AJ LUCAS GROUP LIMITED

ABN: 12 060 309 104

PRELIMINARY FINAL REPORT

YEAR ENDED 30 JUNE 2007

APPENDIX 4E

(Previous corresponding period: Year ended 30 June 2006)

Results for Announcement to the Market

for the year ended 30 June 2007

Name of entity

AJ LUCAS GROUP LIMITED

ACN

060 309 104

			$A'000
Revenues from ordinary activities - Group	Up 26.4%	to	216,369
Profit from ordinary activities after tax benefit attributable to members	Up 111.1%	to	6,396
Net profit for the period attributable to members	Up 111.1%	to	6,396

NTA Backing	Current year	Previous Corresponding period
Net tangible asset backing per security	29.0¢	19.0¢

Dividends	Amount per security	Franked amount per security
Final dividend	2.5¢	100%
Previous corresponding period	0.0¢	N/A

Record date for determining entitlements to the dividend	4 September 2007
Date the dividend is payable	28 September 2007

There is no dividend reinvestment plan

The annual meeting will be held as follows:

Place	Intercontinental Hotel 117 Macquarie Street Sydney
Date	23 November 2007
Time	11.00am
Approximate date the annual report will be available	25 October 2007

Commentary on the Results

for the year ended 30 June 2007

1. Summary of the Financial Results

The 2007 after tax result of $6.4 million can be described as satisfactory in the circumstances. It was derived after a number of non-recurring, non-operational related expenditures and write-downs totalling $5.9 million.

These items relate to the past and are not expected to be part of Lucas' business going forward. From an operational point of view therefore, the 2007 result demonstrates good progress on the Lucas Group's path to maturity.

The 2007 consolidated results can be summarised thus:

	2007 Year $'000	2007 2nd Half $'000	2007 1st Half $'000	2006 Year $'000	2007/06 Change %
Revenue	216,369	131,320	85,049	171,232	+26.4
EBITDA	14,907	8,638	6,269	8,419	+77.1
EBIT	5,941	3,865	2,076	3,114	+90.8
Net profit before tax	4,178	2,534	1,644	1,320	+216.6
Profit after tax	6,396	5,164	1,232	3,030	+111.1

Provisions to write down the carrying value of intangibles, plant and equipment and significant legal fees incurred in pursuing outstanding claims were made which significantly impacted on the result. In the absence of such provisions, the operating result would have been as shown in the following table.

	2007 Year $'000	2007 2nd Half $'000	2007 1st Half $'000	2006 Year $'000	2007/06 Change %
EBITDA	14,907	8,638	6,269	8,419	+77.1
Impairment costs	3,279	500	2,779	1,575	
Profit on acquisition of business	(2,723)	1,167	(3,890)	-	
Legal fees	3,573	2,879	694	577	
Normalised EBITDA	19,036	13,184	5,852	10,571	+80.1

The balance sheet is much stronger. A number of impairment costs and provisions have been made - the pipeline rights ($1.8 million), goodwill on the Mace acquisition ($993,000) and plant and equipment ($0.5 million) which the directors believe to be prudent.

During the year, the Company made a $25 million issue of convertible notes which replaced the existing $10 million convertible notes issued in 2004 and, in addition, raised a further $15 million for corporate development including acquisitions, expenditure on coal seam gas assets and working capital.

During the year, substantial legal fees ($3.6 million) were incurred in recovering amounts owed to the Company on three matters. The majority of these fees related to the Minerva matter on which, after nearly four years of trying amicably to get paid, Lucas had no choice but to institute proceedings against McConnell Dowell for recovery of works undertaken. We consider the treatment received by Lucas to be totally unacceptable: we performed the work, it is used everyday, it has never been rejected and we have not been paid a penny. Any issues are between BHPB and McConnell Dowell as the principal contracting parties, and Lucas is caught between them. Our legal advice is strong and we expect to win. This matter is to be heard in the Courts at the same time as the BHPB/McConnell Dowell/Saipem matter, which is scheduled for end August 2007. In addition, proceedings are on foot against DrillTec and the vendor of Mace Enterprises, both of which amounts are fully provided or written off. It is expected that these matters will be heard in 2008. These are old matters and similar issues are not expected to occur in the future.

Commentary on the Results
for the year ended 30 June 2007

2. Divisional performance

Lucas provides services in four sectors in particular: oil and gas, water and waste water, resources and property.

Within these sectors, a number of specialised, focused and high level services are provided in which Lucas is a market leader. Generally, they involve a high degree of knowledge, skill or engineering input and involve high barriers to entry.

Drilling includes underground drilling services for gas (in coal mining), vertical drilling (exploration and production), surface to inseam drilling (gas production and coal mining), work over and well head completions (mining and gas production), horizontal directional drilling (civil) as well as other forms of trenchless technology. HDD was previously reported as part of Pipeline revenue but is now run as a part of the Drilling division and is reported as such (2006 segment reporting has been adjusted accordingly).

Pipelines includes revenue associated with the design, engineering and construction of water/waste water, slurry and oil and gas pipelines in both urban and cross country environments.

Construction and civil includes Lucas' building and construction activities as well as its newly created specialist civil engineering division. Presently, the Group's facilities management activities are included in this category however, as these are further developed and the non-construction services side of the Group grows, this activity will be reported separately.

Contributions from the business divisions are summarised as follows:

	Revenue		EBITDA		Segment Margin	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Division	**$'000**	**$'000**	**$'000**	**$'000**	**%**	**%**
Drilling	67,625	50,904	14,601	6,493	21.6	12.8
Pipelines	73,219	41,951	4,322	3,597	5.9	8.6
Construction and civil	75,525	78,377	543	1,846	0.7	2.4
	216,369	171,232	19,466	11,936	9.0	7.0
Unallocated			(4,559)	(3,517)		
Group EBITDA			14,907	8,419		

Drilling

Revenues within this division increased by 33% to $67.6 million. A similar increase is expected during the existing financial year. Operating margins, while much improved, should be higher and, as the market in surface to seam and horizontal directional drilling has developed to create more realistic risk/reward relationships, we would expect operating margins to improve in the future.

The purchase of McDermott Drilling in July 2006 has proved to be a wise acquisition. It is expected that the acquisition of Capricorn Weston in August 2007 will similarly provide Lucas with an extra dimension in offering a full service to the coal and coal seam gas mining and production sectors in both NSW and Queensland. A new yard has also been purchased in Wyong in which the Group's drilling activities will be centralised and based. It is expected that this new level of operations and focus should allow the Group to crystallise the inherent synergies of its geographically diverse operations and improve margin performance.

The market for SIS is developing (with greater customer acceptance), the market is now prepared to accept long term risk/ reward drilling contracts, the centralised yard will allow better plant management and the recruitment of qualified personnel and procurement of specialised plant are combining to produce a better managed drilling division. We do not therefore expect plant under-recoveries and "one-off contract hits" resulting from unexpected ground conditions to materially affect drilling profit in the future, as has been the case in the past.

