

# Appendix 4E

## Preliminary final report

Name of entity

**LEMARNE CORPORATION LIMITED**

ABN or equivalent company reference

**72 004 834 584**

Half yearly (tick)

Preliminary final (tick)

Half year/financial year ended ('current period')

**30 JUNE 2004**

### Results for announcement to the market

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

\$A'000

Revenues from ordinary activities	up/down	48%	to	64,100
Profit (loss) from ordinary activities after tax attributable to members	up/down	63%	to	3,475
Profit (loss) from extraordinary items after tax attributable to members	gain (loss) of			
Net profit (loss) for the period attributable to members	up/down	63%	to	3,475
<b>Dividends (distributions)</b>	Amount per security	Franked amount per security		
Final dividend ( <i>Preliminary final report only</i> )* Interim dividend ( <i>Half yearly report only</i> )	7.5¢	7.5¢		
Previous corresponding period)	7.5¢	7.5¢		
<p><sup>†</sup>Record date for determining entitlements to the dividend, <span style="border: 1px solid black; padding: 2px;">15 October 2004</span></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>* As the final fully franked dividend of 7.5 cents per share was only declared by directors on 24 August 2004, it is not included in the Accounts for the year ended 30 June 2004.</p>				

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2004**

	Note	Consolidated	
		2004 \$000	2003 \$000
Revenue from sale of goods	2	62,590	99,342
Cost of goods sold		( 46,176)	( 72,974)
Gross Profit		16,414	26,368
Revenue from sale of business/controlled entity/share buy-back	2	4	22,171
Other revenues from ordinary activities	2	1,506	1,629
Selling and distribution expenses		(3,676)	( 8,682)
Administration expenses		(8,820)	(12,565)
Investing activities (cost of disposal of business/entity)	3(a)	-	(12,271)
Borrowing costs	3(b)	(78)	(536)
Other expenses from ordinary activities		<u>20</u>	( 692)
<b>Profit/(loss) from ordinary activities before income tax expense</b>		<b>5,370</b>	<b>15,422</b>
Income tax (expense)/benefit		( 1,499)	( 765)
<b>Profit/(loss) from ordinary activities after income tax expense</b>		<b>3,871</b>	<b>14,657</b>
Net profit/(loss) attributable to outside equity interests		<u>396</u>	<u>5,224</u>
<b>Net profit/(loss) attributable to members of the parent entity</b>		<b><u>3,475</u></b>	<b><u>9,433</u></b>
Net exchange difference on translation of financial statements of self-sustaining foreign operations		<u>560</u>	( 1,784)
Total revenues, expenses and valuation adjustments attributable to members of the parent entity recognised directly in equity		<u>560</u>	( 1,784)
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b><u>4,035</u></b>	<b><u>7,649</u></b>
Basic earnings per share (cents)	8	21.3	57.0
Diluted earnings per share (cents)	8	21.1	56.8

**Notes to the condensed consolidated statement of financial performance**

	Consolidated	
	2004	2003
	\$000	\$000
<b>2. <u>REVENUE FROM ORDINARY ACTIVITIES</u></b>		
Sale of goods revenue from operating activities	<u>62,590</u>	<u>99,342</u>
<u>Other revenue</u>		
<i>From operating activities</i>		
Interest:		
Other parties	1,256	586
Bad debts recovered	19	41
Government grants	75	-
Other	3	623
<i>From outside operating activities</i>		
Proceeds from sale of non-current assets:		
- plant and equipment	53	100
- intellectual property	30	70
- other	<u>70</u>	<u>209</u>
Total other revenues	<u>1,506</u>	<u>1,629</u>
Revenue from sale of business/controlled entity/share buy-back	<u>4</u>	<u>22,171</u>
<b>Total revenue from ordinary activities</b>	<b><u>64,100</u></b>	<b><u>123,142</u></b>
<b>3. <u>PROFIT/(LOSS) FROM ORDINARY ACTIVITIES</u></b>		
(a) Individually significant items included in profit/(loss) from ordinary activities before income tax expense.		
Proceeds on sale of business/entity <sup>1</sup>	4	22,171
Cost of disposal of business/entity	<u>-</u>	<u>(12,271)</u>
Profit/(loss) on sale of business/entity	4	9,900
Takeover defence costs	-	(378)
Provision for write down of inventories	(514)	(1,538)
<sup>1</sup> Further proceeds from sale of Pultrex business (2003: Sale of Richardson Pacific Limited including Metal Systems division and Pultrex business).		

