AJ LUCAS GROUP LIMITED
MAKING SENSE

ANNUAL REPORT 2001

LUCAS

CHAIRMAN'S LETTER

Dear shareholders,
Welcome to our 2001 annual report.

Delivering innovative infrastructure solutions to the utility sectors has been our strategy since 1997. As you'll see from this report, that strategy is progressing well and delivering the business and profits we forecast in our 1999 prospectus.

The business has doubled in sales and profits annually for four years. This rate of growth has presented its own challenges over the year – as you'd expect. But we've also had plenty of triumphs.

Over the next few pages, we'll tell you more about our vision for infrastructure and our progress this year. We are still a young company but the market is telling us that there is a real need for a company dedicated to providing infrastructure solutions in niche outsourced markets. One which works with its clients, understands the sector and, above all, can add value.

Our concise financial report for the year starts on page 18. If you'd like a copy of the full financial report, please visit our web site at www.lucas.com.au or phone us and we'll mail a copy to you.

As always, thank you for your continuing support.

Allan Campbell
Chairman

Making Sense Of Infrastructure.

Technology and deregulation have changed the nature of our infrastructure: Australia's energy, water and telecommunications are now market-focused, high-technology businesses.

Lucas provides a new approach to infrastructure.

We don't find gas, generate power, catch water or run switches.We don't deal with consumers.

We handle everything in between, to make sure our clients' – our *partners'* – infrastructure delivers.

Australia’s gas industry

Natural gas is Australia’s fastest-growing energy source.

- Gas provides 18% of total primary energy, forecast to be 29% in 2014-15, an average growth rate of 4.1% per year.
- 90 years of proven reserves.
- Over 3.2 million customers.
- More than 75,000km of pipelines.
- Technology has reduced pipeline construction costs by nearly 40% over the last 15 years.
- Gas causes less environmental damage than coal, increasing its value for power generation and industrial use.
- As older sources are depleted, new pipelines will be needed to bring gas from reserves in the north and north-west of Australia.
- To ensure gas supplies, duplicate pipelines and interconnections are constantly being planned.
- Government and industry are working together to reduce the risk for new pipelines and encourage more investment in them.
- Currently there are more than $9 billion worth of potential projects being considered.


...TASTE...

Brisbane now has twice the gas supply.

The CS Energy Project completes a long-term programme to give Brisbane a second gas pipeline. As well as more than doubling the potential for gas consumption, it helps make the city's supply more secure.

The line also feeds the new Swanbank power station, so Queensland is also boosting its power capacity with cleaner, gas-generated electricity.

LUCAS ACTIVITIES REVIEW

LUCAS PIPELINES

Apart from high-pressure gas pipelines like the CS Energy Project we've featured here, Lucas engineers and builds pipelines for petroleum, water, sewage and mineral slurries.

Our service is complete: from design and engineering, through every stage of construction to hydrostatic testing and commissioning, as well as ancillary facilities like compressor, valve and scraper stations.

We bring a deep understanding of the technology, the industry and our clients' business needs to every project. To help our clients achieve their goals, we've developed innovative management and financial structures that share risk and reward and eliminate a lot of pre-construction time, so pipelines can deliver product – and financial return – sooner.

Other pipelines we've worked on over the past year include:

- Australian Pipeline Trust's 111km Peat Lateral coal seam methane pipeline in Western Queensland.
- AGL Gas Networks' Canberra Primary Mains stages I and II.
- Sydney Gas' pipeline to connect its coal seam methane treatment plant and compressor stations to the AGL Network.
- Cooma reticulation network.

Australia’s power industry

- Supplies 18% of the nation’s energy needs.
- Annual sales of $13 billion.
- 8.3 million customers.
- 85% of power generation is fuelled by coal, 10% by gas, 3% hydro and 1% each by oil and alternative sources.
- Gas is becoming more important as a fuel for power generation, particularly in response to government policies for greenhouse gas emissions.
- Australia has over 51,500km of high voltage overhead and underground lines and 1,590,000km of distribution utility lines. Much of this, and the industry’s other infrastructure, will need replacement over the next ten years.
- More power lines are being installed underground than above. Directional drilling buries these high voltage cables deep underground, safe from external interference.


…HEAR…


Power, water and communications.
Delivered safely under Hong Kong Harbour.

Ma Wan, between Hong Kong's mainland and Lantau island, will soon be home to thousands in a major residential development.

All the island's utilities infrastructure – water, power and telecommunications – was installed by Lucas using horizontal directional drilling (HDD).

HDD took the conduits for these services deep below Hong Kong Harbour. Without affecting shipping or the marine environment.

Ma Wan is among the world's largest HDD projects, with up to four drilling rigs working. It included major technical achievements in dealing with extremely hard granite, traversing geological faults and precision guidance alongside a major electric rail bridge.

LUCAS DRILLING

Horizontal directional drilling (HDD) can take a pipe or conduit directly from one point to another up to several kilometres away with almost no surface disturbance.

This solves a range of problems for infrastructure companies: environmental, access, time, security and budget.

Lucas established the Australian HDD industry in 1990, and has led it ever since – in rig capacity, experience and expertise. Working closely with clients, we continue to reduce costs and overcome technical challenges like heat transfer with power lines, precise directional control and large bores in extremely hard rock.