Pipelines

As indicated in our announcement to the market regarding the results for the six month period ended 31 December 2006, Lucas has adopted a conservative approach to the recognition of profit on the Goro Project. This is due to the force majeure situation occurring in New Caledonia in late 2006 following local civil unrest. The project is now all but complete and we are currently in discussions with the client with a view to resolving the outstanding claims in a manner satisfactory to both parties. Other revenue relates to projects for the Western Corridor Recycled Water Project, Origin Energy in the Otway Basin and APA Group on the Moomba to Sydney pipeline.

Commentary on the Results

for the year ended 30 June 2007

The Western Corridor Recycled Water Project in Brisbane, running from Luggage Point to Bundamba, is being undertaken in an alliance with Transfield Services Limited, GHD and Sunwater. The project is expected to be completed during Q4 2008.

In addition, a write down of $1.8 million was made in respect of the Pipeline Rights which, in the event that this project is reignited, the directors may review.

As a consequence of these events, the result for the pipeline division is not as to be expected however, this is not a reflection of the division's performance. In fact, the Lucas pipeline division is performing particularly well. We have recruited some very senior people to assist in the division's growth, as well as acquiring additional new plant and equipment. Lucas' combination of engineering excellence and delivery capability are necessary skill sets in a market competing for resources and we expect this division to perform well in the future.

Construction and civil

The construction and civil division recorded a normalised operating profit of $1.7 million on a turnover of $75.5 million after adjusting for write down and legal fees, little changed from the previous financial year. This division continues to perform well and, during the year, has undertaken a number of significant and, in some cases, difficult trophy projects such as Wildlife World in Sydney's Darling Harbour, high rise residential subsidised housing in Pyrmont, aged care/self care nursing facilities in Lindfield, a 12 storey commercial building in Kent Street, Sydney and the design and construction of the new Ivy Entertainment Complex in George Street, Sydney.

The 2007 result has been adversely affected by the write-down of goodwill recognised on the acquisition of the Mace facilities maintenance business and legal fees in connection therewith totalling $1.3 million. This acquisition has proved to be totally unsatisfactory and legal proceedings against the vendor have been commenced as a consequence.

Infrastructure

It is intended that **Infrastructure** be created as a "new" division in the future, designed to reflect the confluence of the skill sets residing in the above activities which, when offered together, can provide clients with a better solution in situations where significant infrastructure is required within time and budgetary constraints. Typically, some of the water projects now in the market place are good examples. Similarly, these types of projects are being delivered adopting contracting delivery mechanisms such as Alliances and Partnerships.

It is Lucas' intention to report these activities separately, although each project may involve aspects of the skill sets involved in each or some of the Group's other activities. This is a new division for Lucas and it incorporates the technical and construction abilities of the three other divisions. A carefully formulated business strategy has been developed to see that Lucas is at the forefront of providing Australia's infrastructure needs during the next five years, particularly in water and waste water and energy – notably oil and gas.

A lot of these projects, because of their very nature, demand access to various disciplines at once and/or special financing requirements and therefore tend to end up with an alliancing type contracting model. This suits Lucas' mode of operation particularly well, and we expect this activity to continue in the future.

3. Coal seam gas assets (Lucas Energy)

All of Lucas' interest in coal seam gas are housed in a wholly owned subsidiary, known as Lucas Energy Pty Limited. Capital expenditure on these assets has significantly increased during the past eight months. In particular, expenditure on the further exploration and development of the Gloucester Basin. This asset is held in a joint venture with Molopo Australia Limited (30%).

As a foundation participant in this nascent industry, Lucas believes that it has a good understanding of what is required to develop the potential of CSM assets. Exploration and development of these assets requires significant capital sums and entails considerable risk and Lucas' own assets are no exception.

We would hope that we should be in a position to more fully understand ATP651 (part of the Walloons, which is held by Queensland Gas Company and in which Lucas holds a 15% interest) and ATP285 (the Gloucester Basin referred to above), by the beginning of 2008; by which time an assessment of proven and probable reserves (at least an initial assessment) should be available.

A recently recruited, dedicated team, which is based in Melbourne, has been assembled to manage and husband our CSM resources. Together with Lucas' profound drilling and steering knowledge and expertise, the Lucas CSM team is well placed to offer services to the industry as a whole, as well as placing Lucas in a favourable position to enhance the value of its own coal seam gas assets. In this connection, there are a number of developments currently under discussion on which Lucas is hopeful of making an announcement in the near future.

Commentary on the Results
for the year ended 30 June 2007

4. Outlook

The foundation has been laid. It is a solid foundation and one from which Lucas is well positioned to take advantage of the growth in expenditure on Australia's infrastructure during the next five years.

Lucas is a leading supplier of infrastructure services to its four core sectors: water and waste water, oil and gas, resources and property. It is the engineering excellence, knowledge of the work and the assets, and the no-fuss, can-do, non-aggressive nature of its people that distinguishes Lucas from its competitors.

These competitive edges cannot be created overnight and, indeed, Lucas has worked hard to achieve its reputation. The directors consider that a lot of the risks that had to be taken in creating the Company, a lot of the experimentation required in positioning the Company for a market place that now exists, a lot of the growing pains that occur in growing an organisation from 20 people to 500 people, from taking a turnover of $20 million to some 20 times that in seven years have been taken. Lucas does not need to take the risks that it has in the past.

The Group has not finished developing; far from it. We are working on the mix of business, the balance of the businesses and the maintainability of the revenue stream in the future.

Prospects across all four divisions are very encouraging and Lucas is currently spending substantial amounts of executive time in developing the services side of the business. Lucas intends to offer facilities management, operation and maintenance services, professional services; to clients within these sectors based upon the substantial intellectual and practical knowledge that exists within the Group.

The directors consider the Company to be on a sound and solid footing: it is now up to management to deliver the numbers.

The order book currently stands at $234 million. The Group is currently re-assessing capital expenditure requirements, personnel resources requirements and the list of projects in which it wishes to become involved. While it is difficult to be precise at this stage, the directors expect revenue to increase in the existing financial year by as much as 50% greater than that generated in 2007, with at least similar margins being generated to those achieved in the year just past.

Growth is not without risk; particularly in a market starved of skilled resources, as Australia is at present. Attracting good people, keeping good people, pressure on wage rates, acquiring specialist plant and equipment are all big issues in the resources/infrastructure sectors at present. It will be a challenge for Lucas to manage this successfully during the next few years.

As with most other companies engaged in this sector, Lucas' biggest threat remains the retention and attraction of skilled, professional and good staff at all levels. The Company has a particularly good track record in this area – we try hard for our employees. We have addressed this issue and amongst other initiatives approved by the shareholders, have adopted a number of options/rights plans involving short term and long term incentives, as part of employee remuneration. Lucas people remain some of the most highly qualified and experienced in the industry and we intend to keep it that way.

As a consequence of the favourable outlook for the Group, the directors have decided to resume payment of dividends and have declared a final dividend for 2006/07 of 2.5 cents of shares fully franked.

