AJ LUCAS ANNUAL REPORT 2002

DOWN TO EARTH

Fellow shareholders,

Adolescence is always difficult. For a company, it's a time when management systems struggle to keep up with rapid growth; when capital struggles to match cashflow; when there's a constant stream of new team members who need to get up to speed. AJ Lucas has, I think, been going through this for the past two or three years.

I am pleased to report that we have come through it – and very well prepared for life as a more mature organisation. 2002 has been a year of consolidation and preparation.

We listed Lucas on ASX to enhance our credibility in the marketplace. While we were confident of our vision and expertise, we needed the profile of a public company to demonstrate our expertise and capabilities. Our recent successes confirm this was the right strategy. We now need to produce the financial rewards that flow from this strategy.

The group has grown substantially since we listed on ASX: financially, geographically, operationally and managerially.

We now have a well-balanced business poised to capitalise on the opportunities in our more mature operations of HDD and pipelines, and well positioned to exploit emerging coal seam methane opportunities.

Our turnover for the year was $68.47 million. Unfortunately a profit from operations of $4.1 million was reduced to an overall loss of $0.7 million before tax, mainly due to the cost of closing our telecommunications division and one-off costs.

While we're disappointed in this, the board and I are certain we made the right decisions and that the company has ended the year stronger as a result. Our full order book confirms we're in excellent shape.

Well positioned for the future

The company continues to grow in the services aspect of its activities. Lucas' success is a measure of our ability to solve problems for clients in a competent, business-advancing manner. This is the critical factor for our clients and distinguishes Lucas from its competitors.

In addition, Lucas' detailed knowledge of the infrastructure asset class allows us to assist in creating and developing projects – to create additional and more consistent revenue streams.

We've made several major investments this year to help ensure we can manage our growth. These include our ISO 9001 quality system, new management information systems and training.

Our new software systems enable us to effectively manage our business and track every project day to day to make sure each is on-track and profitable. Our ISO 9001:2000 quality certification affirms our management systems and helps us win projects. Our flat, tight management structure keeps everyone close to the business.

In short, your company is better-managed than it's ever been.

Right now we have around $90 million worth of work already committed for 2002-03 and look forward to our biggest, most profitable year yet.

The best demonstration of our maturity is our winning of the SEA Gas pipeline project. This is the biggest pipeline contract of the year and was hotly contested by four invited tenderers. Our meticulous and integrated approach to the project won the approval of the two partners in the project, as well as passing the rigorous due diligence of the four international banks financing it.

And, once again, we've used an effective joint venture to secure a major infrastructure project. The acceptance of Lucas by our partner, Spie Capag, demonstrates their faith in our ability and our increased maturity.

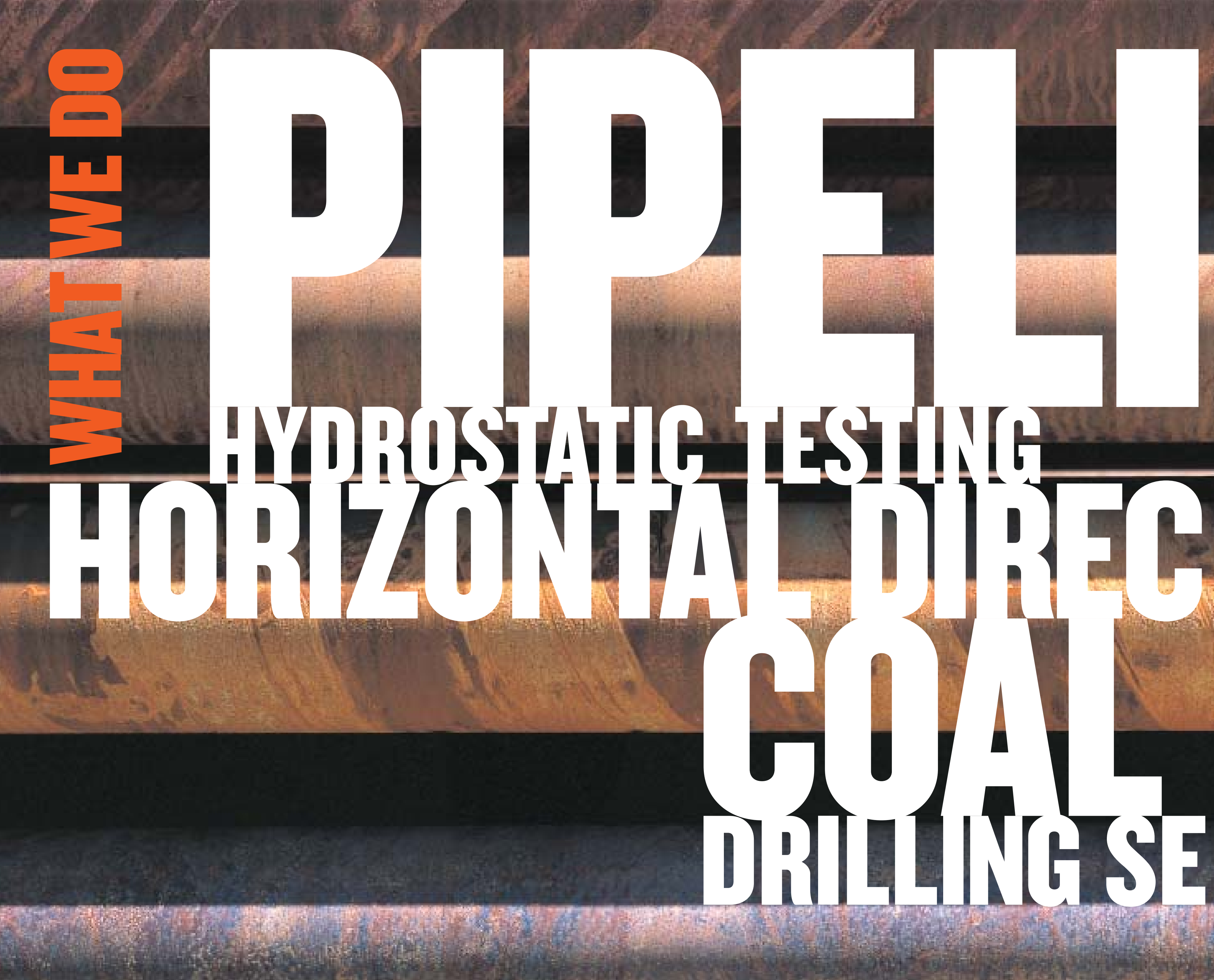
Your company has definitely come of age.

Allan Campbell, Chairman

ANNUAL REPORT 2002

LUCAS

A J LUCAS GROUP LIMITED



WHAT WE DO

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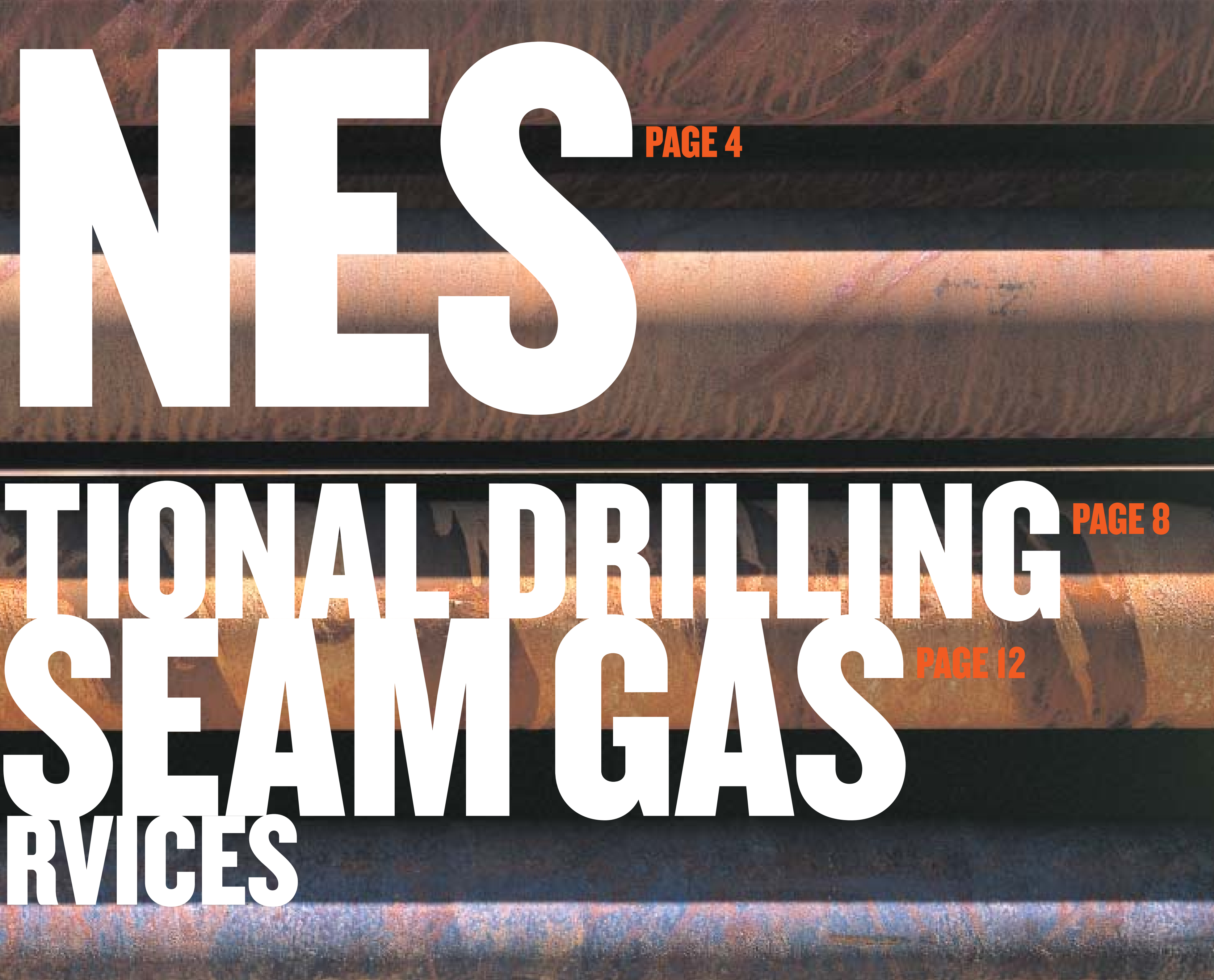

