-	-
Increase/(decrease) in provision for other loans	(2,078)	(250)	-	-
Increase in provision for doubtful loans to controlled entity	-	-	-	-
Amortisation of:				
Leased assets	1,639	1,251	-	-
Goodwill	37	266	30	120
Research and development expenditure	355	258	-	-
Bonding Costs	376	582	-	-
Unrealised foreign exchange (gains)/losses	(357)	(86)	-	326
Increase/(decrease) in deferred tax liabilities	(1,172)	5,121	4,847	-
(Increase)/decrease in deferred tax assets	883	(335)	(788)	(77)
Increase/(decrease) in provisions for employee entitlements	(100)	285	-	-
Increase/(decrease) in other provisions	3,313	-	-	-
Increase/(decrease) in loans to controlled entities	-	-	(1,542)	(3,326)
Increase/(decrease) in current tax liabilities	(82)	(2,634)	-	-
Net cash provided by/(used in) operating activities before changes in assets and liabilities	10,096	16,486	(15)	(437)
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
(Increase)/decrease in receivables	7,580	(10,788)	56	359
(Increase)/decrease in other current assets	10	(10)	-	-
(Increase)/decrease in inventories	(8,954)	18,738	-	-
(Increase)/decrease in other non-current assets	-	(704)	-	(19)
Increase/(decrease) in payables	(26,945)	359	2	(46)
Net cash provided by/(used in) operating activities	(18,213)	24,081	43	(23)

Notes to the financial statements

For the year ended 30 June 2004

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

(c) BUSINESS ACQUISITION

On 22 December 2003, the Company acquired all the issued shares of Stuart Pty Ltd and the operating results of the entity have been included from that date in the consolidated operating results. Effective control of the entity was gained on 1 July 2003. Details of the acquisition are as follows:

	2004 \$'000
Consideration	
Issue of 600,000 fully paid shares (including 250,000 issued after balance date)	1,043
Acquisition costs	197
	<u>1,240</u>
Fair value of net assets acquired	
Current assets	
Cash	1,856
Receivables (net)	239
Inventories	4,980
Total current assets	<u>7,075</u>
Non-current assets	
Plant and equipment	193
Deferred tax asset	419
Total non-current assets	<u>612</u>
Total assets	<u>7,687</u>
Current liabilities	
Trade creditors	6,245
Employee entitlements	606
Other loans	150
Total current liabilities	<u>7,001</u>
Non-current liabilities	
Deferred tax liability	576
Total non-current liabilities	<u>576</u>
Total liabilities	<u>7,577</u>
Net assets acquired	110
Goodwill on acquisition	1,130
Consideration	<u>1,240</u>
Net cash inflow on acquisition	
Cash consideration	(197)
Cash balances acquired	1,856
	<u>1,659</u>

Notes to the financial statements

For the year ended 30 June 2004

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

(d) NON-CASH FINANCING AND INVESTMENT ACTIVITIES

During the year, the consolidated entity acquired plant and equipment with an aggregate fair value of \$5,510,075 (2003: \$690,000) by means of finance leases. In addition, during the prior year, \$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.

During the year, 350,000 fully paid shares were issued as consideration for the purchase of Stuart Pty Limited. Refer to Section (c) of this note for further details. Additionally, during the year, the Company issued 59,280 fully paid shares to employees under the Employee Share Acquisition Plan for nil consideration. No movement of cash was involved in these share issues.

(e) FINANCING ARRANGEMENTS

Refer note 16.

A J Lucas Group Limited and its controlled entities
Notes to the financial statements
For the year ended 30 June 2004

29. DIRECTOR AND EXECUTIVE DISCLOSURES

Remuneration of specified directors and specified executives of the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages are considered by the Board as a whole and include a mix of fixed and incentive pay reflecting short and long-term performance objectives. Each individual is assessed on their contribution to the Group and their remuneration structured in a manner consistent with their ability to influence the outcome of their business division.

Executive directors and senior executives may receive bonuses generally in the form of equity. Rights are issued under the Management Rights Plan (made in accordance with thresholds set in place approved by shareholders at the 2001 AGM) either with or without performance hurdles depending on the individual. Non-executive directors do not receive any performance related remuneration but may be issued shares as part of their fees. All equity based remuneration is made in accordance with plans approved by shareholders.