Allan Campbell
Executive Chairman

Commentary on the Results

for the year ended 30 June 2007

Compliance statement

1. This report and the financial statements upon which the report is based use the same accounting policies.
2. This report gives a true and fair view of the matters disclosed.
3. This report is based on the financial statements which are in the process of being audited.

…………………………………………… Date: 24 August 2007

(Company Secretary)
Nicholas Swan

Income statements

for the year ended 30 June 2007

	Note	Consolidated 2007 $'000	2006 $'000
Revenue	2	216,369	171,232
Total revenue		**216,369**	**171,232**
Sub-contractor costs		(75,272)	(69,049)
Material costs		(65,779)	(49,296)
Plant and other construction costs		(16,380)	(12,843)
Employee expenses		(34,707)	(24,509)
Depreciation and amortisation expenses	4	(8,966)	(5,305)
Debt recovery and legal costs		(3,615)	(577)
Impairment for receivables	4	(143)	(215)
Impairment of plant and equipment	4	(500)	(1,003)
Impaired value adjustment for intangible assets	4	(2,779)	(357)
Profit on acquisition of business	26	2,723	-
Other expenses		(5,010)	(4,964)
Results from operating activities		**5,941**	**3,114**
Financial income	3	781	172
Financial expenses	3	(2,544)	(1,966)
Net financing costs	3	**(1,763)**	**(1,794)**
Profit before income tax		**4,178**	**1,320**
Income tax benefit	6	2,218	1,710
Profit attributable to equity holders of the company	21	**6,396**	**3,030**
Basic earnings per share (cents)	7	11.9	6.1
Diluted earnings per share (cents)	7	11.8	6.0

Statements of recognised income and expense
as at 30 June 2007

	Note	Consolidated 2007 $'000	2006 $'000
Exchange differences on translations of foreign operations		306	-
Income and expense recognised directly in equity		306	-
Profit for the year	21	6,396	3,030
Total recognised income and expense for the year	21	**6,702**	**3,030**

The total recognised income and expense for the period is attributable to equity holders of the parent.

Balance sheets
as at 30 June 2007

	Note	Consolidated 2007 $'000	2006 $'000
Current assets			
Cash and cash equivalents	8	18,222	5,889
Trade and other receivables	9	28,261	20,380
Construction work in progress	10	53,418	25,570
Assets classified as held for sale	11	–	1,828
Other	12	435	509
Total current assets		**100,336**	**54,176**
Non-current assets			
Plant and equipment	13	30,921	21,110
Intangible assets	14	7,851	7,747
Deferred tax assets	15	5,602	4,603
Investments	16	63	57
Exploration assets	23	6,175	3,819
Total non-current assets		**50,612**	**37,336**
Total assets		**150,948**	**91,512**
Current liabilities			
Trade and other payables	17	66,319	40,190
Interest-bearing loans and borrowings	18	10,706	6,989
Income tax payable	19	75	-
Provisions	20	2,702	1,705
Total current liabilities		**79,802**	**48,884**
Non-current liabilities			
Interest-bearing loans and borrowings	18	37,181	16,802
Provisions	20	3,527	3,590
Total non-current liabilities		**40,708**	**20,392**
Total liabilities		**120,510**	**69,276**
Net assets		**30,438**	**22,236**
Equity			
Issued capital	21	30,655	29,236
Reserves	21	1,091	704
(Accumulated losses)	21	(1,308)	(7,704)
Total equity	21	**30,438**	**22,236**

Statements of cash flows

for the year ended 30 June 2007

	Note	Consolidated 2007 $'000	2006 $'000
Cash flows from operating activities			
Cash receipts from customers		200,553	162,259
Cash payments to suppliers and employees		(187,970)	(143,718)
Cash generated from operations		**12,583**	**18,541**
Interest received		60	32
Income taxes paid		(497)	(964)
Interest and other costs of finance paid		(2,544)	(1,888)
Net cash from operating activities	25(b)	**9,602**	**15,721**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		457	1,697
Payments for plant and equipment		(5,953)	(10,434)
Exploration and evaluation expenditure		(2,676)	(852)
Loans to related entity		(1,608)	(2,560)
Repayment of loan from related entity		-	88
Acquisition of subsidiary net of cash acquired		(3,198)	(37)
Net cash (used in) investing activities		**(12,978)**	**(12,098)**
Cash flows from financing activities			
Proceeds of borrowings - other		4,004	-
Repayment of borrowings - other		(147)	(489)
Proceeds from issue of convertible notes		24,188	-
Repayment of convertible notes		(10,000)	-
Payment of finance lease liabilities		(3,521)	(2,217)
Net cash from/(used in) financing activities		**14,524**	**(2,706)**
Net increase in cash and cash equivalents		**11,148**	**917**
Cash and cash equivalents at beginning of the year		1,411	494
Cash and cash equivalents at end of the year	25(a)	**12,559**	**1,411**

Notes to the Preliminary Final Report

for the year ended 30 June 2007

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1. SIGNIFICANT ACCOUNTING POLICIES

AJ Lucas Group Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 157 Church Street Ryde, NSW 2112. The preliminary consolidated financial report of the Company for the financial year ended 30 June 2007 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in jointly controlled entities.

The accounting policies set out below have been applied consistently to all periods presented in these preliminary consolidated financial statements, and have been applied consistently by all entities in the consolidated entity.

Statement of compliance

The preliminary financial report has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

The preliminary financial statements were approved by the Board of Directors on 23 August 2007.

Basis of measurement

The preliminary consolidated financial statements have been prepared on the historical cost basis.

Functional and presentation currency

The preliminary financial report is presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of the consolidated entity. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the preliminary financial report and commentary on results have been rounded off to the nearest thousand dollars, unless otherwise stated.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the preliminary financial statements are described in the following notes:

- Note 10 – construction work in progress
- Note 14 – intangible assets
- Note 20 – provisions

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. Control exits when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint ventures

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement.

Jointly controlled operations and assets

The interest of the Company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the preliminary consolidated financial statements.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the consolidated entity's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity. Since 1 January 2004, the Consolidated entity's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Compound financial instruments

Compound financial instruments issued by the consolidated entity comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instruments is measured at amortised cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instruments is not remeasured subsequent to initial recognition.

Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the consolidated entity's balance sheet.

The consolidated entity adopted Interpretation 4 Determining whether an Arrangement Contains a Lease, which is mandatory for annual periods beginning on or after 1 January 2006, in its 2006 consolidated financial statements.

Revenue

Services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or if the costs incurred or to be incurred cannot be measured reliably.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Revenue (Cont)

Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contact. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

Cost plus contracts

Revenue and expenses arising from cost plus contracts are recognised in the income statement 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.

Asset sales

The net proceeds of asset sales are recognised 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 and is recognised in other income.

Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets that are recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill and other assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Income tax (Cont)

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is AJ Lucas Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

Nature of tax funding arrangements and tax sharing arrangements (cont)

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Segment reporting

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

Construction work in progress

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the consolidated entity's contract activities based on normal operating capacity.

