AJ Lucas Group Limited

ACN 060 309 104

Annual Report 1999

Contents

A copy of A J Lucas Group Limited and its controlled entities' 1999 Annual Financial Report, including the independent audit report, is available to all shareholders, and will be sent to shareholders without charge upon request. The 1999 Annual Financial Report can be requested by telephone (Australia: 1800 096 866, Overseas: +61 2 9809 6866) and is available on the company's Web site at www.lucas.com.au.

Annual General Meeting

The Annual General Meeting of AJ Lucas Group Limited will be held at the offices of Johnson Taylor, Level 3, 7 Macquarie Place, Sydney at 11:30am on 29 November 1999.

Front cover: The Lucas Hercules rig at work on the Ma Wan directional drill in Hong Kong. See page 9 for details of this world-record drilling project.

Back cover: New CAD systems are a key component of Lucas Networks' effectiveness.

Introducing Lucas

Lucas is an infrastructure technology company, providing outsourced services to Australia's energy, water and telecommunications industries.

The Group's activities are:

- Pipelines – principally major high pressure gas pipelines;
- Hydrostatic testing of major pipelines;
- Directional drilling – an advanced technology for installing underground pipes and telecommunications conduits without surface excavation;
- Specialist infrastructure projects – compressor stations, tank farms and other infrastructure engineering;
- Utility networks design, installation and maintenance – for gas, water and telecommunications.

The Group's business was founded over 40 years ago. Today, it has a strong reputation in its industries and is a market and technology leader in pipelines, directional drilling and hydrostatic testing.

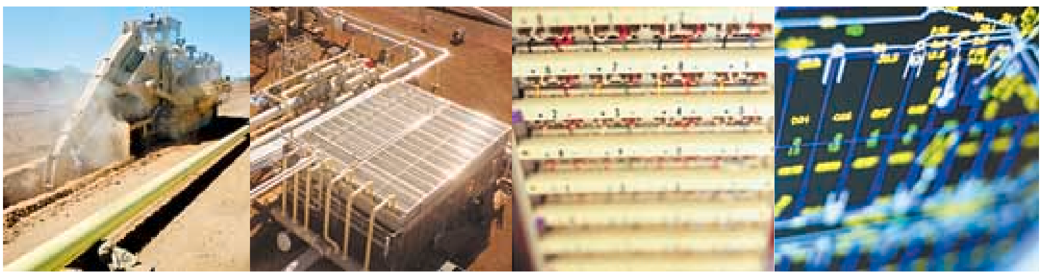
Lucas' clients are principally major infrastructure companies including AGL, BHP, Envestra, Epic Energy, Sydney Water and Telstra. Lucas also provides specialised services to leading contractors such as Clough Engineering, Leightons and Transfield.

The Group's management has a broad range of experience: engineering, business, finance and project management.

The Group's revenue has grown from $6.9 million in Financial Year 1997 to $21.2 million in 1998 and to $24.1 million in 1999. $68.1 million is forecast for 2000.

the year's **highlights**

- *Successful flotation as a public company and listing on ASX.*
- *Winning a place in the 5 year AGL Alliance and completion of its first projects: the 365km Geraldton to Windimurra Pipeline and two compressor stations, on budget and ahead of schedule.*
- *Establishment of Lucas Networks, winning contracts with Telstra for its customer access network over a large area of NSW in joint venture with Downer Construction.*
- *One of the world's most technically demanding directional drilling projects in Hong Kong.*
- *Revenue within 1.25% of forecast at $23.8 million:*
- *Profit growth of over 40%: 12% above our prospectus forecast.*



LUCAS

Chief Executive's review

The year was a big one for Lucas. Three major elements of our strategy came to fruition: the AGL Alliance, listing on the Australian Stock Exchange and the successful establishment of Lucas Networks, winning two significant contracts with Telstra and one with AGL.

Our initial public offering

The August stockmarket listing was an essential step in developing Lucas' business.

It gave us additional capital for our expansion plans, plus the ability to seek more if required. It demonstrates our credibility. It will help us attract and retain the very best people at all levels. It will help us continue to grow fast.

Before our IPO, we spent 18 months developing our strategy and reviewing systems, business practices and structure. Preparation for the public listing put these under a microscope. All passed the scrutiny of our financial and legal advisers, the regulators, the investment community and the public.

We're confident we have the processes, the people and the capital in place to continue our development as a key player in infrastructure outsourcing in Australia.

Alliances as a business strategy

We've always striven to see things from our clients' perspective, to focus on the objectives of a project, rather than just our part of it. By thinking like our clients, we believe we'll deliver the results they need.

This isn't new-age sensitivity, it's good business. Every new project gives us an insight into our client's business and its needs, and helps consolidate our relationship.

Alliances are the logical extension of this. And for major infrastructure projects, alliances have a lot of benefits. The old-fashioned approach pits contractors against one another to win the job and, too often, ends up with client pitted against contractor.

By opening the books and sharing risks and rewards, alliances eliminate many potentially adversarial situations from a major project. If we can find a way to get the job done better, we all benefit. If weather, conditions or foreign exchange goes against the project, the costs are shared. And because we don't have to predict every element of the project at the outset, we can start while later elements are still being developed.

So we jumped at the invitation from our client AGL to present an alliance proposal. This was successful, and led to the AGL Alliance; effectively making us, in joint venture with Clough Engineering, AGL's preferred construction partner for pipelines and gas facilities over the next five years.

With AGL's first two projects completed ahead of schedule and on budget, the benefits of the Alliance have been confirmed.

Technology investment

1999 has seen a major upgrade of our computer and communications networks, including the establishment of an Internet site and new project management and CAD systems. This is steadily improving management information and communication – internally, and with our clients and suppliers.

We've continued to invest in developing our project management skills and supporting technology. Our new Internet-based project management system will make up-to-date project data securely accessible to management and clients from anywhere.

