AJ LUCAS GROUP LIMITED

FINANCIAL REPORT

YEAR ENDED 30 JUNE 2007

The Directors of AJ Lucas Group Limited (the Company) at any time during or since the end of the financial year end:

Name and qualification	Age	Experience and special responsibilities
Allan Campbell BCom LLB Executive chairman and CEO	51	Mr Campbell acquired a controlling interest in Lucas in 1995 following a successful career in investment banking and commerce including property, construction and building materials. Since acquiring his shareholding, he has been responsible for the Company's strategic direction and has established its position as the leading outsource provider of infrastructure services in Australia. Director since 1995.
Andrew Lukas BE Executive director	60	Mr Lukas joined Lucas in 1975, initially as a project manager and was appointed a director in 1985. After graduating in civil engineering from UNSW, followed by postgraduate studies at the Pipeline School of the University of Texas, he gained valuable experience with Williams Bros in the US and MacDonald Wagner & Priddle and Transfield in Australia. He pioneered the development of directional drilling in Australia and is an authority on this technology and pipeline installation. He is also a leading proponent of HDD in coal seam gas extraction. He is an executive committee member and past president of the Australian Pipeline Industry Association (APIA), a director and president of the International Pipeline and Offshore Contractors Association and a director of CRC Mining Technology & Equipment. Director since 1995.
Ian Stuart-Robertson AAIQS Executive director	57	Mr Stuart-Robertson is a qualified quantity surveyor with over 30 years experience in civil and building construction. He has considerable expertise in general construction and project cost reporting systems and also makes a vital contribution to the Group in his role as chairman of the tender review committee. He is also non-executive director of quantity surveyors John Hollis & Partners. Director since 1995.
Martin Green FCA Independent non-executive director, Chairman of audit committee	62	Mr Green is a Fellow of the Institute of Chartered Accountants and an offical liquidator of the Supreme Court of NSW and has been in public practice for 36 years, mainly specialising in business recovery and insolvency. He has substantial business and finance experience at senior levels. He is currently a principal at GHK Green Krejci Chartered Accountants, a former honorary director/treasurer of the National Trust of Australia (NSW) and has served at various times in many public roles and capacities. Director since 1999.
Garry O'Meally BSc, BE Independent non-executive director, member of audit committee	71	Mr O'Meally has over 40 years experience in the oil and gas industries, mainly with Australian Gas Light Company where he served as general manager of AGL Gas Companies and later of AGL Petroleum. He was also general manager of Queensland and Northern Territory for Santos Limited and has consulted to many energy companies. He was previously president of the Australian Gas Association, as councillor and Queensland chairman of the Australian Petroleum Production and Exploration Association and an executive manager of APIA. Mr O'Meally's knowledge of the energy industries has been vitally important in the Group's expansion into its gas management activities. Director since 1999.

COMPANY SECRETARY

Mr Nicholas Swan, MA, ACA, MBA, AFIN was appointed as company secretary on 15 November 2001. Mr Swan has also served as the company secretary of several listed public companies and a responsible entity for managed investment schemes.

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) held during the financial year during the period of each director's tenure and number of such meetings attended by each of the directors is:

	Board of Directors		Audit committee	
	Held	Attended	Held	Attended
Allan Campbell	9	9	–	–
Andrew Lukas	9	8	–	–
Ian Stuart-Robertson	9	8	–	–
Martin Green	9	9	3	3
Garry O'Meally	9	9	3	3

CORPORATE GOVERNANCE STATEMENT

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

Board of directors

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

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

The Board's role and responsibilities are documented in a written Board charter.

Composition of the Board

The constitution of the Company requires between three and ten directors. Currently there are five, of whom two are independent non-executive and the rest executive.

The Board is committed to having a majority of independent non-executive directors and at some stage will appoint other directors to achieve this.

Directors are appointed for their industry-specific expertise and commercial acumen. The Board believes that all the directors can make, and do make, quality and independent judgements in the best interest of the Company. While the chairman is also the chief executive officer, his contribution to the Company is considered vital to direct the strategy of the Company. The directors are able to obtain independent advice at the expense of the Company.

There is no nomination committee. Instead, the Board assesses the performance of individual directors and the Board as a whole.

Ethical and responsible decision making

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

Trading in Company securities

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

Integrity in financial reporting

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

The committee must have at least two members. All members must be independent non-executive directors. At least one member must have financial expertise and some members shall have an understanding of the industry in which the Company operates.

The principal roles of the committee are to:

- assess whether the accounting methods and statutory reporting applied by management are consistent and comply with accounting standards and applicable laws and regulations;
- make recommendations on the appointment of the external auditors, assess their performance and independence and ensure that management responds to audit findings and recommendations;
- discuss the adequacy and effectiveness of the Company's internal control systems and policies to assess and manage business risks and its legal and regulatory compliance programmes; and
- ensure effective monitoring of the Company's compliance with its codes of conduct and Board policy statements.

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

Timely and balanced disclosure

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

Clear communication with shareholders

The Company has a communications strategy to promote effective communication with shareholders. The company secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules.

Risk identification and management

The Board has established policies on risk management. The systems of internal financial controls have been determined by senior management and are designed to provide reasonable but not absolute protection against fraud, material mis-statement or loss. The chief executive officer and chief financial officer provide representation to the audit committee and the Board on the risk management, compliance and control systems for the Group.

Encourage enhanced performance

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

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

Recognise the interests of all stakeholders

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

PRINCIPAL ACTIVITIES

AJ Lucas Group is a diversified infrastructure and mining services and construction group specialising in providing services to the water and wastewater, oil and gas, resources and property sectors.

The Group has in excess of 500 employees and a client base that includes local and State governments and blue chip corporations.

The Group is structured into three principal business segments:

Pipelines: the Group is an Australian market leading provider for the installation of pipelines including hydrostatic testing.

Drilling: the Group is Australia's foremost provider of drilling services to the coal and coal seam gas industries for the degasification of coal mines and the recovery and commercialisation of coal seam gas and associated services.

Construction and civil: the Group is a provider of construction and civil engineering services together with facilities management.

REVIEW AND RESULTS OF OPERATIONS

Overview of the consolidated entity

The consolidated entity recorded a net profit of $6,396,000 (2006: $3,030,000). A summary of the results is set out in the following table:

Summary of financial results

	2007 $'000	2006 $'000
Total revenue	216,369	171,232
EBITDA	14,907	8,419
EBIT	5,941	3,114
Profit/(loss) before tax	4,178	1,320
Net profit/(loss) attributable to members	6,396	3,030
Total assets	150,948	91,512
Net assets	30,438	22,236
Basic earnings per share	11.9 ¢	5.9 ¢

Divisional performance

Contributions from the business divisions were as follows:

	Revenue $'000	EBIT $'000	Margin %
2007			
Pipelines	73,219	3,965	5.4
Drilling	67,625	6,121	9.1
Construction and civil	75,525	414	0.5
2006			
Pipelines	41,951	3,294	7.9
Drilling	50,909	1,652	3.2
Construction and civil	78,377	1,685	2.2

Pipelines

Projects undertaken during the year included the commencement of the Western Corridor Recycled Water Project, the Otway pipeline for Technip/Woodside and the Moomba to Sydney pipeline for APA Group. The Goro Project in New Caledonia was also substantially completed. This was a difficult project with the result impacted by adverse local conditions including civil unrest.

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 and is expected to be completed during Q4 2008.

The division's result was also adversely affected by a write down of $1.8 million respect of certain pipeline rights which, in the event that the related project is reignited, the directors may review.

As a consequence of these events, the result for the pipeline division was not as expected, however this is not a reflection of the division's performance. In fact, the pipeline division is performing particularly well. Experienced senior personnel have been recruited to assist in the division's growth, as well as additional plant and equipment purchased. Lucas' combination of engineering excellence and delivery capability are necessary skill sets in a market competing for resources and the division is expected to perform well in the future.

Drilling

Revenues within this division increased by 33% to $67.6 million with a similar increase expected during the current 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, operating margins are expected to improve.

A new yard has also been purchased subsequent to year end in Wyong where the Group's drilling activities will be based. It is expected that this new level of operations including the business of Capricorn Weston Drilling Group purchased in August 2007 will allow the Group to crystallise the inherent synergies of its geographically diverse operations and improve margin performance.

Plant under-recoveries and "one-off contract hits" resulting from unexpected ground conditions are not expected to affect drilling profit materially in the future, as has been the case in the past.

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 downs 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 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 was 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.

COAL SEAM GAS

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 significantly increased during the financial year, in particular on the further exploration and development of the Gloucester Basin. This asset is held in a joint venture with Molopo Australia Limited (30%).