If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

Investments

Investments in controlled entities are carried at cost. Cost includes the purchase price of the entity as well as directly attributable costs associated with the acquisition. Directly attributable costs are capitalised only once there is written agreement to acquire the entity.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to AASBs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, an appropriate proportion of production overheads and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are stated at an amount equal to the lower of fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Sale of non-current assets

The net gain or loss on disposal is included in the income statement at the date control of the asset passes to the buyer, usually when an unconditional contract for 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 (including incidental costs).

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment commencing from the time the asset is ready for use.

The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment	**Years**
Plant and equipment	4-10
Motor vehicles	7
Office equipment	4-8
Computer equipment	4
Leased plant and equipment	4-10

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Intangible assets

Goodwill

Goodwill and negative goodwill arise on the acquisition of subsidiaries and joint ventures.

Acquisitions

Goodwill represents the excess of the cost of the acquisition over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Subsequent measurement

Following initial recognition, goodwill stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment or more frequently if indicators of impairment exist.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Intangible assets (Cont)

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Customer relationships

Customer relationship intangibles that are acquired by the consolidated entity that have finite lives are measured at cost less accumulated amortisation and impairment losses.

Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure

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

Amortisation

Amortisation is charged to the income statement on a systematic basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

	Years
Development costs	5
Customer intangibles	5

Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

(i) sufficient data exists to determine technical feasibility and commercial viability; and

(ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within plant and equipment.

When the area of interest enters the development phase, the accumulated exploration and evaluation is transferred to gas assets in development.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Gas assets

Assets in development

When the technical and commercial feasibility of an underdeveloped gas field in an area of interest has been demonstrated, the field enters the development phase. The costs of the area of interest field assets in the development phase are separately accounted for as assets and include past exploration and evaluation costs, development drilling and other surface and subsurface expenditure, surface plant and equipment and any associated land and buildings.

When commercial operations commences, the accumulated costs are transferred to gas producing assets.

Producing assets

The costs of gas assets in production are separately accounted for as assets and include past exploration and evaluation costs, pre-production development costs and ongoing costs of continuing to develop resources for production and to expand or replace plant and equipment and any associated land and buildings. These costs will be subject to depreciation and depletion and also tested annually for impairment.

Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than construction work in progress and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists; then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the consolidated entity's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets which continue to be measured in accordance with the consolidated entity's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are recognised in excess of any cumulative impairment loss.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Employee benefits

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

Other long-term employee benefits

The consolidated entity's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement in the period in which they arise.

Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Provisions

A provision is recognised if, as a result of a past event, the consolidated entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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 ATO are classified as operating cash flows.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 Financial Instruments: Disclosures (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the consolidated entity's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings Per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

New standards and interpretations not yet adopted (Cont)

- AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 6 Exploration for and Evaluation of Mineral Resources, AASB 102 Inventories, AASB 107 Cash Flow Statements, AASB 119 Employee Benefits, AASB 127 Consolidated and Separate Financial Statements, AASB 134 Interim Financial Reporting, AASB 136 Impairment Assets, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 Operating Segments. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the consolidated entity's 2008 financial statements, and will apply to goodwill and financial assets carried at cost prospectively from the date that the consolidated entity first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively). The adoption of Interpretation 10 is not expected to have an impact on retained earnings or goodwill.
- Interpretation 11 AASB 2 Share-based Payment -- Group and Treasury Share Transactions addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the consolidated entity's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 Share-based Payments to insert the transitional provisions of AASB 2, previously contained in AASB 1 First-time Adoption of Australian Equivalents to international Financial Reporting Standards. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 117 Leases, AASB 118 Revenue, AASB 120 Accounting for Government Grants and Disclosures of Government Assistance, AASB 121 The Effects of Changes in Foreign Exchange Rates, AASB 127 Consolidated and Separate Financial Statement, AASB 131 Interest in Joint Ventures, and AASB 139 Financial Instruments: Recognition and Measurement. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 Service Concession Arrangements.

2. SEGMENT REPORTING

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segment, is based on the consolidated entity's management and internal reporting structure.

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. Inter-segment pricing is determined on an arms length basis.

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.

2. SEGMENT REPORTING (CONT)

Business segments

The Group comprises the following main business segments based on the Group's reporting system:

Pipelines	Construction and installation of pipelines conduits and hydrostatic testing.
Drilling	Drilling services for degasification of underground coal mines, recovery and commercialisation of coal seam gas and associated services and trenchless installation of pipes and conduits
Construction and civil	Construction, facilities management and civil engineering.

	Drilling		Pipelines		Construction & civil		Consolidated	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Total segment revenue	**67,625**	**50,904**	**73,219**	**41,951**	**75,525**	**78,377**	**216,369**	**171,232**
Segment result	6,121	1,652	3,965	3,294	414	1,685	10,500	6,631
Unallocated expenses							(4,559)	(3,517)
Results from operating activities							5,941	3,114
Net finance costs							(1,763)	(1,794)
Profit before tax							4,178	1,320
Income tax benefit							2,218	1,710
Net profit for the year							**6,396**	**3,030**
Depreciation and amortisation	8,480	4,841	357	303	129	161	8,966	5,305
Impairment of plant and equipment	500	1,003	-	-	-	-	500	1,003
Impairment of intangibles	-	-	1,786	-	993	357	2,779	357
Assets								
Segment assets	65,995	40,614	50,586	24,015	28,662	23,040	145,243	87,669
Unallocated assets							5,705	3,843
Total Assets							**150,948**	**91,512**
Liabilities								
Segment liabilities	61,816	33,042	35,203	15,074	22,307	19,258	119,326	67,374
Unallocated liabilities							1,184	1,902
Total Liabilities							**120,510**	**69,276**
Acquisitions of non-current assets	22,716	11,157	202	-	3	13	22,921	11,170

2. 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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue from customers	190,333	127,415	26,034	43,770	216,367	171,185
Other revenue	2	47	-	-	2	47
Total revenue	**190,335**	**127,462**	**26,034**	**43,770**	**216,369**	**171,232**
Assets	148,939	90,366	2,009	1,146	150,948	91,512
Acquisitions of non-current assets	22,921	11,170	-	-	22,921	11,170

3. NET FINANCING COSTS

	Consolidated	
	2007 $'000	2006 $'000
Interest income	446	172
Net foreign exchange gain	335	-
Financial income	**781**	**172**
Interest expense	2,544	1,927
Net foreign exchange loss	-	39
Financial expenses	**2,544**	**1,966**
Net financing costs	**1,763**	**1,794**

4. PROFIT/(LOSS) FOR THE YEAR

	Consolidated	
	2007 $'000	2006 $'000
Profit/(loss) before income tax has been arrived at after charging the following items:		
Depreciation of plant and equipment	4,838	3,779
Amortisation of:		
Leased plant and equipment	2,121	1,354
R&D expenditure	222	172
Contracts and customer relationships	1,785	-
	4,128	1,526
Total depreciation and amortisation	**8,966**	**5,305**
Movement in provision for doubtful debts	143	-
Impairment of plant and equipment	500	1,003
Impairment of intangible assets		
Goodwill	993	357
Impairment of pipeline rights	1,786	-
Total impairment of intangible assets	**2,779**	**357**