The following table shows details of the nature and amount of the remuneration of the directors of the Company ("specified directors") and the five executives of the consolidated entity with the greatest authority ("specified executives") for the year ended 30 June 2004.

		Primary			Post-employment	Equity Compensation			Other Compensation	
		Salary & Fees	Vehicle Allowance	Non-Monetary Benefits	Super-annuation benefits	Value of Rights ⁽³⁾	Deferred Shares	Share Acquisition Plan	Insurance premiums	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Executive Directors										
Allan Campbell	2004	364,410	-	-	-	100,208	-	-	7,000	471,618
	2003	359,000	-	-	18,600	50,104	-	-	4,029	431,733
Andrew Lukas	2004	232,062	-	9,402	18,000	100,208	-	-	7,000	366,672
	2003	200,000	40,000	-	18,000	50,104	-	-	4,029	312,133
Ian Stuart-Robertson ⁽¹⁾	2004	213,500	-	-	-	-	-	-	7,000	220,500
	2003	30,000	-	-	-	-	61,605	-	4,029	95,634
Non-executive Directors										
Martin Green	2004	30,000	-	-	-	-	-	-	7,000	37,000
	2003	30,000	-	-	-	-	61,605	-	4,029	95,634
Julian Gregory ⁽²⁾	2004	27,525	-	-	-	-	-	-	1,000	28,525
Garry O'Meally	2004	30,000	-	-	-	-	-	-	7,000	37,000
	2003	30,000	-	-	-	-	41,070	-	4,029	75,099
Total, all specified directors	2004	897,497	-	9,402	18,000	200,416	-	-	36,000	1,161,315
	2003	649,000	40,000	-	36,600	100,208	164,280	-	20,145	1,010,233

A J Lucas Group Limited and its controlled entities
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For the year ended 30 June 2004

29. DIRECTOR AND EXECUTIVE DISCLOSURES (cont.)

Remuneration of specified directors and specified executives of the consolidated entity (cont.)

		Primary			Post-employment	Equity Compensation			Other Compensation	
		Salary & Fees	Vehicle Allowance	Non-Monetary Benefits	Super-annuation benefits	Value of Rights ⁽³⁾	Deferred Shares	Share Acquisition Plan	Insurance premiums	Total
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Specified Executives										
Kevin Lester, General Manager, Pipelines	2004	277,361	-	-	12,870	188,400	-	1,000	-	479,631
	2003	222,383	-	83,305	12,870	11,175	-	-	-	329,733
Tim Herlihy, Chief Financial Officer	2004	201,109	-	30,650	20,000	104,667	-	1,000	-	357,426
	2003	200,000	15,000	2,237	20,000	-	-	-	-	237,237
Brett Tredinnick, Operations Manager, Gas Management	2004	130,144	-	37,580	12,240	62,800	-	1,000	-	243,764
	2003	143,833	-	-	12,870	-	-	-	-	156,703
Brian Burden, Chief Estimator ⁽⁴⁾	2004	135,239	25,000	6,588	15,350	15,700	-	1,000	-	198,877
Mark Tonkin, General Manager, Gas Management	2004	134,318	15,000	-	10,800	188,400	-	1,000	-	349,518
	2003	137,500	15,000	-	11,025	-	-	-	-	163,525
Total, all specified executives	2004	878,171	40,000	74,818	71,260	559,967	-	5,000	-	1,629,216
	2003	703,716	30,000	85,542	56,765	11,175	-	-	-	887,198

- (1) Mr Stuart-Robertson became an executive director of AJ Lucas following the acquisition of Stuart Pty Ltd. The salary and fees shown for 2004 include all fees earned by Mr Stuart-Robertson during the year from both Stuart and AJ Lucas.
- (2) Mr Gregory was appointed a director on 29 April 2004. Fees disclosed include fees earned for providing consulting services to the Company.
- (3) The fair value of the right is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the rights allocated to this reporting period.
- (4) Mr Burden is an officer of Stuart Pty Ltd which was acquired effective 1 July 2003. His prior year remuneration is therefore not shown.