Safety

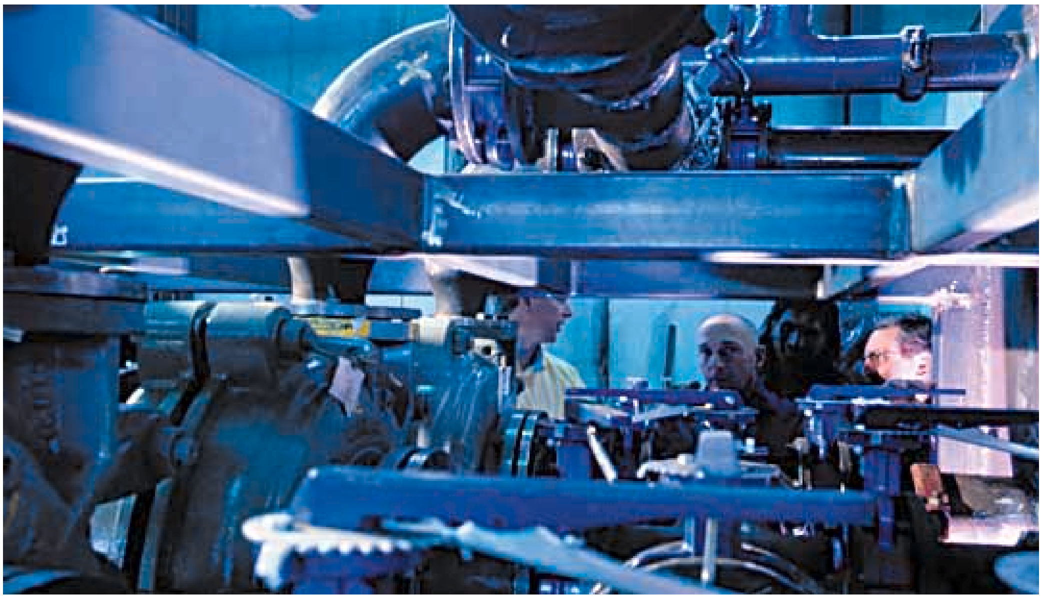
Nothing is more important than the safety of all our people. Our Group-wide review included a careful evaluation of our safety procedures. We work closely with all joint venture and alliance partners, as well as contractors, to make sure safety procedures are consistent across the whole team.

1999 ended with only a single safety incident in 355,102 man-hours worked.

Environmental and cultural protection

Like all companies working on public and other people's land, we have an obligation to protect the environment.

As Australia's leader in directional drilling, a technology which inherently minimises impact on the environment, we are very



Lucas' Hercules directional drilling rig being prepared for shipment to Hong Kong for the Ma Wan drilling project.

sensitive to the potential environmental consequences of our activities.

This applies to wilderness, like the wetlands we have protected by directional drilling; to cultivated lands, like the farmland our pipelines cross; to developed land, like the airports we've drilled beneath.

Over the last year we've worked with farmers, Aboriginal Land Councils, local, state and federal governments to protect disappearing habitat, precious topsoil and ancient cultural sites.

Environmental obligations are getting more insistent. We believe our technology and attitude will create opportunities for us.

Research and development

Technology is in our blood. It was careful research that led to our successful introduction of directional drilling in Australia.

This year our expertise led to winning one of the most challenging directional drilling projects in the Asia-Pacific – the Ma Wan water mains in Hong Kong. In this project, we are successfully using technology that's never been used before.

In pipelines, we're a participant in the Cooperative Research Centre for Welded Structures at the University of Wollongong.

Our participation will ensure we're right at the forefront of new technology in this field.

With our first long-term contracts in place with Telstra, we're developing our telecommunications skills and applying our project management expertise to this field. We believe we are well placed to take on a wide range of work in this fast-growing industry.

Our R&D efforts have developed innovative techniques to extract methane gas from the coal seams buried deep within Australia's coal fields. We intend to develop this technology further during the next year.

The future

The industries in which we operate are all growing fast. The deregulated energy sector is creating a wide range of opportunities for our clients, and so, for us.

Expanding our range of services to the telecommunications industry is a major goal for 2000 and beyond. We've already started developing our skills and resources in fibre optics, microwave, wireless telecommunications, cellular phone and high-speed data infrastructure.

The Internet offers us opportunities for more business, as the nation's telecommunications infrastructure expands to meet market demands.

We have a diverse range of services and clients in secure, fast-growing industries. We're confident we can continue to grow rapidly and profitably.

1999 – the projects

Lowering-in a section of the Berri to Mildura pipeline.

The projects we've won and completed in 1999 consolidate our expertise in pipelines, directional drilling, infra-structure engineering and utilities networks.

One of 20,146 precision-welded joints on the Midwest Pipeline.

Pipelines

With 25 years in the pipeline business, Lucas is taking a leading role in some of the country's largest cross-country pipelines.

The technology in gas pipelines has evolved rapidly. New high-strength steels, advanced welding techniques and sophisticated non-destructive testing have made it a high technology activity. It's also a field that needs diplomacy and lateral thinking to negotiate the complex government requirements, environmental and cultural heritage issues.

We've worked successfully in this environment, and are active participants in the industry's development through Andrew Lukas' role as president of the Australian Pipeline Industry Association (APIA).

AGL Midwest Pipeline

The largest project we completed this year, this 365km high-pressure pipeline carries gas from Geraldton to the Windimurra Vanadium mine in Western Australia.

The pipeline was the first project for the AGL Alliance, formed in 1998 by AGL to carry out its major gas-related projects for the next five years. Lucas, in joint venture with Western Australian-based Clough Engineering, won its place in the Alliance against national competition from Australia's leading contractors.

Completed ahead of schedule – less than a year after initiation, and below the target price, the Midwest Pipeline was a clear demonstration of the benefits of the Alliance approach.

Apart from its technical and commercial success, the Midwest Pipeline had an exceptional safety record – winning the 1999 National Safety Council of Australia's Safety Award of Excellence for a specific project – beating even Qantas.

Marsden to Dubbo

Completed earlier in the year, this 283km pipeline added Dubbo, Forbes, Parkes and Narromine to AGL's NSW gas network.

The success of this project led to our invitation to bid for a place in the AGL Alliance.

Envestra's Berri to Mildura Pipeline

This 185km high pressure pipeline will carry gas from Berri, South Australia to Mildura in Victoria. It's on schedule for completion as this report goes to print.

Won as an EPC (engineer/procure/construct) project, Lucas has been responsible for engineering, procurement, quality control and inspection.

Strong relationships and rigorous project management were the key to making this work. We engaged AGL Construction to work with us on the engineering design. Boral was brought on board to design and

construct the above-ground installations, while our own crews were responsible for the pipeline itself and directional-drilled river crossings.