NES PAGE 4
TIONAL DRILLING PAGE 8
SEAM GAS PAGE 12
RVICES

PIPELINES

An important catalyst for our strategy was the deregulation of Australia's gas pipelines in July 1997. Until then, Australia's gas industry was a group of protected state monopolies. Each had their own pipeline design and construction units, using contractors to do the grunt work. continued over

WHAT WEIGHS 36 TONNES AND HAS A TOP SPEED OF 2.5KM/H?

Our two Trencor 780 bucket wheel trenching machines are among the tools that make our pipeline team the leaders in Australia and one of the most efficient in the world.

To help keep it that way, we're adding a Trencor 930 for SEA Gas. This can dig a trench 1.8m wide and 2.7m deep at up to 300m per hour, replacing an entire fleet of backhoes.

And of course when we get to the really tough stuff we can put the 1260 chain trencher to work. This 57 tonne monster will cut a trench in the hardest rock more than a metre wide and 3.7m deep.

The right tools, the skills to use them, the expertise to know which to use when.

PIPELINES 2001-2002

continued from page 4

Five years later, the industry is still evolving into a healthy competitive environment, with pipeline ownership separated from local reticulation, retail and wholesale gas delivery. Pipeline design and construction are now almost entirely outsourced.

As these pipeline owners and distributors have focused on their core business, our value as a one-stop outsource for their infrastructure has increased.

We've steadily extended our capabilities to meet our clients' needs. Today, our role on pipelines includes project feasibility, design, engineering, route planning, procurement, community liaison, construction, testing and rehabilitation.

The pipeline industry continues to grow as natural gas becomes more important and as new gas fields take over from depleted older fields. According to the Australian Gas Association, there's around $7 billion of pipeline infrastructure on the drawing boards for the next few years.

Our experience, resources and reputation put us in a great position to continue to grow in this industry. This was confirmed as the year ended, when we won our biggest pipeline contract, for the design, procurement and construction of the SEA Gas pipeline from South Australia to Victoria. Working in joint venture with French pipeline giants Spie Capag, our share of this project's revenue will be worth more than $150 million between 2002 and 2004.

No-one lays pipelines like Lucas. An average of 3-4 km of pipeline a day. On budget.

PEAT LATERAL
Australian Pipeline Trust's coal seam methane pipeline in Western Queensland. Completed in 45 days.

BERRI TO MILDURA
An engineer/procure/construct (EPC) project for Envestra, this pipeline carries gas from Berri, South Australia to Mildura, Victoria.

ROMA-BRISBANE LOOPING
A long-term project (completed in five stages) to give Brisbane a second gas pipeline. As well as more than doubling its gas supply, it helps make it more secure.

MARSDEN TO DUBBO
This 283km pipeline added Dubbo, Forbes, Parkes and Narromine to AGL's NSW gas network.

OUR YEAR'S WORK

The projects this year demonstrate our "brains and brawn" full service approach. All involve design, engineering and problem-solving as well as construction. In every case we've delivered a complete solution.

Canberra Mains Stage II

Completed in July 2001 for AGL Gas Networks, this 22km pipeline connects Canberra to Duke Energy's Eastern Gas Pipeline. Although it's relatively short, the pipeline included many challenges – road and rail bores, street works and traverses of national parks.

Lucas was responsible for engineering, procurement and construction in conjunction with Agility Team Build and Clough Engineering.

Roma-Brisbane Looping Stage 5

155km of 400mm pipeline to build another stage of Agility's Brisbane gas supply upgrade. Completed as part of the AGL Alliance with Clough.

Heytesbury upgrade for Santos

These two pipelines connect wellheads to Santos' Heytesbury gas processing plant in south west Victoria. One pipeline is 200mm diameter, 10km long and includes one HDD river crossing. The other is 150mm diameter and 1.6km long.

MIDWEST

Carrying gas from Geraldton to the Windimurra Vanadium mine in Western Australia.

SEA GAS

A new gas supply for South Australia and the largest pipeline project currently underway in Australia. Lucas' innovative EPC proposal was a key element in the project going ahead.

CURRENT PROJECTS

Bulong WA

A 40km pipeline goes East from Kalgoorlie to supply the energy needs of the new Bulong nickel mine. Although this is one of our smaller projects, it's our first project to build, own, operate and transfer a pipeline, providing an income stream for 10 years.

SEA Gas

The South East Australia Gas Pipeline, SEA Gas, is a joint venture between International Power, Origin Energy and TXU. It will supply gas to South Australia from Victoria's Minerva offshore gas field and later, the Thylacine and Geographe fields.

The 680km, 450mm diameter underground pipeline runs from Port Campbell, Victoria to Pelican Point in Adelaide, South Australia.

Lucas, in joint venture with Spie Capag Australia, won the design, procurement and construction contract in May 2002 against international competition.

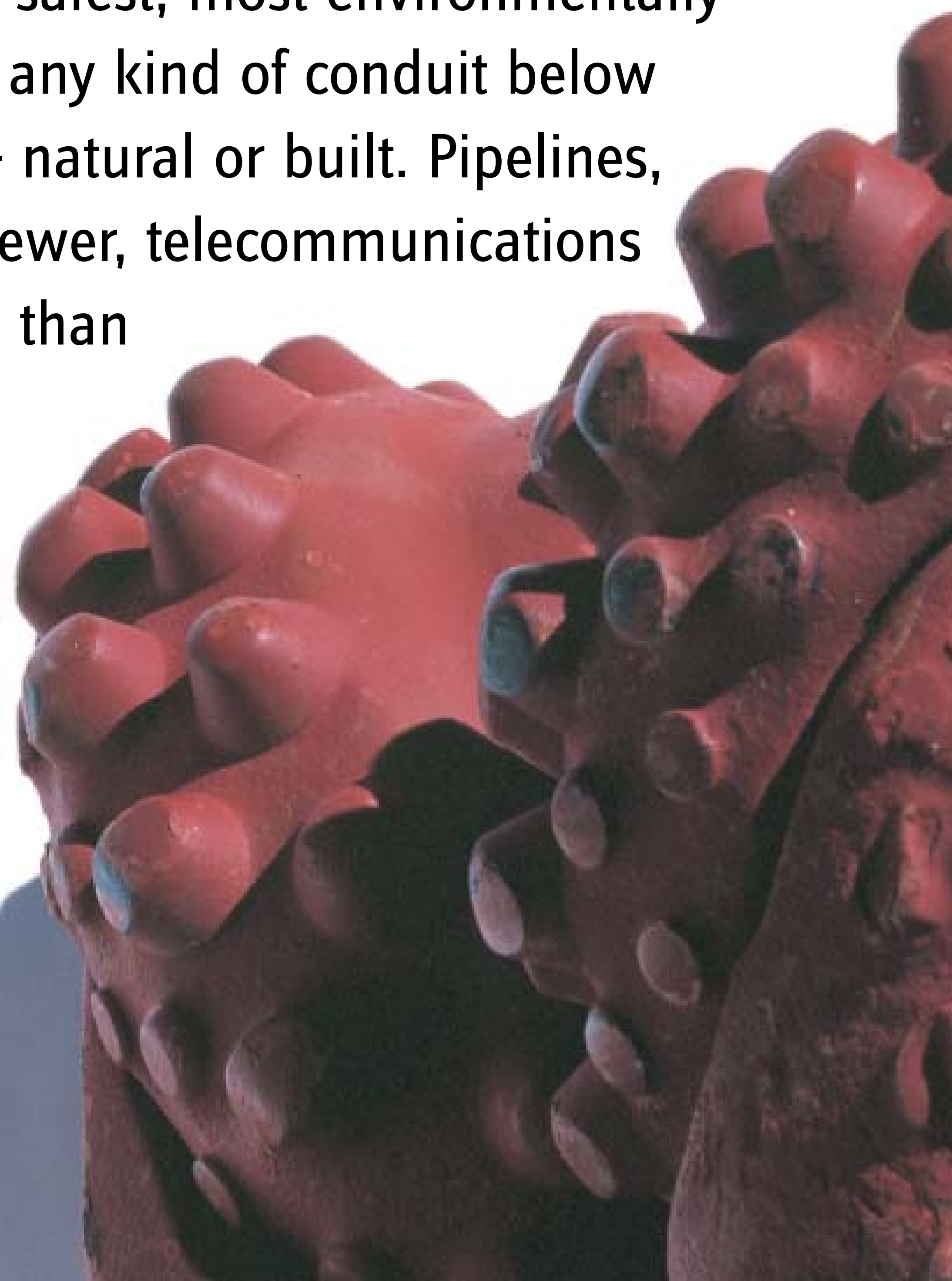
Our share of the project will contribute more than $150 million to the Group's revenue this year and next.

