



LEMARNE CORPORATION LIMITED
A.C.N. 004 834 584

24 August 2006
SLM/ms

Company Announcements Office,
The Australian Stock Exchange Limited,

Dear Sir/Madam,

We herewith attach the audited Preliminary Final Statement and Dividend Announcement for the year ended 30 June 2006.

The financial year ended 30 June 2006 was one of considerable change with the sale of a cornerstone subsidiary, Pacific Composites in February 2006.

In 2005/6 Lemarne reported a net profit after tax of \$11.89 million compared to \$5.38 million last year. This major increase was due to the inclusion of the profit from the sale of Pacific Composites of \$14.9 million, partially offset by a number of 'one off' write downs and provisions in our continuing businesses totalling \$6.7 million. These year-end write-downs resulted in a lower profit than was previously forecast.

At year's end, shareholders' funds were \$46.1 million compared to \$37.5 million last year with net funds on deposit of \$24.9 million. The EPS was 82.3 cents versus 36.2 cents last year, while the NTA per share was \$2.50 compared to \$1.60 last year.

The performance of our continuing operations was mixed. C10 had an excellent year with sales up 35% to \$14.3 million and EBIT up 15% to \$2.8 million. Demand for its broadband products was strong and new products were brought to market. Several sales of ValueNet have been made to a diverse range of SME customers who have been very pleased with the functionality of the new VoIP service.

Lemtronics' sales were up a creditable 31% to \$38.6 million due to strong demand from a number of its long term customers. However EBIT was down 212% to \$1.46 million, due mainly to adverse currency movements, particularly the strengthening of the Malaysian Ringgit, but also stock and plant write-downs.

Lemarne Healthcare's income was up 43% to \$7.8 million while the EBIT before impairment of goodwill was down 85% to \$149,000. This disappointing result was mainly due to a shortage of doctors and the resulting inability of Molescan to meet the demand for its services. This in turn impacted on ADL's performance. Significant progress was made towards the end of the year in improving Molescan's systems and recruiting new doctors.

Yours faithfully,

STEPHEN L. MASON
Finance Director

Att.

Appendix 4E

Preliminary final report

Name of entity

LEMARNE CORPORATION LIMITED

ABN or equivalent company reference	Half yearly (tick)	Preliminary final (tick)	Half year/financial year ended ('current period')
72 004 834 584		√	30 JUNE 2006

Results for announcement to the market

Extracts from this report for announcement to the market (see note 1).

\$A'000

Revenues from ordinary activities – continuing operations	up/down	35%	to	61,329
Profit (loss) from ordinary activities after tax attributable to members	up/down	125%	to	11,889
Profit (loss) from extraordinary items after tax attributable to members	gain (loss) of			
Net profit (loss) for the period attributable to members	up/down	%	to	
Dividends (distributions)				
	Amount per security	Franked amount per security		
Final dividend (<i>Preliminary final report only</i>) *	0¢	0¢		
Interim dividend (<i>Half yearly report only</i>)				
Previous corresponding period)	8.0¢	8.0¢		
<p>†Record date for determining entitlements to the dividend, </p> <p>Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:</p> <p>* An interim fully franked dividend of 15 cents per share paid on 3 July 2006 replaced the final dividend.</p>				

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated	
		2006	2005
		\$000	\$000
Revenue	2	60,538	45,112
Cost of sales		(46,778)	(31,496)
Gross profit		13,760	13,616
Other operating income	2	791	189
Distribution expenses		(5,433)	(2,883)
Administrative expenses		(6,992)	(6,637)
Impairment of goodwill and property, plant and equipment/investment		(5,866)	-
Other operating expenses		(178)	(58)
Results from operating activities		(3,918)	4,227
Financial income		608	348
Financial expenses		(310)	(186)
Net financing (costs)/income		298	(162)
Profit/(loss) from ordinary activities before income tax expense		(3,620)	4,389
Income tax expense		(818)	(1,087)
Profit/(loss) after tax but before profit and loss of discontinued operation and gain on discontinued operation		(4,438)	3,302
Profit of discontinued operation/gain on sale of discontinued operation net of tax		16,327	2,081
Profit/(loss) for the year		<u>11,889</u>	<u>5,383</u>
Attributable to:			
- Equity holders of the parent		11,889	5,281
- Minority interest		-	102
Profit for the year		<u>11,889</u>	<u>5,383</u>
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share from all operations		82.3	36.2
Basic earnings per share from continuing operations (cents)		(30.7)	21.9
Diluted earnings per share from all operations		81.8	35.9
Diluted earnings per share from continuing operations (cents)		(30.5)	21.7