Notes to the financial statements

For the year ended 30 June 2004

29. DIRECTOR AND EXECUTIVE DISCLOSURES (cont.)

Rights over equity instruments granted as remuneration

During the reporting period, the following rights over ordinary shares were granted and vested under the Lucas Management Rights Plan:

	Number of rights granted during the year	Number of rights vested during the year
Specified executives		
Brian Burden	30,000	10,000
Tim Herlihy	100,000	66,667
Kevin Lester	180,000	120,000
Mark Tonkin	180,000	120,000
Brett Tredinnick	60,000	40,000

All rights granted in the current year were granted on 28 May 2004, have an expiry date of 28 May 2009, a zero exercise price per share, and a fair value of \$1.57 per right at grant date. All rights expire on the earlier of their expiry date or termination of the individual's employment.

No rights have been granted since the end of the financial year. The rights were provided at no cost to the recipients.

Further details regarding rights under the Lucas Management Rights Plan are given in Note 30.

On the granting of the rights to executives on 28 May 2004, 50,000 options previously granted to Mr Lester, each entitling the holder to purchase one ordinary share in the Company at \$1.00 per share and expiring on 31 July 2004 were cancelled. Their fair value at the time of cancellation was \$37,000.

Exercise of options granted as remuneration

During the reporting period, the following shares were issued on the exercise of options previously granted as remuneration.

	Number of shares	Amount Paid \$/share
Specified executives		
Kevin Lester	100,000	\$1.00

There are no amounts unpaid on the shares as a result of the exercise of the options.

Notes to the financial statements

For the year ended 30 June 2004

29. DIRECTOR AND EXECUTIVE DISCLOSURES (cont.)

Rights and option holdings

The movement in the reporting period in the number of rights and options over ordinary shares in the Company held directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2003	Granted as remuneration	Exercised	Cancelled	Held at 30 June 2004	Vested and exercisable at 30 June 2004
Specified directors						
Allan Campbell	250,000	-	-	-	250,000	-
Andrew Lukas	250,000	-	-	-	250,000	-
Specified executives						
Brian Burden	-	30,000	-	-	30,000	10,000
Tim Herlihy	-	100,000	-	-	100,000	66,667
Kevin Lester	150,000	180,000	(100,000)	(50,000)	180,000	120,000
Mark Tonkin	-	180,000	-	-	180,000	120,000
Brett Tredinnick	-	60,000	-	-	60,000	40,000

83,333 rights held by each of Allan Campbell and Andrew Lukas have vested but are not exercisable until 23 December 2004. No rights held by the specified executives are vested but not exercisable.

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of the Company held directly, indirectly or beneficially by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2003	Purchases	Received on exercise of options	Sales	Held at 30 June 2004
Specified directors					
Allan Campbell	10,152,658	-	-	(95,908)	10,056,750
Andrew Lukas	6,121,500	-	-	-	6,121,500
Ian Stuart-Robertson	1,386,200	-	-	-	1,386,200
Martin Green	75,000	-	-	-	75,000
Garry O'Meally	109,180	-	-	-	109,180
Specified executives					
Kevin Lester	-	-	100,000	(100,000)	-

Notes to the financial statements

For the year ended 30 June 2004

29. DIRECTOR AND EXECUTIVE DISCLOSURES (cont.)

Loans and other transactions with specified directors and executives

Loans

Details regarding loans outstanding at the reporting date to specified directors and specified executives, where the individual's aggregate loan balance exceeded \$100,000 at any time in the reporting period, are as follows:

	Balance 1 July 2003 \$	Balance 30 June 2004 \$	Interest paid and payable in the reporting period \$	Highest balance in period \$
Specified directors				
Allan Campbell	-	-	-	612,150
Andrew Lukas	-	-	-	612,150
Ian Stuart-Robertson	-	-	-	612,150

Messrs Campbell, Lukas and Stuart-Robertson all have an interest in AJ Lucas Holdings Pty Limited which was advanced \$612,150 by the Company on 8 June 2004. The loan was repaid on 25 June 2004. No interest was payable on the loan as AJ Lucas Holdings loaned various amounts to the Company interest free throughout the year.

