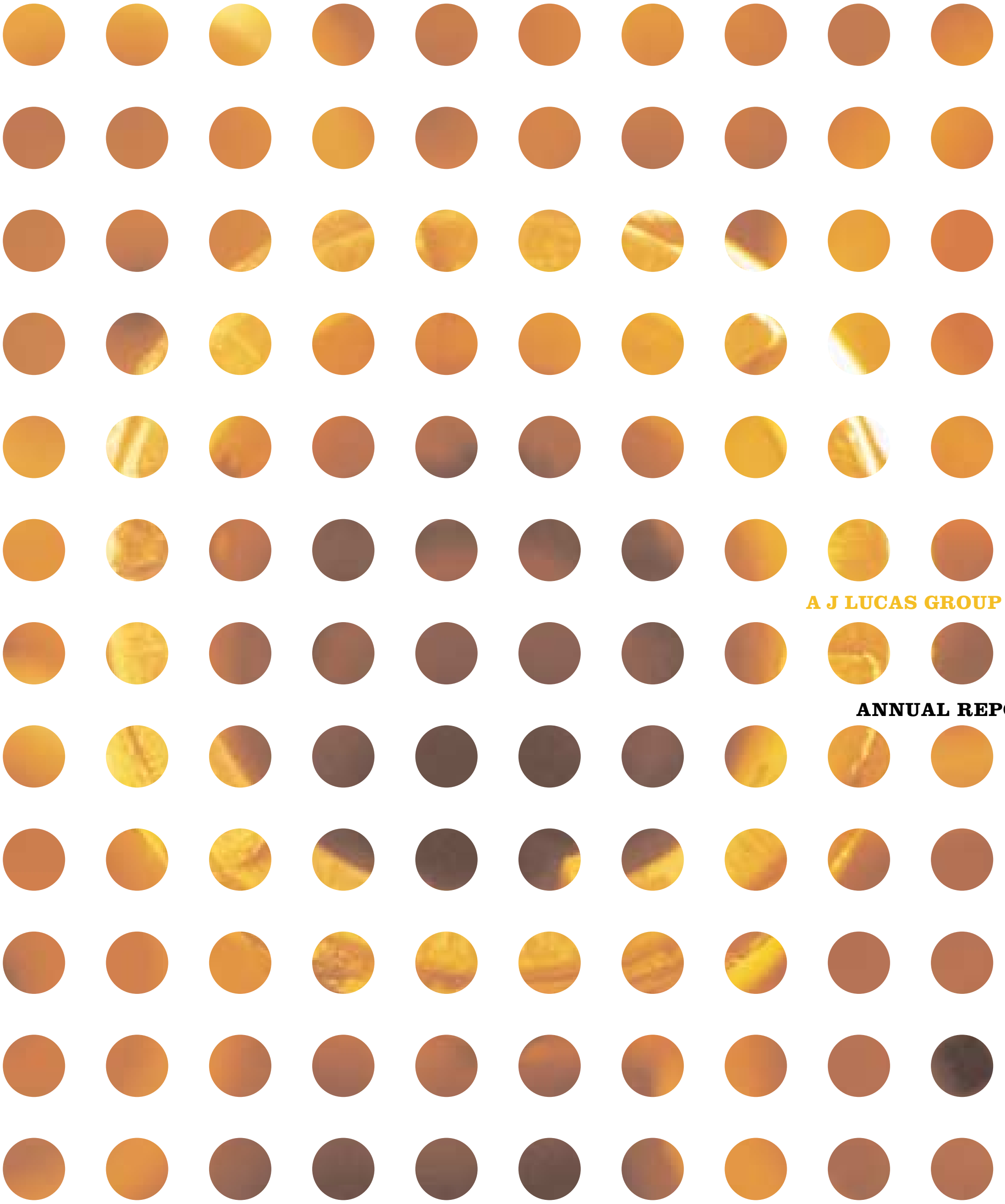
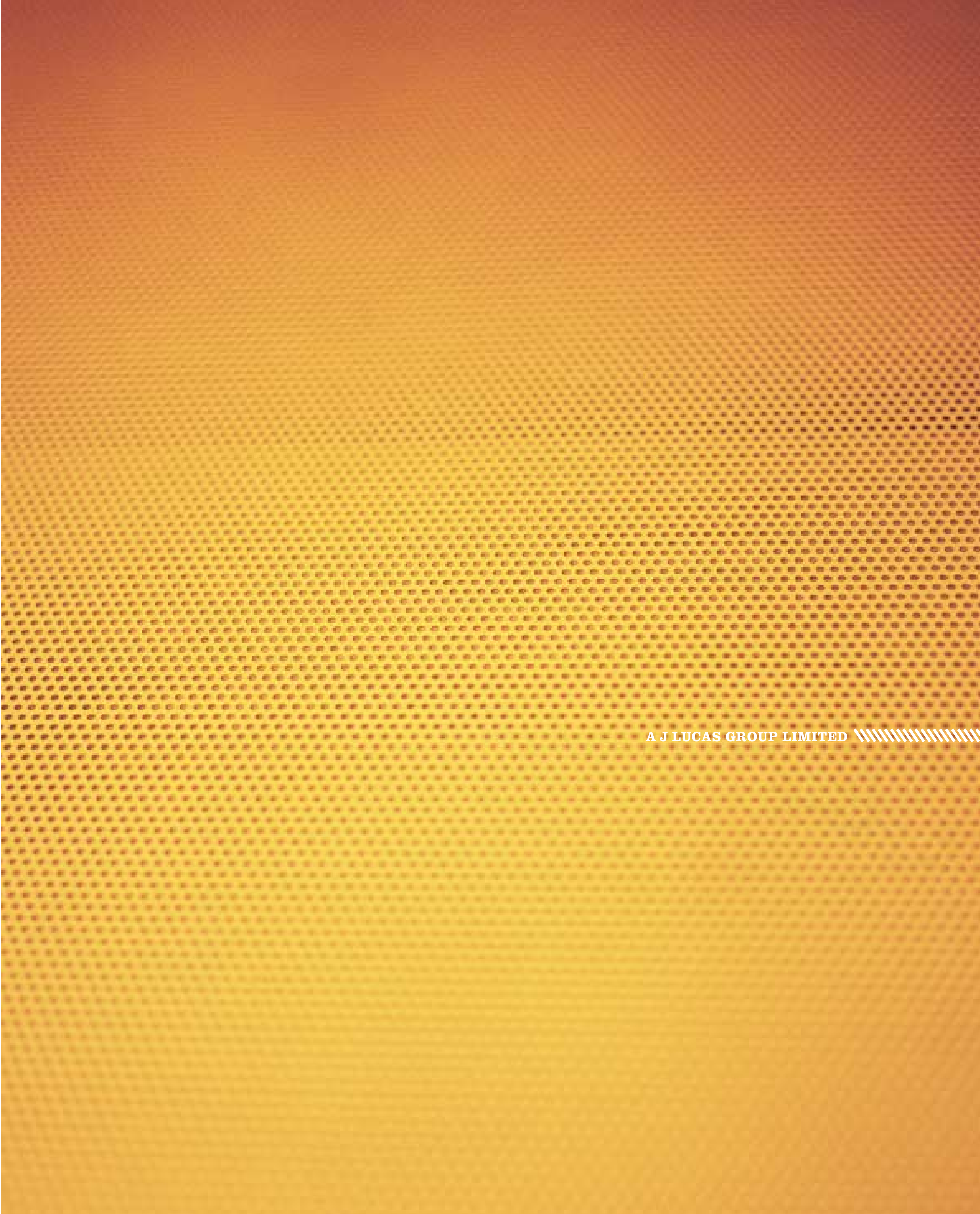