This year we successfully established Lucas Coal Technologies, focused on coal-seam drilling – essential to drain gas before mining. HDD is also seen as the key to broader use of coal-seam methane as an energy source. In its first 11 months, Coal Technologies has captured approximately 25% of the total contract coal seam drilling market.

With our stake in European HDD leader DrillTec, we spent most of the year as the world's largest HDD group. In May 2001, we sold our share to our partner, Streicher. The investment achieved all we had hoped: we revived DrillTec, achieved a 15-fold return and established a permanent presence in Asia. Today, Lucas is the largest HDD company in the Asia Pacific.

Major projects for the year include:

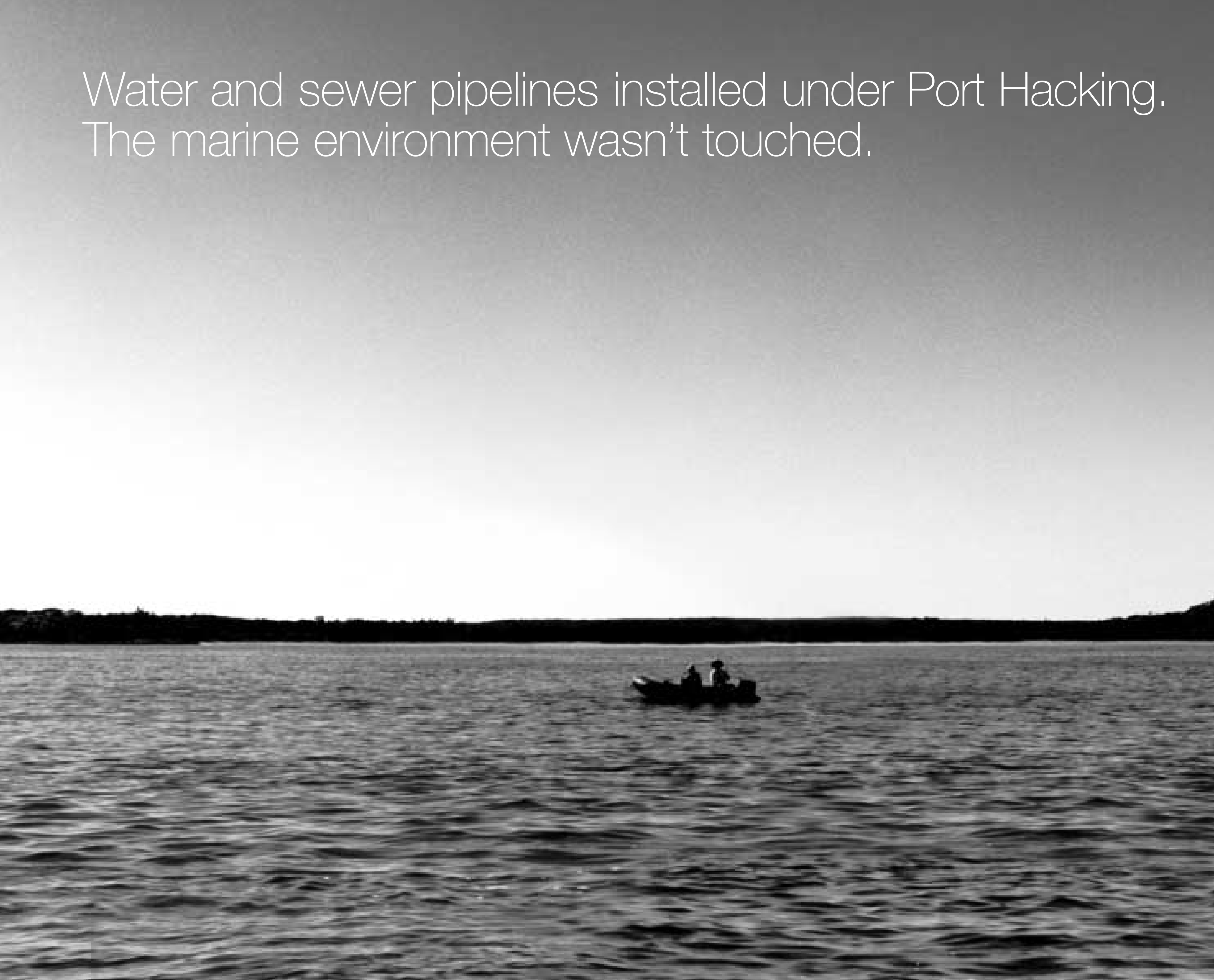
- Eight crossings to Ma Wan Island for China Light & Power and Sun Hung Kai Properties.
- Three drilled crossings of Port Hacking for Sydney Water, including Australia's longest and deepest river crossing.
- River crossing for Peat Lateral gas pipeline.
- Sewer tunnels for Sydney Water.
- Two river crossings for Canberra gas mains.
- Over 30 coal-seam drilling projects.

Australia's water and waste water industry

Although the water industry is still largely government owned, many National Competition Policy (NCP) initiatives have been implemented, with major changes in the industry's structure over the last ten years, in particular by increased outsourcing.