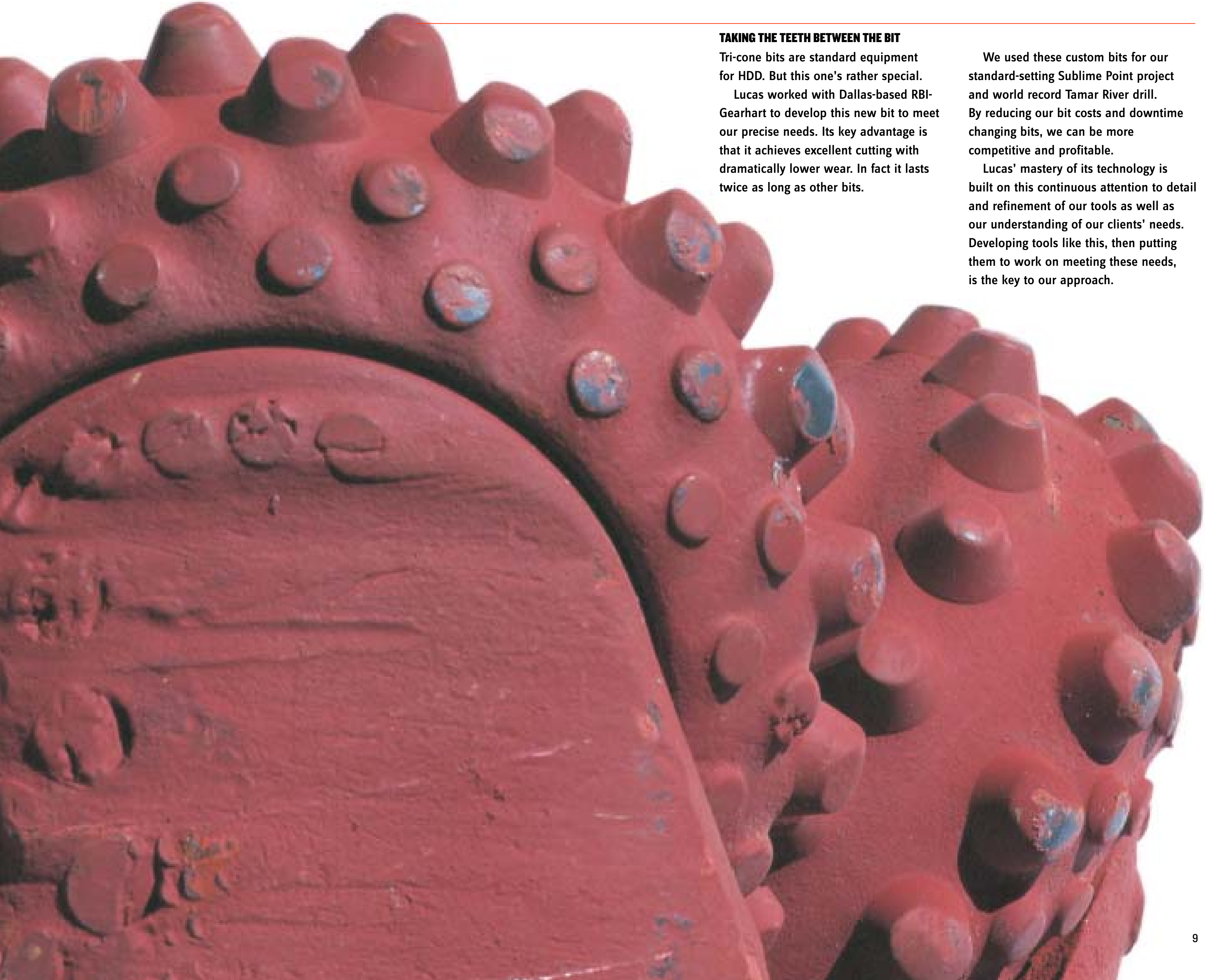
STAYING CLOSE TO THE LAND

To develop our design and construction approach to the SEA Gas pipeline, our first step was just that – to go the entire 650km length of the proposed route, looking for constraints, challenges, opportunities. We put that together with a careful analysis of weather, bushfire, bird breeding cycles – every factor that could help us develop the right approach. Making sure the technical demands of the project are met in sympathy with the local conditions and environment.

HORIZONTAL DIRECTIONAL DRILLING (HDD)

HDD is the fastest, safest, most environmentally benign way to put any kind of conduit below surface obstacles – natural or built. Pipelines, electricity, water, sewer, telecommunications ducts can go more than two kilometres without disturbing the surface.





TAKING THE TEETH BETWEEN THE BIT

Tri-cone bits are standard equipment for HDD. But this one's rather special.

Lucas worked with Dallas-based RBI-Gearhart to develop this new bit to meet our precise needs. Its key advantage is that it achieves excellent cutting with dramatically lower wear. In fact it lasts twice as long as other bits.

We used these custom bits for our standard-setting Sublime Point project and world record Tamar River drill. By reducing our bit costs and downtime changing bits, we can be more competitive and profitable.

Lucas' mastery of its technology is built on this continuous attention to detail and refinement of our tools as well as our understanding of our clients' needs. Developing tools like this, then putting them to work on meeting these needs, is the key to our approach.

HORIZONTAL DIRECTIONAL DRILLING 2001-2002

OUR YEAR'S WORK

Every project this year has helped consolidate Lucas' reputation as world leaders in HDD engineering and technology. We've set world records for distance, for precision and for rock hardness.

As our leadership in this technology has increased, we've expanded the business to include consultancy and specialist drilling services for organisations designing or undertaking HDD projects.

It's been a commercially successful year too, with every project delivered on-time, on-budget and profitably.

Completing the world's largest HDD project in Hong Kong
The HDD installation of six high-voltage mains for China Light & Power is the world's largest HDD project.

A total of 6,048 metres of 584mm diameter bores through solid rock, the crossings were completed and handed over in October 2001 – a month early.

Four rigs on two sites, with a total capacity of 1210 tonnes, set another record for sheer drilling power on a single project.

Two months. Twelve river crossings. A new world record.
Duke Energy's Tasmanian Gas Pipeline included 12 HDD river crossings across northern Tasmania, which Lucas designed, engineered, approved and completed in less than two months.

The longest crossing, of the Tamar River, was 2,046m overall and reached 86 metres below the river, a new world record for an HDD single pass river crossing. Over a third of the crossing was through the toughest dolerite we've ever drilled.

Brisbane Water
A 558mm diameter pipeline was installed under Brisbane River. The overall drill length was 850m.

Precision drilling for Sydney Water
Over the last eight years, we've been working with Sydney Water to upgrade its sewers in the Blue Mountains, west of Sydney. Apart from avoiding a lot of trenching and inconvenience, HDD eliminates the need for local pumping stations by connecting directly to underground carrier tunnels.