		Consolidated	
		2004	2003
		\$000	\$000
3.	<b><u>PROFIT/(LOSS) FROM ORDINARY ACTIVITIES (CONTINUED)</u></b>		
	(b) Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:		
	<u>Borrowing costs:</u>		
	Related parties	-	-
	Other parties		
	- Bank loans and overdraft	78	536
		<u>78</u>	<u>536</u>
	<u>Depreciation of:</u>		
	Buildings	40	45
	Plant and equipment	1,475	3,313
		<u>1,515</u>	<u>3,358</u>
	<u>Amortisation of:</u>		
	Product development costs	-	-
	Goodwill on consolidation	57	57
	Goodwill	11	12
	Deferred expenses	-	34
	Leased assets capitalised	8	9
	Leasehold property	51	141
		<u>127</u>	<u>253</u>
	<b>Total depreciation and amortisation</b>	<b><u>1,642</u></b>	<b><u>3,611</u></b>
	<u>Net expense from movements in provision for:</u>		
	Employee entitlements	759	1,005
	Warranties and provisions	(72)	135
	Stock obsolescence	611	1,837
	<u>Net bad and doubtful debts, including movements in provision for doubtful debts</u>	201	362
	<u>Net (gain)/loss on disposal of non-current assets:</u>		
	Property, plant and equipment	(12)	(40)
	<u>Share buy-back costs</u>	210	-
	<u>Net foreign exchange loss/(gain)</u>	54	68
	<u>Operating lease rental expense:</u>		
	Minimum lease payments	107	555
	<u>Write-downs and redundancies:</u>		
	Write-down in value of inventories	156	37
	Plant and equipment (scrapped)	1	177
	Redundancies	107	31

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004**

	Note	Consolidated	
		2004 \$000	2003 \$000
<b>Current assets</b>			
Cash assets		25,068	32,627
Receivables		11,087	11,351
Inventories		9,875	8,547
Other assets		<u>296</u>	<u>377</u>
<b>TOTAL CURRENT ASSETS</b>		<b><u>46,326</u></b>	<b><u>52,902</u></b>
<b>Non-current assets</b>			
Receivables		-	-
Other financial assets		-	-
Property, plant and equipment		11,153	9,634
Deferred tax assets		480	743
Intangibles		347	398
Other assets		<u>-</u>	<u>-</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<b><u>11,980</u></b>	<b><u>10,775</u></b>
<b>TOTAL ASSETS</b>		<b><u>58,306</u></b>	<b><u>63,677</u></b>
<b>Current Liabilities</b>			
Payables		10,567	10,920
Interest bearing liabilities		172	1,437
Current tax liabilities		664	164
Provisions		1,104	1,315
Other liabilities		<u>28</u>	<u>92</u>
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>12,535</u></b>	<b><u>13,928</u></b>
<b>Non-current liabilities</b>			
Interest bearing liabilities		204	250
Deferred tax liabilities		670	334
Provisions		592	419
Other liabilities		<u>57</u>	<u>60</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b><u>1,523</u></b>	<b><u>1,063</u></b>
<b>TOTAL LIABILITIES</b>		<b><u>14,058</u></b>	<b><u>14,991</u></b>
<b>NET ASSETS</b>		<b><u>44,248</u></b>	<b><u>48,686</u></b>
<b>Equity</b>			
Contributed equity	4	11,434	4,574
Reserves		1,683	1,123
Retained profits	5	<u>31,131</u>	<u>31,820</u>
<b>TOTAL PARENT ENTITY INTERESTS</b>		<b>44,248</b>	<b>37,517</b>
Outside equity interests in controlled entities		<u>-</u>	<u>11,169</u>
<b>TOTAL EQUITY</b>		<b><u>44,248</u></b>	<b><u>48,686</u></b>