- Australia is the driest inhabited continent.
- High evaporation contributes to our relative water shortage. Wide variability in rainfall makes resource management difficult.
- Our water is among the cheapest in the developed world.
- One of the highest per-capita consumers of potable water – at 2.3 times the global average.
- Agriculture accounts for approximately 79% of water consumption; domestic use 12% and industrial use 9%.
- 300 water authorities.
- 19 million customers (98% of the population).
- Annual revenues are around $6 billion.
- Consumption is 3,400 gigalitres of water annually.
- Approximately 90% of the population are connected to mains sewers.
- Currently 10% of wastewater is reused. Government policy is to increase this to 20%.
- Capital expenditure was up by 20% in the last year and is growing further to restore deteriorating assets.
- Sydney Water alone is budgeting to spend $152 million per year on new capital facilities and $189 million in operating costs to implement its WaterPlan 21 by 2017. In all, they plan to spend over $3 billion.


…FEEL…


Water and sewer pipelines installed under Port Hacking.
The marine environment wasn't touched.

Bundeena and Maianbar, south of Sydney, have always relied on septic tanks.

These communities have grown in population and septics increase pollution risks for the surrounding Royal National Park and Port Hacking.

Sydney Water looked at a variety of approaches to providing sewer and additional reticulated water, ultimately adopting the approach proposed by Lucas: using HDD to install water and sewer pipelines – avoiding a range of environmental risks.

Apart from the main pipelines under Port Hacking, connecting the northern shore to these communities, Lucas installed 20km of local reticulation and nine pumping stations. This gave Sydney Water a complete solution that met all its environmental, technical and budget constraints.

LUCAS SPECIALIST INFRASTRUCTURE

This division was created to leverage the expertise in other divisions and bring them together to devise a solution – generally novel – to a specific infrastructure problem, particularly in the water and power sectors.

For Sydney Water we're installing the local reticulation and pumping stations plus the drilled crossings to Bundeena and Maianbar.

We've constructed gas compressor stations and reticulation networks; gas and oil gathering systems; tank farms; distribution centres and switches.

Apart from the design and installation, these projects potentially offer Lucas an equity and/or maintenance component, adding another level of earnings to the business and the opportunity for capital gains.

Australia's telecommunications industry

- A decade ago, there was one government-owned carrier – Telecom Australia.
- Today there are six major owner/operators of infrastructure and 71 licensed carriers.
- 10.7 million basic telephone lines and 1 million ISDN lines through 1,300 exchanges and 3.1 million km of fibre optic cable.
- 9 million mobile phones, 9,000 base stations.
- 2.2 million homes connected to the Internet.
- 900,000 pay television subscribers.
- Annual revenues $36 billion.
- Average growth of 13% per year.
- Annual infrastructure investment approximately $5 billion.


…SEE…

Fuelled by information

Information technology and telecommunications (IT&T) is now as important as our water and energy infrastructure.

Thousands of business, residential and government customers around NSW can now keep in touch with the world through infrastructure designed and installed by Lucas for Telstra, Australia's largest carrier.

From high-speed fibre optic backbones, through network switching and routing to copper local loops and networks.

LUCAS ACTIVITIES REVIEW

continued

LUCAS NETWORKS

Our telecommunications business has grown rapidly since we established it in 1999 and won a significant Telstra contract.

In October 2000 our performance on this was rewarded with a second major Telstra contract for the Lucas/Downer joint venture.

This work, which required over 100 staff in six offices, occupied most of Lucas Networks' attention for the year. Other projects included the design of a new fibre and copper network in Canberra for TransAct Communications. Installation of fibre optic conduits was also part of the China Light & Power project we completed in Hong Kong.

Shortly after the end of the financial year, Lucas and Downer agreed to unwind their joint venture. This leaves us free to pursue our vision for this industry segment: to offer complete IT&T solutions for businesses and buildings including network design and systems integration.

Tight integration between telecommunications and information technology has become essential to every business. There is still a large untapped market for integration services, particularly for small to medium enterprises. Our combination of engineering, design and commercial expertise and our focus on results makes this an ideal business for Lucas.

To pursue this strategy, in October 2001 Lucas announced the proposed acquisition of Smart Communications, a company with 13 years of experience in a diverse range of IT&T management and services. Smart's expertise and well-established business complement Lucas Networks' existing business.

CONCISE FINANCIAL REPORT 30 JUNE 2001

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 2001. All page numbers refer to this document – the AJ Lucas Group Limited Concise Financial Report 2001.

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 size and composition 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 buy or sell them.

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 sub-committees:

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

A Finance committee was not established, 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 9001:2000

The Group strives to ensure all its services are of the highest standard. To help achieve this, Lucas is establishing quality management systems based on the new AS/NZS ISO 9001:2000 Quality Standard.

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 2001 and the auditors' report on it.

DIRECTORS

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

Allan Campbell BCom LLB
Chairman and CEO, Age 46

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 Allan acquired a controlling interest in Lucas and was appointed executive chairman.

Andrew Lukas BE
Executive Director, Age 54

Andrew Lukas started work as a design engineer with MacDonald Wagner & Priddle and Transfield. 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 family in the Lucas business in 1975 as a project manager, becoming general manager in 1977 and a director in 1995.

Andy pioneered horizontal 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.

Ian Stuart-Robertson AAIQS
Non-Executive Director, Age 52

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.

Ian 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.

Allan Campbell

Andrew Lukas

Ian Stuart-Robertson

Garry O'Meally BSc, BE
Non-Executive Director, Age 65

Garry O'Meally has worked with the oil and gas industries for some 40 years, principally with 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.

Garry has been a non-executive director since 1999 and 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 chairmanship of Norwest Energy NL.

Martin Green FCA
Non-Executive Director, Age 56

Martin Green is a Fellow of the Institute of Chartered Accountants and has been a principal in practice for 29 years, in the main specialising in business recovery and insolvency.