Notes to the condensed consolidated statement of financial performance

	Note	Consolidated 2006 \$000	2005 \$000
2. <u>REVENUE</u>			
Revenue from continuing operations			
Sale of goods revenue		<u>60,538</u>	<u>45,112</u>
Rendering of services		<u>-</u>	<u>-</u>
<u>Other income</u>			
Dividends:			
Controlled entity		-	-
Other		151	-
Government grants		15	-
Other		625	165
Net gain on disposal of non-current assets:			
- plant and equipment		<u>-</u>	<u>24</u>
Total other income		<u>791</u>	<u>189</u>
Total revenues from continuing operations		<u>61,329</u>	<u>45,301</u>
Revenues from discontinuing operations			
Revenue from sale of goods		<u>24,547</u>	<u>31,627</u>
<u>Other income</u>			
Bad debts recovered		-	5
Government grants		2	2
Net gain on disposal of plant and equipment		8	10
Intellectual property		130	130
Other income		<u>102</u>	<u>-</u>
Total other income		<u>242</u>	<u>147</u>
Net gain on sale of business/controlled entity	3(a)	<u>14,886</u>	<u>-</u>
Total revenues from discontinuing operations		<u>39,675</u>	<u>31,774</u>
Total revenues		<u>101,004</u>	<u>77,075</u>

	Consolidated	
	2006	2005
	\$000	\$000
3. <u>PROFIT/(LOSS) FROM OPERATIONS</u>		
(a) Items included in profit/(loss) from discontinuing operations before income tax expense.		
Revenue from sale of controlled entity/business	33,192	-
Cost of disposal	(18,306)	-
Net profit on disposal	<u>14,886</u>	-
(b) Profit from continuing operations before income tax has been arrived at after charging/(crediting) the following specific expenses:		
<u>Impairment losses</u>		
Goodwill	4,918	-
Diminution in investment	-	-
Property, plant and equipment	948	-
Stock provisions	<u>847</u>	-
	6,713	-
Other expenses:		
<u>Personnel expenses</u>		
Wages and salaries	9,583	7,427
Contributions to defined contribution superannuation funds	506	312
Other associated personnel expenses	1,574	1,262
Increase in liability for annual leave	90	73
Increase in liability for long service Leave	16	35
Share based payments	(29)	268
Terminations benefits	<u>339</u>	-
	<u>12,079</u>	<u>9,377</u>
<u>Depreciation of non-current assets:</u>		
Plant and equipment	<u>1,352</u>	<u>978</u>
<u>Amortisation of non-current assets:</u>		
Intellectual property	145	43
Leasehold property	48	55
Leasehold improvements	<u>15</u>	<u>28</u>
	<u>208</u>	<u>126</u>
Total depreciation and amortisation	<u>1,560</u>	<u>1,104</u>

	Consolidated	
	2006	2005
	\$000	\$000
3. <u>PROFIT/(LOSS) FROM OPERATIONS</u>		
<u>(CONTINUED)</u>		
(b) Profit from continuing operations before income tax has been arrived at after charging/(crediting) the following specific expenses (cont):		
<u>Other expense items</u>		
Movement in provision for doubtful debts (impaired receivables)	14	(279)
Movement in stock obsolescence provision	24	115
Movement in warranty provision	(34)	12
Net foreign exchange loss/(gain)	(107)	(110)
Research and development expense	-	22
Operating lease rentals	-	1,076
Net loss on disposal of property, plant and equipment	(1)	-