	Consolidated	
	2004	2003
	\$000	\$000
<b>4. <u>CONTRIBUTED EQUITY</u></b>		
<b><u>Issued and paid up capital</u></b>		
17,808,333 (2003 - 16,536,466) ordinary shares fully paid	<u>11,434</u>	<u>4,574</u>
<b><u>Movements during the year</u></b>		
Balance at the beginning of year	4,574	4,574
Selective share buy-back (2003: nil) 3,306,369 shares	(3,670)	-
Shares issued:		
4,578,236 (2003: nil) shares pursuant to takeover of Lemvest Ltd	<u>10,530</u>	<u>-</u>
	<u>11,434</u>	<u>4,574</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 2004 was \$2.21 (2003: \$1.90).

On 15 September 2003 the Company cancelled 3,306,369 ordinary shares following the approval of shareholders to a selective share buy-back of all shares held by HGL Group Pty Ltd. The capital portion of the share buy-back was \$1.11 per share.

On 15 October 2003 the Company launched a takeover bid for the shares in Lemvest Limited (not held by Lemarne). The offer comprised of 6 Lemarne shares for every 5 shares in Lemvest. As a result of the takeover 4,367,984 shares were issued on 23 December 2003. The takeover was completed and the balance of Lemvest shares acquired via late acceptances and compulsory acquisition effective 31 December 2003, resulted in a further 210,252 shares being issued. Lemarne Corporation Limited's share price at 31 December 2003 was \$2.30.

On 28 January 2000 the Company granted options over 75,000 unissued ordinary shares under the Key Executive Option Plan No.3 approved by shareholders to an executive of the Pacific Composites Group at an exercise price of \$3.08. On 15 February 2002 the Company granted a further 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. 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, and 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. 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. In

the event that Pacific Composites is not listed on the Australian Stock Exchange, the option holders are entitled to shares in Lemarne Corporation Limited. As the conversion formula is based on the increase in value of Pacific Composites Pty Ltd and in particular its results for the three year period 2005-2007, it is not yet possible to estimate the number of shares (if any) the option holders will be entitled to. The options may be exercised for a period of three months from 30 June 2007.

	Note	Consolidated	
		2004	2003
		\$000	\$000
<b>5. <u>RETAINED PROFITS</u></b>			
Balance at beginning of year		31,820	24,300
Net profit/(loss) attributable to members of the parent entity		3,475	9,433
Dividends	6	(1,882)	(1,240)
Share buy-back		(2,282)	(673)
Balance at end of year		<u>31,131</u>	<u>31,820</u>

The deemed dividend in relation to the HGL share buy-back was 69 cents per share.

**6. DIVIDENDS PROVIDED FOR OR PAID**

The amounts paid, declared or provided for by way of dividend by the parent entity are:

(i) an interim fully franked ordinary dividend of 5.0 cents per share (2003 -7.5 cents per share fully franked at 30%) was paid on 26 March 2004		890	1,240
(ii) a final fully franked ordinary dividend of 7.5 cents per share was paid on 31 October 2003 which was not provided for at 30 June 2003		<u>992</u>	<u>-</u>
<b>Total dividends in accounts</b>		<u>1,882</u>	<u>1,240</u>

**After Year End**

(iii) on 24 August 2004 a final fully franked dividend of 7.5 cents per share was declared payable on 22 October 2004		<u>1,065</u>	<u>1,240</u>
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**Dividend franking account**

Franking credits of \$7,927,000 are available to shareholders of Lemarne Corporation Ltd.

The above 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 balance is prior to the share buy-back on 30 July 2004 which utilised \$1,564,608 in franking credits.