With two states involved, regulatory requirements were more challenging than usual. This, as well as sensitive cultural heritage and environmental issues, were handled successfully.

Again, the project demonstrated the effectiveness of working closely to achieve a shared aim and confirms our commitment to this type of business association.

Hydrostatic testing

With more than 50% of the market, Lucas is the clear market leader in hydrostatic testing. Our NATA-registered mobile testing laboratory has been at work right across the country, testing the Lara to Iona (Vic.), Midwest (WA), Marsden to Dubbo (NSW) and Berri to Mildura (SA & Vic.) gas pipelines and the Pasminco Century Zinc slurry pipeline (Queensland) among others.

Floreat Beach, south of Perth, where the SEA-ME-WE 3 fibre optic cable reaches Australia.

This 38,000 km long submarine fibre optic cable system operates at up to 40Gb/s and provides voice and data links from Australia to Southeast Asia and Europe.

Lucas landed the cable by directional drilling from behind the beach to beyond the surf zone.

Directional drilling

Lucas pioneered directional drilling in Australia and are the country's market leader in this sophisticated technology, with three of Australia's five largest directional drilling rigs and more experience in major drills than any other company in Australia.

Ma Wan – Lucas technology wins in Hong Kong

Probably the most technically demanding directional drill in the Asia Pacific, Lucas won this project for Leighton's Asia against international competition.

The project is a pair of 1m bores carrying dual water mains under Hong Kong Harbour for a development on Hong Kong's Ma Wan Island. The mains travel 1,369m, 76m below the harbour.

Directional drilling avoids a variety of problems with installation on the bottom of the harbour: irregular bottom topography, heavy shipping traffic, strong currents and potential damage from ship anchors.

The crossing is mainly through extremely hard granite and has a variety of challenges. To meet them, Lucas is using innovative reaming technology and a specially developed drilling fluid.

Century Zinc slurry pipeline

Lucas was responsible for directional drilling six river crossings and the hydrostatic testing of this 300km pipeline carrying ore slurry from Pasminco's Century Zinc mine, 250km northwest of Mt Isa, to Karumba in the Gulf of Carpentaria.

Sydney Water

For the past five years, Lucas has been providing a high technology solution to Sydney Water's sewer expansion. Using precision directional drilling, Lucas has been connecting directly into main tunnels, hundreds of metres below ground level. This has avoided kilometres of trenching and weeks of disruption. Because the directional-drilled shafts follow a precisely calculated path, they eliminate the need for surface pumping stations, delivering major cost savings and simplifying operations.

Lucas Networks

Telstra's CAN 2001

Of all the infrastructure industries we work in, telecommunications is growing fastest. With continuous technical development, increasing demand for online services and competition for voice services, maintaining and upgrading the nation's telecommunications infrastructure is a perpetual task.

We spent a year investigating this sector to identify opportunities with the best fit and prospects for Lucas. Our new division, Lucas Networks, got off to a flying start, winning two regions of NSW in Telstra's CAN2001 customer access network upgrade.

Within weeks of winning the contract, we had premises, vehicles, equipment and teams ready to go.

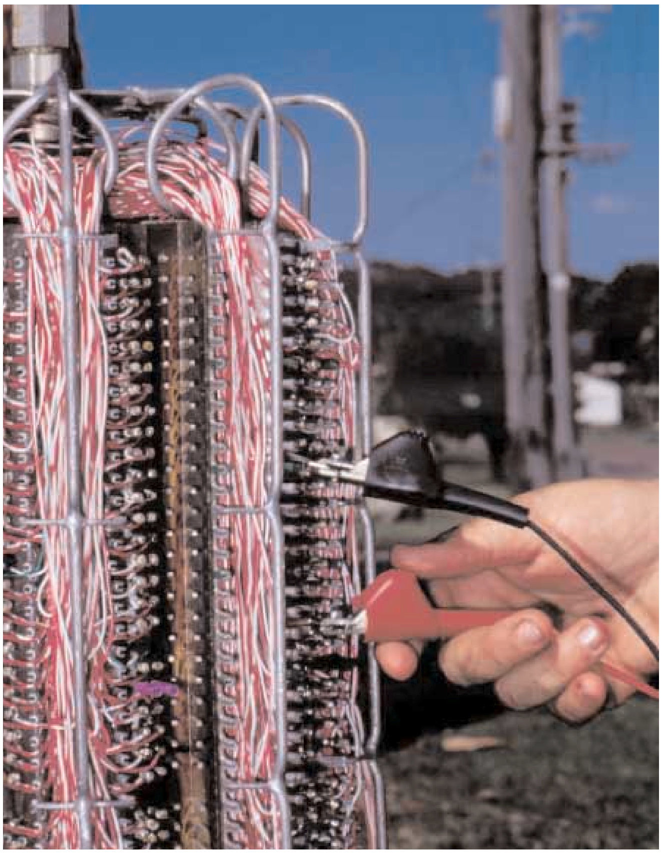
The work involves rehabilitation of Telstra's current network, service upgrades and network extensions.

Our role includes designing components of the Telstra customer access network. Our teams then carry out field installation and maintenance.

Parkes & Forbes gas reticulation.

Lucas Networks won the contract to install gas reticulation networks in Parkes and Forbes in central NSW in August 1999. This is the next stage of getting gas to customers on the Marsden to Dubbo pipeline built by Lucas for AGL in 1998.

A total of 60km of nylon gas mains is being installed. The project started on schedule and as we go to print our teams are about 25% ahead of their target installation schedule.



Lucas Networks: testing at the exchange

Infrastructure

AGL compressor stations

Key components of AGL's NSW gas infrastructure, these two stations, at Young and Cobar, boost the pressure of the gas travelling through the pipeline to maximise its capacity.

Working in joint venture with AGL Construction and Solar Turbines, suppliers of the gas-turbine powered compressors, the stations were another example of the power of collaboration to deliver results: completed on-time and on-budget, exceeding all environmental and safety benchmarks.

Lucas directional drilling provided an innovative solution to a major landslip problem at Watawala in Sri Lanka.

Directional-drilled bores now carry runoff from above the landslip area so excess water can drain safely to the sea.

APIA President Andrew Lukas addressing an APIA conference in Melbourne.