This year we completed three more inclined bores in this long-term project.

These are always challenging, as the grade must be precisely controlled to ensure correct flow. And to meet the underground tunnels, we have to be absolutely on-target.

The most precise this year was at Sublime Point, detailed opposite.

Our top ten. World leaders in HDD

Ten of the world's 20 longest HDD projects.
More drills over 1,000m than any other company.

2002	1,225m	Sublime Point sewer mains, NSW
2001	1,230m	Bundeena water and sewer lines, NSW
2001	1,300m	China Light & Power high voltage cable ducts (2), Hong Kong WORLD'S LARGEST HDD PROJECT
2000	1,369m	Ma Wan dual water pipelines, Hong Kong
2002	1,600m	BHP Billiton's Minerva gas field landfall, Victoria
2002	1,810m	Chatswood sewer pipeline, NSW
2002	1,900m	Illawarra water mains, NSW
2002	2,046m	Tamar River gas pipeline crossing, Tasmania WORLD'S LONGEST

PREVIOUS WORLD RECORD 1840M

CURRENT PROJECTS

Illawarra for Sydney Water

Again, HDD eliminates a variety of headaches for Sydney Water by taking a new water mains directly from place to place without disturbing anything on the surface. At 1900 metres long, this is a world class HDD project.

Chatswood for Sydney Water

Using the techniques we've refined in the Blue Mountains, this sewerage pipeline will go directly under one of Sydney's busiest shopping and commercial centres. 1810 metres overall, falling 45m at a steady grade of 1.46º, Lucas' innovative techniques avoid months of disruption with conventional installation.

SEA Gas

The SEA Gas pipeline we're building with Spie Capag includes five directionally-drilled crossings.

BHP Billiton Minerva landfall

The Minerva gas field, being developed by BHP Billiton Petroleum, is 12km offshore from Port Campbell National Park. The park protects some of Victoria's most spectacular coastline including the famous Twelve Apostles.

Lucas HDD will bring the field's gas flowline, chemical injection and hydraulic control lines ashore right underneath the national park.

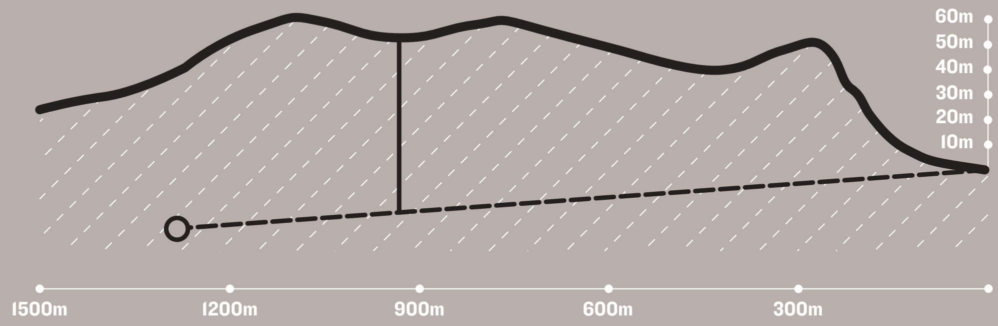
The two drilled holes will start inland from the Park, travel below the Great Ocean Road, the sea cliffs and beach, emerging 800m offshore in 15m of water. This eliminates the mass of environmental and community safety risks with conventional trenching.

THE WORLD'S LONGEST HDD CROSSING

Our crossing of the Tamar River for Duke Energy's Tasmanian Gas Pipeline set a new world record. Drilled through extremely hard dolerite, it made sure the new pipeline had absolutely no effect on the river's ecology. The Tamar was one of 12 crossings we completed in two months for this pipeline.

SUBLIME POINT

Hitting a 600mm target from 1,225 metres away – without looking



Our latest project for Sydney Water was in the Blue Mountains at spectacular Sublime Point, servicing the Leura area. The 508mm sewer pipeline descends at a constant 2º to meet a 3m sewer tunnel 1,225m away.
A smaller, vertical line intersects the horizontal pipeline 925m along its length and 65m underground.

The drilling site was right next to the World Heritage listed national park, so environmental demands were even tougher than usual.

But the biggest challenge was accuracy. The main hole had to hit the tunnel within 300mm of its centreline – 90m underground and 1,225m away. Out of reach of conventional survey techniques.

Lucas' advanced new survey technology and experience met this challenge and hit the target with an accuracy of 0.02%.

Once the 1225m inclined bore was complete, Lucas drilled the vertical bore to intersect it at 925m. Again, we met this demanding target (40mm off dead-centre).

The Sublime Point project represents a significant step forward for HDD technology.
At the time, this was the longest hole drilled in Australia (until we beat it soon after with our world record drill in Tasmania).

But the key advance was the new standard it set for precision, making a whole range of new projects possible. And clearly establishing Lucas as the company that can do them.

(Turn to page 17 to see Sublime Point for yourself.)

COAL SEAM GAS

Lucas specialises in coal seam drilling and gas management. Our complete service to coal mines includes drilling for mine planning and gas drainage. Our technology and expertise in underground drilling is now well-established and we've been winning larger and longer-term contracts with coal mines in NSW and Queensland.

A RESOURCE WE'RE ONLY PARTLY USING

Australia's vast coal reserves are also vast gas reserves. But until now almost all of this gas was wasted because it couldn't be economically gathered. Worse still, most of the gas is simply vented to the atmosphere, adding to greenhouse gas problems (methane, the main component, is a worse greenhouse gas than the CO_2 produced when you burn it). Lucas is changing that, as we develop technology to extract, collect and deliver this valuable fuel.

OUR YEAR'S WORK

Apart from our services to coal mines, we're pioneers in the rapidly growing industry developing coal seam methane as a commercial energy source. The services we're providing include gas modeling, reservoir analysis, well completion, monitoring and production. Our novel drilling technologies, which build on our HDD experience and research, put us in a unique position in this growing field.

Coal mine gas drainage

Working in close coordination with mine operators, our underground drilling rigs work ahead of the mining machinery to ensure safe mining.

We've had a record-breaking year with underground drilling: setting a new world record for the longest hole drilled in a coalseam; a record for a single drilling shift and for a full week of drilling without problems.

This consistent performance gives us a real competitive advantage: because the sooner we're finished draining the gas from an area, the sooner mining can continue.

Mine planning

Drilling can also be used to precisely map the geological conditions and location of coal seams. Lucas offers a complete consultancy service to help mine operators.

CURRENT PROJECTS

Surface to in-seam – the next big thing

Draining mine gas by drilling has made mining much safer. But working underground does limit the size of drilling rigs and impose stringent safety requirements on drilling crews. And of course while drilling is going ahead, mining can't.

Obviously it would be ideal if the drilling can be done from the surface, drilling down and into the coal seam, then carrying the gas directly to the surface.

About seven years ago, Lucas started working on surface to in-seam drilling as a low-key research project. We've steadily been solving many of the technical challenges, developing proprietary technology.

In 2000 we began working with the Cooperative Research Centre for Mining Technology & Equipment (CMTE), which had been working to develop a number of new drilling techniques.

As we've worked with CMTE, which we've now joined as a full member, we could see that their research dovetailed with ours.

By merging our research, we believe we will solve the last remaining technical challenges in surface to in-seam drilling in Australia. These techniques will also work in many other countries' coal deposits, including India and China, so they're potentially very valuable. As co-owners of the intellectual property, we'll be able to share in this value.

Our own coal seam methane bed

To develop our coal seam methane extraction techniques to full commercial production, we've bought a petroleum exploration licence for the Gloucester Basin in NSW in joint venture with Molopo Australia NL.

The licence area is estimated to have as much as 85 petajoules of gas in place, so it's a commercially viable gas source as well as the ideal test bed for our production techniques. That's almost enough gas for an entire year of Sydney's consumption.

DRILLING FOR DATA

One of the most valuable things we get from our underground drills is information.

An array of sensors behind the drillhead sends information to this uphole data logger for later transfer to our laboratory computers. We use this data, together with the driller's log and a lot of geological knowledge, to construct detailed maps of the coal seam and surrounding geology.

Lucas is developing more advanced systems that measure a greater variety of geophysical properties to make these maps even more valuable.

TELECOMMUNICATIONS

For the time being, we are out of the telecommunications business.

We entered this industry in 1999 to spread our business risk and Lucas Networks was quickly profitable. Now it's turned the other way, and the sector has contracted.

Within three months of our acquisition of the Smart Communications business in November 2001, it was clear it had much deeper problems than we'd understood. With a lot of opportunities in our pipeline and HDD divisions presenting themselves, we believed our capital and management would deliver a better return by concentrating on these profitable areas. So we decided to cut our losses and shut the business down.