The aggregate of loans made, guaranteed or secured by any entity in the economic entity to each group of specified directors and specified executives, and the number of individuals of each group, are as follows:

	Opening Balance \$	Closing Balance \$	Interest paid and payable \$	Number in group at 30 June
2004	-	-	-	3

Other transactions with the Company or its controlled entities

A number of specified directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to specified directors and their personally-related entities, were total expense of \$485,708. Details of the transactions are as follows:

Specified directors	Transaction	Note	2004 \$
Allan Campbell	Executive director services	(i)	364,410
Ian Stuart-Robertson	Due diligence analysis	(ii)	7,590
Julian Gregory	Consulting services	(iii)	113,708

Notes to the financial statements

For the year ended 30 June 2004

29. DIRECTOR AND EXECUTIVE DISCLOSURES (cont.)

Other transactions with the Company or its controlled entities (continued)

- (i) Mr Campbell's services to the Company are provided through Argyll Capital Partners Limited. Such services were provided in the ordinary course of business and on normal terms and conditions. The amount payable for these services is shown at the beginning of this note.
- (ii) Mr Stuart-Robertson is a director of John Hollis & Partners which provided due diligence services. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (iii) The Company used the consulting services of Julian Gregory in relation to the review of contracts for services provided by the consolidated entity. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Mr Campbell loaned \$1,500,000 to the consolidated entity during the prior year to facilitate the purchase of various drilling rigs and related equipment. The loan was made without security at normal secured funding interest rates and was repaid in full on 29 October 2003 together with \$20,448 interest.

AJ Lucas Holdings Pty Ltd, a company associated with Messrs Campbell, Lukas and Stuart-Robertson, loaned the Company and the consolidated entity various amounts throughout the year as follows:

Balance 1 July 2003 \$	Balance 30 June 2004 \$	Interest paid and payable in the reporting period \$	Highest balance in period \$
199,511	150,000	-	1,136,561

The loans were made interest free and without security

Assets and liabilities arising from the above transactions

Current liabilities

Loan from related entity

30 June 2004
\$

150,000

Notes to the financial statements

For the year ended 30 June 2004

		Consolidated		Company	
	Note	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
30. EMPLOYEE BENEFITS					
Aggregate liability for employee benefits, including on-costs					
Current	17	1,106	620	-	-
Non-current	17	309	289	-	-
		<u>1,415</u>	<u>909</u>	-	-

The present values of employees' entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	2.5%	2.5%
Discount rate	5.1%	5.1%
Settlement term (years)	10	10

Number of employees

Number of employees at year end	161	188	5	5
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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. Total securities granted but unissued under these schemes cannot exceed 15% of the total number of shares on issue.

In addition, prior to the commencement of the current employee incentive schemes, the Company had an executive share option plan, introduced in 1999, under which each option was convertible into one ordinary share at \$1.00 per share provided the share price exceeded \$1.30 at the date of exercise. This plan has now been terminated and the residual unexercised options under this plan at the beginning of the year were either exercised or cancelled during the year. A summary of the movement in the options during the year is set out below.

Notes to the financial statements

For the year ended 30 June 2004

30. EMPLOYEE BENEFITS (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
2004							
31 July 1999	31 July 2002	31 July 2004	\$1.00	150,000	(50,000)	(100,000)	-
2003							
31 July 1999	31 July 2002	31 July 2004	\$1.00	300,000	(100,000)	(50,000)	150,000

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.

a) 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).

Each right is convertible to one ordinary share. There are no voting or dividend rights attaching to the rights nor are there voting rights attaching to the unissued ordinary shares.

(i) Executive directors

Following shareholder approval granted at the annual general meeting held on 28 November 2002, rights were granted to each of the executive directors at the time 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.

(ii) Executives and employees

During the year, rights were granted to 39 senior employees including certain executives of Stuart Pty Limited, the Company's wholly owned subsidiary acquired during the year. These rights vest at various times as set out in the following table:

Vesting date	Lucas employees (excluding those employed by Stuart Pty Limited)	Employees of Stuart Pty Limited
30 June 2004	2/3	1/3
30 June 2005	1/3	1/3
30 June 2006	-	1/3

All these rights expire on the earlier of 28 May 2009 or termination of the employee's employment. There is no performance hurdle for the rights to be exercised and no consideration is payable on their exercise.

Notes to the financial statements

For the year ended 30 June 2004

30. EMPLOYEE BENEFITS (cont.)

a) Management rights plan (cont.)

Details of rights in aggregate 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	No. of rights on issue at end of year		
					Rights granted	On Issue	Vested
Consolidated and Company 2004							
23 Dec 2002	23 Dec 2004	23 Dec 2007	\$0.00	166,666	-	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	-
28 May 2004	30 Jun 2004	28 May 2009	\$0.00	-	808,333	803,333	803,333
28 May 2004	30 Jun 2005	28 May 2009	\$0.00	-	435,667	435,667	-
28 May 2004	30 Jun 2006	28 May 2009	\$0.00	-	63,000	63,000	-
				500,000	1,307,000	1,807,000	969,999

b) 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. No shares (2003: 200,000) were issued during the year.