A dedicated team based in Melbourne has been assembled to manage and develop 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.

The Group hopes to be in a position to understand more fully ATP651 located in the Bowen Basin held in joint venture with 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 initial assessment of proven and probable reserves should be available.

INVESTMENTS FOR FUTURE PERFORMANCE

The consolidated entity acquired plant and equipment totalling $15,810,000 (2006: $10,434,000) during the year. The capital expenditure is part of the normal pattern of investing and upgrading required to maintain the Group's plant and equipment, enhance safety and keep pace with technological advances.

On 10 August 2007, the consolidated entity acquired Capricorn Weston Drilling Group for a purchase consideration of $21.0 million including $4.5 million of debt. The acquisition will 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.

REVIEW OF FINANCIAL CONDITION

Capital structure

The Company's capital structure is managed in a manner to maximise the return to shareholders subject to consideration of the financing risk of the business and the cash flows generated from operations. No shares were issued by the Company during the year other than arising from the exercise of management rights, consideration for the acquisition of McDermott Drilling Pty Limited and settlement of various liabilities.

The Company issued 25 million $1.00 unsecured redeemable convertible notes during the year out of which $10.0 million was used to redeem the existing note issue. The new notes carry a fixed coupon of 10.0% per annum and have a term of three years unless converted or redeemed beforehand. The notes are convertible from 28 June 2008 at a 15% discount to the volume weighted average sale price over the 30 days prior to conversion.

Cash flows from operations

Cash flow generated from operations during the year amounted to $9,602,000, a reduction from the previous year's amount of $15,721,000 principally due to increased working capital requirements reflecting the growth in the Group's consolidated turnover.

IMPACT OF LEGISLATION AND OTHER EXTERNAL REQUIREMENTS

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the consolidated entity.

DIVIDENDS

No dividends were paid or declared by the Company during the financial year.

After the balance sheet date, the directors have declared a final ordinary dividend as follows:

Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
2.5	1,362	100% franked	28 Sept 2007

The financial effect of this dividend has not been brought to account in the financial statements for the year ending 30 June 2007 and will be recognised in the 2008 financial report.

STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity during the financial year under review.

ENVIRONMENTAL REGULATIONS AND NATIVE TITLE

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

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

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

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

EVENTS SUBSEQUENT TO REPORTING DATE

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 group, for a purchase consideration of $21.0 million including assumption of existing debt of $4.5 million. The consideration is payable in instalments with $10.0 million paid at settlement and the balance payable over three years in equal annual instalments. The initial consideration was paid entirely out of borrowings. 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.

LIKELY DEVELOPMENTS

The consolidated entity has successfully established itself as a leading supplier in each of its chosen activities. The principal focus of the Company is now on establishing a more consistent cash flow and maintainable recurring income stream capitalising on the consolidated entity's premier knowledge of infrastructure assets. Partnering with selected entities through joint ventures and alliances, and the development and applications of innovative technology and practices, are expected to contribute to achieving this objective.

The acquisition of Capricorn Weston Drilling Group in August 2007 will allow the consolidated entity to offer a full range of drilling services to the coal and coal seam gas sectors. This is expected to lead to increased utilisation of plant, improved plant recovery rates, longer term contracts and a closer relationship with the leading mining and energy companies.

The consolidated entity also proposes to continue its drilling at Gloucester Basin to prove up its reserves and gain a greater understanding of its commercial viability.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

REMUNERATION REPORT

This report outlines the remuneration policy for directors and senior managers of the Company.

Remuneration philosophy - audited

The key principle of the Company's executive remuneration policy is to set remuneration at a level that will attract and retain qualified and experienced personnel and motivate and reward them to achieve strategic objectives and improve business results.

Remuneration is structured to reward employees for increasing shareholder value. This is achieved by providing a fixed remuneration component together with short and long term performance-based incentives.

Through creating goal congruence between directors, executives and shareholders, it is hoped to maximise shareholder value.

AJ Lucas aims to set fixed annual remuneration at market median levels for jobs of comparable size and responsibility using established job evaluation methods and to provide incentives to enable top performers to be remunerated at the upper end of the market, subject always to the performance of the Group.

The aim of the incentive plans is to drive performance to successfully implement annual business plans and increase shareholder value.

The remuneration for executives and staff is reviewed annually, using a formal performance appraisal process and market data derived from independent surveys of people with similar competencies and responsibilities.

Remuneration structure - audited

Remuneration packages include a mix of fixed and variable remuneration and long term incentives.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any fringe benefit tax (FBT) charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation.

Incentive based remuneration

Incentive based remuneration includes long term and short term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short term incentive (STI) is an "at risk" bonus provided in the form of cash and is subject to the over-riding discretion of the senior executive team.

The long term incentive is provided as rights over ordinary share of the Company under the rules of the Management Rights Plan, as approved by shareholders at the November 2001 annual general meeting. Each right entitles the holder to one ordinary share in the Company subject to performance hurdles, where applied, being attained and the holder remaining in employment with the Group until the rights vest. The performance hurdles are set by the Board. The hurdles applying to the rights issued to executive directors during the year are subject to a performance condition which measures the Company's Total Shareholder Return (TSR) compared with each company in the comparator group over their three year vesting period. There are no hurdles applying for the rights granted to other persons other than the requirement to be in employment with the Group at the vesting date.

Other benefits

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

Service agreements - audited

All executive directors and senior executives are employed under a standard AJ Lucas contract. The service contract outlines the components of remuneration but does not prescribe how remunerations levels are modified year to year. Remuneration levels are reviewed every year to take into account cost of living changes, any change in the scope of the role performed and any changes required to meet the principles of the remuneration policy.

The service contracts are unlimited in term. All contracts can be terminated without notice by the Company with compensation, if any, payable to the employee in accordance with the law or by negotiated agreement.

Non-executive directors - audited

The remuneration of the non-executive directors, currently each $45,000 per annum, is determined by the Board within the aggregate amount approved by shareholders.

In recognition that the amount of the individual fees paid to non-executive directors is less than generally paid to persons in such roles in comparable sized companies, the Company has in the past periodically awarded them shares under its Deferred Share Plan. Such shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their service with AJ Lucas ceases. 100,000 such shares were issued in November 2006 following approval being granted by shareholders.

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the five named highest paid executives of the Company and Group are as per the table set out below:

		Short-term				Post employment	Other long term	Share based payments			
		Salary/ fees $	Bonus $	Non-monetary benefits (1) $	Total $	Superannuation benefits $	$	Value of rights and shares (2) $	Total $	Proportion of remuneration performance related %	Value of rights and shares as proportion of remuneration %
Executive directors											
Allan Campbell	2007	393,883	–	–	393,883	–	–	12,476	406,359	–	3.1
	2006	364,410	–	–	364,410	–	–	–	364,410	–	–
Andrew Lukas	2007	254,255	–	4,440	258,695	21,345	–	7,486	287,526	–	2.6
	2006	215,385	–	6,485	221,870	15,000	3,332	–	240,202	–	–
Ian Stuart-Robertson	2007	252,554	–	12,138	264,692	20,271	–	7,486	292,449	–	2.6
	2006	243,707	–	3,392	247,099	15,483	–	–	262,582	–	–
Non-executive directors											
Martin Green	2007	45,000	–	–	45,000	–	–	40,500	85,500	–	47.4
	2006	45,000	–	–	45,000	–	–	–	45,000	–	–
Julian Gregory (3)	2006	33,750	–	–	33,750	–	–	–	33,750	–	–
Garry O'Meally	2007	45,000	–	–	45,000	–	–	40,500	85,500	–	47.4
	2006	45,000	–	–	45,000	–	–	–	45,000	–	–
Executive officers											
Kevin Lester	2007	268,665	111,167	968	380,800	18,620	–	–	399,420	27.8	–
General Manager Pipelines	2006	214,200	38,833	–	253,033	14,449	3,209	–	270,691	14.3	–
Tim Herlihy (4)	2007	104,415	–	20,261	124,676	10,000	–	–	134,676	–	–
Chief Financial Officer	2006	188,046	–	17,138	205,184	16,667	–	–	221,851	–	–
Ian Redfern	2007	249,327	–	5,693	255,020	12,686	–	10,000	277,706	–	3.6
General Manager Construction	2006	235,610	–	2,286	237,896	10,125	–	25,000	273,021	–	9.1
Mark Tonkin	2007	181,355	–	1,844	183,199	16,200	–	–	199,399	–	–
General Manager	2006	198,090	–	1,548	199,638	13,380	8,309	–	221,327	–	–
Brian Burden	2007	203,252	–	2,257	205,509	17,062	–	–	222,571	–	–
Chief Estimator	2006	181,426	–	11,194	192,620	15,290	2,733	6,192	216,835	–	2.8
Mark Summergreene (4)	2007	219,914	37,381	6,629	263,924	16,503	–	–	280,427	13.3	–
Chief Financial Officer											
Total compensation key management personnel	**2007**	**2,217,620**	**148,548**	**54,230**	**2,420,398**	**132,687**	**–**	**118,448**	**2,671,533**		
Total compensation key management personnel	**2006**	**1,964,624**	**38,833**	**42,043**	**2,045,500**	**100,394**	**17,583**	**31,192**	**2,194,669**		

Amounts disclosed for remuneration of key management persons exclude insurance premiums of $22,884 (2006: $23,059) paid by the consolidated entity in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers of the Company and its controlled entities, This amount has not been allocated to the individuals covered by the insurance policy as the directors believe that no reasonable basis for such allocation exists.