With the acquisition costs, this has cost Lucas $2.8 million, which you will see as a non-recurring loss in our statement of financial performance.

Our telecommunications business had delivered profits for its first two years, so overall it has cost Lucas $1.3 million. But it is the wasted effort that really hurts!

OUR OTHER BOTTOM LINES

ENVIRONMENT

One of HDD's biggest advantages is its ability to avoid damage to the most sensitive environments. We take this further by systematically minimising the environmental risk in everything we do. Procedures, equipment and training make sure any potential damage is quickly arrested.

As we're frequently working in vulnerable environments, including World Heritage listed national parks and major waterways, our work is always closely monitored by statutory authorities, local government, community and non-government organisations.

The handful of minor incidents we've had have been corrected quickly and completely. We have never had an environmental incident with any long-term consequences.

We intend to get formal recognition for our environmental procedures with ISO14001 accreditation this year.

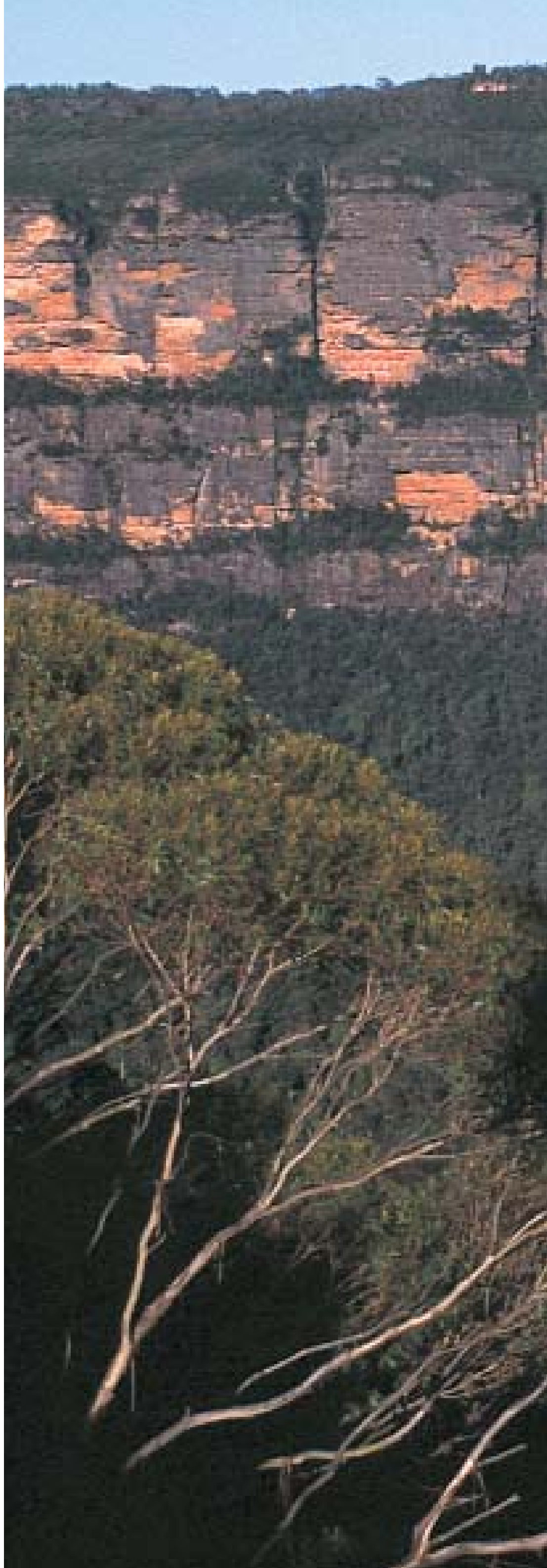
SAFETY AND STAFF WELFARE

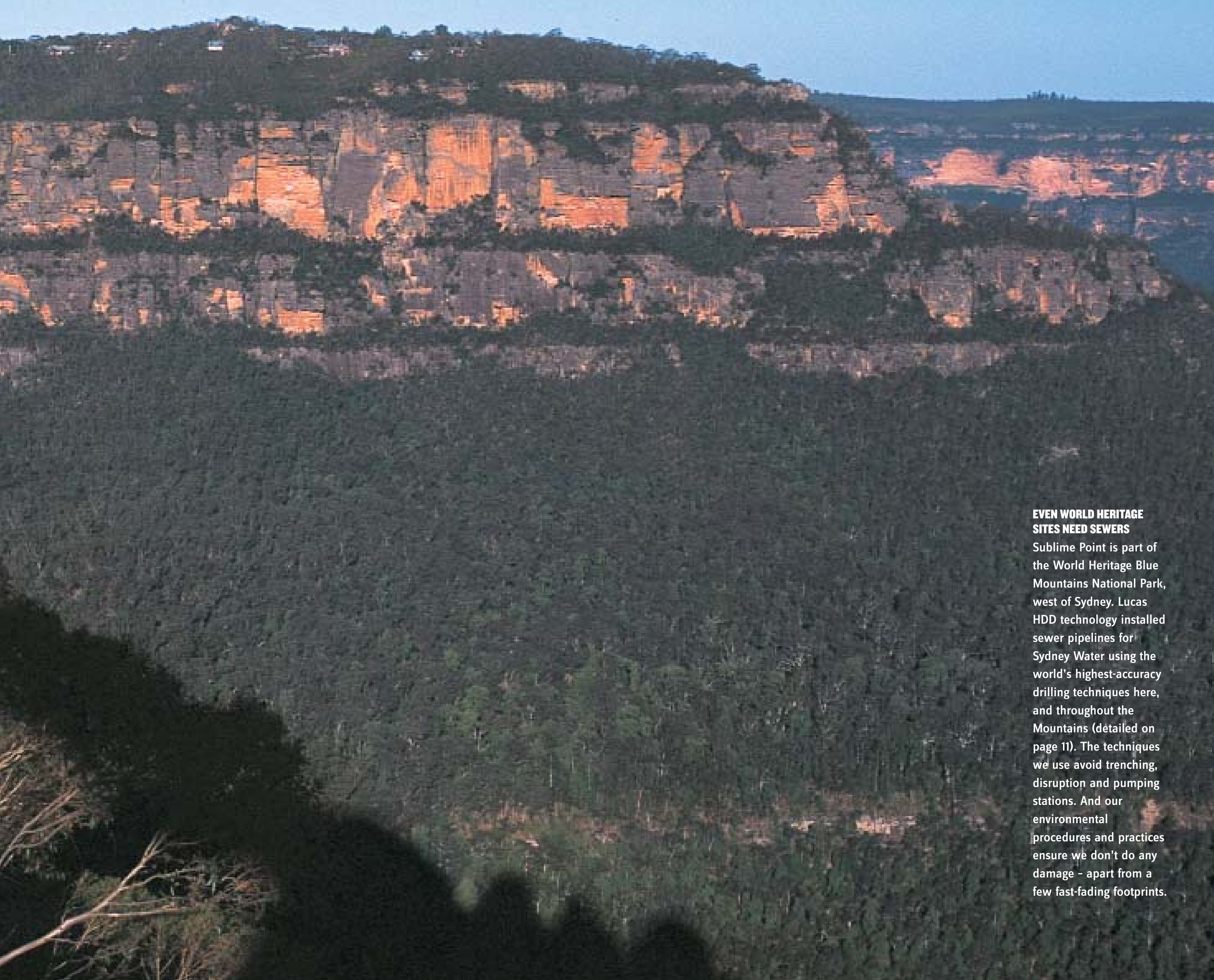
This year we worked over 300,000 hours with only a single person day lost to injury – the same as last year and the year before. In fact we've never had an injury that required hospitalisation.

We've built a tight-knit team that is one of the world's best. All work full-time for Lucas – not project-by-project. We look after our crews with good pay, training and performance bonuses. They get the opportunity to share in the company's success as shareholders. As a result, we can – and do – attract the very best and keep them focused on the job instead of worrying about their next one.

ISO 9001:2000 QUALITY CERTIFICATION

"Quality" is easy to say. Measuring it and delivering it – on every project – is much harder. Without carefully developed systems it just won't happen. A major project over the last year has been to develop quality standards for every aspect of the Lucas business. These were certified to meet the demanding ISO 9001:2000 standard by Bureau Veritas Quality International.





EVEN WORLD HERITAGE SITES NEED SEWERS

Sublime Point is part of the World Heritage Blue Mountains National Park, west of Sydney. Lucas HDD technology installed sewer pipelines for Sydney Water using the world's highest-accuracy drilling techniques here, and throughout the Mountains (detailed on page 11). The techniques we use avoid trenching, disruption and pumping stations. And our environmental procedures and practices ensure we don't do any damage – apart from a few fast-fading footprints.