5. AUDITORS' REMUNERATION

	Consolidated	
	2007 $'000	2006 $'000
Audit services		
Auditors of the Company – KPMG		
Audit and review of financial reports		
Australia	244,850	237,382
Overseas	4,866	52,587
	249,716	**289,969**
Other services		
Auditors of the Company – KPMG		
Taxation services	75,939	60,354
Other professional services	17,000	53,280
	92,939	**113,634**

6. INCOME TAX

	Consolidated	
	2007 $'000	2006 $'000
Recognised in the income statement		
Current tax (benefit)		
Current year	(2,731)	(2,356)
Prior years adjustments	(347)	(1,111)
	(3,078)	(3,467)
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	2,664	1,757
Utilisation of previously unrecognised tax losses	(1,804)	-
	860	1,757
Total income tax (benefit) in income statement	**(2,218)**	**(1,710)**
Numerical reconciliation between tax (benefit)/expense and pre-tax net profit		
Profit before tax	4,178	1,320
Prima facie income tax expense/(benefit) calculated at 30% (2006:30%)	1,253	396
Increase in income tax expense due to:		
Non-deductible expenses	141	35
Impairment of intangibles	298	107
Impairment of pipeline rights	536	-
Expenses deductible in foreign country only at lower tax rate	49	-
Foreign tax loss not carried forward	49	-
Decrease in income tax expense due to:		
Foreign exchange gain on translation of foreign subsidiary	-	(89)
Research and development allowance	(1,576)	(863)
Gain on acquisition	(816)	-
Income assessable in foreign country only at lower tax rate	-	(82)
Tax losses not previously recognised	-	(103)
Recognition of previously unrecognised tax losses	(1,804)	-
	(1,870)	(599)
Add: income tax (over) provided in prior year	(348)	(1,111)
Income tax (benefit) attributable to operating profit	**(2,218)**	**(1,710)**

7. EARNINGS PER SHARE

The following information shows the income and share data used in the calculations of basic and diluted earnings per share:

	Company	
Profit attributable to ordinary shareholders	**2007 $'000**	**2006 $'000**
Net profit for the year	6,396	3,030

	2007 Number	**2006 Number**
Basic earnings per share		
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	51,981,937	51,582,937
Effect of shares issued	1,519,239	-
Effect of exercise of management rights	169,291	184,836
Weighted average number of ordinary shares at 30 June	**53,670,467**	**51,767,773**
Diluted earnings per share		
Weighted average number of ordinary shares		
Weighted average number of ordinary shares (basic)	53,670,467	51,767,773
Effect of conversion of management rights	646,993	1,032,133
Weighted average number of ordinary shares (diluted) at 30 June	**54,317,460**	**52,799,906**

8. CASH AND CASH EQUIVALENTS

	Consolidated	
	2007 $'000	**2006 $'000**
Bank balances	18,222	5,889

9. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2007 $'000	**2006 $'000**
Current		
Trade debtors	22,954	16,177
Other receivables	726	1,194
Other loans	6,789	6,789
Impairment loss on other loans	(6,789)	(6,789)
Sundry debtors	429	397
Loan to related entity	4,152	2,612
	28,261	**20,380**

The loan to the related entity comprises a loan made to Mr Campbell, the Company's Chairman of the Board of Directors and Chief Executive Officer.

10. CONSTRUCTION WORK IN PROGRESS

	Consolidated	
	2007	**2006**
	$'000	**$'000**
Construction work in progress	53,418	25,570
Construction work in progress comprises:		
Contract costs incurred to date	296,367	227,241
Profit recognised to date	38,570	20,785
	334,937	248,026
Less: progress billings	(281,519)	(222,456)
Net construction work in progress	**53,418**	**25,570**

11. NON-CURRENT ASSETS HELD FOR SALE

During the prior year, it was decided to sell certain items of plant and equipment following a strategic review of the consolidated entity's business and an impairment loss of $1,003,000 recognised on such equipment reducing its carrying amount to $1,828,000. During the current year, following a further strategic review, it was decided to retain the nominated plant and equipment and not offer it for sale. However, no reversal was undertaken of the impairment loss previously provided for as it was considered that the carrying value, net of impairment, reflected its true value.

12. OTHER CURRENT ASSETS

	Consolidated	
	2007	**2006**
	$'000	**$'000**
Prepayments	435	509

13. PLANT AND EQUIPMENT

	Consolidated	
	2007 $'000	2006 $'000
Leasehold improvements		
At cost	105	105
Accumulated amortisation	(81)	(70)
	24	35
Plant and equipment		
At cost	28,168	17,474
Accumulated depreciation	(11,888)	(6,954)
	16,280	10,520
Leased plant and equipment		
At cost	17,452	12,214
Accumulated amortisation	(6,155)	(2,438)
	11,297	9,776
Capital works in progress		
At cost	2	198
	2	198
Motor vehicles		
At cost	2,095	384
Accumulated depreciation	(338)	(143)
	1,757	241
Leased motor vehicles		
Capitalised cost	1,161	99
Accumulated amortisation	(143)	(35)
	1,018	64
Furniture and fixtures		
At cost	305	252
Accumulated depreciation	(249)	(218)
	56	34
Office equipment		
At cost	1,716	1,306
Accumulated depreciation	(1,229)	(1,065)
	487	241
Leased office equipment		
Capitalised cost	237	237
Accumulated amortisation	(237)	(236)
	-	1
Total plant and equipment net book value	**30,921**	**21,110**

13. PLANT AND EQUIPMENT (CONT)

Reconciliations

Reconciliations of the carrying amounts for each class of plant and equipment are set out below.

	Leasehold improvements $'000	Plant & equipment $'000	Leased plant & equipment $'000	Capital works in progress $'000	Motor vehicles $'000	Leased motor vehicles $'000	Furniture & fixtures $'000	Office equipment $'000	Leased office equipment $'000	Total $'000
Consolidated 2007										
Carrying amount at 01/07/06	35	10,520	9,776	198	241	64	34	241	1	21,110
Additions	-	3,257	1,909	(196)	103	467	50	363	-	5,953
Acquisitions through subsidiaries acquired	-	7,479	-	-	1,708	621	2	47	-	9,857
Disposals	-	(282)	-	-	(72)	(14)	-	-	-	(368)
Depreciation	(11)	(4,410)	-	-	(223)	-	(30)	(164)	-	(4,838)
Amortisation	-	-	(2,000)	-	-	(120)	-	-	(1)	(2,121)
Impairment	-	(500)	-	-	-	-	-	-	-	(500)
Transfer from non-current assets held for sale	-	216	1,612	-	-	-	-	-	-	1,828
Carrying amount at 30/06/07	**24**	**16,280**	**11,297**	**2**	**1,757**	**1,018**	**56**	**487**	**-**	**30,921**
Consolidated 2006										
Carrying amount at 01/07/05	46	11,148	8,575	359	126	86	64	236	47	20,687
Additions	-	4,866	5,444	(161)	136	-	1	148	-	10,434
Disposals	-	(1,377)	(662)	-	(2)	-	-	(6)	-	(2,047)
Depreciation	(11)	(3,581)	-	-	(19)	-	(31)	(137)	-	(3,779)
Amortisation	-	-	(1,286)	-	-	(22)	-	-	(46)	(1,354)
Transfer to non-current assets held for sale	-	(536)	(2,295)	-	-	-	-	-	-	(2,831)
Carrying amount at 30/06/06	**35**	**10,520**	**9,776**	**198**	**241**	**64**	**34**	**241**	**1**	**21,110**