(1) Non-monetary benefits comprise benefits subject to FBT.

(2) The fair value of the rights has been calculated using a Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period.

The following factors and assumptions were used in determining the fair value of rights issued during the year on grant date:

Grant date	Nov 2006
Expiry date	Nov 2009
Share price on grant date	$1.08
Exercise price	$1.10
Volatility	44%
Risk free interest rate	5.7%
Dividend yield	4.8%
Fair value per right	$0.25

100,000 shares were issued under the Deferred Share Plan during the year and were also valued using a Black-Scholes pricing model.

(3) Mr Gregory resigned as a director on 31 March 2006.

(4) Mr Herlihy resigned on 31 December 2006.

Mr Summergreene was appointed Chief Financial Officer in his place from 1 January 2007.

Rights over equity instruments granted as compensation - audited

Details on rights granted to each key management person that vested during the reporting period are as follows:

	Grant date	Number of rights vested during 2007	Fair value per rights at grant date $	Exercise price per rights $	Expiry date
Executives					
I Redfern	June 2005	25,000	1.20	–	May 2009

During the financial year, 550,000 options over unissued ordinary shares in the Company were issued to the executive directors as approved by shareholders at the 2006 Annual General Meeting. These options do not vest until November 2009 being three years after their date of issue. No rights have been issued since the end of the financial year.

Exercise of rights granted as compensation

During the reporting period, the following shares were issued on the exercise of rights previously granted as compensation to key management persons:

	2007		2006	
	Number of shares	Amount paid $/share	Number of shares	Amount paid $/share
Directors				
AS Campbell	83,333	–	–	–
AJ Lukas	83,333	–	–	–
Executives				
TW Herlihy	–	–	100,000	–
MP Tonkin	–	–	120,000	–

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

Analysis of share-based payments granted as remuneration - unaudited

Details of the vesting profile of the rights granted as remuneration to each director of the Company and each of the five named executives is detailed below:

	Rights granted		Vested in year	Forfeited in year [1]	Financial years in which grant vests	Value yet to vest	
	Number	Date	%	%		Min[2] $	Max[3] $
Directors							
AS Campbell	250,000	27 Dec 02	–	66.7	A	–	–
	250,000	24 Nov 06	–	–	B	–	215,000
AJ Lukas	250,000	27 Dec 04	–	66.7	A	–	–
	150,000	24 Nov 06	–	–	B	–	129,000
I Stuart-Robertson	150,000	24 Nov 06	–	–	B	–	129,000
Company and consolidated entity executives							
K Lester	60,000	27 May 04	–	–	C	–	–
I Redfern	75,000	27 Jun 05	33.3	–	A	–	–
B Burden	20,000	27 May 04	–	–	D	–	–

A Options vest in three equal tranches over 2005, 2006 and 2007
B Options vest in 2009
C Options vest in 2005
D Options vest in two equal tranches over 2005 and 2006

(1) The % forfeited in the year represents the reduction from the maximum number of rights available to vest due to the performance hurdle not being achieved.
(2) The minimum value of rights yet to vest is $nil as the performance criteria may not be met and consequently the right may not vest.
(3) The maximum value of rights yet to vest is not determinable as it depends on the market price of shares of AJ Lucas Group on the ASX on the date the right is exercised. The maximum values presented above are based on the closing share price at 30 June 2007 of $1.96 less the exercise price.

Analysis of movements in rights - unaudited

The movement during the reporting period by value, of rights over ordinary shares of the Company held by each Company director and each of the named executives is detailed below:

	(i) Granted in year $	(ii) Value of rights exercised in year $	Total rights value in year $
AS Campbell	12,476	95,833	108,309
AJ Lucas	7,486	95,833	103,319
I Stuart-Robertson	7,486	–	7,486
	27,448	191,666	219,114

(i) The value of rights is their fair value calculated at grant date using a Black-Scholes pricing model. This amount is allocated to remuneration over the vesting period.
(ii) The value of the rights is calculated as the market price of the Company's shares on the Australian Stock Exchange as at close of trading on the date the rights were exercised after deducting the price paid to exercise the rights.

OTHER DISCLOSURES

Unissued shares under rights

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

Expiry date	Exercise price	Number of shares
28 May 2009	–	498,333
26 November 2011	$1.10	550,000

All rights expire on the earlier of their expiry date or termination of the employee's employment or cessation of the officer's service. 14,000 rights were cancelled during the financial year because of the cessation of the employees' employment.

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

Shares issued on exercise of rights

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

Number of shares	Amount paid on each share
343,666	$Nil

There were no amounts unpaid on the shares issued.

DIRECTORS' SHAREHOLDINGS AND OTHER INTERESTS

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

	Ordinary Shares	Rights issued under Management Rights Plan
Allan Campbell	10,140,083	250,000
Andrew Lukas	6,204,833	150,000
Ian Stuart-Robertson	1,386,750	150,000
Martin Green	125,000	–
Garry O'Meally	209,180	–

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

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

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

Insurance premiums

Since the end of the previous financial year, the Company has paid premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for the year ended 30 June 2007 and, since the end of the financial year, the Company has paid or agreed to pay premiums in respect of Directors' and Officers' insurance for the year ending 30 June 2008.

NON-AUDIT SERVICES

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001.

Payments to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year, as set out in note 5 to the financial statements, amounted to $92,939 (2006: $113,634).

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on this page and forms part of the directors' report for financial year ended 30 June 2007.

ROUNDING OFF

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

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

Allan Campbell
Director
Dated at Sydney, this 27th day of September 2007.

KPMG

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

To the directors of AJ Lucas Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Malcolm Kafer
Partner
Sydney, 27 September 2007

AJ Lucas Group Limited and its controlled entities

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 13 to 40.

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 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 of receivables	4	(143)	(215)	–	–
Impairment of plant and equipment	4	(500)	(1,003)	–	–
Impairment of intangible assets	4	(2,779)	–	(1,786)	–
Profit on acquisition of business	30	2,723	–	–	–
Other expenses		(5,010)	(5,321)	(620)	(187)
Results from operating activities		**5,941**	**3,114**	**(2,406)**	**(187)**
Financial income	3	781	172	386	140
Financial expenses	3	(2,544)	(1,966)	(1,055)	(1,732)
Net financing costs	3	**(1,763)**	**(1,794)**	**(669)**	**(1,592)**
Profit/(loss) before income tax		**4,178**	**1,320**	**(3,075)**	**(1,779)**
Income tax benefit	6	2,218	1,710	1,866	297
Profit/(loss) attributable to equity holders of the company	22	**6,396**	**3,030**	**(1,209)**	**(1,482)**
Earnings per share:					
Basic earnings per share (cents)	7	11.9	5.9		
Diluted earnings per share (cents)	7	11.8	5.7		

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 30 JUNE 2007

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 13 to 40.

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Exchange differences on translation of foreign operations	22	306	–	–	–
Income and expense recognised directly in equity		306	–	–	–
Profit/(loss) for the year	22	6,396	3,030	(1,209)	(1,482)
Total recognised income and expense for the year	22	**6,702**	**3,030**	**(1,209)**	**(1,482)**

AJ Lucas Group Limited and its controlled entities

BALANCE SHEETS AS AT 30 JUNE 2007

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 13 to 40.