A J LUCAS GROUP LIMITED

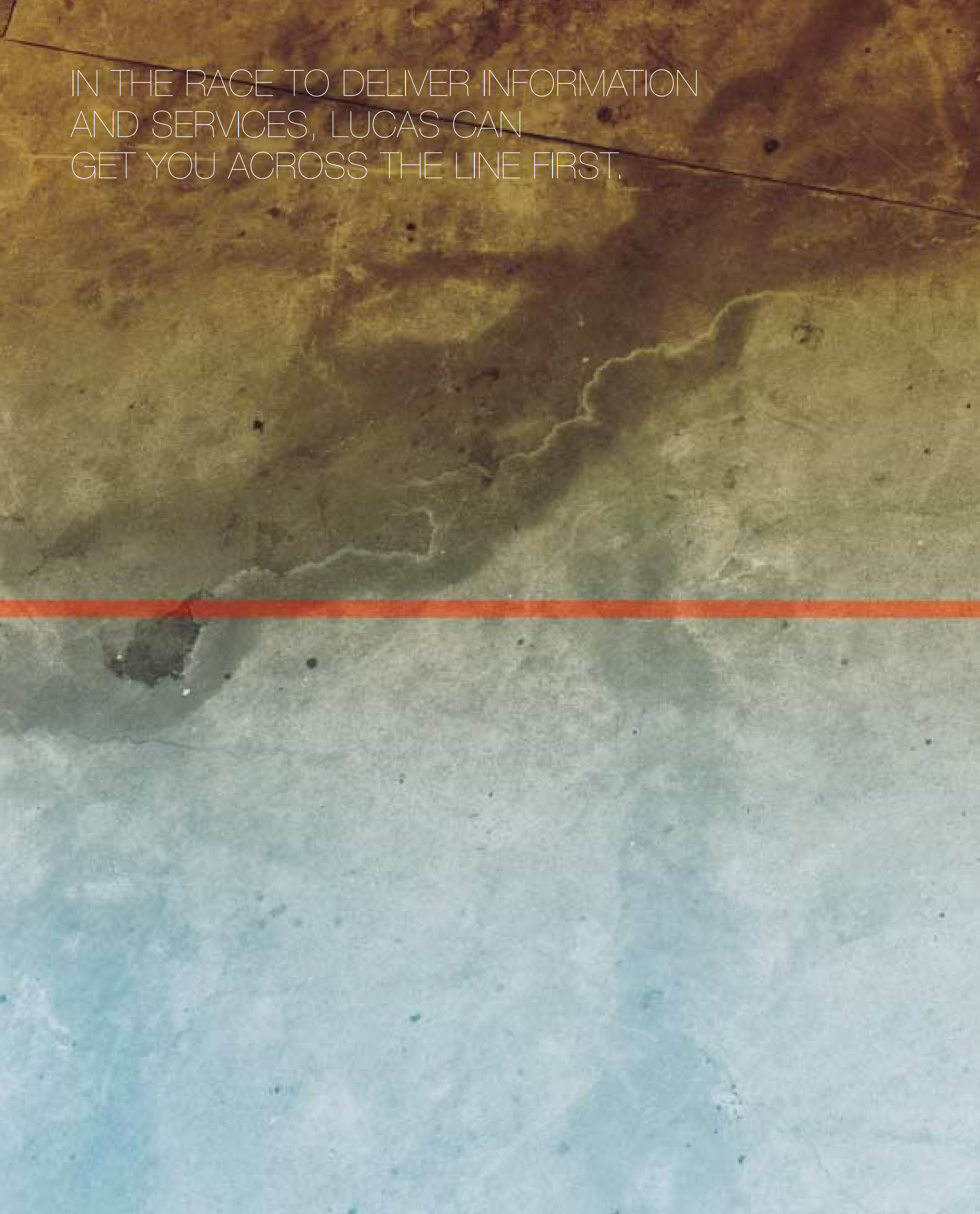
ANNUAL REPORT 2000


A J LUCAS GROUP LIMITED

NO-ONE WENT OFF THEIR GAME WHEN LUCAS BROUGHT NATURAL GAS TO PARKES AND FORBES EARLIER THIS YEAR.

LUCAS TECHNOLOGY IS TAKING WATER
AND SEWER PIPELINES ACROSS PORT HACKING
WITHOUT ROCKING THE BOAT.

IN THE RACE TO DELIVER INFORMATION
AND SERVICES, LUCAS CAN
GET YOU ACROSS THE LINE FIRST.



After less than a year as a public company, the elements of our strategy are in place and working well. Our strong pipeline and directional drilling businesses have kept growing. Our telecommunications business turned over more than $12 million in its first year. We have added depth to our management, staff and systems to manage the company's growth.

Turnover for the year increased by 74%, to $41.6 million, excluding associates. When equity-accounted revenue is added, turnover is approximately $50.1 million – a 110% increase on last year. While this didn't meet our turnover forecast, we did meet our profit target, with an after-tax profit of $4 million, nearly four times last year's.

We have established a telecommunications business anchored by a relationship with Telstra. This is about to grow substantially with the award of a three-year, $150 million contract to design, maintain and upgrade Telstra's network in Southern NSW to Lucas Downer, our joint venture with Downer Construction.