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 2004

	Note	Consolidated	
		2004	2003
		\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts in the course of operations		67,926	108,300
Cash payments in the course of operations		(62,877)	(93,396)
Interest received		1,252	549
Borrowing costs paid		(78)	(559)
Income tax paid		( 431)	( 239)
<b>Net cash provided by operating activities</b>		<b><u>5,792</u></b>	<b><u>14,655</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of intellectual property	2	30	70
Proceeds from sale of property, plant and equipment	2	53	100
Payments for controlled entities/business purchased		(152)	(122)
Payments for property, plant and equipment		(3,114)	(2,763)
Proceeds from disposal of controlled entity/business		-	21,498
Payments for cost of disposal of business/controlled entity		(501)	(363)
<b>Net cash provided by/(used in) investing activities</b>		<b><u>( 3,684)</u></b>	<b><u>18,420</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from share buy-back issue of shares to outside equity interests		-	50
Payment for share buy-back		(6,176)	-
Proceeds from borrowings		287	-
Repayment of borrowings		(369)	(7,830)
Dividends paid - members of parent entity		(1,882)	(2,067)
Dividends paid - outside equity interests		( 382)	( 383)
<b>Net cash provided by/(used in) financing activities</b>		<b><u>( 8,522)</u></b>	<b><u>( 10,230)</u></b>
<b>Net increase/(decrease) in cash held</b>		<b><u>(6,414)</u></b>	<b><u>22,845</u></b>
<b>Cash at the beginning of the financial year</b>		<b>31,468</b>	<b>10,355</b>
Exchange rate adjustments		14	(204)
Cash given up on disposal of controlled entity		-	( 1,528)
<b>Cash at the end of the financial year</b>	7	<b><u>25,068</u></b>	<b><u>31,468</u></b>

7. **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:-

	<b>Consolidated</b>	
	<b>2004</b>	<b>2003</b>
	<b>\$000</b>	<b>\$000</b>
Cash	5,568	5,721
Short term deposits	19,500	26,906
Bank overdraft	<u>-</u>	<u>(1,159)</u>
	<b><u>25,068</u></b>	<b><u>31,468</u></b>

8. **EARNINGS PER SHARE**

Basic earnings per share	21.3 cents	57.0 cents
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Diluted earnings per share	21.1 cents	56.8 cents
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	<b>\$000</b>	<b>\$000</b>
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Earnings reconciliation

Net profit/(loss)	3,871	14,657
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Net profit/(loss) attributable to outside equity interests	<u>396</u>	<u>5,224</u>
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Basic and diluted earnings	<u>3,475</u>	<u>9,433</u>
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**Number of Shares**

Weighted average number of ordinary shares used in the calculation of basic earnings per share	16,298,617	16,536,466
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Effect of executive share options on issue	<u>150,718</u>	<u>84,041</u>
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Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>16,449,335</u>	<u>16,620,507</u>
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Potential ordinary shares not considered dilutive

At 30 June 2004 the Company had on issue the following options which are not considered dilutive:

Number	Exercise Price
75,000	\$3.08
500,000	\$2.67
100,000	\$2.57

Potential ordinary shares considered dilutive

At 30 June 2004 the Company had on issue 200,000 options at an exercise price of \$1.44 and 250,000 options at an exercise price of \$1.49 which are considered dilutive.

**9. GROUP FINANCIAL PERFORMANCE**

		2004	2003	Change
EBIT before significant/abnormal items	\$000s	5,958	7,974	( 25)%
Significant/abnormal items before tax	\$000s	(510)	7,984	
Borrowing costs	\$000s	(78)	(536)	( 85)%
Operating profit/(loss) before tax	\$000s	5,370	15,422	( 65)%
Operating profit/(loss) after income tax and minority interests	\$000s	3,475	9,433	( 63)%
Earnings per ordinary share	cents	21.3	57.0	( 63)%
Net tangible asset backing per ordinary share	cents	247	224	10%
Dividend paid per ordinary share	cents	12.5	7.5	67%
Shareholders' equity (excluding outside equity interests)	\$000s	44,248	37,517	18%
Operating profit after income tax /members' equity	%	7.9	25.1	
Net borrowings/total shareholders' equity	%	(56)	(64)	
Share price (at 30 June)	cents	221	190	16%
Number of employees	No.	715	697	

These figures are based on the consolidated accounts.