Notes to the financial statements

For the year ended 30 June 2004

30. EMPLOYEE BENEFITS (cont.)

c) 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. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to \$1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income.

Eligible employees are entitled to free shares per annum 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 has no conditions that could result in a recipient forfeiting ownership of shares.

The fair value of shares issued during the reporting period was \$83,200 being the market price of the Company's shares on the Australian Stock Exchange at the close of trading on their issue dates less a 20% reduction for the restrictions on their disposal. The fair value has not been recognised as an expense in the financial statements.

Summary of share movements in the plan:

Grant dates	Opening balance	Granted & vested during the year		Trading restriction lifted during the year	Closing balance	
	Number	Number of shares	Fair value per share \$	Number	Number	Fair value aggregate \$
28 May 2004	-	59,280	1.39	-	59,280	74,456

A J Lucas Group Limited and its controlled entities
Notes to the financial statements
For the year ended 30 June 2004

31. NON-DIRECTOR RELATED PARTIES

The only class of non-director parties is wholly-owned controlled entities.

Details of interests in wholly-owned controlled entities are set out in Note 26. These companies trade with each other from time to time on normal commercial terms.

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

	2004 \$'000	2003 \$'000
Dividend revenue from wholly-owned controlled entity	-	3,000
Interest revenue	833	807
Interest expense	833	807

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	12,028	6,120
A J Lucas Testing Pty Limited	1,036	1,645
A J Lucas Pipelines Pty Limited	13,593	5,668
A J Lucas Joint Ventures Pty Limited	12,867	9,975
A J Lucas Admin Pty Limited	700	13,433
A J Lucas Power Services Pty Limited	2,253	3
A J Lucas Coal Technologies Pty Limited	6,739	4,518
A J Lucas Plant & Equipment Pty Limited	7,617	13,217
AJ Lucas (USA) Inc.	27	-
Stuart Pty Limited	1,080	-
	<u>57,940</u>	<u>54,579</u>

Payables:

Aggregate amount payable to wholly-controlled entities of the Company:

A J Lucas (Hong Kong) Limited	<u>10,627</u>	<u>12,866</u>
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A J Lucas Group Limited and its controlled entities
Notes to the financial statements
For the year ended 30 June 2004

32. EVENTS SUBSEQUENT TO BALANCE DATE

Dividends

For dividends declared after 30 June 2004, see Note 21.

Payment of deferred consideration for Stuart Pty Ltd

Since 30 June 2004, the Company has paid the residual deferred consideration for the acquisition of Stuart with the issue of 250,000 shares in the Company. The amount of the consideration has been included in payables in the financial statements for the year ended 30 June 2004 and the shares issues taken into account in calculating earnings per share for the year.

Memorandum of Understanding to purchase facilities management business

The Company has entered into a Memorandum of Understanding to purchase a business which provides facilities management service to the food and beverages sector specialising in the aviation industry.

Impact of adopting AASB equivalents to IASB standards

The consolidated entity will be required to prepare financial statements using Australian Standards that comply with International Financial Reporting Standards and their related pronouncements (IFRS) when the consolidated entity reports for the year ended June 2006.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transaction date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The Chief Financial Officer has established a formal project, monitored by the Board, to achieve transition to IFRS reporting, beginning with the half year ended 31 December 2005. The Company's implementation project consists of three phases as follows:

Assessment and planning

Aims to produce a high level overview of the impact of conversion to IFRS reporting on existing accounting and reporting policies, systems and processes, including staff training requirements. This phase is expected to be completed by 31 December 2004.

Notes to the financial statements

For the year ended 30 June 2004

32. EVENTS SUBSEQUENT TO BALANCE DATE (cont.)

Impact of adopting AASB equivalents to IASB standards (cont.)

Design

Aims to formulate the changes required to existing accounting policies and procedures, systems and processes in order to transition to IFRS. This will include formulating revised accounting policies, identifying potential financial impacts, developing training programmes for staff and changes to business systems and procedures. This phase is to be expected to commence prior to 31 December 2004.