A year as APIA president

The Australian pipeline industry is expanding rapidly with thousands of kilometres of pipelines on the drawing board. Competition among pipeline owners and sellers of gas is promoted and encouraged.

APIA, the Australian Pipeline Industry Association, facilitates industry liaison with government and provides a forum for networking every part of the sector – suppliers, engineers, contractors and owners .

This year, APIA has moved from a part-time secretariat in Melbourne to permanent headquarters in Canberra. This is staffed by a very professional team led by an executive director who's an acknowledged expert in the industry.

APIA is focused on making it easier for investors to build and own more pipelines. Good progress is being made. We have worked successfully with state and federal governments to streamline Native Title approvals and pipeline licensing.

We have initiated research and development which has already saved millions of dollars of capital cost.

APIA has focused on safety and the environment, with many standard guidelines produced and more to come.

In short, APIA, like the industry it represents, is growing in an exciting environment of opportunity we haven't seen in Australia

Andrew Lukas
President, APIA
Managing Director, AJ Lucas Group Limited

The four eras of Lucas (so far)

The beginnings 1957

The business was started by civil engineer Andrew Lukas (Snr). The first contract was extending the water mains on Sydney's North Shore for the Water Board.

Through the 1960s Lucas was a key contractor for water and sewer infrastructure in Sydney, working on major land releases.

Extending into oil and gas 1975

Andrew Lukas (Jnr) joined the business, bringing his US pipeline experience. Lucas focused on the gas industry which was expanding rapidly. For Hartogen and Bridge Oil we built oil and gas gathering systems. This side of the business continued to grow to its current position as a leader in the construction of gas pipelines in Australia.

Also during this era, considerable work was obtained in oil and chemical tank farms.

Pioneering directional drilling 1989

In the late 1980s, Lucas pioneered directional drilling in Australia.

Lucas has led the industry in Australia ever since – in technology, equipment and projects completed. Internationally, we have worked successfully in Sri Lanka, Papua New Guinea, Malaysia and now Hong Kong.

Telecommunications and total solutions 1999

This latest era is a particularly exciting one. Earlier this year Lucas listed on the Australian Stock Exchange.

Outsourcing is now common in the infrastructure industry as companies focus on their core businesses.

Our new division, Lucas Networks, has made a successful entry into telecommunications with major Telstra contracts.

Our role in infrastructure now spans water, energy and telecommunications. Our experience and understanding of infrastructure and technology puts us in an ideal position to work effectively in these now-deregulated and rapidly expanding industries.

Corporate governance statement

This statement outlines the main Corporate Governance practices that were put in place upon the conversion of AJ Lucas Group Limited to a public company on 28 May 1999. These practices are dealt with under the following headings:

- Board of directors and its committees
- Business risk
- Internal control framework
- Ethical standards

Board of directors and its committees

The Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals. To assist in the execution of its responsibilities, the Board has established a number of Board Committees including an Audit Committee and a Finance Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The effectiveness of each committee is also constantly monitored. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

Composition of the Board

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' Report on page 12 of this financial report.

The composition of the Board is determined using the following principles:

- The Board should comprise five directors. This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified.
- The Chair of the Board may either be an executive or non-executive director.
- The Board should comprise directors with a broad range of expertise both nationally and internationally.

The composition of the Board is reviewed on an annual basis by the Chair to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board may appoint a director who must stand for election at the next general meeting of shareholders.

The terms and conditions of appointment and retirement of non-executive directors are set out in a letter of appointment.

The performance of all directors is reviewed by the Chair each year.

Director education

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations.

Directors' dealings in Company shares

Company policy permits directors to acquire shares in the Company. Directors must notify the Company secretary before they sell or buy shares in the Company.

Independent professional advice

Each director has the right to seek independent professional advice at the consolidated entity's expense. However, prior approval of the Chair is required, which would not be unreasonably withheld.

Audit Committee

The Audit Committee was established in July 1999. The role of the Audit Committee has been documented in a Charter, which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be non-executive directors. The role of the Committee will be to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the Audit Committee are:

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

The external auditors, Chief Executive Officer and Chief Financial Officer are invited to Audit Committee meetings at the discretion of the Committee.

The responsibilities of the Audit Committee include:

- reviewing the financial report and other information distributed externally
- reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management
- liaising with the external auditors and ensuring that the annual and half-yearly statutory audits are conducted in an effective manner
- monitoring the establishment of an appropriate internal control framework and considering enhancements
- monitoring the establishment of appropriate ethical standards
- monitoring the procedures in place to ensure compliance with the Corporations Law and Stock Exchange Listing Rules
- addressing any matters outstanding with the auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions
- improving the quality of the accounting function
- reviewing the declaration from the Company Secretary on compliance with statutory responsibilities.

The Audit Committee will review the performance of the external auditors on an annual basis and will meet with them during the year to discuss audit planning issues, half year and annual reporting, announcements of results and other matters as and when required.

Finance committee

The Finance Committee was established in July 1999. The Board has delegated the Finance Committee the day-to-day authority for the review and approval of acquisitions and disposals of businesses and assets, and the approval of contract tenders and financing arrangements, within defined limits.

The members of the Finance Committee from July 1999 are:

Mr Allan Campbell (Chairman)
Mr Martin Green
Mr Ross Lane

Mr Ross Lane is a senior executive of the consolidated entity and company secretary of all Group companies.

Tender committee

The Tender Committee was formed in July 1999. The Board has delegated the Tender Committee the day-to-day authority for the review and approval of contract tenders placed by the consolidated entity.

The members of the Committee from July 1999 are:

Mr Ian Stuart-Robertson (Chairman)
Mr Andrew Lukas
Mr Ross Lane
Mr Kevin Lester

Mr Ross Lane and Mr Kevin Lester are senior executives of the consolidated entity.

Business risk

The Board regularly identifies areas of significant business risk.

Once a risk is identified, an action plan is instigated. Corrective action is taken as soon as practicable. Major business risks arise from such matters as action by competitors; government policy changes; difficulties in sourcing materials, and the purchase, development and use of information systems.

Millennium issues

In all the consolidated entity's businesses, steps are being taken to evaluate the likely impact of the transition to the year 2000 on their business processes. In the absence of unforeseen circumstances, the Directors' intention is to have all critical systems which are in the consolidated entity's direct control tested for year 2000 readiness within an appropriate timeframe which, given the nature of most of the consolidated entity's businesses, will be by 30 November 1999. A number of entity-wide tests have been performed to test the readiness of the consolidated entity's systems for the year 2000 issue and, as at the date of this report, a year 2000 solution was substantially in place.