**10. 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.
Construction and mining	Sheet metal work, flooring, data cabinets and polyurethane screening systems.
Reinforced plastics	Pultruded products including tension members, mine bolts, grating, cable support systems, angles, beams, rods and bars. Prepreg tapered and parallel tubing. Pultrusion, pulwinding and filament winding machinery.

Telecommunication products ISDN access products, filters and telephone accessories.

**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, Sydney, Brisbane, Perth and Auckland and sales offices in most states.
Asia	Manufacturing facilities for construction and mining, telecommunication and electronic equipment products. Customers for reinforced plastic products.
Europe	Manufacturing facilities and sales offices for reinforced plastic products. Customers for telecommunication and electronic equipment.
North America	Customers for reinforced plastics and electronic equipment.

10. **SEGMENT REPORTING (CONTINUED)**

<u>Primary reporting</u>	Electronics		Construction and mining		Reinforced plastics		Telecommunication products		Unallocated		Eliminations		Consolidated	
<u>Business segments</u>	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External sales revenue	25,812	32,338	-	25,438	30,053	34,594	6,725	6,972	-	-	-	-	62,590	99,342
Inter-segment revenue	968	644	-	-	-	-	-	-	-	-	(968)	(644)	-	-
Other revenue	50	104	-	1,385	140	297	40	-	17,108	23,721	(15,828)	(1,707)	1,510	23,800
<b>Total segment revenue</b>	<b>26,830</b>	<b>33,086</b>	<b>-</b>	<b>26,823</b>	<b>30,193</b>	<b>34,891</b>	<b>6,765</b>	<b>6,972</b>	<b>17,108</b>	<b>23,721</b>	<b>(16,796)</b>	<b>(2,351)</b>	<b>64,100</b>	<b>123,142</b>
<b>Result</b>														
Profit/(loss) from ordinary activities before income tax	1,418	385	-	2,613	2,302	2,184	1,314	1,055	336	9,185	-	-	5,370	15,422
Income tax (expense)/benefit													1,499	765
<b>Profit/(loss) from ordinary activities after income tax</b>													<b>3,871</b>	<b>14,657</b>
Depreciation and amortisation	630	834	-	1,696	861	943	65	55	86	83	-	-	1,642	3,611
Non-cash expenses other than depreciation and amortisation	1,107	2,078	-	1,359	334	867	91	48	8	11,318	-	-	1,540	15,670
<b>Individually significant items</b>														
Proceeds on sale of business/entity	-	-	-	673	4	70	-	-	-	21,428	-	-	4	22,171
Written-down value of business/entity	-	-	-	(942)	-	(63)	-	-	-	(11,266)	-	-	-	(12,271)
Profit/(loss) on sale of business	-	-	-	(269)	4	7	-	-	-	10,162	-	-	4	9,900
Inventory write-down	514	1,538	-	73	48	262	49	-	-	-	-	-	611	1,873

10. SEGMENT REPORTING (CONTINUED)

Primary reporting

	Electronics		Construction and mining		Reinforced plastics		Telecommunication products		Unallocated		Consolidated	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<u>Business segments</u>												
<b>Assets</b>												
Segment assets	13,978	13,496	-	-	19,669	19,323	3,081	2,016	21,578	28,842	58,306	63,677
<b>Liabilities</b>												
Segment liabilities	4,378	4,480	-	-	3,170	6,427	1,860	1,341	4,650	2,743	14,058	14,991
Acquisition of non-current assets	1,203	748	-	953	1,803	987	38	49	70	26	3,114	2,763

Secondary reporting

	Australasia		Asia		Europe		North America		Other		Unallocated		Consolidated	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<u>Geographical segments</u>														
External segment revenue by location of customers	17,406	43,286	1,795	5,662	38,404	46,669	2,763	3,328	2,427	2,183	1,295	22,014	64,100	123,142
Segment assets by location of assets	10,696	10,066	13,978	13,496	12,054	11,273	-	-	-	-	21,578	28,842	58,306	63,677
Acquisitions of non-current assets	1,142	1,261	1,203	1,090	699	386	-	-	-	-	70	26	3,114	2,763

11. **DISCONTINUING OPERATIONS**

**2004**

**2003**

On 31 March 2003, Lemvest Limited sold Richardson Pacific Limited (RPL) for \$21.4 million. The construction and mining segment was discontinued on that date.