Implementation

Includes implementation of identified changes to accounting policies, business procedures processes and systems and training for staff.

Key differences in accounting policies

The accounting policies where the key differences are expected to arise from the adoption of IFRS are:

- Goodwill: Will not be amortised, but must be tested for impairment each year.
- Research and development: Research costs will not be able to be capitalised and must be expensed.
- Income tax: The balance sheet approach is required rather than the income statement liability method which is expected to result in more deferred tax assets and liabilities.
- Revaluation of non-current assets: Revaluation increments/decrements are required to be recognised on an individual asset basis, not a class of asset basis.
- Share based payments: Valuation of all equity-based remuneration at fair value and recognised as an expense. Currently not recognised as an expense.

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 financial affairs in subsequent financial years.

Directors' declaration

For the year ended 30 June 2004

In the opinion of the directors:

- 1(a) the financial statements and notes, set out on pages 18 to 72, 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 2004 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
Director



Ian Stuart-Robertson
Director

30 September 2004



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Independent audit report to members of AJ Lucas Group Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both AJ Lucas Group Limited (the "Company") and AJ Lucas Group Limited and its controlled entities (the "Consolidated Entity"), for the year ended 30 June 2004. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

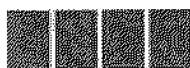
We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



KPMG, an Australian partnership, is part of the KPMG international network, KPMG International is a Swiss entity.

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)



Independence

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

Audit opinion

In our opinion, the financial report of AJ 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 Consolidated Entity's financial position as at 30 June 2004 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 financial reporting requirements in Australia.

Inherent Uncertainty Regarding Collection of Receivables

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Notes 9 and 23 to the financial statements, the Consolidated Entity has an amount receivable from a foreign oil exploration company of \$11,203,000, the collection of which is ultimately dependent upon future events.

KPMG

Malcolm Kafer
Partner

Sydney
1 October 2004

Australian Stock Exchange Additional Information

For the year ended 30 June 2004

SHAREHOLDING DETAILS

The shareholder information set out below was applicable as at 31 August 2004.

(a) Distribution of equity security holders

Range of number of securities held	Number of Equity Security Holders	
	Ordinary Shares	Rights
1 - 1,000	356	-
1,001 - 5,000	1,361	1
5,001 - 10,000	517	16
10,001 - 100,000	377	18
100,001 and over	27	2
Total	2,638	37

24 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	34.34
National Nominees Limited	3,970,972	7.80
Westpac Custodian Nominees Limited	3,293,150	6.47
Amalgamated Diaries Limited	2,090,000	4.10
Commodity Traders (NZ) Limited	1,770,000	3.48
New Zealand Guardian Trust Company Limited	539,882	1.06
Mr Gerald Harvey	497,750	0.98
Auckland Medical Research Foundation	418,000	0.82
Gwynvill Trading Pty Ltd	375,070	0.74
Questor Financial Services Limited	363,186	0.71
JP Morgan Nominees Australia Limited	320,714	0.63
Frank Hadley Pty Ltd	316,829	0.62
NZ Guardian Trust Company Ltd	290,950	0.57
ANZ Nominees Limited	268,735	0.53
Maminda Pty Ltd	250,000	0.49
Kisantelle Pty Limited	237,000	0.47
Bruce Birnie Pty Ltd	221,479	0.43
Frank Hadley Pty Ltd	200,000	0.39
Queensland Investment Corporation	172,314	0.34
Health Super Pty Ltd	150,000	0.29
Total	33,236,031	65.26

c) Substantial shareholders

Name	Number of Ordinary Shares held	
A J Lucas Holdings Pty Limited	17,490,000	34.34

Australian Stock Exchange Additional Information

For the year ended 30 June 2004

Unquoted equity securities

As at 31 August 2004, there were 1,202,000 rights granted over unissued ordinary shares in the Company to employees.

Voting rights

Ordinary shares

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, a fraction of a vote equivalent to the proportion which the amount paid bears to the total amounts paid and payable for the share.

Rights

Rights do not carry a right to vote.

DIRECTORY

Company Secretary

Mr. Nicholas Swan MA, ACA, MBA, ASIA

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Stock Exchange

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

Auditors

KPMG
10 Shelley Street
Sydney NSW 2000

Bankers

ANZ Bank
67 Albert Street
Chatswood NSW 2067