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Current assets					
Cash and cash equivalents	8	18,222	5,889	13,512	53
Trade and other receivables	9	28,261	20,380	4,189	2,612
Construction work in progress	10	53,418	25,570	–	–
Assets classified as held for sale	11	–	1,828	–	–
Other	12	435	509	–	204
Total current assets		**100,336**	**54,176**	**17,701**	**2,869**
Non-current assets					
Trade and other receivables	9	–	–	31,795	38,202
Intangible assets	13	7,851	7,747	2,061	3,847
Plant and equipment	14	30,921	21,110	–	–
Deferred tax assets	15	5,602	4,603	10,126	5,204
Investments	16	63	57	1,260	1,260
Exploration assets		6,175	3,819	–	–
Total non-current assets		**50,612**	**37,336**	**45,242**	**48,513**
Total assets		**150,948**	**91,512**	**62,943**	**51,382**
Current liabilities					
Trade and other payables	17	66,319	40,190	84	739
Interest-bearing loans and borrowings	18	10,706	6,989	–	3,381
Income tax payable	19	75	–	–	–
Provisions	20	2,702	1,705	–	–
Total current liabilities		**79,802**	**48,884**	**84**	**4,120**
Non-current liabilities					
Payables	17	–	–	16,217	15,176
Interest-bearing loans and borrowings	18	37,181	16,802	24,188	9,923
Provisions	20	3,527	3,590	–	–
Total non-current liabilities		**40,708**	**20,392**	**40,405**	**25,099**
Total liabilities		**120,510**	**69,276**	**40,489**	**29,219**
Net assets		**30,438**	**22,236**	**22,454**	**22,163**
Equity					
Issued capital	22	30,655	29,236	30,736	29,236
Reserves	22	1,091	704	–	–
Accumulated losses	22	(1,308)	(7,704)	(8,282)	(7,073)
Total equity	22	**30,438**	**22,236**	**22,454**	**22,163**

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 13 to 40.

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 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)	(100)	(226)
Cash generated from operations		**12,583**	**18,541**	**(100)**	**(226)**
Interest received		60	32	–	–
Income taxes paid		(497)	(964)	–	–
Interest and other costs of finance paid		(2,544)	(1,888)	(1,172)	(1,063)
Net cash from operating activities	29(b)	**9,602**	**15,721**	**(1,272)**	**(1,289)**
Cash flows from investing activities					
Proceeds from sale of plant and equipment		457	1,697	–	–
Loans to controlled entities		–	–	–	(950)
Repayment of loans by controlled entities		–	–	5,532	–
Payments for plant and equipment		(5,953)	(10,434)	–	–
Exploration and evaluation expenditure		(2,676)	(852)	–	–
Loans to related entity		(1,608)	(2,560)	(1,608)	(2,560)
Repayment of loan from related entity		–	88	–	88
Acquisition of subsidiary net of cash acquired		(3,198)	(37)	–	–
Net cash from investing activities		**(12,978)**	**(12,098)**	**3,924**	**(3,422)**
Cash flows from financing activities					
Proceeds of borrowings		4,004	–	–	–
Repayment of borrowings		(147)	(489)	–	–
Proceeds from issue of convertible notes		24,188	–	24,188	–
Repayment of convertible notes		(10,000)	–	(10,000)	–
Payment of finance lease liabilities		(3,521)	(2,217)	–	–
Net cash from financing activities		**14,524**	**(2,706)**	**14,188**	**–**
Net increase/(decrease) in cash and cash equivalents		**11,148**	**917**	**16,840**	**(4,711)**
Cash and cash equivalents at beginning of the year		1,411	494	(3,328)	1,383
Cash and cash equivalents at end of the year	29(a)	**12,559**	**1,411**	**13,512**	**(3,328)**

Index to notes to the financial statements

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 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 the consolidated financial statements, and have been applied consistently by all entities in the consolidated entity.

STATEMENT OF COMPLIANCE

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

The consolidated financial report of the consolidated entity also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

The financial statements were approved by the Board of Directors on 27 September 2007.

BASIS OF MEASUREMENT

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

FUNCTIONAL AND PRESENTATION CURRENCY

The 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 financial report and commentary on results have been rounded off to the nearest thousand dollars, unless otherwise stated.

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 financial statements are described in the following notes:

- Note 10 - construction work in progress
- Note 13 - 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 joint venture entities, unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the consolidated entity's share of assets, liabilities, expenses and income that it earns from the sale of goods or services by the joint venture.

The Company and consolidated entity has chosen to early adopt AASB 2007-4: *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments.* The effect of this early adoption is outlined in Note 25.

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 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 July 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.

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.

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.

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.

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.

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 July 2004, the date of transition to AASBs, was determined by reference to its carrying 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.

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.

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 that changes those factors that led to the loss.

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 not recognised in excess of any cumulative impairment loss.

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.

For a number of employees, the consolidated entity is required to remit 5% of eligible wages to a third party in accordance with the Coal Mining Industry (Long Service Leave) Payroll Collection Levy Act 1992.

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. The potential impact on the consolidated entity has not yet been determined.
- 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.
- 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 consolidated entity 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. The potential impact on the consolidated entity has not yet been determined.

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.

Business segments

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

Pipelines	Construction and installation of pipelines including 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 and civil engineering together with facilities management.

	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**
Capital expenditure	22,716	11,157	202	-	3	13	22,921	11,170

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
Capital expenditure	22,921	11,170	-	-	22,921	11,170

3. NET FINANCING COSTS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Interest income	446	172	386	140
Net foreign exchange gain	335	-	-	-
Financial income	**781**	**172**	**386**	**140**
Interest expense	2,544	1,927	1,055	1,732
Net foreign exchange loss	-	39	-	-
Financial expenses	**2,544**	**1,966**	**1,055**	**1,732**
Net financing costs	**1,763**	**1,794**	**669**	**1,592**

4. OTHER EXPENSES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit 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	-	1,786	-
Total impairment of intangible assets	**2,779**	**357**	**1,786**	-

5. AUDITOR'S REMUNERATION

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Audit services				
Auditors of the Company - KPMG				
Audit and review of financial reports				
Australia	244,850	237,382	17,500	18,500
Overseas	4,866	52,587	-	-
	249,716	**289,969**	**17,500**	**18,500**
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	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Recognised in the income statement				
Current tax (benefit)/expense				
Current year	(2,731)	(2,356)	(242)	(256)
Adjustment for prior periods	(347)	(1,111)	(2)	-
	(3,078)	(3,467)	(244)	(256)
Deferred tax (benefit)/expense				
Origination and reversal of temporary differences	2,664	1,757	182	(41)
Utilisation of previously unrecognised tax losses	(1,804)	-	(1,804)	-
	860	1,757	(1,622)	(41)
Total income tax benefit	**(2,218)**	**(1,710)**	**(1,866)**	**(297)**
Numerical reconciliation between tax benefit and pre-tax net profit/(loss)				
Profit/(loss) before tax	4,178	1,320	(3,075)	(1,779)
Prima facie income tax expense/(benefit) calculated at 30% (2006:30%)	1,253	396	(923)	(533)
Non-deductible expenses	140	35	24	15
Impairment of goodwill	298	107	-	-
Impairment of pipeline rights	536	-	536	-
Foreign income taxable in Australia	-	-	226	221
Expenses deductible in foreign country only at lower tax rate	49	-	-	-
Write-off of non-collectible intercompany loans	-	-	77	-
Foreign tax loss not earned forward	49	-	-	-
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)	-	(1,804)	-
	(1,871)	**(599)**	**(1,864)**	**(297)**
Income tax under/(over) provided in prior year	(347)	(1,111)	(2)	-
Income tax benefit attributable to operating profit/(loss)	**(2,218)**	**(1,710)**	**(1,866)**	**(297)**

7. EARNINGS PER SHARE

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

	Consolidated 2007 $'000	Consolidated 2006 $'000
Profit attributable to ordinary shareholders		
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 at 30 June	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	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Bank balances	18,222	5,889	13,512	53

9. TRADE AND OTHER RECEIVABLES

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Current					
Trade debtors		22,954	16,177	66	-
Other receivables		755	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	31	4,123	2,612	4,123	2,612
		28,261	**20,380**	**4,189**	**2,612**
Non-current					
Loans to controlled entities	32	**-**	**-**	**31,795**	**38,202**

The amounts receivable from wholly owned controlled entities are unsecured interest free and payable on demand.