CONCISE FINANCIAL REPORT
30 JUNE 2002

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 2002. All page numbers refer to this document – the AJ Lucas Group Limited Concise Financial Report 2002.

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 buy or sell shares in the Company, but must first get approval from the chairman or, if he is unavailable, the chairman of the Audit committee.

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.

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 accounting policies. 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 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 and insurance.

The committee's members are Ian Stuart-Robertson (chairman), Allan Campbell, Andrew Lukas and Hamish Pryor.

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 has established quality management systems based on the new AS/NZS ISO 9001:2000 Quality Standard. These have been certified by BVQI, an independent, international quality certification organisation.

DIRECTORS

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

Allan Campbell BCom LLB
Chairman and CEO, Age 47

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.

Meetings attended

Board	14
Audit comittee	-
Tender review comittee	11

Total meetings of directors held during the year

Board	15
Audit committee	4
Tender review committee	11

Andrew Lukas BE
Executive Director, Age 55

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.

Meetings attended

Board	12
Audit comittee	-
Tender review comittee	11

Ian Stuart-Robertson AAIQS
Non-Executive Director, Age 53

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.

Meetings attended

Board	15
Audit comittee	4
Tender review comittee	11

Garry O'Meally BSc, BE
Non-Executive Director, Age 66

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 leaving AGL, 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.

Meetings attended

Board	14
Audit comittee	4
Tender review comittee	-

Martin Green FCA
Non-Executive Director, Age 57

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 and a former Honorary Director/Treasurer of the National Trust of Australia (NSW).

Meetings attended

Board	14
Audit comittee	4
Tender review comittee	-

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 2002 and the auditors' report on them.

PRINCIPAL ACTIVITIES

The Group's principal activity over the year was infrastructure engineering services to the major utility sectors, principally the gas transmission and water and wastewater industries. The Group also provides consulting and drilling services for the drainage and commercial exploitation of gas from coal seams.

The business of Smart Communications Group Limited, a provider of information technology solutions, was purchased in November 2001 to extend the Group's services within the telecommunications industry. However, as a result of the poor operating performance of this business, its operations were ceased prior to the financial year-end.

There were no other significant changes in the nature of the activities of the Group during the year.

Review and results of operations

A profit from normal operations of $4,069,000, less non-recurring costs of $4,745,000, resulted in a pre-tax loss of $676,000. The non-recurring costs include a loss from discontinued operations of $2,781,000 before tax. Group revenue for the year was $68,392,000, in line with expectations in a year of consolidation.

A review of the Group's operations is on pages 4 to 15.

State of affairs

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

The Group bought the business of Smart Communications Group Limited in November 2001. On 18 June 2002 the Board announced its decision to discontinue the Group's network services activities. This resulted in a loss before tax from discontinued operations of $2,781,000.

Dividends

An unfranked interim dividend of 3.5c per share was paid on 7 June 2002, and an unfranked final dividend of 4.0c per share has been declared for payment on 16 December 2002.

For the financial year ended 30 June 2001, an interim fully franked dividend of 3.5c per share was paid on 24 August 2001 and a final fully franked dividend of 4.0c per share was paid on 17 December 2001.

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 so they will preserve and protect the environment.

There were no environmental incidents, or any breaches of environmental regulations during or since the end of the year.

Events subsequent to balance date

On 4 September 2002, a variation to the SEA Gas contract was awarded to the Spie Capag Lucas Joint Venture. The variation increased the revenue of the contract from $215 million to $341 million.

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

The Group will continue to pursue its policy of increasing the profitability and market share of its business activities. This will require further investment during the 2003 financial year in new assets for the Group's pipeline installation, HDD and coal seam gas businesses, all of which are growing rapidly and have strong prospects for future development.

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 five highest-paid Group senior executives are shown below.

Directors	Base salary & fees $	Car allowance $	Superannuation $	Retirement benefit $	Total $
Allan Campbell	160,000	5,000	–	–	165,000
Andrew Lukas	140,000	20,000	12,600	–	172,600
Ian Stuart-Robertson	30,000	–	–	–	30,000
Garry O'Meally	30,000	–	–	–	30,000
Martin Green	30,000	–	–	–	30,000
Group executive officers (excluding directors)					
Hamish Pryor	240,000	3,000	–	–	243,000
Paul Shields	160,000	–	14,400	–	174,400
Kevin Lester	133,145	9,855	12,870	–	155,870
Tim Herlihy	124,359	15,000	11,192	–	150,551
Ross Lane	45,000	10,000	4,050	59,768	118,818

Directors' shareholdings and other interests

The relevant interest of each director and their related entities in the share capital of the Group, as notified by the directors to the Australian Stock Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report are as follows:

	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	53,800	50,000

Share options

At the date of this report, four employees of the consolidated entity hold options totalling rights over 300,000 unissued ordinary shares. These options were issued in July 1999, have an exercise price of $1.00 per share and expire on the earlier of 31 July 2004 or when the option holder ceases employment with Lucas (if sooner).

In addition, at the Company's Annual General Meeting held on 28 November 2001, shareholders approved three employee incentive schemes ("Incentive Plans"). These plans were introduced to:

- provide an incentive to senior staff to deliver superior performance that creates shareholder value;
- align the financial interests of staff with those of shareholders; and
- enable the Company to attract and retain talented people to grow and manage the business.

Total securities granted but unissued under these plans and the options previously granted as described above may not exceed 15% of the total number of shares on issue at any time. No new securities were issued under the Incentive Plans either during or since the end of the financial year.

No options were exercised during the year to acquire shares while 100,000 options were forfeited by employees who ceased employment during the year.

Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify its directors and officers against all liabilities arising from their position as directors or officers of the Group, except where the liability arises out of conduct involving a lack of good faith or an expense owed to the Company or related entity.

Insurance

Since the end of the previous financial year the Company has paid premiums in respect of directors' and officers' liability and legal expenses insurance contracts for the year ended 30 June 2002 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 2003.

The directors have not included details of the nature of the liabilities covered or the premiums paid in respect of the insurance contracts, as the contracts prohibit this disclosure.

Rounding off

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

Signed in accordance with a resolution of directors as required by s.298(2) of the Corporations Act 2001:

Allan Stuart Campbell
Director

Ian Stuart-Robertson
Director

30 September 2002

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated	
	2002 $'000	**2001 $'000**
Revenue from rendering services	66,782	88,779
Other revenue from ordinary activities	1,610	2,654
Total revenue	**68,392**	**91,433**
Project and construction management costs	(44,258)	(63,218)
Employee expenses	(12,257)	(10,584)
Depreciation and amortisation expenses	(3,325)	(2,695)
Borrowing costs	(550)	(930)
Debt recovery and legal costs	(1,068)	(240)
Net foreign exchange loss	(921)	–
Other expenses incurred in ordinary activities	(6,689)	(7,425)
Share of net profit of associates accounted for using the equity method	–	1,248
Profit/(loss) from ordinary activities before related income tax	**(676)**	**7,589**
Income tax expense relating to ordinary activities	(101)	(3,092)
Profit/(loss) from ordinary activities after related income tax	**(777)**	**4,497**
Net profit/(loss) attributable to members of the Company	**(777)**	**4,497**
Total changes in equity other than those resulting from transactions with owners as owners	**(777)**	**4,497**
Basic earnings/(loss) per share (cents)	(2.1)	12.4
Diluted earnings per share (cents)	(2.1)	12.2

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 26–29.

DISCUSSION AND ANALYSIS OF THE STATEMENT OF FINANCIAL PERFORMANCE

The Group's total revenue declined by $23,041,000 (25.2%) to $68,392,000. Earnings decreased from a profit after income tax in 2001 of $4,497,000 to a loss after income tax of $777,000.

The result for the year included the following non-recurring before tax costs:

- Loss attributed to discontinued operations of $2,781,000
- Net foreign exchange loss of $921,000
- Debt recovery and legal costs of $1,043,000

The underlying profit before income tax from the Group's normal operations was $4,069,000 before these non-recurring costs.

Interests in joint ventures contributed $3,328,000 to the result attributable to the Company's shareholders, compared to $1,045,000 in the previous financial year.

SEGMENT RESULTS INCLUDING SIGNIFICANT ITEMS

Pipelines

The pipeline division recorded a strong result with operating revenue increasing by 79% to $32,565,000. The operating result improved from a loss of $598,000 to a profit of $3,380,000. This includes recognition of some of the profits from the SEA Gas project which commenced towards the end of the financial year.