We acquired a major shareholding in Europe's DrillTec GUT GmbH, making us the largest directional drilling group in the world with a combined projected turnover of more than US$35 million.

We recently established Lucas Coal Technologies to capitalise upon the many opportunities we see in coal seam methane production throughout Australia.

Our share price has risen steadily, reflecting the market's confidence and support.

Although it's been a good year, we're certainly not relaxing. Much work remains, but we are confident of achieving our plan. The next two years will be both interesting and critical.

THE STRATEGY

Almost all Australia's utility companies outsource their infrastructure. Lucas is focused on meeting this demand as a partner, offering a comprehensive service.

The goal is to add value to our clients' businesses, not just build for them. We do this by understanding the commercial and technical drivers of their business, working with them to devise solutions that will meet current needs and cater for future expansion and technology.

Lucas' strategy of underpinning its business by strategic alliances and special business relationships with major customers in each utility sector remains a key element. The AGL Alliance and Telstra are the most important of these. We have also recently signed an agreement to develop substantial infrastructure for an emerging international company in the oil and gas sector. We believe this will produce significant benefits for the Group in the medium term.

In lots of ways, we've found that old-fashioned methods and approaches work better for our clients. 'Modern' reams of paperwork, 'subbie bashing' and corporate bullying can't replace common sense, decency, grass roots knowhow, mutual respect and trust in building solid long-term business relationships.

MANAGING RISK

We believe utilities infrastructure offers steady long-term growth with moderate risk. To guard against short-term fluctuations in the business cycle and perceived growth patterns, the business operates in a range of inter-related sectors and activities, underpinned by key business relationships.

Our size and management structure enables us to respond quickly to threats and opportunities.

THE PEOPLE

The best business idea is useless without the people to make it happen. From our senior management to our men on the ground, we have some of the best in the business. With specialists in telecommunications, oil and gas, water and electricity, we have a deep understanding of our clients' businesses, which helps to make the best medium to long-term decisions.

Our commitment to people, particularly those in the field, is not just a corporate platitude: we see it as a huge competitive advantage. After all, the infrastructure is designed and built by people. Ours are people who care, people who go the extra mile, people who think about their work and respect what they do and those they are doing it for. The result is better, cheaper infrastructure.

In return, we look after our people: with respect, consideration, working conditions, training, resources and easy access to management. We propose to issue shares and options to all layers of management and staff to help keep their goals aligned with the company's. We believe our combination of respect and rewards will keep attracting and retaining the very best people available.

THE FUTURE

The business is still growing rapidly. Our task is to manage that growth and to strategically place ourselves to service the higher margin opportunities in an evolving marketplace.

In oil and gas, we have a solid base with the AGL Alliance. We currently have projects for a number of clients in planning or design with a total capital cost of more than $250 million.

In horizontal directional drilling, we will continue to focus on the challenging higher margin projects where our technology and size gives us a powerful advantage.

In coal-seam methane, we have established a foothold in a specialised, people and technology-intensive business which will give us a head-start in this future energy source.

In telecommunications, our recent Telstra contract win has given us a solid base for the next three years. We intend to expand vertically in this high-growth sector.

In all these sectors, we will continue to look for opportunities to apply our technology, management skills and practical expertise.

Our company is focused solely on infrastructure for utility companies. We believe this gives our clients the best value for their investment in infrastructure and will secure our business.

We're growing strongly – and not just in revenue. As you can see from the table, turnover, profit and shareholders' equity are growing rapidly. We've invested $5 million in plant and equipment. Our rates of return on revenue, assets and equity are all increasing and reflect the company's strategic position.

As well as pursuing and adapting our plans for each division, we will keep assessing new opportunities to apply our management skills and technology to the benefit of our clients and shareholders.

Our business isn't based on speculative rocket science, but firmly grounded on old-fashioned common sense, competence and integrity, and everything that flows from them.

Lucas is in good shape for the future.

Allan S. Campbell
Chairman
Chief executive officer

Key figures for the year ending 30 June 2000	% change	2000	1999	1998
Total operating revenue	+74%	$41.6M	$23.9M	$21.2M
Value of incomplete work in hand	–	$85.4M*	–	–
Operating profit before tax	+241%	$5.8M	$1.7M	$1.2M
Total assets	+150%	$36.4M	$14.8M	$8.7M
Property, plant & equipment	+96%	$9.4M	$4.8M	$3.8M
Cash	+81%	$2.9M	$1.6M	$0.9M
Total shareholders' equity	+208%	$16.2M	$5.2M	$4.4M
Dividends paid or provided for	–	$2.2M	nil	nil

** This does not include DrillTec GUT drilling operations*

GAS & OIL

A number of pipeline projects and several planned AGL Alliance projects were deferred to next financial year. Consequently, turnover for this division was approximately $20 million less than projected at the beginning of the year.

Over 650km of pipelines were completed, including these key projects:

- Midwest Pipeline in Western Australia. This 353km pipeline, commenced in the 1999 financial year under the AGL Alliance, was completed ahead of schedule, under budget and won the National Safety Council of Australia's Safety Award for Excellence.
- Envestra's 185km Berri to Mildura Pipeline.
- AGL's 51km Roma to Brisbane Looping pipeline Stage 4.
- 8km Canberra Mains Extension for AGL.
- Parkes and Forbes reticulation: 60km of local nylon gas mains.

Hydrostatic testing remains a key part of our complete pipeline service. We're currently upgrading our equipment and have appointed a new testing manager.

We continue to work at the leading edge of pipeline technology by investing in the Cooperative Research Centre (CRC) for Welded Structures, contributing to its development of new technology for pipeline construction, testing and risk analysis.

As long-standing members of the Australian Pipeline Industry Association (APIA), we've had a key role in industry initiatives. Both political, like the review of the NSW Pipeline Act; and technical, like APIA's involvement in the CRC. Lucas executive director, Andy Lukas, led these as APIA president and continues to work for the industry as a member of APIA's executive committee and Chairman of the APIA Safety Committee.

Next year's gas and oil work will be underpinned by the AGL Alliance projects deferred from last year. These involve a total construction cost of approximately $60 million, of which $24 million are forecast for 2001. Beyond this, there are around 7,500km of new pipelines planned in Australia over the next few years and we have strong expectations for new business relationships coming to fruition.