The loan to the related party 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 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'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 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Prepayments	435	509	-	204

13. INTANGIBLE ASSETS

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

	Company		
	Goodwill $'000	Pipeline rights $'000	Total $'000
Cost			
Balance at 1 July 2005	2,061	1,786	3,847
Acquisitions - internally developed	–	–	–
Balance at 30 June 2006	**2,061**	**1,786**	**3,847**
Acquisitions internally developed	–	–	–
Acquisitions - through business combinations	–	–	–
Balance at 30 June 2007	**2,061**	**1,786**	**3,847**
Amortisation and impairment losses			
Balance at 1 July 2005	–	–	–
Amortisation for the year	–	–	–
Impairment loss	–	–	–
Balance 30 June 2006	**–**	**–**	**–**
Amortisation for the year	–	–	–
Impairment loss	–	1,786	1,786
Balance at 30 June 2007	**–**	**1,786**	**1,786**
Carrying amounts			
At 1 July 2005	2,061	1,786	3,847
At 30 June 2006	2,061	1,786	3,847
At 1 July 2006	2,061	1,786	3,847
At 30 June 2007	2,061	–	2,061

Impairment tests for cash generating units containing goodwill

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

The aggregate carrying amounts allocated to each unit are:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Construction and civil	3,832	4,825	2,061	2,061

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 (2006: $357,000) was made because of impairments in the value of customer relationships.

14. PLANT AND EQUIPMENT

	Leasehold improvements $'000	Plant & equipment $'000	Leased plant & equipment $'000	Capital works in progress $'000	Total $'000
Consolidated 2007					
At cost	105	32,284	18,850	2	51,241
Accumulated depreciation/amortisation	(81)	(13,704)	(6,535)	–	(20,320)
	24	**18,580**	**12,315**	**2**	**30,921**
Consolidated 2006					
At cost	105	19,416	12,550	198	32,269
Accumulated depreciation/amortisation	(70)	(8,380)	(2,709)	–	(11,159)
	35	**11,036**	**9,841**	**198**	**21,110**

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	Total $'000
Consolidated 2007					
Carrying amount at 01/07/06	35	11,036	9,841	198	21,110
Additions	-	3,773	2,376	(196)	5,953
Acquisitions through subsidiaries acquired	-	9,236	621	-	9,857
Disposals	-	(354)	(14)	-	(368)
Depreciation	(11)	(4,827)	–	-	(4,838)
Amortisation	-	–	(2,121)	-	(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**	**18,580**	**12,315**	**2**	**30,921**
Consolidated 2006					
Carrying amount at 01/07/05	46	11,574	8,708	359	20,687
Additions	-	5,151	5,444	(161)	10,434
Disposals	-	(1,385)	(662)	-	(2,047)
Depreciation	(11)	(3,768)	–	-	(3,779)
Amortisation	-	–	(1,354)	-	(1,354)
Transfer to non-current assets held for sale	-	(536)	(2,295)	-	(2,831)
Carrying amount at 30/06/06	**35**	**11,036**	**9,841**	**198**	**21,110**

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						
Construction work in progress	-	-	(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)
Convertible note issue cost	-	-	(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 loss carry-forwards recognised	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**
Company						
Convertible note issue cost	-	-	(244)	(61)	(244)	(61)
Interest-bearing loans and borrowings	276	276	-	-	276	276
Tax value of loss carry-forwards recognised	10,094	4,989	-	-	10,094	4,989
Tax assets/(liabilities)	**10,370**	**5,265**	**(244)**	**(61)**	**10,126**	**5,204**
Set off of tax	(244)	(61)	244	61	-	-
Net tax assets	**10,126**	**5,204**	**-**	**-**	**10,126**	**5,204**

Movement in temporary differences during the year:

	Consolidated				Company		
	Balance 01 Jul 06 $'000	Acquired in business combinations $'000	Recognised in income $'000	Balance 30 Jun 07 $'000	Balance 01 Jul 06 $'000	Recognised in income $'000	Balance 30 Jun 07 $'000
2007							
Construction work in progress	(3,679)	-	(2,431)	(6,110)	-	-	-
Intangibles	-	(1,167)	536	(631)	-	-	-
Development costs	(314)	-	40	(274)	-	-	-
Exploration, evaluation and development expenditure	(962)	-	(1,120)	(2,082)	-	-	-
Convertible note issue cost	(61)	-	(183)	(244)	(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	276	-	276
Tax value of loss carry-forward recognised	5,201	-	5,103	10,304	4,989	5,105	10,094
	4,603	**(1,167)**	**2,166**	**5,602**	**5,204**	**4,922**	**10,126**

	Consolidated			Company			
	Balance 01 Jul 05 $'000	Recognised in income $'000	Balance 30 Jun 06 $'000	Balance 01 Jul 05 $'000	Recognised in income $'000	Recognised in inter-company	Balance 30 Jun 06 $'000
2006							
Construction work in progress	(2,070)	(1,609)	(3,679)	-	-	-	-
Development costs	(303)	(11)	(314)	-	-	-	-
Exploration, evaluation and development expenditure	(778)	(184)	(962)	-	-	-	-
Convertible note issue cost	(102)	41	(61)	(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	276	-	-	276
Tax value of loss carry-forwards recognised	2,333	2,868	5,201	2,136	-	2,853	4,989
	2,847	**1,756**	**4,603**	**2,651**	**41**	**2,853**	**5,204**

16. INVESTMENTS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments	22	22	1,260	1,260
Deferred expenditure	41	35	-	-
	63	**57**	**1,260**	**1,260**

17. TRADE AND OTHER PAYABLES

	Note	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current					
Trade payables		31,506	23,565	-	-
Other payables and accruals		34,813	16,150	84	264
Loan from related entity		-	475	-	475
		66,319	**40,190**	**84**	**739**
Non-current					
Other loans - controlled entities	32	**-**	-	**16,217**	15,176

Other than the loan from the Company's Hong Kong subsidiary, the loans payable to controlled entities are interest free, unsecured and repayable on demand.

18. INTEREST-BEARING LOANS AND BORROWINGS

	Consolidated		Company	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Bank overdraft - secured	5,663	4,478	–	3,381
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**	**–**	**3,381**
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	24,188	9,923
	37,181	**16,802**	**24,188**	**9,923**
Financing facilities				
(a) The consolidated entity has access to the following lines of credit and bank guarantees				
Bank overdraft	5,500	3,000	5,500	3,000
Bank indemnity guarantees	3,084	2,000	1,557	1,014
Credit card facility	142	–	–	–
Secured loan	4,004	–	–	–
Financial lease	11,546	–	–	–
Bank standby letter of credit	2,900	–	2,900	–
	27,176	**5,000**	**9,957**	**4,014**
Total facilities utilised at balance date:				
Bank overdraft	5,663	4,478	-	3,381
Less: Right of set off	(5,663)	(4,478)	-	(3,381)
Net overdraft	–	–	–	–
Bank indemnity guarantees	2,123	1,662	–	980
Credit card facility	39	–	–	–
Secured loan	4,004	–	–	–
Financial lease	9,755	–	–	–
Bank standby letter of credit	–	–	–	–
	15,921	**1,662**	**-**	**980**
Total facilities not utilised at balance date:				
Bank overdraft	5,500	3,000	5,500	3,000
Bank indemnity guarantees	961	338	1,557	34
Credit card facility	103	–	–	–
Secured loan	–	–	–	–
Financial lease	1,791	–	–	–
Bank standby letter of credit	2,900	–	2,900	–
	11,255	**3,338**	**9,957**	**3,034**
(b) Bond facilities provided by surety entities				
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.

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 consolidated entity'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		Company	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Finance lease liabilities				
Minimum lease payments:				
Within 1 year	3,304	2,679	-	-
Between one and five years	7,273	7,252	-	-
	10,577	**9,931**	**-**	**-**
Less: interest				
Within 1 year	(624)	(587)	-	-
Between one and five years	(546)	(726)	-	-
	(1,170)	(1,313)	-	-
Total lease liabilities	**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 liabilities	**9,407**	**8,618**	**-**	**-**

The consolidated entity leases plant and equipment under finance leases expiring from one to four years. At the end of the lease terms, the consolidated entity has the option to purchase the 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		Company	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Carrying amount at beginning of year	9,923	9,872	9,923	9,872
Accreted interest capitalised	77	51	77	51
Redemption of notes	(10,000)	-	(10,000)	-
Proceeds of issue of 25,000,000 $1.00 convertible notes	25,000	-	25,000	-
Transaction costs	(812)	-	(812)	-
Carrying amount at end of year	**24,188**	**9,923**	**24,188**	**9,923**

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. In accordance with the tax consolidation legislation, the parent entity as head entity of the tax-consolidated group has assumed the current tax liabilities initially recognised by the members of the tax-consolidated group.

20. PROVISIONS

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Current					
Employee benefits	21	2,702	1,705	-	-
		2,702	**1,705**	**-**	**-**
Non-current					
Employee benefits	21	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. The movement in the year is because of changes in exchange rates.