Martin was appointed as a non-executive director in 1999 and is Principal in charge of business recovery and insolvency for Stockford Limited, accountants. Martin 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).

DIRECTORS' MEETINGS

Directors	Board	Audit committee	Tender review committee
Allan Campbell	12	–	11
Andrew Lukas	10	–	11
Ian Stuart-Robertson	10	3	11
Gary O'Meally	11	3	–
Martin Green	11	3	–
Total meetings held	**12**	**3**	**11**


Garry O'Meally


Martin Green

DIRECTORS' REPORT

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 $91,432,301, a 118% increase over last year's $41,935,195. Lucas revenues have grown at an average growth rate of 79.8% pa in the four-year period ended 30 June 2001. Earnings before interest and tax was $8,205,416, a 36.2% increase on the 2000 year's $6,026,322. Profit after tax was $4,496,400. A review of the Group's operations is on pages 5 to 17 of this Annual Report.

STATE OF AFFAIRS

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

- On 31 May 2001 the Company sold its 42.5% interest in DrillTec GUT GmbH to Max Streicher KG for $2,546,041 against its initial investment of $160,941 and acquisition and disposal costs of $163,032. In addition, loans from Lucas of $2,940,629, provided to assist working capital, were repaid.
- The directors have decided to raise a provision of $2,542,390 against the possible non-collection of trade receivables of the Group. Payment for these receivables was expected at the beginning of October 2001 but had not been received as at the date of this report. While the directors have been assured that payment will be made, they believe it is prudent to make this provision at this stage.
- The Group's first year of operations in its new venture in coal seam methane drainage yielded turnover of $1,982,262 and an initial loss after tax of $453,273. This was in line with expectations and this area of operation is expected to achieve profitability in the next financial year.
- Further acquisitions of plant and equipment totalling $3,551,682 were made during the year. This was primarily to expand the Group's Coal Technologies business.

DIVIDENDS

A fully franked (30%-Class C) interim dividend of 3.5c per share was paid on 24 August 2001, and a fully franked (30% – Class C) final dividend of 4.0c per share has been proposed for payment on 17 December 2001. 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.

Group 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 and since the end of 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 ending 30 June 2001 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 ending 30 June 2002.

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 11 September 2001 A J Lucas Networks Pty Limited and Downer Constructions Australia Pty Limited agreed to unwind the Lucas Downer Joint Venture. As a result Lucas will no longer participate in the performance of contract 900520 with Telstra.

On 28 September 2001 the Company announced that it would make an offer to purchase all the issued capital of Smart Communications Group Limited by way of off-market takeover. The offer will be one Lucas share for every 14 Smart Communications Group Limited shares.

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.

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 with the exception of the Smart Communications Group Limited offer. At this stage the Company can neither specify nor quantify likely developments in future financial years, other than those mentioned in the Activities Review on pages 5 to 17.

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 the person's duties and responsibilities and attracts, retains and motivates 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.

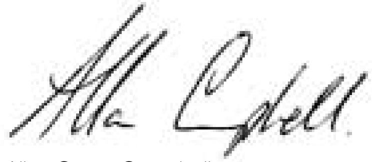
Payments to the directors and the highest-paid Group senior executives are shown below.

SHARE OPTIONS
No new options to buy unissued shares were granted during the year or since whilst 50,000 options were forfeited by employees who ceased employment during the year.

400,000 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: 18 October 2001

Ian Stuart-Robertson
Director
Dated: 18 October 2001

Directors	Base salary & fees $	Car allowance $	Superannuation contributions $	Total $
Allan Campbell	156,000	20,000	–	176,000
Andrew Lukas	140,000	20,000	11,200	171,200
Ian Stuart-Robertson	33,000	–	–	33,000
Garry O'Meally	33,000	–	–	33,000
Martin Green	33,000	–	–	33,000
Group Officers				
Kevin Lester	120,800	20,000	10,940	151,740
Ross Lane	135,000	20,000	10,895	165,895
Ian York	119,800	13,200	20,000	153,000
Hamish Pryor	162,500	–	–	162,500

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 Act 2001, at the date of this report are as follows:

A J Lucas Group Limited	Ordinary shares	Options over ordinary shares
Allan Campbell	9,229,689	–
Andrew Lukas	5,565,000	–
Ian Stuart-Robertson	1,192,000	–
Martin Green	–	50,000
Garry O'Meally	43,000	50,000

Mr O'Meally increased his shareholding by 20,000 ordinary shares since the date of the last report.
Mr Campbell increased his shareholding by 87,189 ordinary shares since the date of the last report.