Horizontal directional drilling

Operating revenue declined 55% to $25,097,000 reflecting the completion of the Group's Hong Kong project early in the financial year and a subsequent period when the division was inactive. This resulted in profit generated from the division declining from $9,396,000 to $1,040,000. The division is again working at full capacity following the recent award of contracts at Chatswood, Illawarra and Minerva.

Coal seam gas

The Group's coal technology activities enjoyed a near-doubling of revenue to $3,843,000 and a reduction in operating losses from $714,000 to $570,000. The segment continues to grow rapidly with a corresponding reducing level of losses.

Telecommunications

Telecommunications recorded a disappointing year with a loss of $2,781,000 compared to a profit in the previous year of $1,099,000. There are two key causes for the downturn: the loss of income from our share of Lucas Downer following our exit from this joint venture at the beginning of the year and losses from the business of the Smart Communications Group purchased in November 2001 and closed down during June 2002.

Dividends

An unfranked interim dividend of 3.5 cents was paid on 7 June 2002, the same amount as paid for the previous year although that dividend was fully franked. The directors have declared an unchanged final dividend of 4.0 cents, also unfranked, reflecting their confidence in the earnings recovery expected in 2002/03.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2002

	Note	Consolidated 2002 $'000	2001 $'000
Current assets			
Cash assets		7,442	1,821
Receivables		17,649	37,751
Inventories		23,844	1,284
Other		339	108
Total current assets		**49,274**	**40,964**
Non-current assets			
Plant and equipment		13,775	13,712
Intangibles		276	546
Deferred tax assets		1,730	1,018
Other		2,926	10
Total non-current assets		**18,707**	**15,286**
Total assets		**67,981**	**56,250**
Current liabilities			
Payables		40,407	18,831
Interest-bearing liabilities		2,986	8,197
Current tax liabilities		4,078	5,095
Provisions		2,081	3,550
Total current liabilities		**49,552**	**35,673**
Non-current liabilities			
Interest-bearing liabilities		3,597	2,572
Deferred tax liabilities		322	47
Provisions		27	25
Total non-current liabilities		**3,946**	**2,644**
Total liabilities		**53,498**	**38,317**
Net assets		**14,483**	**17,933**
Equity			
Contributed equity		9,192	9,136
Retained profits	6	5,291	8,797
Total equity		**14,483**	**17,933**

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 26–29.

DISCUSSION AND ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

The Group's total assets increased by $11,731,000 to $67,981,000. This increase principally comprises:

- An increase in cash of $5,621,000 mainly due to mobilisation payments received by the Spie Capag Lucas joint venture (in which the Group has a 50% interest) for the SEA Gas contract which commenced in the fourth quarter of the financial year;
- A decrease in receivables of $20,102,000 largely owing to the collection of receivables for the Group's Hong Kong contract completed early in the financial year;
- An increase of $22,560,000 in inventories predominantly due to build up of work in progress on the SEA Gas project;
- An increase of $2,926,000 in other non-current assets comprising deferred expenditure and research and development costs in new business opportunities that complement the Group's existing operations.

Total liabilities increased by $15,181,000 to $53,498,000. The increase was largely due to:

- An increase of $21,576,000 in creditors and accruals of the SEA Gas joint venture mirroring the increase in inventories;
- A reduction in interest-bearing liabilities of $4,186,000 as borrowings were repaid from funds received from the collection of receivables.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2002

	Consolidated 2002 $'000	2001 $'000
Cash flows from operating activities		
Cash receipts in the course of operations	79,318	68,609
Cash payments in the course of operations	(54,614)	(69,383)
Interest received	104	115
Income taxes paid	(1,408)	(551)
Borrowing costs paid	(550)	(731)
Net cash provided by/(used in) operating activities	**22,850**	**(1,941)**
Cash flows from investing activities		
Proceeds from sale of plant and equipment	1,398	8
Proceeds on disposal of associated entity	–	2,531
Purchase of business	–	(350)
Payments for plant and equipment	(2,026)	(3,547)
Payments for purchase of investments	(2,552)	–
Loans to other entities	(2,902)	–
Loans repaid by other entities	–	2,823
Payments for purchase of business	(1,800)	–
Net cash (used in)/provided by investing activities	**(7,882)**	**1,465**
Cash flows from financing activities		
Repayment of borrowings – other	(2,054)	(2,354)
Proceeds of borrowing from related entities	–	79
Proceeds of borrowings – other	2,105	1,515
Dividends paid	(3,999)	(1,272)
Lease and hire purchase payments	(1,069)	(607)
Net cash used in financing activities	**(5,017)**	**(2,639)**
Net increase/(decrease) in cash held	9,951	(3,115)
Cash at the beginning of the year	(2,980)	135
Cash at the end of the year	**6,971**	**(2,980)**

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 26–29.

DISCUSSION AND ANALYSIS OF THE STATEMENT OF CASH FLOWS

Operating cash flows

Cash flows from operations improved by $24,791,000 to $22,850,000 principally as a result of the collection of receivables from the Group's major drilling contract in Hong Kong which was completed just after the beginning of the financial year. This reflects the timing of the Group's projects which historically have initially been cash flow negative but turn strongly positive as they near completion.

Investing cash flows

The Group invested a net $628,000 in plant and equipment in preparation for the increased work secured towards the end of the financial year. Additionally, $7,254,000 was invested in new businesses and related activities complementary to the Group's existing operations, to develop a new income source using the Group's core skills and resources.

Financing cash flows

Financing cash flows decreased by $2,378,000 over the previous year largely due to dividend payments increasing by $2,727,000 to $3,999,000.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF CONCISE FINANCIAL REPORT

The concise financial report has been prepared in accordance with the Corporations Act 2001, 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 for the financial year. Other information included in the concise financial report is consistent with the Group's full financial report.

It cannot provide as complete an understanding of the Group's financial performance and position and its financing and investment activities as the full financial report, which is available on our Web site at www.lucas.com.au. Printed copies are available at no cost on request from our office.

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

These accounting policies have been consistently applied by each entity in the Group and are consistent with last year's, except where there is a change in accounting policy as set out in Note 2.

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

Going concern

The Company's business plan details expansion in the size of projects being undertaken as well as investments in gas and pipeline operations. In order to finance this expenditure the Company will need to increase working capital resources. The Company is currently negotiating with a major bank to provide these resources and has received an indicative proposal from the bank to provide those facilities. If the facilities are not approved the Company would be required to seek alternative finance or defer some activities.

2. CHANGE IN ACCOUNTING POLICY

The following new accounting policies have been applied by the Group.

(a) Earnings per Share

AASB 1027 *Earnings per Share* (issued June 2001) has been applied since 1 July 2001.

Basic and diluted earnings per share ("EPS") for the comparative period ended 30 June 2001 have been adjusted so that the basis of calculation used is consistent with that of the current period.

Basic earnings per share

Basic EPS earnings are now calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share

Diluted EPS earnings are now calculated by only adjusting the basic EPS for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the Group had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares now includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

(b) Segment reporting

AASB 1005 *Segment Reporting* (issued August 2000) has been applied since 1 July 2001.

Individual business segments have been identified on the basis of grouping individual services similar to similar risks and returns. The new business segments reported are: pipelines, horizontal directional drilling (HDD), coal seam gas services and network services.

Comparative information has been restated for the changes in definition of segment revenues and results.

(c) Discontinued operation

AASB 1042 *Discontinued Operations* (issued August 2000) has been applied since 1 July 2001. There are no changes as a result of the first-time application of the standard.