14. INTANGIBLE ASSETS

	Consolidated				
	Customer Relationships $'000	**Goodwill $'000**	**Pipeline rights $'000**	**Development costs $'000**	**Total $'000**
Cost					
Balance at 1 July 2005	-	5,432	1,786	2,067	9,285
Acquisitions – internally developed	-	-	-	209	209
Balance at 30 June 2006	**-**	**5,432**	**1,786**	**2,276**	**9,494**
Acquisitions - internally developed	-	-	-	92	92
Acquisitions – through business combinations	4,758	-	-	-	4,758
Balance at 30 June 2007	**4,758**	**5,432**	**1,786**	**2,368**	**14,344**
Amortisation and impairment losses					
Balance at 1 July 2005	-	250	-	958	1,208
Amortisation for the year	-	-	-	182	182
Impairment loss	-	357	-	-	357
Balance 30 June 2006	**-**	**607**	**-**	**1,140**	**1,747**
Amortisation for the year	1,785	-	-	182	1,967
Impairment loss	-	993	1,786	-	2,779
Balance at 30 June 2007	**1,785**	**1,600**	**1,786**	**1,322**	**6,493**
Carrying amounts					
At 1 July 2005	-	5,182	1,786	1,109	8,077
At 30 June 2006	-	4,825	1,786	1,136	7,747
At 1 July 2006	-	4,825	1,786	1,136	7,747
At 30 June 2007	2,973	3,832	-	1,046	7,851

Impairment tests for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts allocated to each unit are as follows:

	Consolidated	
	2007 $'000	**2006 $'000**
Construction and civil	3,832	4,825

The recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based on the following year's budget and plan extended over a period of 5 years. A pre-tax discount rate of 12.5% is applied adjusted for the risk of the industry in which each unit operates. During the year, an impairment charge of $993,000 (2000: $357,000) was made because of impairments in the value of goodwill.

15. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Consolidated						
Inventories	-	-	(6,110)	(3,679)	(6,110)	(3,679)
Intangibles	-	-	(631)	-	(631)	-
Development costs	-	-	(274)	(314)	(274)	(314)
Exploration, evaluation and development expenditure	-	-	(2,082)	(962)	(2,082)	(962)
Prepayments	-	-	(244)	(61)	(244)	(61)
Plant and equipment	15	393	-	-	15	393
Impairment of trade debtors	2,177	2,137	-	-	2,177	2,137
Provisions for employee benefits	974	585	-	-	974	585
Trade creditors	971	795	-	-	971	795
Other creditors and accruals	192	59	-	-	192	59
Interest-bearing loans and borrowings	310	452	-	-	310	452
Tax value of carried forward losses	10,304	5,198	-	-	10,304	5,198
Tax assets/(liabilities)	**14,943**	**9,619**	**(9,341)**	**(5,016)**	**5,602**	**4,603**
Set off of tax	(9,341)	(5,016)	9,341	5,016	-	-
Net tax assets	**5,602**	**4,603**	**-**	**-**	**5,602**	**4,603**

Movement in temporary differences during the year

	Consolidated		
	Balance 01 Jul 06 $'000	Recognised in income $'000	Balance 30 Jun 07 $'000
Current year			
Inventories	(3,679)	(2,431)	(6,110)
Intangibles	-	(631)	(631)
Development costs	(314)	40	(274)
Exploration, evaluation and development expenditure	(962)	(1,120)	(2,082)
Prepayments	(61)	(183)	(244)
Plant and equipment	392	(377)	15
Doubtful debts impairment recognised	2,137	40	2,177
Provisions for employee benefits	584	390	974
Trade creditors	795	176	971
Other creditors and accruals	58	134	192
Interest-bearing loans and borrowings	452	(142)	310
Tax value of carried forward losses	5,201	5,103	10,304
	4,603	**999**	**5,602**

15. DEFERRED TAX ASSETS AND LIABILITIES (CONT)

	Balance 01 Jul 05 $'000	Recognised in income $'000	Balance 30 Jun 06 $'000
Prior year			
Inventories	(2,070)	(1,609)	(3,679)
Development costs	(303)	(11)	(314)
Exploration, evaluation and development expenditure	(778)	(184)	(962)
Prepayments	(102)	41	(61)
Plant and equipment	640	(248)	392
Doubtful debts impairment recognised	2,095	42	2,137
Provisions for employee benefits	504	80	584
Trade creditors	291	504	795
Other creditors and accruals	68	(10)	58
Interest-bearing loans and borrowings	169	283	452
Tax value carry-forwards losses	2,333	2,868	5,201
	2,847	**1,756**	**4,603**

16. OTHER NON-CURRENT ASSETS

	Consolidated	
	2007 $'000	2006 $'000
Investments	22	22
Deferred expenditure	41	35
	63	**57**

17. TRADE AND OTHER PAYABLES

	Consolidated	
	2007 $'000	2006 $'000
Current		
Trade payables	31,506	23,565
Other payables and accruals	34,813	16,150
Loan from related entity	-	475
	66,319	**40,190**

18. INTEREST-BEARING LOANS AND LIABILITIES

	Consolidated	
	2007	**2006**
	$'000	**$'000**
Current		
Bank overdraft – secured	5,663	4,478
Other borrowings – unsecured	277	167
Other borrowings – secured	836	252
Deferred subsidiary acquisition consideration	1,250	–
Lease liabilities – secured	2,680	2,092
	10,706	**6,989**
Non-current		
Lease liabilities – secured	6,727	6,526
Other borrowings - secured	3,516	353
Deferred subsidiary acquisition consideration	2,750	–
Convertible notes – unsecured	24,188	9,923
	37,181	**16,802**

Financing facilities

(a) The consolidated entity has access to the following lines of credit and bank guarantees

	2007	2006
Bank overdraft	5,500	3,000
Bank indemnity guarantees	3,084	2,000
Bank standby letter of credit	2,900	–
	11,484	**5,000**
Total facilities utilised at balance date:		
Bank overdraft	5,663	4,478
Less: Right of set off	(5,663)	(4,478)
Net overdraft	–	–
Bank indemnity guarantees	2,123	1,662
	2,123	**1,662**
Total facilities not utilised at balance date:		
Bank overdraft	5,500	3,000
Bank indemnity guarantees	961	338
Bank standby letter of credit	2,900	–
	9,361	**3,338**

(b) Bond facilities provided by surety entities

	2007	2006
Bank facilities in aggregate	40,000	40,180
Amount utilised	(13,935)	(9,734)
Unused bond facilities	**26,065**	**30,446**

Of the bonds utilised, $9,660,573 (2006:$7,040,000) are on projects which are yet to achieve practical completion.