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2001

	Note	Consolidated 2001 $	2000 $
Revenue from rendering services		88,778,549	41,443,069
Other revenue from ordinary activities		2,653,752	492,126
Total revenue		**91,432,301**	**41,935,195**
Project and construction management costs		(63,218,206)	(26,557,986)
Employee expenses		(10,583,823)	(5,869,470)
Depreciation and amortisation expenses		(2,695,310)	(1,474,258)
Borrowing costs		(930,323)	(460,763)
Other expenses incurred in ordinary activities		(7,663,668)	(2,870,433)
Share of net profit of associates accounted for using the equity method		1,247,714	1,125,376
Profit from ordinary activities before related income tax expense		**7,588,685**	**5,827,661**
Income tax (expense) relating to ordinary activities	7	(3,092,276)	(1,805,254)
Net profit attributable to members of the Company	**6**	**4,496,409**	**4,022,407**
Total changes in equity other than those resulting from transactions with owners as owners		**4,496,409**	**4,022,407**
Basic earnings per share		$0.124	$0.126
Diluted earnings per share		$0.122	$0.124
Key financial ratios*			
Return on revenue		4.9%	9.6%
Return on total assets		8.0%	11.1%
Return on equity		23.8%	24.9%

** All based on "return" being the net profit attributable to members of the Company.*

DISCUSSION AND ANALYSIS OF THE STATEMENT OF FINANCIAL PERFORMANCE

Revenue for the financial year ended 30 June 2001 increased by 118% on the 2000 year to $91,432,301 whilst the after tax profit was $4,496,409 compared to the result of $4,022,407 for last year. Operating costs, disclosed for the first time this year due to the reclassification required by revised accounting standards, increased significantly as a result of this increasing turnover.

A provision of $2,542,390 has been made against the possible non-collection of trade receivables of the Group. Payment for these receivables was expected at the beginning of October 2001 but had not been received as at the date of this report. While the directors have been assured that payment will be made, they believe it is prudent to make this provision at this stage.

Interests in joint ventures contributed $1,045,922 to the net profit attributable to members of the Company, compared to $1,646,609 in the 2000 financial year. There was a significant decrease in the percentage of profit contributed by these entities for this year as the Group's reliance on joint ventures for expansion diminishes.

The Group's equity accounted interest in DrillTec GUT GmbH ("DrillTec"), until the sale of its 42.5% interest, contributed $1,247,714 to the net profit attributable to members during the financial year compared to $1,125,376 for the year ended 30 June 2000.

The excess of the carrying amount of the Group's equity accounted interest in DrillTec over the sale price received was $151,022. DrillTec continues to contribute equipment, personnel and expertise to the China Light & Power Ma Wan project in Hong Kong. The increase in the effective tax rate from 31.0% in 2000 to 40.8% in 2001 is due substantially to the treatment of the profit on sale of DrillTec on a cost basis for income tax purposes as opposed to the equity accounting of after tax profits required for accounting purposes.

The statement of financial performance must be read in conjunction with the discussion and analysis on this page and the notes to the financial statements on pages 27-29

STATEMENT OF FINANCIAL POSITION

as at 30 June 2001

DISCUSSION AND ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The Group's total assets increased by $19,882,104 to $56,250,611 (2000: $36,368,507) over the year. This increase is primarily a reflection of increased receivables due to the changing nature and size of projects undertaken and capital equipment necessary to facilitate this expansion and to undertake new areas of business.

Liabilities increased as a direct reflection of the growth in payables and interest-bearing liabilities to finance the expansion of the Lucas operations and to assist in the purchase of plant and equipment. Provisions were increased to cover income tax, the proposed dividend and employee entitlements.

Interest-bearing liabilities, primarily with the Group's principal bankers, are secured by a fixed and floating charge over the assets of the consolidated entity.

Shareholders' equity increased by $1,770,159 which is in line with the Group's objectives of providing returns to shareholders by way of dividend in addition to capital growth.

The directors elected to measure plant and equipment at cost upon the initial adoption of revised AASB 1041 and have deemed the carrying value of plant and equipment as at 1 July 2000 to be this cost. The balance of the asset revaluation reserve as at 1 July 2000 totalling $2,039,255 has been transferred to retained profits.

	Note	Consolidated 2001 $	Consolidated 2000 $
Current assets			
Cash assets		1,821,267	2,935,228
Receivables		37,750,830	19,974,633
Inventories		1,283,566	1,242,850
Other		108,479	176,477
Total current assets		**40,964,142**	**24,329,188**
Non-current assets			
Plant and equipment		13,712,397	9,397,856
Investments accounted for using the equity method		-	1,286,317
Intangibles		545,753	945,753
Deferred tax assets		1,018,399	399,473
Other		9,920	9,920
Total non-current assets		**15,286,469**	**12,039,319**
Total assets		**56,250,611**	**36,368,507**
Current liabilities			
Payables		18,831,179	10,501,359
Interest bearing liabilities		8,197,294	4,522,677
Current tax liabilities		5,095,349	1,529,977
Provisions		3,549,394	1,737,665
Total current liabilities		**35,673,216**	**18,291,678**
Non-current liabilities			
Payables		–	545,165
Interest bearing liabilities		2,572,526	847,700
Deferred tax liabilities		46,587	500,828
Provisions		25,028	20,041
Total non-current liabilities		**2,644,141**	**1,913,734**
Total liabilities		**38,317,357**	**20,205,412**
Net assets		**17,933,254**	**16,163,095**
Equity			
Contributed equity		9,136,469	9,136,469
Reserves		–	2,039,255
Retained profits	6	8,796,785	4,987,371
Total equity	7	**17,933,254**	**16,163,095**

The statement of financial position must be read in conjunction with the discussion and analysis on this page and the notes to the financial statements on pages 27-29

STATEMENT OF CASH FLOWS

for the year ended 30 June 2001

DISCUSSION AND ANALYSIS OF THE STATEMENT OF CASH FLOWS

The requirement to provide cash flow for operations is a direct reflection of the change in size and nature of projects being undertaken by the Group and the need to fund larger, milestone-based contracts. This totalled $1,767,109 during the financial year (2000: $1,673,663).