BALANCE SHEETS AS AT 30 JUNE 2006

	Note	Consolidated	
		2006 \$000	2005 \$000
Assets			
Cash and cash equivalents		27,615	7,310
Trade and other receivables		10,193	12,958
Inventories		6,982	11,496
Prepayments and deposits		<u>355</u>	<u>629</u>
TOTAL CURRENT ASSETS		<u>45,145</u>	<u>32,393</u>
Receivables		-	-
Investments		4,873	-
Property, plant and equipment		6,195	13,232
Deferred tax assets		306	590
Intangible assets		<u>9,386</u>	<u>14,468</u>
TOTAL NON-CURRENT ASSETS		<u>20,760</u>	<u>28,290</u>
TOTAL ASSETS		<u>65,905</u>	<u>60,683</u>
Liabilities			
Bank overdraft		132	102
Trade and other payables		9,735	11,964
Interest bearing loans and borrowings		2,242	3,708
Employee benefits		1,218	1,502
Income tax payable		122	1,601
Provisions		2,320	210
Deferred income		<u>195</u>	<u>-</u>
TOTAL CURRENT LIABILITIES		<u>15,964</u>	<u>19,087</u>
Trade and other payables		-	-
Interest bearing loans and borrowings		387	327
Deferred tax liabilities		228	768
Employee benefits		224	679
Deferred income		-	46
Deferred consideration		<u>3,000</u>	<u>-</u>
TOTAL NON-CURRENT LIABILITIES		<u>3,839</u>	<u>1,820</u>
TOTAL LIABILITIES		<u>19,803</u>	<u>20,907</u>
NET ASSETS		<u>46,102</u>	<u>39,776</u>
Equity			
Issued capital	4	6,867	6,187
Reserves	4	(46)	(512)
Retained earnings	4	<u>39,281</u>	<u>31,799</u>
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		<u>46,102</u>	<u>37,474</u>
Minority interest		<u>-</u>	<u>2,302</u>
TOTAL EQUITY		<u>46,102</u>	<u>39,776</u>

4. **CAPITAL AND RESERVES**

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

Consolidated

	Share capital \$000	Trans- lation reserve \$000	Options granted reserve \$000	Capital profits reserve \$000	Retained earnings \$000	Total \$000	Minority interest \$000	Total equity \$000
Balance at 1 July 2005	6,187	(1,703)	391	800	31,799	37,474	2,302	39,776
Change in financial instruments accounting policy	-	-	-	(800)	102	(698)	(2,302)	(3,000)
Total recognised income and expense	-	1,295	(29)	-	11,888	13,154	-	13,154
Shares issued	680	-	-	-	-	680	-	680
Dividends to shareholders	-	-	-	-	(4,508)	(4,508)	-	(4,508)
Transfer on disposal of subsidiary	-	-	-	-	-	-	-	-
Balance at 30 June 2006	<u>6,867</u>	<u>(408)</u>	<u>362</u>	<u>-</u>	<u>39,281</u>	<u>46,102</u>	<u>-</u>	<u>46,102</u>

Share capital

The consolidated entity recorded the following amount within shareholders' equity as a result of the issue of ordinary shares.

For the year ended 30 June 2006

	Share Capital 30 June 2006 \$000	30 June 2005 \$000
Issue of ordinary shares from the exercise of options under the Key Executive Option Plan	<u>680</u>	<u>211</u>

	Ordinary Shares 30 June 2006 No.	30 June 2005 No.
On issue at 1 July	14,338,727	17,808,333
Issued for cash	336,250	145,000
Share buy-back	<u>-</u>	<u>(3,614,606)</u>
On issue at 30 June fully paid	<u>14,674,977</u>	<u>14,338,727</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Lemarne Corporation Limited's share price at 30 June 2006 was \$2.90 (2005: \$2.39).

4. **CAPITAL AND RESERVES (CONTINUED)**

On 15 February 2002 the Company granted 200,000 options over unissued ordinary shares to an employee of the Company at an exercise price of \$1.44 under the Key Executive Option Plan No.4, 100,000 of these options were exercised on 13 October 2004 and a further 100,000 were exercised on 19 April 2006. On 1 November 2002, after approval by shareholders at the AGM, a further 250,000 options over unissued ordinary shares were granted to two executive directors of the Company at an exercise price of \$1.49 under the Key Executive Option Plan No. 6 of which 45,000 were exercised on 17 March 2005 and 80,000 on 13 October 2005.