Over the remaining period to 1 January 2000, the directors will oversee the progress of our action plans, with particular emphasis on contingency planning. The contingency planning process addresses the identification of processes that are critical to the business and the identification and assessment of risks to these processes. Recovery planning addresses actions that could help mitigate the effects of a year 2000 failure.

The year 2000 issue, however, is unique. There can be no assurance that the steps taken by any company will successfully minimise vulnerabilities of its software and systems, or those of its suppliers, to the problems associated with the transition to the Year 2000. Significant third parties with which the consolidated entity interfaces include, among others, customers and business partners, technology suppliers and service providers, and utility infrastructure (power, transportation, telecommunications), on which all entities rely. Lack of readiness by these third parties would expose the consolidated entity to the potential for loss, impairment of business processes and activities, and general disruption of its markets.

This statement is a year 2000 disclosure statement for the purposes of the Year 2000 Information Disclosure Act 1999. A person may be protected by that Act from liability for this statement in certain circumstances.

Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated a system of financial reporting, operating controls, investment review and an organisational structure that provides an appropriate division of responsibility.

Internal Audit

The Board does not believe, at this stage, that the size or nature of the consolidated entity requires an internal audit function.

International Quality Standard IS 9002

The consolidated entity strives to ensure that its services are of the highest standard. Towards this aim it will be undertaking a programme to achieve IS 9002 accreditation for each of its business segments.

Ethical standards

The consolidated entity is in the process of developing an Ethical Standards Manual which will set out the standard in accordance with which each director, manager and employee of the consolidated entity is expected to act.

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Each employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The directors present their report together with the financial report of A J Lucas Group Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities for the year ended 30 June 1999 and the auditors' report thereon.

Directors

The directors of the Company in office at any time during or since the financial year are:

Name and qualification	Age	Experience and special responsibilities
Allan Stuart Campbell BCom LLB *Executive Chairman*	43	Wide experience in commerce, law and investment banking. Chairman of Finance Committee. Director and Executive Chairman since 1995.
Mr Andrew Lukas BE *Managing Director*	52	Extensive engineering experience in Australia and overseas. Pioneered the development of directional drilling in Australia. Director and Managing Director since 1995. Current President of the Australian Pipeline Industry Association.
Mr Ian Stuart-Robertson AAIQS *Non-Executive Director*	50	Qualified quantity surveyor with 30 years experience in civil and building construction. Chairman of the Tender Committee. Member of the Audit Committee.
Mr Garry O'Meally BSc BE *Non-Executive Director*	62	Formerly General Manager of AGL Gas and AGL Petroleum. Over 40 years experience in the oil and gas industries. Member of the Audit Committee.
Mr Martin Green FCA *Non-Executive Director*	54	Chairman of Executive and partner in charge of insolvency at Grant Thornton Chartered Accountants and a Fellow of the Institute of Chartered Accountants in Australia. Member of the Finance Committee. Chairman of the Audit Committee.

Mr Garry O'Meally and Mr Martin Green were appointed to the Board on 28 May 1999.

Directors' meetings

The number of directors' meetings and the number of meetings attended by each of the directors of the Company held during the time the directors held office during the financial year are:

Director	Meetings Held	Meetings Attended
Mr A S Campbell	17	17
Mr A J Lukas	17	17
Mr I Stuart Robertson	17	16
Mr T G O'Meally	1	1
Mr M J Green	1	1

Principal activities

The principal activity of the consolidated entity during the course of the financial year was civil engineering contracting services. There were no significant changes in the nature of activities of the consolidated entity.

Review and results of operations

The operating profit of the Company after income tax and prior to extraordinary items was $733,134 (1998: $1,401,672) and $1,060,359 (1998: $1,401,672) for the consolidated entity.

Total contract revenue for the consolidated entity for the financial year was $23,813,325 which was an increase of 12.3% on the 1998 year. Operating profit of the consolidated entity was $1,708,250 which is an increase of 41.5% on the 1998 year.

Operating profit after income tax for the consolidated entity has reduced by $341,313 compared to the 1998 year as all accumulated tax losses have now been used.

Derivatives and other financial instruments

The consolidated entity is exposed to fluctuations in exchange rates from its purchase commitments denominated in foreign currencies. It is also exposed to credit, liquidity and cash flow risks from its operations. Management reports to the Board on a monthly basis as to the monitoring of policies in place, and adherence to the policies is strictly observed.

Dividends

No dividends have been declared or paid during or since the end of this financial year.

State of affairs

Significant changes to the state of affairs of the Company and the consolidated entity during the financial year were as follows:

On 28 May 1999 the Company converted to a public company and changed its name from A J Lucas Contractors Pty Limited to A J Lucas Group Limited in preparation for its listing on the Australian Stock Exchange.

On 10 June 1999 the Company restructured with a view to more effective management and control of its specifically identified business units. Each business unit of A J Lucas Group Limited was sold to a separate 100% controlled entity formed for the specific purpose of undertaking the work of the business unit. Details of the sales were as follows:

Business Unit	Purchaser
Drilling	AJ Lucas Drilling Pty Limited
Hydrostatic testing	AJ Lucas Testing Pty Limited
Pipeline Construction	AJ Lucas Pipelines Pty Limited
Networks	AJ Lucas Network Pty Limited
Joint Ventures	AJ Lucas Joint Ventures Pty Limited
Plant and Equipment	AJ Lucas Plant and Equipment Pty Limited

The employment of all personnel and all administration functions of the Company were transferred to AJ Lucas Admin Pty Limited.

The sales of the business units and plant and equipment were financed by the Company through the provision of non-interest bearing loans to the purchasing controlled entity.

Environmental regulations and native title

The consolidated entity's operations are subject to significant environmental and native title regulations under both Commonwealth and State legislation. The directors and management have formulated an Environmental and Native Title Plan which is regularly monitored and updated.

Indemnification and insurance of officers and auditors

Indemnification

Since the end of the previous financial year the Company has not indemnified or made a relevant agreement for indemnification against a liability with any person who is or has been an officer or auditor of the Company or its controlled entities.