WATER

Our largest water project for the year has been the installation of two water mains across Hong Kong Harbour to Ma Wan Island. This project, which will be completed late in 2000, is continuing as we produce this report.

Late in the year we won the Bundeena Maianbar Water and Sewerage Scheme for Sydney Water. This includes installation of three pipelines under Port Hacking carrying sewage and drinking water (separately!), 20 kilometres of reticulation and seven pumping stations. Work started on this project in September 2000.

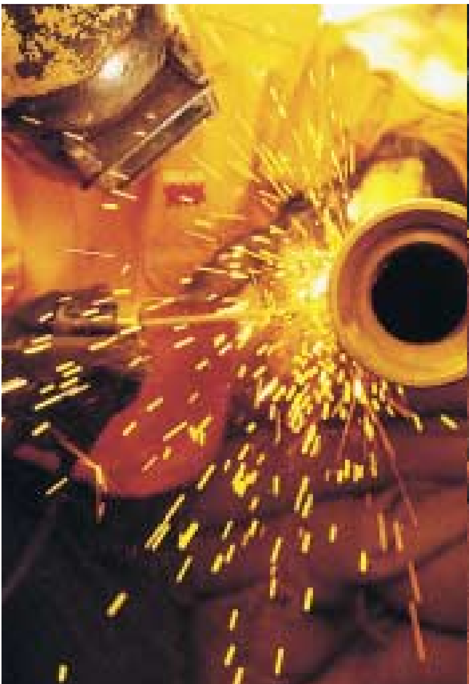
Environmental protection was a key factor in choosing directional drilling for these two projects. This, plus our ability to handle reticulation and associated works, gives us a competitive edge in winning water and sewage projects.

COAL

Most of Australia's vast coal reserves contain methane. Although it's a valuable fuel, for most coal miners it's a hazard.

Directional drilling with small underground rigs has been used for some years to extract methane before mining. However, the techniques used often make it impractical to collect the gas and use it, so it's simply vented to the atmosphere – adding to greenhouse gas problems.

The pressing need to reduce greenhouse gas emissions, plus the sheer value of the resource (estimated at $200 billion), will make coal seam methane a major resource for the future. It's estimated that there is more methane in Australian coal than our known reserves of natural gas.



Coal continued

To date, methane has only been extracted from coal seams by drilling from the longwall – underground. This imposes major constraints on mine management, so in 1995, we began research into extracting and collecting this gas by drilling to the coal from the surface – 'surface to in-seam' drilling. This effort has developed proprietary techniques we believe will be commercially practical.

To build our knowledge and establish a base to develop this technology, we added a new division to the Group, Lucas Coal Technologies, in July 2000.

Based on a proven team of underground drilling experts, equipped with the best equipment available, the new division has already won its first contracts at Wollemi, New Wallsend and Moonee Collieries in the Hunter Valley.

By establishing this division in the existing, profitable business of mine exploration and gas extraction for safety, we will be able to refine our methane extraction process with minimal financial risk. This approach will also build our understanding and relationship with the coal industry, so future coal seam methane extraction can be integrated with their mining activities.

The industry is not yet large – approximately $30 million per year (including in-house drilling). With efficient work practices and additional technology, we offer a combination of services that no other existing industry participant offers.

DRILLING

Horizontal directional drilling (HDD) has continued to grow strongly and is now a key technology for infrastructure installation. Increasing environmental and safety concerns make HDD the best – often the only – technique for placing utilities below waterways, fragile environments and dense urban development.

Lucas uses HDD in all utilities: gas, oil, water, electricity and telecommunications.

From Australian leader to world leader.

Since introducing it to Australia in 1990, Lucas has led the HDD market. With more rig capacity, experience and expertise, we've pioneered many techniques and set many records.

We took this to world leadership this year, with our investment in 42.5% of German-based DrillTec GUT GmbH. Together, Lucas and DrillTec form the world's largest directional drilling group, operating in Australia, Asia, Africa, the Middle East, South America and Europe.

DrillTec is an important element of our plans to expand drilling activities and capitalise on existing momentum and our growing international reputation, particularly in the South East Asian market. DrillTec will assist in providing better access to international oil and gas companies, telecommunications companies and others working in Asia, as well as allowing cross-fertilisation of techniques, know-how and personnel.

We expect DrillTec to make a material contribution to the Group's financial results in the 2001 financial year, with turnover forecast at $35 million.

It's appropriate that the first project we won as a group was the world's largest drilling contract to date – 6,000m of high voltage cable ducts under Hong Kong Harbour for China Light & Power. Like most of our projects, one of the strongest drivers for this was environmental.

Other major drilling projects for the year include:

- Eastern Gas Pipeline – four crossings for Duke Energy's Victoria to NSW pipeline, under the Mitchell, Bemm, Latrobe and Snowy Rivers.
- Ma Wan – dual water mains under Hong Kong Harbour.
- Luggage Point to Fisherman Islands – water, sewage and utilities for Brisbane Water.
- Pelican Point – gas pipeline river crossing for Epic Energy.
- Murray River – Envestra's Berri to Mildura gas pipeline.

Directional drilling is now a widely accepted technology for installing pipes and ducts at street level. We will continue to focus on large-scale, technically difficult projects, where our advanced technology, experience and resources give us a decisive advantage. And with the world's largest fleet of heavy drilling rigs, located around the world, we can respond quickly and competitively to any project.

TELECOMMUNICATIONS

Our newly-established telecommunications division won its first contracts, for Telstra's Access Renewal Programme, early in the year and went on to win projects from TransACT and other telecommunications clients.

We established five new offices in the NSW Greater West and Central Coast, including a Network Design Centre at Tuggerah, and added 70 new managers, network designers, CAD staff and field crew.

In a recent evaluation report by Telstra, our work was rated at 99% for construction quality and 100% for design quality.

To confirm that we've successfully established ourselves in this sector, in September 2000 Telstra awarded us a three-year, $150 million contract to design, maintain and upgrade their Customer Access Network in Southern NSW. Right now, we're adding more new offices and staff to service this contract.

As in our other divisions, this contract provides an assured income to deliver profits while we develop this business. From this solid base we intend to integrate vertically: growing organically and by acquisition. As our technical skills and resources increase, we plan to introduce Lucas people attitudes to a range of projects to create value, particularly in wireless telecommunications and broadband data networks.