Further expansion of the Group's plant and equipment required expenditure of $3,547,628 (2000: $5,025,625).

Funds provided from the sale of DrillTec GUT GmbH totalled $5,674,434 including the repayment of loans provided for working capital and is in keeping with the Group's policy of reducing its exposure in areas of its operations where direct access to cash flow is limited.

The Group's principal bankers provided the majority of funds to acquire additional plant and equipment and to underpin working capital requirements.

	Note	Consolidated 2001 $	Consolidated 2000 $
Cash flows from operating activities			
Receipts from customers		68,608,521	32,047,305
Payments to suppliers and employees		(69,381,907)	(33,109,363)
Interest received		114,730	190,996
Income taxes paid		(551,120)	(620,805)
Interest paid		(557,333)	(181,696)
Net cash (used in) operating activities		**(1,767,109)**	**(1,673,663)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		7,804	32,040
Proceeds on disposal of associated entity		2,531,218	–
Proceeds on disposal of equity investments		–	266,460
Purchase of business		(350,000)	(454,835)
Purchase of equity investments		–	(241,280)
Payments for plant and equipment		(3,547,628)	(5,025,625)
Net cash (used in) investing activities		**(1,358,606)**	**(5,423,240)**
Cash flows from financing activities			
Repayment of borrowings – other		(2,353,797)	(534,515)
Loans to associated entities		–	(2,960,429)
Repayment of loans by associated entities		2,823,175	–
Proceeds of borrowing from related entities		79,487	549,270
Proceeds of borrowings – other		1,514,644	712,300
Dividends paid		(1,272,250)	(963,000)
Net proceeds from share issue		–	9,244,203
Lease and hire purchase payments		(630,194)	(448,767)
Net cash (used in)/provided by financing activities		**(10,546)**	**5,599,062**
Net (decrease) in cash held		(3,115,169)	(1,497,841)
Cash at the beginning of the financial year		135,805	1,633,646
Cash at the end of the financial year		**(2,979,364)**	**135,805**

The statement of cash flows must be read in conjunction with the discussion and analysis on this page and the notes to the financial statements on pages 27-29

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation of concise financial report

This concise financial report covers the Group for the financial year ended 30 June 2001. It has been derived from the Group's full financial report for this year.

It cannot provide as complete an understanding of the Group financial performance and position and its financing and investment activities as the full financial report, which is available on request from our office or our Internet site at www.lucas.com.au.

There is a full description of the Group's accounting policies in its full financial report. These haven't changed except as detailed in Note 3, below.

2. Reclassification of financial information

Some line items and sub-totals reported in the previous financial year have been reclassified and repositioned in the financial statements as a result of the first time application on 1 July 2000 of the revised standards AASB 1018 Statement of Financial Performance, AASB 1034 Financial Report Presentation and Disclosures and the new AASB 1040 Statement of Financial Position.

Adoption of these standards has resulted in the transfer of the reconciliation of opening to closing retained profits from the face of the statement of financial performance to Note 6.

Revenue and expense items previously disclosed as abnormal have been reclassified and are now disclosed as individually significant items in Note 4. These items are no longer identified separately on the face of the statement of financial performance.

The following assets and liabilities have been removed from previous classifications and are now disclosed as separate line items on the face of the statement of financial position:

– investments accounted for using the equity method, previously presented within other financial assets
– deferred tax assets, previously presented within other non-current assets
– current tax liabilities, previously presented within current provisions
– deferred tax liabilities, previously presented within non-current provisions.

3. Change in accounting policy Revaluation of non-current assets

The consolidated entity has applied revised AASB 1041 Revaluation of Non-Current Assets for the first time from 1 July 2000. The standard requires each class of non-current asset to be measured on either the cost or fair value basis. Revised AASB 1041 does not apply to inventories, foreign currency monetary assets, goodwill, investments accounted for using the equity method, deferred tax assets and other assets measured at net market value where the market value movements are recognised in the statement of financial performance.

The consolidated entity has applied revised AASB 1041 as follows:

Plant and Equipment

The consolidated entity has adopted the cost basis for the valuation of plant and equipment and has deemed the cost of the plant and equipment to be equal to the carrying value as at 1 July 2000. As a consequence of making this election on the adoption of revised AASB 1041, plant and equipment previously classified as at independent valuation is now classified as at cost. There is no financial effect of the change in accounting policy.

Other non-current assets

The consolidated entity has continued to apply the cost basis for other non-current assets.

	Note	Consolidated 2001 $	Consolidated 2000 $
4. Profit from ordinary activities before income tax			
Individually significant items included in profit from ordinary activities before income tax expense			
Net (loss) on sale of associated entity		(151,022)	–
5. Individually significant income tax items			
Increase/(decrease) in income tax expense due to:			
Equity accounted profit after tax of associated entity not assessable		(424,223)	(405,135)
Assessable profit on disposal of associated entity		806,851	–
6. Retained profits			
Retained profits at the beginning of the year		4,987,371	3,200,214
Net profit attributable to members of the parent entity		4,496,409	4,022,407
Transfer from asset revaluation reserve		2,039,255	–
Dividends	8	(2,726,250)	(2,235,250)
Retained profits at the end of the year		**8,796,785**	**4,987,371**
7. Total equity reconciliation			
Total equity at the beginning of the year		16,163,095	5,239,471
Net profit attributable to members of the parent entity		4,496,409	4,022,407
Transactions with owners as owners:			
Contributions of equity		-	9,136,467
Dividends	8	(2,726,250)	(2,235,250)
Total equity at the end of the year		**17,933,254**	**16,163,095**