Insurance premiums

Since the end of the previous financial year the Company has paid premiums in respect of Directors' and Officers' Liability insurance contracts for the year ended 30 June 1999 totalling $22,000 (1998: $20,000) and, since the end of the financial year, the Company has paid or agreed to pay premiums in respect of such insurance contracts for the year ended 30 June 2000. Such insurance contracts insure against certain liability (subject to certain exclusions) persons who are or have been directors or officers of the Company and its controlled entities.

Events subsequent to balance date

Since the end of the financial year the Company has fulfilled the requirements for listing on the Australian Stock Exchange. This listing occurred on 10 August 1999.

On 3 August 1999, the Company issued an additional 5,000,000 ordinary fully paid shares to public subscribers and shares totalling 7,500,000 were sold by the ultimate parent entity, A J Lucas Holdings Pty Limited. Public subscribers now hold 38.9% of the issued capital of the Company.

Likely developments

The consolidated entity will continue to pursue its policy of expanding the business and increasing profitability through increasing its market share of existing operations and by acquisition of operations considered necessary to improve performance.

Directors' and senior executives' emoluments

The Board of Directors is responsible for setting remuneration policies and packages applicable to the Board members and senior executives of the Company. The remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive directors and senior executives may receive bonuses related to the performance of the consolidated entity (including operational results and cash flow). Non executive directors do not receive any performance related remuneration.

Details of the nature and amount of each major element of the emoluments of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest emolument are:

Directors	Base emolument $	Bonuses $	Non-cash benefits $	Superannuation contributions $	Total $
Mr A S Campbell	155,671	–	10,000	–	165,671
Mr A J Lukas	132,337	50,000	25,000	7,200	214,537
Mr I Stuart-Robertson	19,000	–	–	–	19,000
Mr T G O'Meally	4,000	–	–	–	4,000
Mr M J Green	4,000	–	–	–	4,000
Officers					
The Company and consolidated entity					
Mr K D Lester	92,000	25,000	–	6,750	123,750
Mr R Lane	23,972	–	3,596	1,798	29,366
Mr D Sinclair	20,820	–	–	1,562	22,382

Options

Since the end of the financial year, the Company has granted options to purchase unissued ordinary shares to the following directors and senior executives:

	Number of options granted	Exercise price	Expiry date
Directors			
Martin Green	50,000	$1.00	31 July 2002
Garry O'Meally	50,000	$1.00	31 July 2002
Executives			
Kevin Lester	150,000	$1.00	31 July 2002
Ross Lane	100,000	$1.00	31 July 2002
Stephen Loneragan	50,000	$1.00	31 July 2002
Adam Binning	50,000	$1.00	31 July 2002

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

Expiry date	Exercise price	Number of options
31 July 2002	$1.00	450,000

All options expire on the earlier of their expiry date or termination of the employee's employment.

Directors' interests

The relevant interest of each director and their director-related entities in the share capital of the companies within the consolidated entity, as notified by the directors to the Australian Stock Exchange in accordance with Section 235(1) of the Corporations Law, at the date of this report is as follows:

A J Lucas Group Limited

	Ordinary Shares	Options over Ordinary Shares
Allan Campbell	11,270,000	–
Andrew Lukas	6,860,000	–
Ian Stuart-Robertson	1,470,000	–
Martin Green	–	50,000
Garry O'Meally	–	50,000

Signed in accordance with a resolution of directors:

Allan Stuart Campbell
Director

Dated 18 October 1999

Andrew John Lukas
Director

Dated 18 October 1999

Discussion and analysis of the profit and loss statement

The consolidated entity's total operating revenue for 1999 increased by 12.4% to $23,860,073.

Operating profit before income tax was $ 1,708,250, an increase of 41.6% ($501,623) on the 1998 financial year. Operating profit after income tax was $ 1,060,359, which was a decrease of $341,313, due primarily to the final recoupment of prior years' tax losses. The Clough Lucas Joint Venture, entered into by the consolidated entity during the financial year, contributed $813,782 to the consolidated entity's after-tax operating profit (refer Note 6 Interest in Joint Venture).

The result indicates maintenance and, in some cases, an increase in contract margins, which was achieved notwithstanding distractions connected with listing the Company on the Stock Exchange. Profit was also favourably impacted by bonus payments received arising from the achievement of Key Performance Indicators from several contracts.

Return on sales (net profit attributable to the members of the Company on sales) has gone from 6.60% to 4.45%. Return on equity (net profit attributable to the members of the Company on shareholders' equity attributable to the members of the Company) is 20.24% compared to 31.65% in 1998. These movements are largely due to an increase in income tax attributable to operating profit of $842,936 as carried forward tax losses have now been fully recouped.

Return on total assets (including intangibles) is 7.20% compared to 16.12% in 1998. Carried-forward tax losses increased the 1998 percentage.

PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30 JUNE 1999

	Consolidated	
	1999	**1998**
	$	**$**
Operating revenue		
Contract revenue	23,813,325	21,202,114
Interest – other parties	46,748	28,471
Total operating revenue	**23,860,073**	**21,230,585**
Revenue from outside operating activities		
Gross proceeds from sale of non current assets	64,062	–
Other	38,334	–
	102,396	**–**
Operating profit before income tax	**1,708,250**	**1,206,627**
Income tax attributable to operating profit	647,891	(195,045)
Net profit attributable to members of the company	**1,060,359**	**1,401,672**
Retained profits at the beginning of the financial year	**2,139,855**	**738,183**
Retained profits at the end of the financial year	**3,200,214**	**2,139,855**
Basic earnings per share	$0.42	$700,836
Diluted earnings per share	$0.42	$700,836
Earnings per share based on total shares issued at balance date	$0.04	$700,836

The profit and loss statement is to be read in conjunction with the discussion and analysis above and the notes to the financial statements set out on pages 20 to 21

Discussion and analysis of the balance sheet

The consolidated entity's net assets increased by 18.3% to $5,239,471 over the year.

The consolidated entity's total assets increased by $6,021,256 to $14,715,756 (1998: $8,694,500) over the year.

The increase in total assets principally comprises:

- An increase in cash of $700,872 and an increase in trade debtors of $4,363,002 resulting from the timing of several large construction contracts commencing in the latter half of the financial year together with the commencement of the Clough Lucas Joint Venture during the financial year (refer Note 6 Interest in Joint Venture).
- An increase in property, plant and equipment of $1,037,788 as a result of substantial capital purchases during the financial year.