AJ Lucas Group Limited (ABN 12 060 309 104) and its controlled entities

For a free copy of the Group's full financial report, including the independent audit report, shareholders should contact us by phone (Australia: 02 9809 6866, Overseas: +61 2 9809 6866) or visit our Web site at www.lucas.com.au

Throughout this report, "the Company" means AJ Lucas Group Limited; "Lucas", "the Group" and "the Lucas Group" means the Company and its controlled entities. "The year" means the financial year to 30 June 2000. All page numbers refer to this document – the AJ Lucas Group Limited Annual Report 2000.

CORPORATE GOVERNANCE STATEMENT

This outlines the Group's main corporate governance practices for the year.

BOARD OF DIRECTORS AND ITS COMMITTEES

The board is ultimately responsible for the management and control of the Lucas Group. Specifically, the board is there to guide and oversee management, provide strategic direction, set and monitor goals and advance the Group's business.

The board is deliberately small and comprises people who understand the Group's business and industries in depth. Each contributes a specific set of skills and business experience. All have excellent judgement, plenty of common sense and add real value. Every board member is actively involved in the Group and works closely with management.

As the Group is growing rapidly it needs a flexible and pro-active board with a range of specialist skills and experience. At this stage we believe the Chairman should be executive and that senior executives maintain close contact with the board; both formally through board meetings and informally during the course of normal business.

The board's composition and size is reviewed from time to time to maintain the right mix of expertise and judgement.

Directors' dealings in company shares

Directors may own shares in the Company, but must notify the Company Secretary before they sell or buy them. Shares owned by interests associated with Allan Campbell, Ian Stuart-Robertson and Andrew Lukas were in escrow until 3 August 2000.

Independent professional advice for directors

Each director may seek independent professional advice at Lucas Group expense, with the Chairman's approval (which will normally be granted).

Board committees

The board is supported by two committees:

– the Audit committee, and
– the Tender Review committee.

A Finance committee was established, but was disbanded as the board felt it was not required at this stage, in view of the regularity of meetings of the directors, the degree of contact between the board and management and the nature of the Group's activities.

Audit committee

The Audit committee must comprise non-executive directors. The CEO, CFO and external auditors attend by invitation. The committee reviews and advises on the Group's internal control framework and develops and oversees accounting policies which most accurately reflect the Group's business to management and shareholders. It also ensures the Group meets all its legal, ethical and contractual obligations, working with outside auditors, regulators and other bodies where necessary.

The committee's members are Martin Green (chairman), Garry O'Meally and Ian Stuart-Robertson.

Tender Review committee

The Tender Review committee is an essential element of the group's risk management procedure. It reviews all proposed Group tenders and operational contracts and assesses their potential risks. These include business, technical and environmental risks as well as financial risks including capital expenditure, foreign exchange, insurance and the like.

The Tender Review committee enables the Board to closely monitor all the projects the Group has underway.

The members of the Tender Review committee are Ian Stuart-Robertson (chairman), Allan Campbell, Andrew Lukas and Ian York.

Quality Standard AS/NZS ISO 9000 (Int.):2000

The Group strives to ensure all its services are of the highest standard. To help guarantee this, Lucas is establishing quality management systems based on the new AS/NZS ISO 9000 (Int.):2000 Quality Standard.

Andrew Lukas *Garry O'Meally* *Martin Green*

DIRECTORS' REPORT

The directors present their report together with the Company's financial report and the consolidated financial report of the Group for the year ended 30 June 2000 and the auditors' report on it.

The Australian Securities and Investments Commission has exempted the Group from compliance with subsections 319(3)(a) and 315(1) of the Corporations Law ("the Law") by order issued 25 September 2000 pursuant to subsection 340(1) of the Law on condition Division 5 of part 2M.3 of the Law is met no later than 16 October 2000 and Division 4 of part 2M.3 is met no later than 16 December 2000. This statement appears as a condition of this exemption.

DIRECTORS

The directors of the Company throughout the financial year were:

Allan Campbell BCom LLB
Chairman and CEO

Age 45

Allan Campbell has experience in commerce, law and investment banking. After qualifying as a solicitor, he worked with Stephen Jaques & Stephen in Sydney, followed by ten years in corporate finance and reconstructions with investment banks in Sydney, London and New York including HongKongBank Group and Security Pacific Hoare Govett.

He left investment banking in 1990 and established business interests in the property, construction and building materials sectors, including the turnaround of a listed UK building materials company.

After returning to Australia in 1995 he acquired a controlling interest in Lucas and was appointed executive chairman.

Meetings attended:

Board	10
Audit committee	–
Tender review committee	13

Andrew Lukas BE
Executive Director

Age 53

Andrew Lukas started work with MacDonald Wagner & Priddle and Transfield as a design engineer. After postgraduate studies at the Pipeline School of the University of Texas, he worked in the USA for Williams Brothers Company, then the world's largest pipeline contractors. He returned to Australia to establish Williams Engineering in this country.

He joined his father in the Lucas business in 1975 as a project manager, becoming general manager in 1977 and a director in 1995.

Mr Lukas pioneered directional drilling in Australia and is an authority on this technology. He is currently an executive committee member and past President of the Australian Pipeline Industry Association (APIA), representing pipeline owners, operators and contractors.

Meetings attended:

Board	9
Audit committee	–
Tender review committee	12

Ian Stuart-Robertson *Allan Campbell*

Ian Stuart-Robertson AAIQS
Non-Executive Director

Age 51

Ian Stuart-Robertson is a qualified quantity surveyor with 30 years experience in civil and building construction. He is a non-executive director of quantity surveyors John Hollis & Partners and a director of construction company Stuart Pty Ltd.

Mr Stuart-Robertson has been a non-executive director of Lucas since 1993. He monitors project cost reporting systems and general construction planning. He chairs the Lucas Tender Review committee.

Meetings attended:

Board	9
Audit committee	3
Tender review committee	12

Garry O'Meally BSc, BE
Non-Executive Director

Age 63

Garry O'Meally has worked with the oil and gas industries for some 40 years, principally with The Australian Gas Light Company where he served as General Manager of AGL Gas Companies and later of AGL Petroleum. After the sale of AGL's upstream assets, he became General Manager, Queensland and Northern Territory, for Santos Limited. Since retiring, he has consulted to numerous energy companies.

Mr O'Meally has served as President of the Australian Gas Association, as Councillor and Queensland Chairman of the Australian Petroleum Production and Exploration Association, as Executive Manager of APIA and as a director of several companies, currently including Norwest Energy NL.