21. EMPLOYEE BENEFITS

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Provision for employee benefits, including on-costs:					
Current	20	2,702	1,705	-	-
Non-current	20	586	244	-	-
		3,288	**1,949**	**-**	**-**

Superannuation plans

Benefits provided under the superannuation funds to which the consolidated entity contributes are based on accumulated contributions and earnings for each employee. The consolidated entity has a legal obligation to contribute to the funds in accordance with the Superannuation Guarantee Charge legislation. The amount recognised as an expense for the financial year was $1,968,683 (2006:$1,368,603).

Employee share plan

The Company has three employee incentive schemes approved by shareholders at the 2001 annual general meeting. Total securities granted but unissued under these schemes cannot exceed 15% of the total number of shares on issue.

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

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

During the year, 550,000 (2006: nil) options were granted to the executive directors as approved by shareholders at the annual general meeting held in November 2006. The options vest after three years and are subject to a performance condition which measures the Company's Total Shareholder Return (TSR) compared with each company in the comparator group over the vesting period as follows:

Lucas TSR percentile ranking relative to the comparator Group	Percentage of options that vest
Below 50th percentile	Nil
50th percentile	50%
Greater than 50th percentile and less than 75th percentile	Pro-rata between 50% and 100%
75th percentile and above	100%

The fair value of services received in return for the share options granted was calculated using a Black-Scholes technique incorporating a probability of the relative TSR vesting condition being met, with the following inputs:

Fair Value at grant date	$0.25
Share price on grant date	$1.08
Volatility	44%
Risk free interest rate	5.72%
Dividend yield	4.83%

The fair value of the rights granted in previous years has been calculated using a Black-Scholes pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period. There is no performance hurdle for any of the residual rights to be exercised and no consideration is payable on their exercise.

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

Grant date	June 2005	May 2004
Expiry date	May 2009	May 2009
Share price on grant date	$1.52	$1.66
Exercise price	Nil	Nil
Volatility	39%	38%
Risk free interest rate	5.1%	5.6%
Dividend yield	5.6%	5.4%
Fair value per right	$1.20	$1.29

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

Grant date	Exercise date on or after	Expiry date	Number of rights at beginning of year	Rights issued	Rights exercised	Rights cancelled	Number of rights at end of year: On issue	Number of rights at end of year: Vested
Consolidated & Company 2007								
23 Dec 2002	23 Dec 2004	23 Dec 2007	166,666	–	(166,666)	-	-	–
23 Dec 2002	23 Dec 2005	23 Dec 2007	166,666	–	-	(166,666)	-	–
23 Dec 2002	23 Dec 2006	23 Dec 2007	166,668	–	-	(166,668)	-	–
28 May 2004	30 Jun 2004	28 May 2009	311,999	–	(89,999)	-	222,000	222,000
28 May 2004	30 Jun 2005	28 May 2009	219,334	–	(55,001)	(2,000)	162,333	162,333
28 May 2004	30 Jun 2006	28 May 2009	48,000	–	(22,000)	(2,000)	24,000	24,000
27 June 2005	30 Jun 2005	28 May 2009	30,000	–	-	-	30,000	30,000
27 June 2005	30 Jun 2006	28 May 2009	40,000	–	(10,000)	-	30,000	30,000
27 June 2005	30 Jun 2007	28 May 2009	40,000	–	-	(10,000)	30,000	30,000
24 Nov 2006	24 Nov 2009	24 Nov 2011	–	550,000	–	–	550,000	–
			1,189,333	**550,000**	**(343,666)**	**(347,334)**	**1,048,333**	**498,333**

b) Deferred share plan: The deferred share plan (DSP) is available to chosen directors, including non-executives, and employees to allow them to take a part of their annual remuneration in the form of shares in the Company. Shares vest from the date of issue but cannot be disposed of until the earlier of 10 years from the date of issue or the date their employment or service with the consolidated entity ceases. 100,000 (2006: nil) shares were issued during the year, as approved by shareholders at the annual general meeting held in November 2006. The fair value of the shares was calculated at grant date by an independent valuer using a Black-Scholes technique with the following assumptions:

Fair Value at grant date	$0.81
Share price on grant date	$1.08
Exercise price	$1.08
Volatility	46%
Risk free interest rate	5.9%
Dividend yield	1.9%

The discount in the fair value of the deferred shares on their grant date relative to the share price reflects the trading restriction on the disposal of the shares.

c) Employee share acquisition plan: The employee share acquisition plan (ESAP) is available to all eligible employees to acquire ordinary shares in the Company for no consideration as a bonus component of their remuneration. The ESAP complies with current Australian tax legislation, enabling permanent employees to have up to $1,000 of free shares per annum, in respect of an employee share scheme, excluded from their assessable income.

Employees must have been employed by any entity within the consolidated entity for a minimum period of one year to be eligible. Shares issued under the ESAP rank equally with other fully paid ordinary shares including full voting and dividend rights from the date they vest. No consideration for the shares is receivable from the employees.

Shares are issued in the name of the participating employee and vest from the date of issue. However, they cannot be disposed of until the earlier of 3 years from the date of issue or the date their employment with the consolidated entity ceases. The Board has the discretion to vary this restriction. The ESAP has no conditions that could result in a recipient forfeiting ownership of shares.

No shares under this plan were issued during the year (2006:nil). All shares previously issued under this plan passed the three year trading restriction during the year and were released from escrow.

Summary of movements in the ESAP:

	Opening balance Number	Trading restriction lifted during the year Number	Closing balance Number
2007	41,040	(41,040)	-
2006	48,450	(7,410)	41,040

22. CAPITAL AND RESERVES

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

	Consolidated entity					Company		
	Share capital $'000	Employee equity benefit reserve $'000	Translation reserve $'000	Accumulated losses $'000	Total equity $'000	Share capital $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2005	29,236	652	-	(10,734)	19,154	29,236	(5,591)	23,645
Total recognised income and expense	-	-	-	3,030	3,030	-	(1,482)	(1,482)
Equity settled share based payments	-	52	-	-	52	-	-	-
Balance at 30 June 2006	29,236	704	-	(7,704)	22,236	29,236	(7,073)	22,163
Balance at 1 July 2006	29,236	704	-	(7,704)	22,236	29,236	(7,073)	22,163
Total recognised income and expense	-	-	306	6,396	6,702	-	(1,209)	(1,209)
Shares issued	1,419	-	-	-	1,419	1,419	-	1,419
Equity settled share based payments	-	81	-	-	81	81	-	81
Balance at 30 June 2007	30,655	785	306	(1,308)	30,438	30,736	(8,282)	22,454

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 plan.

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

	Company 2007 No. of Shares	Company 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 30).

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 payment
Final ordinary	2.5	1,362	100% franked	28 September 2007

	Company 2007 $'000	Company 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 33) is to increase it by $680,000 to $2,418,000.

23. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and credit risk arises in the normal course of the consolidated entity's business.

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk, which is the risk that the financial instrument's value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate for classes of financial assets and financial liabilities and the periods in which they reprice, is set out below:

2007	Note	Effective interest rate %	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Total $'000
Consolidated								
Cash and cash equivalents	8	3.90	18,222	–	–	–	–	18,222
Finance lease liabilities *	18	7.93	(1,439)	(1,241)	(2,909)	(3,818)	–	(9,407)
Unsecured bank facility *	18	5.10	(277)	–	–	–	–	(277)
Bank overdrafts	18	10.10	(5,663)	–	–	–	–	(5,663)
Other borrowings *	18	6.85	(1,376)	(126)	(1,346)	(1,500)	–	(4,348)
Term Loan	18	9.16	(165)	(419)	(838)	(2,512)	(70)	(4,004)
Convertible notes *	18	10.00	–	–	–	(24,188)	–	(24,188)
			9,302	**(1,786)**	**(5,093)**	**(32,018)**	**(70)**	**(29,665)**
2007								
Company								
Cash and cash equivalent	8	3.90	13,512	–	–	–	–	13,512
Loans from controlled entities *	32	7.00	–	–	(10,680)	–	–	(10,680)
Convertible notes *	18	10.00	–	–	–	(24,188)	–	(24,188)
			13,512	**–**	**(10,680)**	**(24,188)**	**–**	**(21,356)**

23. FINANCIAL INSTRUMENTS (CONT)

2006	Note	Effective interest rate %	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Total $'000
Consolidated								
Cash and cash equivalents	8	5.25	5,889	-	-	-	-	5,889
Finance lease liabilities *	18	7.37	(1,016)	(1,076)	(1,961)	(4,565)	-	(8,618)
Unsecured bank facility *	18	5.50	(167)	-	-	-	-	(167)
Bank overdrafts	18	9.35	(4,778)	-	-	-	-	(4,478)
Other borrowings *	18	7.91	(126)	(126)	(252)	(101)	-	(605)
Convertible notes *	18	9.50	-	-	(9,923)	-	-	(9,923)
			102	**(1,202)**	**(12,136)**	**(4,666)**	**-**	**(17,902)**
2006								
Company								
Cash and cash equivalent	8	5.00	53	-	-	-	-	53
Loans from controlled entities *	32	7.00	-	-	(10,419)	-	-	(10,419)
Bank overdrafts	18	9.35	(3,381)	-	-	-	-	(3,381)
Convertible notes *	18	9.50	-	-	(9,923)	-	-	(9,923)
			(3,328)	**-**	**20,342**	**-**	**-**	**23,670**

* These assets/liabilities bear interest at a fixed rate.