The consolidated entity's total liabilities increased by $5,210,897 to $9,476,285 (1998: $4,265,388) over the year.

The increase in total liabilities was principally due to:

- An increase in trade creditors and accrued charges of $3,214,976 to $6,599,251 required to finance the increase in contracts in progress at year end together with the commencement of the Clough Lucas Joint Venture during the financial year (refer Note 6 Interest in Joint venture).
- An increase in provisions of $690,870 primarily due to an increase in income tax of $600,064.
- An advance payment of contract revenue received during the financial year of $524,961.
- An increase in borrowings of $780,713 to $1,446,240, the majority being raised by way of term loan finance from the consolidated entity's bankers to finance capital equipment purchases. Interest on this finance is payable monthly at 8.55% per annum. This loan finance was supported by the granting of a fixed and floating charge over the assets of the consolidated entity.

Share capital decreased by $250,000 due to the redemption of the redeemable preference shares during the financial year.

The debt to equity ratio is approximately 28%. This has increased from 15.03% in 1998.

BALANCE SHEET AS AT 30 JUNE 1999

	Note	Consolidated 1999 $	Consolidated 1998 $
CURRENT ASSETS			
Cash		1,633,646	932,774
Receivables		7,435,580	3,239,637
Inventories		439,072	447,881
Other		125,612	–
TOTAL CURRENT ASSETS		**9,633,910**	**4,620,292**
NON-CURRENT ASSETS			
Property, plant and equipment		4,796,015	3,758,227
Investments		18,300	–
Other		267,531	315,981
TOTAL NON-CURRENT ASSETS		**5,081,846**	**4,074,208**
TOTAL ASSETS		**14,715,756**	**8,694,500**
CURRENT LIABILITIES			
Accounts payable		6,599,251	3,384,275
Borrowings		702,370	354,341
Provisions		756,446	70,988
Other		524,961	–
TOTAL CURRENT LIABILITIES		**8,583,028**	**3,809,604**
NON-CURRENT LIABILITIES			
Borrowings		743,870	311,186
Provisions		29,074	23,662
Other		120,313	120,936
TOTAL NON-CURRENT LIABILITIES		**893,257**	**455,784**
TOTAL LIABILITIES		**9,476,285**	**4,265,388**
NET ASSETS		**5,239,471**	**4,429,112**
SHAREHOLDERS' EQUITY			
Share capital	5	2	250,002
Reserves		2,039,255	2,039,255
Retained profits		3,200,214	2,139,855
TOTAL SHAREHOLDERS' EQUITY		**5,239,471**	**4,429,112**

The balance sheet is to be read in conjunction with the discussion and analysis on the previous page and the notes to the financial statements set out on pages 20 to 21.

Discussion and analysis of the statement of cash flows

The decrease in cash flows provided by operating activities has largely been influenced by the necessity to make substantial up-front payments to suppliers in respect of major contracts commenced in the latter part of the financial year. These costs were invoiced to customers but not collected until after the end of the financial year.

Repayment of borrowings and payment of related interest was in accordance with the agreements entered into with third parties.

Payments for property, plant and equipment totalling $201,411 were made during the financial year.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 1999

		Consolidated	
		1999	1998
	Note	$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		19,488,414	19,827,168
Cash payment in the course of operations		(18,170,555)	(17,661,817)
Interest received		46,748	28,471
Borrowing costs paid		(9,376)	–
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,355,231	2,193,822
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		4,000	–
Proceeds from sale of equity investments		60,062	–
Purchase of equity investments		(39,564)	–
Payments for property, plant and equipment		(201,411)	(823,389)
NET CASH (USED IN) INVESTING ACTIVITIES		**(176,913)**	**(823,389)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of preference shares		(250,000)	–
Repayment of borrowings by related entity		87,400	16,379
Loans to related entity		–	(9,550)
Lease and hire purchase payment		(314,846)	(658,343)
NET CASH (USED IN) FINANCING ACTIVITIES		**(477,446)**	**(651,514)**
NET INCREASE /(DECREASE) IN CASH HELD		**700,872**	**718,919**
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		**932,774**	**213,855**
CASH AT THE END OF THE FINANCIAL YEAR		**1,633,646**	**932,774**

The statement of cash flows is to be read in conjunction with the discussion and analysis above and the notes to the financial statements set out on pages 20 to 21.

Notes to the financial statements for the year ended 30 June 1999

1. BASIS OF PREPARATION OF CONCISE FINANCIAL REPORT

The concise financial report has been prepared in accordance with the Corporations Law, Accounting Standard AASB 1039 "Concise Financial Reports" and applicable Urgent Issues Group Consensus Views. The financial statements and specific disclosures required by AASB 1039 have been derived from the consolidated entity's full financial report for the financial year. Other information included in the concise financial report is consistent with the consolidated entity's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or current valuations of non-current assets.

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

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

2. SEGMENT INFORMATION

	Australia		Asia/Pacific		Consolidated	
	1999	1998	1999	1998	1999	1998
Consolidated entity	$	$	$	$	$	$
Geographical segments						
Contract revenue from customers outside the economic entity	21,194,540	21,202,114	2,618,785	–	23,813,325	21,202,114
Other revenues	149,144	28,471	–		149,144	28,471
Total revenue					**23,962,469**	**21,230,585**
Segment operating profit	1,412,890	1,206,627	295,360	–	1,708,250	1,206,627
Operating profit before income tax					**1,708,250**	**1,206,627**
Segment assets	10,213,690	8,694,500	4,502,066	–	14,715,756	8,694,500
Total assets					**14,715,756**	**8,694,500**

Industry Segments

The consolidated entity operates predominantly in the civil engineering industry and provides directional drilling and specialist infrastructure services.

3. DIVIDENDS

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

4. CONTINGENT LIABILITIES

The details and estimated maximum amounts of major contingent liabilities that may become payable are set out below. The directors are not aware of any circumstance or information which would lead them to believe that these liabilities will crystallise and consequently no provisions are included in the financial statements in respect of these matters.

Joint venture

The consolidated entity has a commitment to the Clough Lucas Joint Venture to supply funds as and when needed, as determined by the Management Committee of the joint venture. Failure to supply funds may result in exclusion from the joint venture.