On 31 October 2003, again after approval by shareholders at the AGM, a further 500,000 options were granted to two executive directors of the Company at an exercise price of \$2.67 per share under the same Plan. 156,250 of these options were exercised on 12 April 2006 and 156,250 options were forfeited due to the resignation of the executive.

On 9 June 2004 the Company granted options over 100,000 unissued ordinary shares under the Key Executive Option Plan No.6 to an executive of C10 Communications Pty Ltd at an exercise price of \$2.57.

Under the Key Executive Option Plans, 50 per cent of the options granted may be exercised after the second anniversary but before the fourth, while the outstanding options may be exercised after the fourth anniversary but before the fifth.

On 15 June 2004 Pacific Composites Pty Ltd granted options over 17,000 unissued shares under the Subsidiary Executive Option Plan No.5 approved by shareholders to four employees of the Pacific Composites Group. Following the sale of Pacific Composites on 28 February 2006, these options were cancelled and a payment was made to the executives in respect of the options cancelled.

	Note	Consolidated	
		2006	2005
		\$000	\$000
5. <u>DIVIDENDS PROVIDED FOR OR PAID</u>			
The amounts paid, declared or provided for by way of dividend by the parent entity are:			
(i) an interim fully franked ordinary dividend of 8.0 cents per share (2005: 8 cents) was paid on 24 March 2006		1,153	1,147
(ii) a final fully franked ordinary dividend of 8.0 cents per (2005: 7.5 cents) was paid on 21 October 2005 which was not provided for at 30 June 2005		1,154	1,072
(iii) a special fully franked dividend of 15.0 cents per share was declared on 21 March 2006 to be paid on 3 July 2006		<u>2,201</u>	-
Total dividends in accounts		<u>4,508</u>	<u>2,219</u>
After Year End			
(iv) 2006: Nil; (2005: a final fully franked dividend of 8.0 cents per share was declared payable on 21 October 2005)		<u>-</u>	<u>1,147</u>
<u>Dividend franking account</u> Franking credits available to shareholders of Lemarne Corporation Ltd for subsequent financial years		<u>7,284</u>	<u>8,072</u>

5. **DIVIDENDS PROVIDED FOR OR PAID (CONTINUED)**

The above available amount is based on the balance of the dividend franking account at year end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year end
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the year end
- (d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Statement of Cash Flows For the Financial Year Ended 30 June 2006

	Note	Consolidated	
		2006	2005
		\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		87,465	81,769
Cash paid to suppliers and employees		<u>(83,918)</u>	<u>(75,000)</u>
Cash generated from operations		3,547	6,769
Dividends received		151	-
Interest received		646	452
Interest paid		(438)	(256)
Income taxes paid		<u>(2,763)</u>	<u>(1,229)</u>
Net cash from operating activities		<u>1,143</u>	<u>5,736</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of subsidiary (net of cash disposed)		24,914	-
Proceeds from sale of intellectual property	2	130	130
Proceeds from sale of property, plant and equipment		96	63
Payments for acquisition of controlled entities/business (net of cash)		(12)	(12,338)
Acquisition of property, plant and equipment		(5,062)	(2,846)
Payments for disposal of business/controlled entity		(799)	(73)
Loans advanced to controlled entities		<u>-</u>	<u>-</u>
Net cash from investing activities		<u>19,267</u>	<u>(15,064)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		680	211
Share buy-back		-	(9,109)
Proceeds from borrowings		4,099	3,410
Repayment of borrowings		(2,661)	(592)
Loans from controlled entities		-	-
Dividends paid - members of parent entity		<u>(2,307)</u>	<u>(2,219)</u>
Net cash from financing activities		<u>(189)</u>	<u>(8,299)</u>
Net increase/(decrease) in cash and cash equivalents		20,221	(17,982)
Cash at the beginning of the financial year		7,208	25,068
Effect of exchange rate fluctuations on cash held		<u>54</u>	<u>(233)</u>
Cash at the end of the financial year	6	<u>27,483</u>	<u>7,208</u>

6. **NOTE TO THE STATEMENT OF CASH FLOWS**

Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts.

Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:-

	Consolidated	
	2006	2005
	\$000	\$000
Cash	27,615	7,310
Short term deposits	-	-
Bank overdraft	(132)	(102)
	<u>27,483</u>	<u>7,208</u>

7. **EARNINGS PER SHARE**

Basic earnings per share for all operations	82.3 cents	36.2 cents
Diluted earnings per share for all operations	81.8 cents	35.7 cents

	\$000	\$000
<u>Earnings reconciliation</u>		
Net profit/(loss)	11,889	5,383
Net profit/(loss) attributable to outside equity interests	-	102
Basic and diluted earnings	<u>11,889</u>	<u>5,281</u>

	Number of Shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	14,447,182	14,595,199
Effect of executive share options on issue	<u>87,026</u>	<u>116,946</u>
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>14,534,208</u>	<u>14,712,145</u>

Potential ordinary shares not considered dilutive

At 30 June 2006 the Company had no options which were not considered dilutive.

Potential ordinary shares considered dilutive

At 30 June 2006 the Company had on issue the following options which are considered dilutive:

Number	Exercise Price
187,500	\$2.67
100,000	\$2.57
45,000	\$1.49
80,000	\$1.49

8. **GROUP FINANCIAL PERFORMANCE**

		2006	2005	CHANGE
EBIT before significant/abnormal items	\$000s	5,664	7,460	(24%)
Significant/abnormal items before tax	\$000s	8,173	0	
Borrowing costs	\$000s	(438)	(256)	71%
Operating profit/(loss) after income tax and minority interests	\$000s	11,889	5,280	125%
Earnings per ordinary share	cents	82.3	36.2	127%
Net tangible asset backing per ordinary share	cents	250	160	56%
Dividend paid per ordinary share	cents	31.0	15.5	94%
Shareholders' equity (excluding outside equity interests)	\$000s	46,102	37,474	23%
Operating profit after income tax /members' equity	%	25.8	14.1	
Net borrowings/total shareholders' equity	%	(54)	(8)	
Share price (at 30 June)	cents	290	239	21%
Number of employees	No.	669	755	(11%)

These figures are based on the consolidated accounts.

9. **SEGMENT REPORTING**

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest or dividend earning assets and revenue, interest bearing borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

Electronics	Electronic sub-assemblies used mainly in the power tool, telecommunications, automotive and security industries.
Healthcare	Provision of facilities and services relating to the detection and treatment of skin cancers.
Reinforced plastics	Pultruded products including tension members, mine bolts, grating, cable support systems, angles, beams, rods and bars. Prepreg tapered and parallel tubing.
Telecommunication products	ISDN, ADSL access products, filters, telephone accessories and voice over internet protocol (VoIP) services.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The consolidated entity's business segments operate geographically as follows:

Australasia	Manufacturing facilities in Melbourne and Brisbane and sales offices or Molescan clinics in most States.
Asia	Manufacturing facilities for telecommunication and electronic equipment products and reinforced plastics (in progress). Customers for reinforced plastic products.
Europe	Manufacturing facilities and sales offices for reinforced plastic products. Customers, sales and technical support offices for electronic equipment.
North America	Customers for electronic equipment.