(b) Foreign currency risk	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies calculated at year-end exchange rates, are as follows:				
United States Dollars				
Amounts payable:				
Current	1,637	-	-	-
Amounts receivable:				
Current	8,619	8,604	-	-
Hong Kong Dollars				
Amounts payable:				
Current	3	3	-	-
Amounts receivable:				
Current	1,840	755	-	-
Euro Currency				
Amounts payable:				
Current	1,061	-	-	-
Central Pacific Francs				
Amounts payable:				
Current	5,256	-	-	-
New Zealand Dollars				
Amounts payable:				
Current	1	-	-	-

(c) Credit risk exposure

Credit exposure represents the extent of credit related losses to which the consolidated entity may be subject on amounts to be received from financial assets. The consolidated entity's exposures to on-balance sheet credit risk are as indicated by the carrying amounts of its financial assets. The consolidated entity is not materially exposed to any individual customer.

(d) Fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Interest bearing loans and borrowings: Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities: The fair value is estimated as the present value of future cash flows, discounted at market rates interest for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Trade and other receivables/payables: All trade and other receivables and payables are current and therefore carrying amount equals fair value.

24. INTERESTS IN JOINT VENTURES

Joint venture name	Principal activities	Participation interest 2007 %	Participation interest 2006 %	Operating results contribution 2007 $'000	Operating results contribution 2006 $'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 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'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.

25. CHANGE IN ACCOUNTING POLICY

In the current financial year, the consolidated entity has early adopted AASB 2007-4: *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments.*

The adoption of AASB 2007-4 has resulted in the consolidated entity proportionately consolidating its investments in joint venture entities. Previously, the consolidated entity's interests in joint venture entities were accounted for using the equity method of accounting. This change has been adopted to provide users with more reliable and relevant information with respect to the scale of the consolidated entity's operations and activities.

The impact of the adoption of the standard in the current year is as follows:

- Revenues have increased by $38,113,066
- Construction costs have increased by $33,265,234
- The consolidated entity's share of profit of associates has decreased by $4,847,832
- Current construction work in progress has increased by $29,019,931
- Current trade and other payables have increased by $23,985,894
- Investments accounted for using the equity method have decreased by $4,847,832

There is no change to net profit after tax or net assets as a result of the adoption of this standard. There was no impact on the results reported in the prior year because the consolidated entity did not have any interests in joint venture entities.

26. CONTINGENCIES

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

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

Guarantees and surety bonds

Bank guarantees and surety bonds are issued to third parties arising out of dealings in the normal course of business by controlled entities (see Note 18(a) and (b)).

Joint ventures

Under the joint venture agreements (see note 24) the relevant AJ Lucas Group company is jointly and severally liable for all the liabilities incurred by the joint ventures. As at 30 June 2007, the assets of the joint venture were sufficient to meet such liabilities. The liabilities of the joint ventures not included in the consolidated financial statements amounted to $26,593,000 (2006:$279,000).

Indemnities

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies under these indemnities. There is no known current exposure under these indemnities.

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Total estimated contingent liabilities	15,769	8,702	15,769	8,702

27. 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.

		Ownership interest	
	Country of	2007	2006
Name of entity	**incorporation**	%	%
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.

28. OPERATING LEASES

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'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.

29. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

		Consolidated		Company	
		2007	2006	2007	2006
	Notes	$'000	$'000	$'000	$'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	13,512	53
Bank overdraft	18	(5,663)	(4,478)	-	(3,381)
Total cash		**12,559**	**1,411**	**13,512**	**(3,328)**
(b) Cash flows from operating activities					
Profit/(loss) for the year		6,396	3,030	(1,209)	(1,482)
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	-	339	-
Discount on acquisition of subsidiary		(2,723)	-	-	-
Change in provisions for employee entitlements		1,339	268	-	-
Change in other provisions		(405)	111	-	-
Change in loans to controlled entities		-	-	2,776	(56)
Impairment of intangible assets		2,779	-	1,786	-
Increase in equity compensation reserve		-	52	-	-
Change in tax balances		(924)	(2,652)	(4,922)	(2,553)
Operating profit/(loss) before changes in working capital and provisions		**17,225**	**7,946**	**(1,230)**	**(4,091)**
Change in receivables		(6,453)	(6,282)	(66)	(140)
Change in other current assets		74	277	204	136
Change in construction work in progress		(27,848)	(11,949)	-	-
Change in other non-current assets		-	539	-	-
Change in payables		26,604	19,961	(180)	2,755
Change in other liabilities		-	5,229	-	51
Net cash from operating activities		**9,602**	**15,721**	**(1,272)**	**(1,289)**

(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.

30. 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 issue 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 net profit before interest and tax would have been of $5,839,000.

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.

31. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Executive directors

- Allan Campbell (Chairman and Chief Executive Officer)
- Andrew Lukas (Executive Director)
- Ian Stuart-Robertson (Executive Director)

Non-executive directors

- Martin Green
- Garry O'Meally

Executives

- Kevin Lester (General Manager Pipelines)
- Timothy Herlihy (Chief Financial Officer) - resigned 31 December 2006
- Ian Redfern (Chief Operating Officer)
- Mark Tonkin (General Manager - Strategy and Planning)
- Brian Burden (General Manager - Tendering)
- Mark Summergreene (Chief Financial Officer)

Key management personnel compensation

The key management personnel compensation is:

	Consolidated 2007 $	2006 $
Short-term employee benefits	2,420,398	2,055,124
Other long term benefits	–	17,583
Post-employment benefits	132,687	100,394
Equity compensation benefits	118,448	31,192
	2,671,533	2,204,293

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration report section of the Directors' report on pages 5 to 8.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to key management personnel and their related parties (consolidated)

Details regarding loans outstanding at the reporting date to key management personnel and their related parties, where the individual's aggregate loan balance exceeds $100,000 at any time in the reporting period, are as follows:

	Balance 1 July 2006 $	Balance 30 June 2007 $	Interest payable in the reporting period $	Highest balance in period $
Allan Campbell	2,612,026	4,122,759	385,814	4,122,759

The loan is due for repayment by 30 June 2008 and is secured by a Deed of Guarantee and Indemnity. Interest is payable at 12.5% per annum.

Andial Holdings Pty Ltd, a company associated with Messrs Campbell, Lukas and Stuart-Robertson, loaned the Company the following amounts during the reporting period:

Balance 1 July 2006 $	Balance 30 June 2007 $	Interest payable in the reporting period $	Highest balance in period $
474,639	–	16,149	481,722

The loans were made at an interest rate of 8.75% and without security.

Other key management personnel transactions with the Company or its controlled entities

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties, were as follows:

Key management persons	Transaction	Note	2007 $	2006 $
Allan Campbell	Executive director services	(i)	406,359	364,410
Ian Stuart-Robertson	Quantity surveyors	(ii)	143,907	162,791
Garry O'Meally	Business expenses	(iii)	16,967	9,624

(i) Mr Campbell's services are provided through Argyll Capital Partners Pty Limited. Such services were provided in the ordinary course of business and on normal terms and conditions. The amount payable for these services is shown in the Remuneration report.

(ii) Mr Stuart-Robertson is a director of John Hollis & Partners which provided quantity surveying services. Amounts were billed based at normal market rates for such services and were due and payable under normal payment terms.

(iii) Mr O'Meally was reimbursed for expenses incurred conducting business on behalf the consolidated entity.