Meetings attended:

Board	10
Audit committee	3
Tender review committee	–

Martin Green FCA
Non-Executive Director

Age 55

Martin Green is a Fellow of the Institute of Chartered Accountants and has been a principal in practice for 27 years, in the main specialising in business recovery and corporate restructuring.

Mr Green is Partner in charge of insolvency at Grant Thornton Chartered Accountants. He is Chairman of the Lucas Audit committee, Chairman of Excello Co-operative Limited and a former Honorary Director/Treasurer of the National Trust of Australia (NSW).

Meetings attended:

Board	9
Audit committee	3
Tender review committee	–

DIRECTORS' MEETINGS

Total meetings of directors held during the year:

Board	10
Audit committee	3
Tender review committee	13

Continued

PRINCIPAL ACTIVITIES

The Group's principal activity over the year was infrastructure engineering services. There were no significant changes in the nature of activities during the year.

REVIEW AND RESULTS OF OPERATIONS

Group turnover for the year was $41,634,065, a 74% increase over last year's $23,860,073. Earnings before interest and tax was $5,827,661, a 241% increase. Profit after tax was $4,022,407, nearly four times last year's. A review of the Group's operations is on pages 13 to 15 of this report. The financial results are detailed on pages 22 to 26.

STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the year were as follows:

– On 8 August 1999 the Company issued 5,000,000 ordinary shares by a prospectus at $1.00 per share to provide working capital and fund expansion by investment.
– On 3 March 2000 the Company bought 42.5% of DrillTec GUT GmbH for $160,941 and provided loans of $2,940,629. DrillTec is a company based in Germany with worldwide horizontal directional drilling operations.
– On 30 May 2000 the Company issued 4,250,000 ordinary shares at $1.20 per share to institutional shareholders via a private share placement to provide more working capital and fund equipment purchases to increase its operating capacity.
– The Group acquired property, plant and equipment with a total value of $5,025,625. This was primarily to expand the Group's horizontal directional drilling operations into the Asia Pacific region.

DIVIDENDS

A fully franked (36% – Class C) interim dividend of 3 cents per share was paid on 31 March 2000, and a fully franked (34% – Class C) final dividend of 3.5 cents per share has been proposed for payment on 15 December 2000. This is to be confirmed at the Annual General Meeting.

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, archæological or cultural importance.

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

There were no environmental incidents, nor any breaches of environmental regulations during the year or since.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

During the year the Company has not indemnified or agreed to indemnify any officer or auditor of the Group.

Indemnity insurance

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 2000 and, since the end of the year, the Company has paid or agreed to pay premiums on such insurance contracts for the year ended 30 June 2001.

The directors have not included details of the nature of the liabilities covered or the premiums paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

EVENTS SUBSEQUENT TO BALANCE DATE

On 22 September 2000, the 54% shareholder of the Company, AJ Lucas Holdings Pty Limited, sold 3.7 million existing ordinary shares to a range of Australian and international institutional shareholders. This has reduced AJ Lucas Holdings' shareholding to 43% or 15.9 million shares.

Lucas Holdings has used the proceeds to partly fund an interest in a private North American and Australian oil and gas production and exploration business. This early stage investment may give the Lucas Group substantial opportunities in oil field infrastructure development over the medium term.

The Directors are not aware of anything else that has arisen since the end of the year that may significantly affect the Group's operations, its results or its state of affairs in subsequent financial years.

DIRECTORS' AND SENIOR EXECUTIVES' COMPENSATION

The board determines remuneration policies and packages for board members and senior executives of the Group. The policy is to ensure packages reflect each person's duties and responsibilities and attract, retain and motivate the best people available.

Executive directors and senior executives may receive bonuses based on the Group's performance (including operational results and cash flow). Non executive directors do not receive any performance related remuneration.

Payments to the directors and the highest-paid Group senior executives are:

LIKELY DEVELOPMENTS

Lucas will continue to pursue new opportunities in following the strategy we've outlined in this report, with a particular focus on telecommunications and broadband data infrastructure. While several opportunities are being examined, none are currently being negotiated. At this stage the Company can neither specify nor quantify likely developments in future financial years, other than those mentioned in the Chief Executive's Review on pages 10 to 12 of this report.

SHARE OPTIONS

No new options to buy unissued shares were granted during the year or since.

450,000 unissued ordinary shares are under option to directors and senior executives. Their exercise price is $1.00. These expire on 31 July 2002 or when the option holder leaves the company (if sooner).

No shares were issued during the year or since on the exercise of any options.

Signed in accordance with a resolution of directors:

Allan Stuart Campbell
Director
Dated 16 October 2000

Ian Stuart-Robertson
Director
Dated 16 October 2000

Compensation Directors	Base salary & fees $	Bonuses $	Car allowance $	Super contributions $	Total $
Allan Campbell	140,000	–	20,000	–	160,000
Andrew Lukas	140,000	–	20,000	10,500	170,500
Ian Stuart-Robertson	30,000	–	–	–	30,000
Garry O'Meally	30,000	–	–	–	30,000
Martin Green	30,000	–	–	–	30,000
Group Officers					
Cliff Britton	76,410	–		5,106	81,516
Kevin Lester	95,000	30,000	15,000	8,250	148,250
Ross Lane	100,000	20,000	20,000	7,500	147,500
Ian York	55,666	–	5,640	9,400	70,706

DIRECTORS' INTERESTS

The relevant interest of each director and their director-related entities in the share capital of the Group, 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:

Directors' Interests A J Lucas Group Limited	Ordinary shares	Options over ordinary shares
Allan Campbell	9,142,500	–
Andrew Lukas	5,565,000	–
Ian Stuart-Robertson	1,192,000	–
Martin Green	–	50,000
Garry O'Meally	23,000	50,000

PROFIT AND LOSS STATEMENT

The profit and loss statement must be read in conjunction with the discussion and analysis below and the notes to the financial statements on pages 25 & 26.