9. SEGMENT REPORTING (CONTINUED)

Business Segments	Continuing Operations												Discontinuing Operations		TOTAL OPERATIONS	
	Electronics		Healthcare		Telecommunications Products		Unallocated		Eliminations		Subtotal Continuing		Reinforced plastics			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External sales revenue	38,376	28,983	7,844	5,490	14,317	10,640	-	-	-	-	60,538	45,112	24,547	31,627	85,085	76,739
Inter-segment revenue	192	524	-	-	-	-	-	-	(192)	(524)	-	-	-	-	-	-
Other revenue	108	166	136	5	29	4	1,942	1,334	(1,424)	(1,320)	791	189	242	147	1,033	336
Total segment revenue	38,676	29,673	7,980	5,495	14,346	10,644	1,942	1,334	(1,616)	(1,844)	61,329	45,301	24,789	31,774	86,118	77,075
Segment result																
Results from operating activities	(1,457)	1,298	(4,809)	970	2,782	2,433	(434)	(473)	-	-	(3,918)	4,228	2,223	2,851	(1,695)	7,079
Net financing costs	-	-	-	-	-	-	-	-	-	-	298	162	(90)	(37)	208	125
Income tax expense	-	-	-	-	-	-	-	-	-	-	(818)	(1,088)	(692)	(733)	(1,510)	(1,821)
Gain on sale of discontinued operation	-	-	-	-	-	-	-	-	-	-	-	-	14,886	-	14,886	-
Income tax expense on sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net gain on sale	-	-	-	-	-	-	-	-	-	-	-	-	14,886	-	14,886	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	4,439	3,302	16,327	2,081	11,889	5,383
Depreciation and amortisation	714	602	656	354	163	177	27	31	-	-	1,560	1,104	584	848	2,144	1,952
Non-cash expenses other than depreciation and amortisation	1,172	37	219	27	160	76	291	17	-	-	1,842	157	635	916	2,477	1,073
Individually significant items	(1,795)	-	(4,918)	-	-	-	-	-	-	-	(6,713)	-	14,886	-	8,173	-
Inventory write-down	847	(139)	-	-	24	24	-	-	-	-	871	(115)	207	262	1,078	147

9. **SEGMENT REPORTING (CONTINUED)**

Primary reporting

Business Segments	Continuing Operations												Discontinuing Operations		TOTAL OPERATIONS	
	Electronics		Healthcare		Telecommunications Products		Unallocated		Eliminations		Subtotal Continuing		Reinforced plastics			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Assets																
Segment assets	17,474	14,365	11,641	17,190	4,644	4,300	60,794	29,132	(28,648)	(26,949)	65,905	38,038	-	22,645	65,905	60,683
Liabilities																
Segment liabilities	6,180	5,088	872	712	1,432	1,682	21,934	15,971	(11,308)	(9,000)	18,110	14,453	-	6,454	19,110	20,907
Capital expenditure	1,709	414	521	383	214	364	8	58	-	-	2,452	1,219	2,610	1,627	5,062	2,846

Secondary reporting

Geographical segments	Australasia		Asia		Europe		North America		Other		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External segment revenue by location of customers	31,686	28,129	4,092	4,213	42,919	37,212	6,776	6,075	198	1,427	517	19	86,188	77,075
Segment assets by location of assets	16,978	31,703	17,474	14,365	-	12,432	-	-	-	-	31,453	2,183	65,905	60,683
Capital expenditure	1,063	1,926	3,565	414	426	448	-	-	-	-	8	58	5,062	2,846

¹ Acquisition of non-current assets relating to acquisitions of businesses/controlled entities are reported separately in notes 27 (iii) and 29.

10. REVIEW OF OPERATIONS

The year ended 30 June 2006 was one of considerable change for the Company with the sale of a cornerstone subsidiary in February 2006.

In 2005/6 Lemarne reported a net profit after tax of \$11.89 million compared to \$5.38 million last year. This major increase was due to the inclusion of the profit from the sale of Pacific Composites, partially offset by a number of 'one off' write downs and provisions in our continuing businesses.

At year's end shareholders' funds were \$46.1 million compared to \$37.5 million last year with net funds on deposit of \$24.9 million. The EPS was 82.3 versus 36.2 last year, while the NTA per share was \$2.50 compared to \$1.60 last year.

The performance of our continuing operations was mixed. C10 Communications had an excellent year with sales up 35% to \$14.3 million and EBIT up 15% to \$2.8 million. Demand for its broadband products was strong and further successful product development was completed. It continued to develop ValueNet which provides VoIP services to SMEs. Following the successful development of ValueNet's products and 'back office' service, marketing initiatives were accelerated towards year end.

Lemtronics' sales were up a creditable 31% to \$38.7 million due to strong demand from a number of its long term customers. However EBIT was down 212% to (\$1.46 million) due mainly to adverse currency movements, in particular the strengthening of the Malaysian Ringgit, stock and plant write offs and write downs.