On 19 June 2003, Pultrex Ltd (now Pacific Composites (Clacton) Ltd), disposed of its capital equipment manufacturing business "Pultrex".

Financial information for the construction and mining segment and Pultrex, was as follows:

<b>Financial performance information for the year ended 30 June</b>	<b>2004 \$000 Total</b>	<b>2004 \$000 Pultrex</b>	<b>2004 \$000 RPL</b>	<b>2003 \$000 Total</b>	<b>2003 \$000 Pultrex</b>	<b>2003 \$000 RPL</b>
Revenue from ordinary activities	-	-	-	28,159	1,921	26,238
Expenses from ordinary activities	-	-	-	(25,326)	(1,787)	(23,539)
Profit/(loss) from ordinary activities before income tax	-	-	-	2,833	134	2,699
Income tax revenue/(expense)	-	-	-	(1,035)	(38)	(997)
Net profit after tax from operating activities	-	-	-	1,798	96	1,702
Revenue from disposal of business/controlled entity	4	4	-	743	70	673
Cost of disposal of business/controlled entity	-	-	-	(1,005)	(63)	(942)
Profit/(loss) on disposal of business	4	4	-	(262)	7	(269)
Income tax revenue/(expense)	-	-	-	64	-	64
Net profit/(loss) on disposal	4	4	-	(198)	7	(205)
<b>Net profit/(loss)</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>1,600</b>	<b>103</b>	<b>1,497</b>

11. **DISCONTINUING OPERATIONS (CONTINUED)**

	2004 Total	2004 Pultrex	2004 RPL	2003 Total	2003 Pultrex	2003 RPL
<b>Financial position information as at 30 June</b>						
Segment assets	-	-	-	2,681	2,681	-
Segment liabilities	-	-	-	(757)	(545)	-
<b>Net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,924</b>	<b>2,136</b>	<b>-</b>
<b>Cash flow information for the year ended 30 June</b>						
Net cash provided by/(used in) operating activities	-	-	-	4,748	(177)	4,928
Net cash provided by/(used in) investing activities	-	-	-	(908)	89	(997)
Net cash provided by/(used in) financing activities	-	-	-	(4,683)	(83)	(4,600)
<b>Net increase/(decrease) in cash held</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(843)</b>	<b>(171)</b>	<b>(669)</b>
<i>Reconciliation to segment reporting note:</i>						
<i>Reconciliation of total revenue</i>						
Total segment revenue (Note 25)	30,193	30,193	-	61,714	34,891	26,823
Less: segment revenues relating to continuing operations	(30,189)	(30,189)	-	(32,992)	(32,992)	-
Segment revenues – discontinuing operations	4	4	-	28,722	1,899	26,823
<i>Add back unallocated revenue/(expenses):</i>						
Interest revenue	-	-	-	180	92	88
Inter-company management fees	-	-	-	-	-	-
<b>Total revenues from ordinary activities</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>28,902</b>	<b>1,991</b>	<b>26,911</b>
<i>Reconciliation of net profit/(loss)</i>						
Total segment result (Note 25)	2,302	2,302	-	4,797	2,184	2,613
Less: segment result relating to continuing operations	(2,298)	(2,298)	-	(2,114)	(2,114)	-
Segment result – discontinuing operations	4	4	-	2,683	70	2,613
<i>Add back unallocated revenues/(expenses):</i>						
Interest revenue	-	-	-	180	92	88
Borrowing costs	-	-	-	(292)	(21)	(271)
Profit/(loss) from ordinary activities before income tax	4	4	-	2,571	141	2,430
Income tax revenue/(expense)	-	-	-	(971)	(38)	(933)
<b>Net profit/(loss)</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>1,600</b>	<b>103</b>	<b>1,497</b>

## 12. REVIEW OF OPERATIONS

### Overview

In the 2003/4 financial year Lemarne underwent considerable change both structural and operational. In parallel with the structural changes, strong initiatives were taken to improve the operational performance of our three subsidiaries. Pleasingly, these subsidiaries managed to achieve increased profit levels over the prior year and have finished the year in a stronger position, which augurs well for the future.