Profit and loss statement for the year ended 30 June 2000	Note	Consolidated 2000 $	1999 $
Operating revenue			
Contract revenue		41,443,069	23,813,325
Interest – other parties		190,996	46,748
Total operating revenue		41,634,065	23,860,073
Revenue from outside operating activities			
Gross proceeds from sale of non current assets		32,040	64,062
Gross proceeds from sale of investments in listed companies		269,090	–
Other		21,146	38,334
Total		322,276	102,396
Operating profit before income tax		5,827,661	1,708,250
Income tax attributable to operating profit		1,805,254	647,891
Net profit attributable to members of the company		4,022,407	1,060,359
Retained profits at the beginning of the year		3,200,214	2,139,855
Total available for appropriation		7,222,621	3,200,214
Dividends provided for or paid	4	2,235,250	–
Retained profits at the end of the financial year		4,987,371	3,200,214
Basic earnings per share		$0.13	$0.42
Diluted earnings per share		$0.13	$0.42
Earnings per share based on total shares issued at balance date		$0.13	$0.04
Key financial ratios*			
Return on revenue		9.6%	4.5%
Return on total assets		11.1%	7.2%
Return on equity		24.9%	20.2%

**All based on 'return' being the net profit attributable to members of the company.*

DISCUSSION AND ANALYSIS OF THE PROFIT AND LOSS STATEMENT

The after-tax profit was in line with prospectus forecasts. Revenue and before-tax results were less than prospectus forecasts due primarily to the deferral of several joint venture projects into the 2001 financial year.

Interests in joint ventures contributed $1,646,609 to the after tax operating profit compared to $813,782 in the 1999 financial year.

The Group's interest in DrillTec GUT GmbH, purchased during the year, contributed $1,125,376 to the after-tax operating profit.

The Group's return on both revenue and assets more than doubled, showing strong margin growth and tight management of overheads.

The balance sheet must be read in conjunction with the discussion and analysis below and the notes to the financial statements on pages 25 & 26.

Balance sheet as at 30 June 2000	Note	Consolidated 2000 $	1999 $
Current assets			
Cash		2,935,228	1,633,646
Receivables		19,974,633	7,435,580
Inventories		1,242,850	439,072
Other		176,477	125,612
Total current assets		24,329,188	9,633,910
Non-current assets			
Property, plant and equipment		9,397,856	4,796,015
Investments		1,286,317	18,300
Intangibles		945,753	–
Other		409,393	267,531
Total non-current assets		12,039,319	5,081,846
Total assets		36,368,507	14,715,756
Current liabilities			
Accounts payable		10,301,359	6,599,251
Borrowings		4,522,677	702,370
Provisions		3,267,642	756,446
Other		200,000	524,961
Total current liabilities		18,291,678	8,583,028
Non-current liabilities			
Borrowings		847,700	743,870
Provisions		20,041	29,074
Other		1,045,993	120,313
Total non-current liabilities		1,913,734	893,257
Total liabilities		20,205,412	9,476,285
Net assets		16,163,095	5,239,471
Shareholders' equity			
Share capital	5	9,136,469	2
Reserves		2,039,255	2,039,255
Retained profits		4,987,371	3,200,214
Total shareholders' equity		16,163,095	5,239,471

DISCUSSION AND ANALYSIS OF THE BALANCE SHEET

The Group's net assets more than tripled over the year.

The Group's total assets increased by $21,652,751 to $36,368,507 (1999: $14,715,756) over the year.

Total assets increased in reflection of our business growth and the need for more plant, equipment and inventories to service more projects.

Similarly, increases in liabilities mainly reflect growth in trade creditors and finance for work in progress and plant and equipment.

Provisions were increased to cover income tax, proposed dividend and employee entitlements.

The increase in borrowings is to finance capital equipment. This loan is secured by a fixed and floating charge over the Group's assets.

Share capital increased by $9,136,467 due to the issue of 5,000,000 ordinary shares pursuant to a prospectus on 3 August 1999 and the placement of 4,250,000 ordinary shares to institutions on 30 May 2000.

The debt to equity ratio is 33.2%, an increase from 27.6% in 1999.

STATEMENT OF CASH FLOWS

The statement of cash flows must be read in conjunction with the discussion and analysis below and the notes to the financial statements set out on pages 25 & 26.

Statement of cash flows for the year ended 30 June 2000	Note	Consolidated 2000 $	Consolidated 1999 $
Cash flows from operating activities			
Cash receipts in the course of operations		32,047,305	19,488,414
Cash payments in the course of operations		(32,797,356)	(18,170,555)
Interest received		190,996	46,748
Income taxes paid		(620,805)	–
Interest paid		(181,696)	(9,376)
Net cash: by operating activities		(1,361,556)	1,355,231
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		32,040	4,000
Proceeds from sale of equity investments		266,460	60,062
Purchase of business		(454,835)	–
Purchase of equity investments		(241,280)	(39,564)
Loans to joint ventures		(312,107)	–
Loans to associated entities		(2,960,429)	–
Payments for property, plant and equipment		(5,025,625)	(201,411)
Net cash: investing activities		(8,695,776)	(176,913)
Cash flows from financing activities			
Redemption of preference shares		–	(250,000)
Repayment of borrowings by related entity		–	87,400
Proceeds of borrowings from related entity		549,270	–
Proceeds of borrowings – other		712,300	–
Repayment of borrowings – other		(534,515)	–
Dividends paid		(963,000)	–
Net proceeds of share issue		9,244,203	–
Lease and hire purchase payments		(448,767)	(314,846)
Net cash: financing activities		8,559,491	(477,446)
Net (decrease)/increase in cash held		(1,497,841)	700,872
Cash at the beginning of the financial year		1,633,646	932,774
Cash at the end of the financial year		135,805	1,633,646

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 for the Group to increase its working capital to finance larger projects.

Property, plant and equipment of $5,025,625 was paid for during the year.

The increased working capital requirements and capital equipment purchases were mainly funded by the sale of ordinary shares and increasing loan facilities with the Group's bankers.

A further $3,656,544 was committed to financing business acquisitions during the year.

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 Group's full financial report. Other information is consistent with the Group'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 group and, except where there has been a change in accounting policy, are consistent with the previous year's.

There is a full description of the Group's accounting policies in its full financial report.

2. Change in accounting policy – projects in progress

Up to 30 June 1999 the Group's accounting policies only recorded profit on projects in progress when they were 30% complete. As the Group's activities evolve, the directors have decided this does not accurately reflect profitability and would lead to material mis-statements of profit in future years. As a result, this policy has been re-examined and profit before tax of $1,882,800 on drilling projects has been recognised in the current year which would not have been recognised under the previous policy. This does not affect prior year results.