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT)

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of the Company held directly, indirectly or beneficially by each key management person, including their related parties, is as follows:

2007	Held at 1 July 2006	Received on exercise of rights	Received as part of compensation	Purchases	Held at 30 June 2007
Directors					
Allan Campbell	10,056,750	83,333	–	–	10,140,083
Andrew Lukas	6,121,500	83,333	–	–	6,204,833
Ian Stuart-Robertson	1,386,750	–	–	–	1,386,750
Martin Green	75,000	–	50,000	–	125,000
Garry O'Meally	139,180	–	50,000	–	189,180
Executives					
Tim Herlihy (resigned 31/12/06)	100,000	–	-	-	100,000
Mark Tonkin	120,000	–	-	-	120,000

2006	Held at 1 July 2005	Received on exercise of rights	Received as part of Compensation	Purchases	Held at 30 June 2006
Directors					
Allan Campbell	10,056,750	–	–	–	10,056,750
Andrew Lukas	6,121,500	–	–	–	6,121,500
Ian Stuart-Robertson	1,386,750	–	–	–	1,386,750
Martin Green	75,000	–	–	–	75,000
Garry O'Meally	109,180	–	–	30,000	139,180
Executives					
Tim Herlihy (resigned 31/12/06)	–	100,000	–	–	100,000
Mark Tonkin	–	120,000	–	–	120,000

Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of rights or options over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2007	Held at 1 July 2006	Cancelled	Exercised	Granted as compensation	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors							
Allan Campbell	250,000	(166,667)	(83,333)	250,000	250,000	–	–
Andrew Lukas	250,000	(166,667)	(83,333)	150,000	150,000	–	–
Ian Stuart-Robertson	–	–	–	150,000	150,000	–	–
Executives							
Kevin Lester	180,000	–	–	–	180,000	–	180,000
Ian Redfern	75,000	–	–	–	75,000	25,000	75,000
Brian Burden	30,000	–	–	–	30,000	–	30,000

2006	Held at 1 July 2005	Cancelled	Exercised	Granted as compensation	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors							
Allan Campbell	250,000	–	–	–	250,000	83,333	83,333
Andrew Lukas	250,000	–	–	–	250,000	83,333	83,333
Executives							
Kevin Lester	180,000	–	–	–	180,000	–	180,000
Tim Herlihy	100,000	–	(100,000)	–	–	–	–
Ian Redfern	75,000	–		–	75,000	25,000	50,000
Mark Tonkin	120,000	–	(120,000)	–	–	–	–
Brian Burden	30,000	–	–	–	30,000	10,000	30,000

32. NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The consolidated entity has a related party relationship with its subsidiaries (see note 27) and joint ventures (see note 24). These entities trade with each other from time to time on normal commercial terms.

Other than amounts owing to AJ Lucas (Hong Kong) Limited, on which interest is paid at 7.0% per annum, no interest is payable on inter-company balances. The aggregate amounts included in the profit/(loss) from ordinary activities before income tax that resulted from transactions between entities in the consolidated entity are:

	2007 $'000	2006 $'000
Interest expense	749	737
Receivables:		
Aggregated amount receivable from wholly owned controlled entities of the Company:		
Coastal Sand Technologies Pty Limited	55	55
Less: Provision for doubtful loan	(55)	(55)
	-	-
AJ Lucas Joint Ventures Pty Limited	3,940	4,339
AJ Lucas Operations Pty Limited	14,386	24,618
Lucas Energy Pty Limited	4,552	2,876
AJ Lucas Coal Technologies Pty Limited	7,669	6,342
McDermott Drilling	1,207	–
Smart Electrical & Power Services Pty Limited	14	-
AJ Lucas (USA) Inc.	27	27
	31,795	**38,202**
Payables:		
Aggregate amount payable to wholly controlled entities of the Company:		
Lucas Stuart Pty Limited	5,537	4,757
AJ Lucas (Hong Kong) Limited	10,680	10,419
	16,217	**15,176**

33. 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 group, for a purchase consideration of $21.0 million including assumption of existing debt of $4.5 million. The consideration is payable in instalments with $10.0 million paid at settlement and the balance payable over three years in equal annual instalments. The initial consideration was paid entirely out of borrowings. 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.

DIRECTORS' DECLARATION

1 In the opinion of the directors of AJ Lucas Group Limited (the Company):

(a) the financial statements and notes set out on pages 9 to 40 and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report of the consolidated entity also complies with International Financial Reporting Standards as disclosed in note 1;

(c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

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

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the directors:

Allan Campbell
Director
27 September 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AJ LUCAS GROUP LIMITED

Report on the financial report and AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of AJ Lucas Group Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 33 and the directors' declaration set out on page 41 of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" on pages 5 to 8 of the directors' report and not in the financial report. We have audited the part of these remuneration disclosures that are described as being audited.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the consolidated entity, comprising the financial statements and notes, complies with International Financial Reporting Standards

The directors of the Company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the audited remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the audited remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the audited remuneration disclosures contained in the directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated entity's financial position and of their performance and whether the audited remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of AJ Lucas Group Limited is in accordance with the Corporations Act 2001, including:
  (i) giving a true and fair view of the Company's and the Consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001

(b) the financial report of the consolidated entity also complies with International Financial Reporting Standards as disclosed in note 1.

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are described as being audited and that are contained in the section titled "Remuneration report" on pages 5 to 8 of the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

KPMG

KPMG

Malcolm Kafer
Partner
Sydney,
27 September 2007

AUSTRALIAN STOCK EXCHANGE ADDITIONAL INFORMATION

a) Distribution of ordinary shareholders (as at 31 August 2007)

	Number of Security Holders		
Securities held	**Ordinary Shares**	**Rights**	**Redeemable convertible notes**
1 - 1,000	396	–	–
1,001 - 5,000	1,059	2	–
5,001 - 10,000	521	5	–
10,001 - 100,000	476	8	2
100,001 and over	37	4	14
Total	2,487	19	16

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

b) Twenty largest ordinary shareholders

Name	**Number of Ordinary Shares held**	**% of Issued Shares**
Andial Holdings Pty Limited	13,990,000	25.68
HSBC Custody Nominees (Australia) Limited	3,939,825	7.23
Amalgamated Dairies Limited	2,090,000	3.84
Gwynvill Trading Pty Limited	1,681,946	3.09
Forty Traders Limited	1,538,001	2.82
National Nominees Limited	1,392,140	2.56
McDermott Drilling Pty Ltd Superannuation Fund A/C	884,533	1.62
Viewjet Pty Ltd	771,000	1.42
Citicorp Nominees Pty Limited	741,429	1.36
ANZ Nominees Limited	554,498	1.02
Aust Executor Trustees NSW Ltd Patriot Small Co Fund A/C	550,000	1.01
Invia Custodian Pty Limited	429,700	0.79
Race Capital Pty Limited	400,000	0.73
Sandhurst Trustee Ltd JMFG Consol A/C	390,000	0.72
Jayaparittam Pty Ltd Aradhanan Paritta A/C	368,666	0.68
Aust Executor Trustees NSW Ltd Patriot Aust Share Fund A/C	350,000	0.64
JP Morgan Nominees Australia Limited	339,635	0.62
Ms Camilla Susan Hunter The Clouseau A/C	325,000	0.60
NZ Guardian Trust Company Ltd 01035700 A/C	290,950	0.53
IMAJ Pty Ltd Super Fund A/C	220,000	0.40
Total	31,247,323	57.36

c) Substantial shareholders

Name	**Number of Ordinary Shares held**	**% of Issued Shares**
Andial Holdings Pty Limited	17,490,000	32.10
Amalgamated Dairies Group	4,290,000	7.87

On-market buy back
There is no current on-market buy back.

Unquoted equity securities
As at 31 August 2007, there were 1,048,333 rights over unissued ordinary shares in the Company.

Redeemable convertible notes
The following entities hold more than 20% of the redeemable convertible notes on issue.

Name	**Number of Notes held**	**% of Notes**
HSBC Custody Nominees (Australia) Limited - A/C2	8,000,000	32.0%
Perry Partners International, Inc.	8,000,000	32.0%

Voting rights
Ordinary shares - Refer to Note 22.
Redeemable convertible notes - Refer to Note 18.
Rights - Refer to Note 21.

DIRECTORY

Company secretary
Nicholas Swan MA, ACA, MBA, AFIN

Registered office
157 Church Street
RYDE NSW 2112
Tel +61 2 9809 6866
Fax +61 2 9807 6088

Share registry
Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
ADELAIDE SA 5000
GPO Box 1903
ADELAIDE SA 5001
Enquiries within Australia: 1300 556 161
Enquiries outside Australia: +61 3 9615 5970
Email: web.queries@computershare.com.au
Website: www.computershare.com

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

Auditors
KPMG
10 Shelley Street
Sydney NSW 2000

Bankers
ANZ Bank
20 Martin Place
Sydney NSW 2000

Quality certifiers (AS/NZS ISO 9001:2000)
BVQI

Australian business number
12 060 309 104

Other information
AJ Lucas Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.