18. INTEREST-BEARING LOANS AND LIABILITIES (CONT)

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.

Finance lease facilities

The Group's lease liabilities are secured by the leased assets of $12,315,000 (2006: $9,840,000) which, in the event of default, revert to the lessor.

	Consolidated	
	2007 $'000	**2006 $'000**
Finance lease liabilities		
Payable:		
Within one year	3,042	2,679
Between one and five years	6,969	7,252
	10,011	**9,931**
Less: future finance charges		
Within one year	(362)	(587)
Between one and five years	(242)	(726)
	(604)	(1,313)
Total lease liability	**9,407**	**8,618**
Lease liabilities provided for in the financial statements:		
Current	2,680	2,092
Non-current	6,727	6,526
Total lease liability	**9,407**	**8,618**

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

Convertible notes

In June 2007, the Company issued 25,000,000 $1.00 unsecured redeemable convertible notes. The notes carry a fixed coupon of 10.0% per annum and have a term of three years unless converted or redeemed beforehand. Interest is cumulative in the event that an interest payment is not made.

	Consolidated	
	2007 $'000	**2006 $'000**
Carrying amount at beginning of year	9,923	9,872
Accreted interest capitalised	77	51
Carrying amount at end of year	**10,000**	**9,923**
Redemption of notes	(10,000)	-
Proceeds of issue of 25,000,000 $1.00 convertible notes	25,000	-
Transaction costs	(812)	-
Carrying amount at end of year	**24,188**	**-**

The notes mature on 28 June 2010. From 28 June 2008, note holders have the right to convert the notes into ordinary shares at a 15% discount to the volume weighted average sale price of the shares over the 30 day period prior to conversion. Alternatively, if the Company decided to spin off and list its equity interests in coal seam gas assets including the Gloucester Basin project, the notes are convertible into ordinary shares in the new company at a 15% discount to the Initial Public Offering issue price.

On or after 28 June 2008, the Company may redeem up to 50% of the notes. The Company's right of redemption prevails over the conversion rights of the holder. The notes carry no voting rights

19. CURRENT TAX LIABILITIES

The current tax liability for the consolidated entity of $75,000 (2006: nil) represents the amount of income tax payable in respect of current and prior financial periods.

20. PROVISIONS

	Consolidated	
	2007 $'000	**2006 $'000**
Current		
Employee benefits	2,702	1,705
	2,702	**1,705**
Non-current		
Employee benefits	586	244
Provision for contractual dispute	2,941	3,346
	3,527	**3,590**

As reported in the 2004 Annual Report, the Company and entities within the consolidated entity are engaged in litigation with DrillTec GUT GmbH in Germany over a contract undertaken in Hong Kong in 2000 and 2001. A judgement was awarded in 2004 against the Company for which full provision was made. The consolidated entity refutes the judgement and has appealed the decision and initiated separate proceedings to recover amounts paid. The consolidated entity has appealed to the Federal Court in Germany on both jurisdictional grounds and points of law. Additionally, claims and counterclaims totalling approximately HK$31 million were filed against DrillTec in Hong Kong. The nature of the claims are complex and are unlikely to be resolved in the next 12 months. Accordingly, the provision has been classified as non-current.

21. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of the parent.

	Consolidated entity				
	Share capital $'000	**Employee equity benefit reserve $'000**	**Translation reserve $'000**	**Accumulated losses $'000**	**Total equity $'000**
Balance at 1 July 2005	29,236	652	-	(10,734)	19,154
Total recognised income and expense	-	-	-	3,030	3,030
Equity settled share based payments	-	52	-	-	52
Balance at 30 June 2006	**29,236**	**704**	**-**	**(7,704)**	**22,236**
Balance at 1 July 2006	29,236	704	-	(7,704)	22,236
Total recognised income and expense	-	-	306	6,396	6,702
Shares issued	1,419	-	-	-	1,419
Equity settled share based payments	-	81	-	-	81
Balance at 30 June 2007	**30,655**	**785**	**306**	**(1,308)**	**30,438**

Nature and purpose of reserves

Employee equity benefits reserve

The employee equity benefits reserve represents expense associated with equity settled compensation, under the employee management rights and deferred share plans.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

21. CAPITAL AND RESERVES (CONT)

	Company 2007 No. of Shares	2006 No. of Shares
Share capital – ordinary shares		
Movements during the year		
Balance at beginning of year	51,981,937	51,582,937
Shares issued for business acquisition	1,333,333	-
Exercise of rights under the Management Rights Plan	343,666	399,000
Equity settled share based payments	100,000	-
Payment of fees and costs	441,600	-
Balance at end of year	**54,200,536**	**51,981,937**

Holders of ordinary shares are entitled to receive dividends and, in the event of a winding up of the Company, to any proceeds of liquidation after all creditors and other stockholders.

On a show of hands, every holder of ordinary shares present at a shareholder meeting in person or by proxy is entitled to one vote and upon a poll, each share is entitled to one vote.

Subsequent event

In July 2007, the Company issued 285,550 shares at $2.19 per share as the first instalment for the deferred consideration for the acquisition of McDermott Drilling Pty Limited (refer to Note 26).

Dividends

No dividends were recognised by the Company during the current or prior year.

Dividend not recognised at year end

Since the year end, the directors have recommended the following dividend. The declaration and subsequent payment of the dividend has no income tax consequences.

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payments
Final ordinary	2.5	1,362	100% franked	28 September 2007

	Company 2007 $'000	2006 $'000
Dividend franking account		
30% franking credits available to shareholders of the Company for subsequent financial years.	1,738	777

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on dividend franking account of dividends proposed after the balance date but not recognised as a liability together with the franking credits acquired on the acquisition of the Capricorn Weston Drilling Group (refer to note 27) is to increase it by $680,000 to $2,418,000.

22. OPERATING LEASES

	Consolidated	
	2007	**2006**
	$'000	**$'000**
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	532	516
Between one and five years	226	433
	758	949

The consolidated entity leases properties under non-cancellable operating leases expiring from one to three years. The leases generally provide the consolidated entity with a right of renewal.

During the financial year, $839,000 (2006:$516,000) was recognised as an expense in the income statement in respect of operating leases.

23. INTERESTS IN JOINT VENTURE OPERATIONS

Joint venture name	**Principal activities**	**Participation interest**		**Contribution to operating results of the consolidated entity**	
		2007	**2006**	**2007**	**2006**
		%	**%**	**$'000**	**$'000**
Clough Lucas	Pipe laying and related construction activities	50	50	(77)	9
Clough Lucas Bundeena	Pipe laying and related construction activities	20	20	4	3
Amec Spie Capag Lucas	Engineering, design, procurement & construction of pipeline	50	50	157	(59)
Lucas Molopo	Exploration for methane gas	70	70	-	-
Eastern Pipeline Alliance	Pipe laying and related construction activities	47.5	-	4,848	-

Included in the assets and liabilities of the consolidated entity are the following assets and liabilities employed in the joint ventures.