3. Segments

	Australia		Overseas		Consolidated	
	2000 $	1999 $	2000 $	1999 $	2000 $	1999 $
Contract revenue	32,983,409	21,194,540	8,459,660	2,618,785	41,443,069	23,813,325
Other revenues	190,996	46,748	–	–	190,996	46,748
Total revenue	33,174,405	21,241,288	8,459,660	2,618,785	41,634,065	23,860,073
Operating profit	5,111,623	764,999	2,355,435	295,360	7,467,058	1,060,359
Unallocated expenses					4,570,027	–
Operating profit *After income tax and before equity accounting*					2,897,031	1,060,359
Segment assets *Before equity accounting*	27,768,353	10,213,690	7,965,732	4,502,066	35,734,085	14,715,756

4. Dividends

2000	Cents per Share	Total Amount $	Payment date	Tax rate for franking credit	Percentage franked
Interim – ordinary	3.0	963,000	31 Mar. 2000	36% (Class C)	100%
Final – ordinary proposed	3.5	1,272,250	15 Dec. 2000	34% (Class C)	100%
Total		2,235,350			
1999					
No dividends paid					

5. Share Capital

	Note	2000 $	1999 $
Issued and Paid-up Capital			
36,350,000 (1999: 27,100,000) ordinary shares, fully paid		9,136,469	2
Movements in ordinary share capital			
Balance at the beginning of the year		2	2
Shares issued			
5,000,000 shares issued for cash	(i)	4,144,695	–
4,250,000 shares issued for cash	(ii)	4,991,772	–
Balance at the end of the year		9,136,469	2

(i) On 8 August 1999 the Company issued 5,000,000 ordinary shares at $1.00 each pursuant to a prospectus. Transaction costs totalling $855,305 were recognised as a reduction of the proceeds of the share issue.

(ii) On 30 May 2000 the Company issued 4,250,000 ordinary shares at $1.20 each to institutional investors via a private placement. Transaction costs totalling $108,228 were recognised as a reduction of the proceeds of the share issue.

6. Investment in associate

DrillTec GUT GmbH

On 3 March 2000 the Company purchased 42.5% of DrillTec GUT GmbH, a company incorporated in the Federal Republic of Germany. DrillTec provides horizontal directional drilling services and operates in Europe, South America and the Middle East.

As Lucas exerts significant influence over DrillTec operations the results for the financial period ended 30 June 2000 are equity accounted in accordance with AASB 1016. The share of operating profit after income tax brought to account for the financial period was $1,125,376. The carrying amount of the investment in DrillTec as at 30 June 2000 was $1,286,317.

DIRECTORS' DECLARATION

The directors of AJ Lucas Group Limited believe 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 2000, set out on pages 16 to 26:

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
Director
Dated 16 October 2000

Ian Stuart-Robertson
Director
Dated 16 October 2000

INDEPENDENT AUDIT REPORT ON CONCISE FINANCIAL REPORT

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 2000 consisting of the profit and loss statement, balance sheet, statement of cash flows, accompanying notes (1 to 6), and the accompanying discussions and analysis of the profit and loss statement, balance sheet and statement of cash flows (set out on pages 22 to 26) 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 2000. Our audit report on the full financial report was signed on 16 October 2000, 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" issued in Australia.

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 2000 complies with AASB 1039 "Concise Financial Reports".

KPMG
Chartered Accountants
Dated 16 October 2000

Neil Cameron Smith
Partner
Dated 16 October 2000

Twenty largest shareholders

Name	Ordinary Shares	Percentage of capital
A J Lucas Holdings Pty Limited	15,900,000	43.75
Chase Manhattan Nominees Limited	3,324,350	9.15
Permanent Trustee Australia Limited	2,350,000	6.46
Questor Financial Services Limited	2,267,160	6.24
Amalgamated Dairies Limited	1,000,000	2.75
National Nominees Limited	896,000	2.46
New Zealand Guardian Trust Company Limited	800,000	2.21
Commodity Traders (NZ) Limited	500,000	1.38
Invia Custodian Pty Limited	400,000	1.10
AMP Nominees Pty Limited	300,000	0.83
Commonwealth Custodial Services Limited	209,000	0.58
Auckland Medical Research Foundation	200,000	0.55
R H & M Properties Pty Limited	160,000	0.44
Perpetual Nominees Limited	143,000	0.39
JTCO Nominees Pty Limited	140,000	0.39
Washinee Nominees Pty Limited	100,000	0.28
Wightholme Nominees Pty Limited	100,000	0.28
Scarborough Pier Pty Limited	89,000	0.24
Viewjet Pty Limited Superannuation Fund	80,000	0.22
Viewjet Pty Limited	56,500	0.16
Total	29,015,010	79.82

Substantial shareholders

Shareholder	Ordinary
A J Lucas Holdings Pty Limited	15,900,000
Chase Manhattan Nominees Limited	3,324,350
Permanent Trustee Australia Limited	2,350,000
Commonwealth Bank of Australia Limited	2,350,000
Questor Financial Services Limited	2,267,160

Distribution of shareholders

Category	Number of Shareholders Ordinary	Options
100,001 and over	20	1
10,001 - 100,000	115	5
5,001 - 10,000	228	–
1,001 - 5,000	824	–
1 - 1,000	199	–
Total	1,386	6

Eight shareholders held less than a marketable parcel at 30 September 2000.

Voting rights

Ordinary shares carry voting rights of one vote per share. Options have no voting rights.

CORPORATE DIRECTORY

A J LUCAS GROUP LIMITED

Company Secretary
Mr. Ross Lane B.Com
(UNSW) CA

Share registry
Computershare
Registry Services
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ADELAIDE SA 5000

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F. 08 8236 2305

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

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F. 02 9299 7077

Principal bankers
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Westpac Plaza, George Street,
Sydney 2000

Principal registered office
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Redhead NSW 2290

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SENIOR MANAGEMENT

Adam Binning
Manager
Directional Drilling

John Brennan
General Manager
Pipelines

Cliff Britton
General Manager
Lucas Downer

Colin Carrigan
Financial Controller

Keith Cherry
Manager
Power Industries

Richard Grigg
General Manager
Directional Drilling

Todd Herbert
General Manager
Coal Technologies

Ross Lane
General Manager
Finance & Administration

Kevin Lester
General Manager
Pipelines

Stephen Loneragan
Manager
Directional Drilling

John Rainsford
Manager QA/OH&S
and Environmental

Jim Richardson
Manager Testing

Paul Shields
General Manager
Hong Kong

Scott Thomson
Technical Manager
Coal Technologies

Mark Tonkin
Manager Business
Development

Frank Yates
Manager
Water Industries

Ian York
General Manager
Commercial & Contract
Administration

LUCAS