8. Dividends proposed or paid by the company are:

	Cents per Share	Total Amount $	Payment date	Tax rate for franking credit	Percentage franked
2001 Interim-ordinary shares	3.5	1,272,250	24 August 2001	30% (Class C)	100%
Final-ordinary shares proposed	4.0	1,454,000	17 December 2001	30% (Class C)	100%
Total		**2,726,250**			
2000 Interim-ordinary shares	3.0	963,000	31 March 2000	36% (Class C)	100%
Final-ordinary shares	3.5	1,272,250	15 December 2000	34% (Class C)	100%
Total		**2,235,250**			

9. Segment Information

Geographical Segments	Australia		Overseas		Consolidated	
	2001 $	2000 $	2001 $	2000 $	2001 $	2000 $
Revenue from rendering services	40,216,121	32,983,409	48,562,428	8,459,660	88,778,549	41,443,069
Other revenues	114,730	190,996	2,539,022	301,130	2,653,752	492,126
Total revenue	40,330,851	33,174,405	51,101,450	8,760,790	91,432,301	41,935,195
Segment operating profit	851,543	5,111,623	9,503,819	3,480,811	10,355,362	8,592,434
Unallocated expenses					(5,858,953)	(4,570,027)
Profit from ordinary activities after income tax					**4,496,409**	**4,022,407**
Segment assets	**31,345,083**	**27,768,353**	**24,905,528**	**7,965,732**	**56,250,611**	**36,368,507**

Industry Segments
The consolidated entity operates predominantly in the civil engineering industry and provides directional drilling, pipeline construction and specialist infrastructure services.

10. **Investment in associate DrillTec GUT GmbH**
On 31 May 2001 the Company sold its 42.5% interest in DrillTec GUT GmbH ("DrillTec"), a company incorporated in the Federal Republic of Germany, to Max Streicher KG. DrillTec provides horizontal directional drilling services and operates in Europe, South America and the Middle East.

As the Company exerted significant influence over the DrillTec operations until the date of sale the results for that financial period are equity accounted in accordance with AASB 1016. The share of profit from ordinary activities after income tax brought to account for the financial period was $1,247,714 (2000: $1,125,376).

The carrying amount of the investment in DrillTec as at the date of sale was $2,373,090 and the loss on sale, being the excess of this carrying amount over the net sale proceeds, was $151,022. In addition to this, loans totalling $2,940,629 were repaid. DrillTec continues to contribute equipment and personnel to the Group's CLP project in Hong Kong.

11. **Events subsequent to balance date:**

Lucas Downer Joint Venture
On 11 September 2001 A J Lucas Networks Pty Limited and Downer Constructions Australia Pty Limited agreed to unwind the Lucas Downer Joint Venture. As a result Lucas will no longer participate in the performance of contract 900520 with Telstra. A profit of $146,122 will be recognised in the year ended 30 June 2002 arising from the Group's participation and exit from this joint venture.

The financial effects of this transaction have not been brought to account in the financial statements for the year ended 30 June 2001.

Smart Communications Group Limited
On 28 September 2001 the Company announced that it would make an offer to purchase all the issued capital of Smart Communications Group Limited by way of off-market takeover. The offer will be 1 Lucas share for every 14 Smart Communications Group Limited shares.

As the outcome of this event is not able to be determined, it is not possible to estimate its financial effect, and no effect has been brought to account.

DIRECTORS' DECLARATION

In the opinion of the directors of AJ 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 2001, set out on pages 19 to 29:

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: 18 October 2001

Ian Stuart-Robertson
Director
Dated: 18 October 2001

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 2001 consisting of the statements of financial performance, financial position and cash flows, accompanying notes 1 to 11 and the accompanying discussion and analysis on the statements of financial performance, financial position and cash flows, 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 mis-statement. 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 2001. Our audit report on the full financial report was signed on 18 October 2001, 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 2001 complies with AASB 1039 "Concise Financial Reports".

KPMG

Neil Cameron Smith
Partner
Sydney, 18 October 2001

SHAREHOLDER INFORMATION

as at 18 September 2001

TWENTY LARGEST SHAREHOLDERS Name	Ordinary Shares	Percentage of issued shares
A J Lucas Holdings Pty Limited	15,900,000	43.75
Chase Manhattan Nominees Limited	3,029,024	8.33
Citicorp Nominees Pty Limited	2,350,000	6.46
Questor Financial Services Limited	1,234,605	3.40
Amalgamated Dairies Limited	1,000,000	2.75
New Zealand Guardian Trust Company Limited	835,000	2.30
National Nominees Limited	526,379	1.45
Commodity Traders (NZ) Limited	500,000	1.38
New Zealand Guardian Trust Company Limited	800,000	2.21
Christopher Lindsay Biggins	613,839	1.69
Commonwealth Custodial Services Limited	309,000	0.85
Cogent Nominees Pty Limited	300,000	0.83
Auckland Medical Research Foundation	200,000	0.55
Wightholme Nominees Pty Limited	200,000	0.55
Lahama Pty Limited	185,000	0.51
RH & M Properties Pty Limited	160,000	0.44
Mr Bruce Bird	125,000	0.34
Forbar Nominees	120,798	0.33
Bridge-Shepp Nominee Pty Limited	100,000	0.28
Kambala Holdings Pty Limited	96,500	0.27
Total	28,585,145	78.67

SUBSTANTIAL SHAREHOLDERS Shareholder	Ordinary
A J Lucas Holdings Pty Limited	15,900,000
Chase Manhattan Nominees Limited	3,029,024
Citicorp Nominees Pty Limited	2,350,000

DISTRIBUTION OF SHAREHOLDERS Category	Number of Shareholders Ordinary	Options
100,001 and over	19	1
10,001–100,000	154	4
5,001–10,000	233	–
1,001–5,000	751	–
1–1,000	172	–
Total	1,331	5

11 shareholders held less than a marketable parcel.