	Consolidated	
	2007	**2006**
	$'000	**$'000**
Assets		
Current assets		
Cash assets	493	757
Receivables	40	220
Work in progress	28,791	(130)
Total current assets	**29,324**	**847**
Non-current assets		
Exploration assets	6,175	3,819
Total assets	**35,499**	**4,666**
Liabilities		
Current liabilities		
Payables	24,068	279
Total liabilities	**24,068**	**279**

The exploration and evaluation assets relates to the consolidated entity's interests in the Gloucester and Bowen Basins. The recoverability of their carrying amounts is dependent of the successful development and commercial exploitation or sale of the respective area of interest.

24. CONSOLIDATED ENTITIES

The financial statements at 30 June 2007 include the following controlled entities. The financial years of all the controlled entities are the same as that of the parent entity.

Name of entity	Country of incorporation	Ownership interest 2007 %	2006 %
Parent entity			
AJ Lucas Group Limited			
Controlled entities			
AJ Lucas Operations Pty Limited	Australia	100	100
AJ Lucas Plant & Equipment Pty Limited	Australia	100	100
AJ Lucas Drilling Pty Limited	Australia	100	100
AJ Lucas Pipelines Pty Limited	Australia	100	100
AJ Lucas Testing Pty Limited	Australia	100	100
Smart Electrical & Power Services Pty Limited	Australia	100	100
AJ Lucas Joint Ventures Pty Limited	Australia	100	100
Coastal Sand Technologies Pty Limited	Australia	100	100
AJ Lucas (Hong Kong) Limited	Hong Kong	100	100
Lucas Energy Pty Limited *	Australia	100	100
AJ Lucas Coal Technologies Pty Limited	Australia	100	100
AJ Lucas (USA) Inc.	USA	100	100
Lucas Contract Drilling Pty Ltd	Australia	100	-
Wholly owned subsidiary of Lucas Contract Drilling Pty Ltd			
McDermott Drilling Pty Ltd	Australia	100	-
Lucas Stuart Pty Limited	Australia	100	100
Wholly owned subsidiaries of Lucas Stuart Pty Ltd			
Ketrim Pty Limited	Australia	100	100
Stuart Painting Services Pty Ltd	Australia	100	100
Lucas Stuart Projects Pty Ltd	Australia	100	100

* Lucas Coal Seam Gas Pty Limited changed its name to Lucas Energy Pty Limited during the financial year.

25. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	Consolidated 2007 $'000	2006 $'000
(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 balance sheet as follows:			
Cash assets	8	18,222	5,889
Bank overdraft	18	(5,663)	(4,478)
Total cash		**12,559**	**1,411**
(b) Cash flows from operating activities			
Profit for the year		6,396	3,030
Adjustments for:			
Interest on capitalised leases		767	566
(Gain)/loss on sale of non-current assets		(87)	350
Depreciation		4,838	4,782
Impairment of plant and equipment		500	-
Impairment losses		144	-
Amortisation of:			
Leased assets		2,121	1,354
Intangibles		1,785	-
Development expenditure		222	172
Unrealised foreign exchange (gains)		-	(87)
Share based payments		473	-
Discount on acquisition of subsidiary		(2,723)	-
Increase/(decrease) in provisions for employee entitlements		1,339	268
(Decrease)/increase in other provisions		(405)	111
Pipeline and Mace write-off		2,779	-
Increase in equity compensation reserve		-	52
(Decrease) in tax balances		(924)	(2,652)
Operating profit before changes in working capital and provisions		**17,225**	**7,946**
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:			
(Increase) in receivables		(6,453)	(6,282)
Decrease in other current assets		74	277
(Increase) in construction work in progress		(27,848)	(11,949)
Decrease in other non-current assets		-	539
Increase in payables		26,604	19,961
Increase in other liabilities		-	5,229
Net cash provided by operating activities		**9,602**	**15,721**

(c) Non-cash financing and investment activities

During the year, the consolidated entity acquired plant and equipment with an aggregate fair value of $2,376,000 (2006:$5,444,000) by means of finance leases. These purchases are not reflected in the Statements of Cash Flows.

(d) Financing arrangements

Refer note 18.

26. ACQUISITION OF SUBSIDIARY

On 31 July 2006, the Company acquired McDermott Drilling Pty Limited, a New South Wales based drilling company, for a consideration of $8.0 million of which $4.0 million was deferred and is payable in equal instalments on the first three anniversary dates after the date of acquisition. The initial consideration was funded as to $1.0 million through the issue of 1,333,333 shares at an issued price of $0.75 cents per share, being a discount of 2.5% to their market price at the date of purchase, with the balance by a combination of the Group's resources and debt. In the period to 30 June 2007, McDermott Drilling contributed a net profit before interest and tax of $5,930,000. If the acquisition had occurred on 1 July 2006, management estimate that consolidated revenue would have been $217,663,000 and consolidated net profit before interest and tax would have been $7,006,000.

The acquisition had the following effect on the consolidated entity's assets and liabilities on acquisition date:

	Recognised values on acquisition $'000	Fair value adjustments $'000	Pre-acquisition carrying amounts $'000
Trade and other receivables	3,595	-	3,595
Plant and equipment	9,858	4,981	4,877
Other assets	1,628	-	1,628
Intangibles	4,757	4,757	-
Trade and other payables	(1,063)	-	(1,063)
Other financial liabilities	(4,989)	-	(4,989)
Deferred tax liability	(1,167)	(1,167)	-
Provisions	(1,041)	-	(1,041)
Net identifiable assets and liabilities	11,578	8,571	3,007
Discount on acquisition	(2,723)		
Consideration	8,855		
Less deferred consideration payable	(4,000)		
Less consideration satisfied by the issue of shares	(1,027)		
Less debt funding and other finance	(3,499)		
Net cash inflow	329		

The consideration above includes acquisition costs of $855,000.

The Company commissioned an independent expert to conduct an analysis of the fair value of the assets and liabilities of McDermott Drilling Pty Limited on its acquisition. Following this analysis, the Company has determined a carrying value of $4,757,000 for customer contracts and relationships.

27. EVENTS SUBSEQUENT TO BALANCE DATE

On 10 August 2007, the Company acquired 100% of the issued capital of each of Jaceco Drilling Pty Limited and Geosearch Drilling Service Pty Limited trading as a partnership known as Capricorn Weston Drilling Group, a Queensland based drilling company, for a purchase consideration of $21.0 million including assumption of existing debt of $4.5 million. The consideration was payable as to $10.0 million at settlement with the balance payable over three years in annual instalments in arrears. The initial consideration was paid entirely out of borrowing. The financial effects of this transaction have not been brought to account in the 2007 financial report.

Other than this matter, 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 Group, the results of those operations, or the state of affairs of the Group, in future financial years.