Guarantees

The consolidated entity has arranged a banker's guarantee for $110,910 (1998: $136,614) in relation to the performance of three (1998: two) of the consolidated entity's contracts.

Insurance bonds

The consolidated entity has arranged insurance bond facilities totaling $2,312,802 (1998: $nil) in relation to the performance of six (1998: nil) of the consolidated entity's contracts.

5 SHARE CAPITAL

		Consolidated	
Issued and paid-up capital	**Note**	**1999**	**1998**
27,100,00 (1998: 2 of $1 par value each) ordinary shares, fully paid	(i)	2	2
Cumulative redeemable preference shares (30 June 1998: 250,000 of $1 par value each)	(ii)	–	250,000
		2	250,002

The Company Law Review Act 1998 ("the Act") came into effect on 1 July 1998. The Act abolished par value shares. From 1 July 1998 share capital does not have a nominal (par) value.

(i) On 28 May 1999 the two ordinary shares of the Company were divided into a total 27,100,000 ordinary shares.

(ii) On 28 May 1999 the 250,000 cumulative redeemable preference shares were redeemed for a total of $250,000 cash.

6. INTEREST IN JOINT VENTURE

During the financial year the Company entered into a joint venture arrangement named Clough Lucas Joint Venture with Clough Engineering Limited. The primary activity of the joint venture is the performance of contracts for AGL involving pipe-laying and related construction activities.

For the year ended 30 June 1999 the contribution of the joint venture to the operating profit of the consolidated entity after income tax was $813,782 (1998: nil). The consolidated entity's share of total assets of the joint venture at 30 June 1999 was $3,818,708 (1998: nil) and of total liabilities was $3,004,926 (1998: nil).

7. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year the Company has fulfilled the requirements for listing on the Australian Stock Exchange. This listing occurred on 10 August 1999.

Prior to listing, the Company issued an additional 5,000,000 ordinary fully paid shares to public subscribers whilst shares totaling 7,500,000 were sold by the immediate parent entity. Public subscribers now hold 38.9% of the issued capital of the Company.

Directors' declaration and Independent audit report

Directors' declaration

In the opinion of the directors of A J Lucas Group Limited the accompanying concise financial report of the consolidated entity, comprising A J Lucas Group Limited and its controlled entities for the year ended 30 June 1999, set out on pages 16 to 21:

(a) has been derived from or is consistent with the full financial report for the financial year; and
(b) complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Signed in accordance with a resolution of the directors:

Allan Stuart Campbell	Andrew John Lukas
Director	Director
Dated 18 October 1999	Dated 18 October 1999

Independent audit report on concise financial report to the members of AJ Lucas Group Limited

Scope

We have audited the concise financial report of A J Lucas Group Limited and its controlled entities for the financial year ended 30 June 1999 as set out on pages 16 to 21 in order to express an opinion on it to the members of the Company. The Company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of A J Lucas Group Limited and its controlled entities for the year ended 30 June 1999. Our audit report on the full financial report was signed on 30 September 1999, and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

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

Audit opinion

In our opinion, the concise financial report of A J Lucas Group Limited and its controlled entities for the year ended 30 June 1999 complies with AASB 1039 "Concise Financial Reports".

KPMG	Neil Cameron Smith
Chartered Accountants	Partner

Sydney, 18 October 1999

Shareholding

Substantial shareholders

The number of shares held by the substantial shareholders as at 31 August 1999 were:

Shareholder	Ordinary shares
A J Lucas Holdings Pty Limited	19,600,000
Questor Financial Services Limited	2,692,800

Class of shares and voting rights

At 31 August 1999, there were 1,087 holders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in clause 9.8 of the Company's Constitution, are:

"At general meetings of Shareholders:
(a) each Shareholder entitled to vote may vote in person or by proxy or Representative;
(b) on a show of hands, every person present who is a Shareholder or a proxy or Representative of a Shareholder has one vote; and
(c) on a poll, every person present who is a Shareholder or a proxy or Representative of a Shareholder has one vote for each ordinary share held."

At 31 August 1999 there were options over 450,000 unissued ordinary shares granted to employees and directors under an Executive Share Option Plan. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Distribution of shareholders (as at 31 August 1999.)

	Number of Shareholders	
Category	**Ordinary**	**Options**
1 – 1,000	23	–
1,001 – 5,000	678	–
5,001 – 10,000	272	–
10,001 – 100,000	106	5
100,001 and over	8	1
Total	**1,087**	**6**

The number of shareholders holding less than a marketable parcel at 31 August 1999 was Nil.

Twenty largest shareholders (as at 31 August 1999)

Name	No. of Ordinary Shares held	Percentage of capital held
A J Lucas Holdings Pty Limited	19,600,000	61.06
Questor Financial Services Limited	2,692,800	8.39
Permanent Trustee Australia Limited	750,000	2.34
SME Equities Pty Limited	500,000	1.56
National Nominees Limited	400,000	1.25
Perpetual Trustee Company Limited	343,000	1.07
New Start Nominees Pty Limited	135,000	0.42
Tower Trust Limited	120,000	0.37
National Australia Trustees Limited	100,000	0.31
Viewjet Pty Limited	100,000	0.31
Zarlintra Pty Limited	80,000	0.25
Baron Nominees Pty Limited	70,000	0.22
Cigar Nominee Pty Limited	66,000	0.21
Mr Richard Austin	50,000	0.16
Bow & Stern Pty Limited	50,000	0.16
Cabona Pty Limited	50,000	0.16
Complete Accounting Services (NSW) Pty Limited	50,000	0.16
Elora Nominees Pty Limited	50,000	0.16
Mr Eric Bruce Hansen	50,000	0.16
Mr Gary Hawke	50,000	0.16
Total	**25,306,800**	**78.88**

Offices and officers

Company Secretary

Mr Ross Lane BCom CA

Principal registered office

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Web site www.lucas.com.au

Location of share registry

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Facsimile +61 8 8236 2305

Stock Exchange

The Company is listed on the Australian Stock Exchange under the code "AJL". The Home Exchange is Sydney.

Writing, design & production by Ad Verbum Pty Ltd.

Additional design and production by Lumsdaine Design Pty Ltd.

Cover photography: Derek M. Allan, Hong Kong; Jeremy Park, Sydney.

LUCAS

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