3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX

Individually significant items included in profit/(loss) from ordinary activities before income tax expense

	Consolidated	
	2002 $'000	2001 $'000
Loss from discontinued operations	2,781	–
Net loss on sale of associated entity	–	151

4. SEGMENT INFORMATION

Primary reporting – business segments

	HDD		Pipelines		Coal seam gas		Networks		Other		Consolidated	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000	2002 $'000	2001 $'000	2002 $'000	2001 $'000	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Revenue												
Operating revenue	25,097	55,937	32,565	18,219	3,843	1,982	5,277	12,613	–	28	66,782	88,779
Other revenue	1,433	24	80	33	28	1	–	2,549	69	47	1,610	2,654
Total segment revenue	**26,530**	**55,961**	**32,645**	**18,252**	**3,871**	**1,983**	**5,277**	**15,162**	**69**	**75**	**68,392**	**91,433**
Result												
Segment profit/(loss)	1,040	9,396	3,380	(598)	(570)	(714)	(2,781)	1,099	(1,745)	(2,842)	(676)	6,341
Share of net profit equity accounted investments	–	1,248	–	–	–	–	–	–	–	–	–	1,248
Profit/(loss) from ordinary activities before income tax	–	–	–	–	–	–	–	–	–	–	**(676)**	**7,589**
Income tax expense	–	–	–	–	–	–	–	–	–	–	(101)	(3,092)
Net profit/(loss) after income tax	–	–	–	–	–	–	–	–	–	–	**(777)**	**4,497**
Assets	19,792	33,095	40,277	11,978	6,345	3,299	952	7,818	615	60	67,981	56,250
Liabilities	15,171	14,047	31,469	8,097	4,065	2,218	538	4,400	2,255	9,555	53,498	38,317
Acquisitions of plant and equipment	2,032	3,408	124	311	1,934	2,757	139	161	–	–	4,229	6,637
Depreciation and amortisation	1,871	1,591	415	353	603	289	40	62	–	–	2,929	2,295

Secondary reporting – geographical segments

	Australia		Asia Pacific		Consolidated	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Operating revenue	55,823	40,217	10,959	48,562	66,782	88,779
Other revenues	1,609	115	1	2,539	1,610	2,654
Total revenue	**57,432**	**40,332**	**10,960**	**51,101**	**68,392**	**91,433**
Assets	64,025	31,344	3,956	24,906	67,981	56,250
Acquisition of plant and equipment	4,229	5,608	–	1,029	4,229	6,637

5. DISCONTINUED OPERATIONS

On 18 June 2002, the Board publicly announced its decision to discontinue the Group's network services activities. The profitability of this segment, subsequent to the acquisition of the business of Smart Communications in November 2001, was unsatisfactory and diverting resources from the Group's other activities. As at 30 June 2002, the network services activity had ceased with one residual contract novated to another company within the Group. Full provision was made for all costs and liabilities relating to the cessation of this business activity.

Details of the financial performance, financial position and cash flows of the network services activities during the financial year are as follows:

	Consolidated 2002 $'000	Consolidated 2001 $'000
Financial performance		
Revenue from ordinary activities	5,277	15,162
Expenses from ordinary activities	(8,058)	(14,063)
Profit/(loss) from ordinary activities before income tax expense	**(2,781)**	**1,099**
Income tax (expense)/benefit relating to ordinary activities	667	(374)
Net profit/(loss)	**(2,114)**	**725**
Financial position information as at 30 June		
Segment assets	952	7,818
Segment liabilities	(538)	(4,400)
Net assets	**414**	**3,418**
Cash flow information for the year ended 30 June		
Net cash flows from operating activities	(749)	1,273
Net cash flows from investing activities	(1,439)	(157)
Net cash flows from financing activities	2,130	(850)
Total net cash flows	**(58)**	**266**

6. RETAINED PROFITS

	Consolidated 2002 $'000	Consolidated 2001 $'000
Retained profits at beginning of year	8,797	4,987
Net profit/(loss) attributable to members of the parent entity	(777)	4,497
Transfer from asset revaluation reserve	–	2,039
Dividends	(2,729)	(2,726)
Balance at end of year	**5,291**	**8,797**

7. DIVIDENDS

	Cents per Share	Total Amount $'000	Payment date	Tax rate for franking credit	Percentage franked
2002					
Interim-ordinary shares	3.5	1,272	7 June 2002	30%	0%
Final-ordinary shares	4.0	1,457	16 December 2002	30%	0%
Total		**2,729**			
2001					
Interim-ordinary shares	3.5	1,272	24 August 2001	30%	100%
Final-ordinary shares	4.0	1,454	17 December 2001	30%	100%
Total		**2,726**			

8. TOTAL EQUITY RECONCILIATION

	Consolidated	
	2002 $'000	2001 $'000
Total equity at the beginning of the year	17,933	16,162
Net profit/(loss) attributable to members of the parent entity	(777)	4,497
Transactions with owners as owners:		
Contributions of equity	56	–
Dividends	(2,729)	(2,726)
Total equity at the end of the year	**14,483**	**17,933**

9. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities arising outside the normal course of business that may become payable are as follows. The directors are not aware of any circumstance or information which would lead them to believe that these liabilities will crystallise and consequently no provisions are included in the financial statements in respect of these matters.

Litigation

Claims have been made by DrillTec GUT GmbH for $3 million on the Company and $1.5 million under a guarantee given by a director of the Company. These claims are in respect of work performed jointly on a contract now completed.

The Company and the directors dispute these claims and the Company has lodged a counterclaim for $6 million. No recognition has been made of the contingent asset should the Company's counterclaim be successful. Legal advice has been received that DrillTec's claims are, on balance, unlikely to succeed and the directors concur with this view.

Indemnities

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements. The maximum exposure under this indemnity is $1.5 million which relates to the litigation detailed in this note.

10. EVENTS SUBSEQUENT TO BALANCE DATE

On 4 September 2002, a variation to the SEA Gas contract was awarded to the Spie Capag Lucas Joint Venture. The variation increased the revenue of the contract from $215 million to $341 million.

The directors are not aware of any other event 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' DECLARATION AND INDEPENDENT AUDIT REPORT

DIRECTORS' DECLARATION

In the opinion of the directors of AJ Lucas Group Limited the accompanying concise financial report of the consolidated entity, comprising AJ Lucas Group Limited and its controlled entities for the year ended 30 June 2002, set out on pages 20 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

Ian Stuart-Robertson
Director

30 September 2002

INDEPENDENT AUDIT REPORT ON CONCISE FINANCIAL REPORT TO THE MEMBERS OF AJ LUCAS GROUP LIMITED

Scope

We have audited the concise financial report of AJ Lucas Group Limited ("the Company") and its controlled entities for the financial year ended 30 June 2002, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 10, and the accompanying discussion and analysis on the statement of financial performance, statement of financial position and statement of cash flows set out on pages 23 to 29 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 AJ Lucas Group Limited and its controlled entities for the year ended 30 June 2002. Our audit report on the full financial report was signed on 30 September 2002, 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 AJ Lucas Group Limited and its controlled entities for the year ended 30 June 2002 complies with AASB 1039 *Concise Financial Reports* issued in Australia.

KPMG

Place: Sydney
Date: 30 September 2002

Neil Cameron Smith
Partner

SHAREHOLDER INFORMATION AS AT 30 AUGUST 2002

TWENTY LARGEST SHAREHOLDERS

Name	Ordinary Shares	Percentage of issued shares %
AJ Lucas Holdings Pty Limited	15,900,000	43.66
Invia Custodian Pty Limited	1,163,000	3.19
Amalgamated Dairies Limited	1,000,000	2.75
Questor Financial Services	560,245	1.54
Commodity Traders (NZ) Limited	500,000	1.37
New Zealand Guardian Trust Company Limited	300,000	0.82
New Zealand Guardian Trust Company	285,000	0.78
Wightholme Nominees Pty Limited	270,000	0.74
NZ Guardian Trust Company	264,500	0.73
Auckland Medical Research Foundation	200,000	0.55
Castic Pty Limited	185,000	0.51
R H & M Properties Pty Limited	160,000	0.44
Bruce Birnie Pty Limited	130,000	0.36
Maminda Pty Limited	125,000	0.34
Mr Paul Neville Griffin	110,000	0.30
Hornet Computer Systems Pty Limited	100,000	0.27
Insurance Direct Pty Limited	100,000	0.27
Mr Charles Edward Murdough	100,000	0.27
Primdonn Nominees Pty Limited	100,000	0.27
Staplin Pty Limited	100,000	0.27
Total	**21,652,745**	**59.43**

SUBSTANTIAL SHAREHOLDERS

AJ Lucas Holdings Pty Limited	**15,900,000**

DISTRIBUTION OF EQUITY HOLDINGS

Category	Number of equity holders Ordinary	Options
100,001 and over	17	1
10,001–100,000	331	3
5,001–10,000	449	–
1,001–5,000	937	–
1–1,000	214	–
Total	**1,948**	**4**

51 shareholders held less than a marketable parcel.

VOTING RIGHTS

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

DIRECTORY

AJ Lucas Group Limited, incorporated in Australia, is a public company limited by shares.

Company Secretary
Nicholas Swan MA, ACA, MBA, ASIA

Registered office
Ground Floor
157 Church Street
Ryde NSW 2112
Australia

Telephone +61 2 9809 6866
Facsimile +61 2 9807 6088
www.lucas.com.au

Share registry
Computershare Investor
Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

Telephone +61 8 8236 2300
Facsimile +61 8 8236 2305

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

Auditors
KPMG
45 Clarence Street
Sydney NSW 2001

Legal advisers
Minter Ellison
Aurora Place
88 Phillip Street
Sydney NSW 2000

Bankers
Westpac Banking Corporation
Westpac Plaza, George Street,
Sydney NSW 2000

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