Voting rights

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

OFFICES AND OFFICERS

A J Lucas Group Limited, incorporated and domiciled in Australia, is a public listed company limited by shares.

Since the lodgement of the appendix 4(b) with the ASX on 13 September 2001, the directors have decided to increase the provision against possible non-collection of trade receivables of the Group to $2,542,390. Payment for these receivables was expected at the beginning of October 2001 but had not been received as at the date of this report. While the directors have been assured that payment will be made, they believe it is prudent to make this provision at this stage. This has had the effect of reducing profit from ordinary activities before tax by $1,440,110 and net profit attributable to members of the parent entity by $950,453 from that disclosed in the appendix 4(b).

A J LUCAS GROUP LIMITED

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

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

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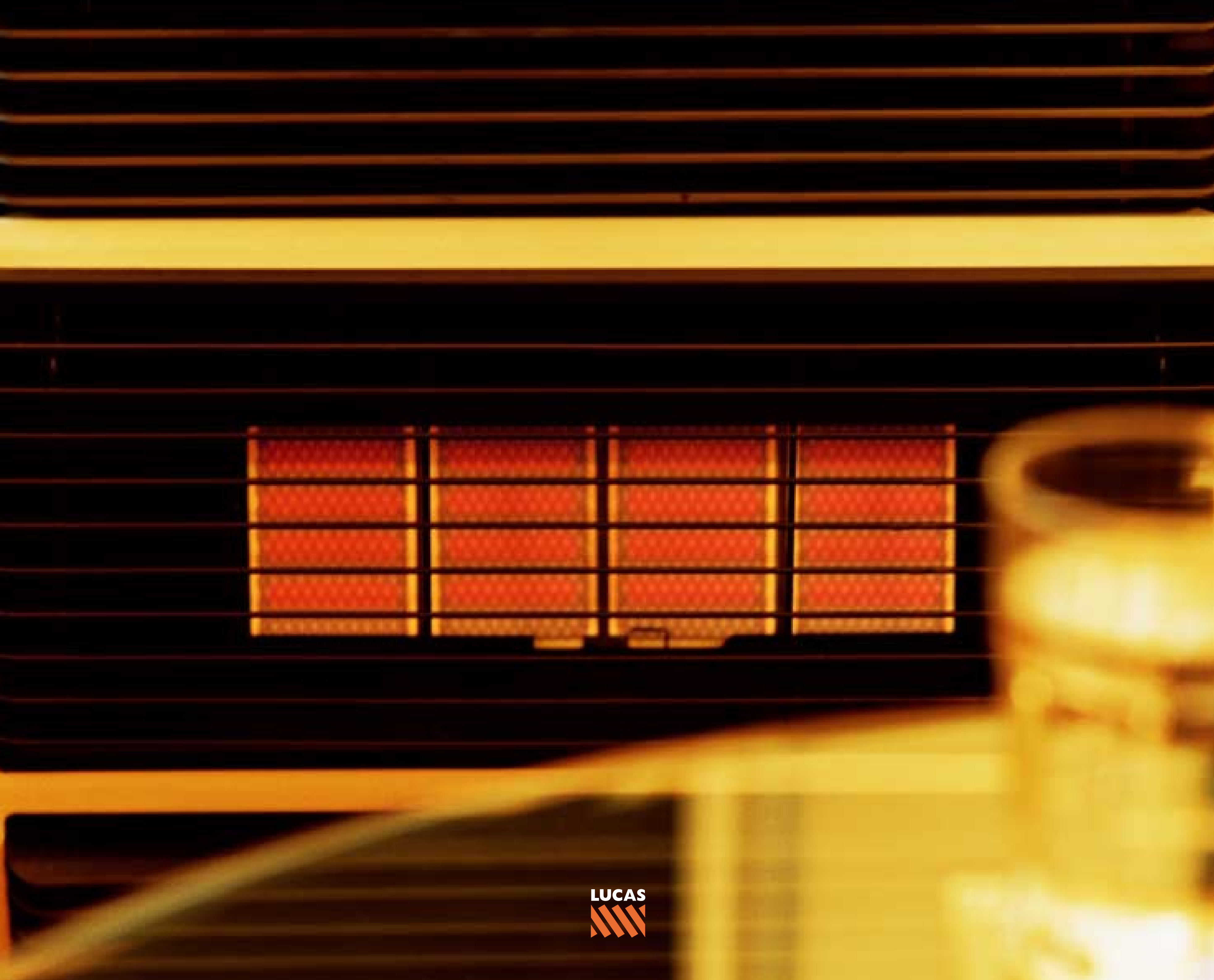
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