Lemarne Healthcare's income was up 43% to \$7.8 million while the EBIT before impairment of goodwill was down 85% to \$149K. This disappointing result was mainly due to a shortage of Doctors and Molescan's inability to meet the demand for its services. This in turn impacted on ADL's performance. Significant progress was made towards the end of the year in improving Molescan's systems and recruiting new Doctors.

Strategic Direction

The initiative to exit manufacturing in Australia, was concluded in February 2006 with the sale of Pacific Composites to Exel Oyj for \$32.5 million to form the world's leading pultrusion group. Directors consider this was a favourable outcome for all stakeholders.

Directors subsequently decided to offer to return a substantial portion of the proceeds to shareholders via a special dividend and a share buy-back of up to 50% subject to a satisfactory private tax ruling and approval at a General Meeting to be convened on 29 September 2006.

Our long term aim has been to grow the value of each ordinary share by developing a number of autonomous niche businesses which have the potential to be market leaders in Australia and in targeted overseas markets. This strategy served shareholders well for the 15 years to 2000 with EBIT growth of 21% p.a. and an annual compound return to shareholders of 24.9% for the 10 years to 1999. However following China's inexorable development as an extremely competitive manufacturing base and Lemarne's set backs in 2001, we changed course with the aim of exiting manufacturing in Australia and simplifying the group structure. This has now been successfully accomplished and excess funds returned to shareholders by way of share buy-backs and special dividends.

The share buy-backs have reduced the shares on issue and in November 2006 the number will be further reduced. This gives the group the potential to grow the earnings and dividends per share more rapidly in future.

Our strategic priorities are now to rapidly develop C10 and Lemarne Healthcare and consolidate Lemtronics under a new management team.

Management

Significant management changes occurred during the year and after year's end.

In March 2006, Darryl Rainsbury resigned as Lemarne's Managing Director and on 31 March 2006 we welcomed Peter Murphy as our new Managing Director.

At year's end, Lemarne Healthcare's management was broadened by the appointment of John Keep as Operations Director and Dr Damien Foong as Medical Director.

Kong Hoe Mun was appointed Managing Director of Lemtronics in July 2006 following the departure of Wayne Rogers.

The Board believes these changes will significantly strengthen the group's management.

Dividends

In March 2006 an interim fully franked dividend of 8 cents per share was paid. This was followed in July 2006 by a special fully franked dividend of 15 cents per share, which was also declared in March 2006.

While Directors are not recommending a final dividend for 2005/6, it is expected that an interim dividend will be paid in March 2007.

Future

Lemarne's future will be particularly influenced by the growth and returns that emanate from its investments in Lemarne Healthcare and C10. While these are thought to have considerable potential, the short term results of the Group will be lower without the earnings of Pacific Composites. EPS and DPS growth in future will be influenced by the extent of the buy-back in November 2006 and the earnings of our continuing operations.

11. EVENTS SUBSEQUENT TO BALANCE DATE

Nil.

12. ANNUAL MEETING

(Preliminary final report only)

The annual meeting will be held as follows:

Place

Australian Institute of Management

Date

Friday 27 October 2006

Time

11.00 a.m.

Approximate date the [†]annual report will be available

18 September 2006

13. COMPLIANCE STATEMENT

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

Identify other standards used

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- 2 This report, and the +accounts upon which the report is based (if separate), use the same accounting policies.

- 3 This report does/~~does not~~* (*delete one*) give a true and fair view of the matters.

- 4 This report is based on +accounts to which one of the following applies.
(Tick one)

<input checked="" type="checkbox"/>	The +accounts have been audited.	<input type="checkbox"/>	The +accounts have been subject to review.
<input type="checkbox"/>	The +accounts are in the process of being audited or subject to review.	<input type="checkbox"/>	The +accounts have <i>not</i> yet been audited or reviewed.

- 5 If the audit report or review by the auditor is not attached, details of any will follow immediately they are available

- 6 The entity has/~~does not have~~* (*delete one*) a formally constituted audit committee.



Sign here: Date:24/08/2006
(Director/Company Secretary)

Print name: **STEPHEN L. MASON**