Lemarne's sales revenues declined to \$63 million in 2003/4, primarily as a result of the sale of Richardson Pacific Limited in the prior year, although, sales in each of our continuing operations were also down. This decline was largely due to the strengthening Australian dollar that reduced the conversion of sales achieved offshore, and a decline in the level of domestic sales achieved.

Notably, the continuing operations achieved an operating profit before tax of \$5.4 million, which represents an increase of 100% over the prior year, excluding the one off profit on the sale of Richardson Pacific Limited. This achievement was meritorious given the negative impact the strengthening currency had on translating profits earned overseas.

Lemarne's earnings per share for the first half were 6.1 cents and in the second half 15.2 cents, giving a total of 21.3 cents per share for the full year. Earnings in the second half strengthened due to increased profitability in all three subsidiaries. In particular, a significant improvement in Pacific Composite's Australian business buoyed by a large export order and C10 Communications winning additional business.

Shareholders' funds at 30 June 2004 totalled \$44 million, which represents an increase of 18% over the prior period. At year end Lemarne was ungeared, having a positive net cash balance of \$25 million. In 2003/4 the return on shareholders' funds was 7.9%, which was partially due to the low returns earned on the relatively high level of cash held throughout the year.

### Review of Operations

Since acquiring the balance of Lemvest Limited in December 2003, the Lemarne group has consisted of three wholly owned subsidiaries, namely Pacific Composites, Lemtronics and C10 Communications. An overview of the operations of each of these subsidiaries follows.

In 2003/4 Pacific Composites' sales revenues declined 13% to \$30.1 million, largely due to the impact the strengthening Australian currency had on translating overseas revenues and the sale of Pultrex in June 2003. However, Pacific Composites' Australian and UK based operations combined to produce an EBIT of \$2.3 million, which was an increase of 4.8% over the prior year. The UK business commenced the financial year strongly before tapering off in the last quarter, while the Australian business experienced a very slow start to the year before finishing the second half strongly.

The 2003/4 results were impacted by costs associated with the relocation of Pacific Composites' Melbourne operations to a new manufacturing facility, which was completed in late August 2004. The move to this new purpose built facility places the business in a strong position to derive ongoing operational efficiencies.

Lemtronics' results in 2003/4 reflect the program of restructuring and re-investment that has been undertaken over the past two years. This business achieved a strong improvement in EBIT of 270% to \$1.4 million, even though sales declined 20% due almost totally to the strengthening of the Australian currency. Component procurement delays were experienced at various times throughout the year, which impacted on manufacturing efficiencies. These parts shortages have largely been overcome, although as a

precaution current inventory levels have been increased slightly. Customer demand varied considerably throughout the year before stabilising and showing tentative signs of growth.

C10 Communications' sales were \$6.7 million in 2003/4 on which an EBIT of \$1.3 million was achieved, which represents an increase of 25% over the prior year. The business continued to operate leanly and was successful in securing the contract for the supply of ADSL filters to Telstra. The tender process associated with securing this contract was very competitive which has resulted in a significant reduction in product margins. However, as all of Telstra's filter requirements will now be supplied the reduction in margins should be compensated by the projected increased sale volumes.

### **People, Health and Safety**

Occupational health and safety ("OH&S") continues to be a priority for all directors, management and employees. We recognise that it is only by working together that a high level of OH&S will be maintained. As such improving OH&S standards remains a key priority across all of Lemarne's operations.

At 30 June 2004, the Lemarne group had 715 employees, of whom 89 per cent are located outside Australia. Lemarne's success is due to the efforts and dedication of these employees, their contributions are acknowledged with sincere appreciation.

### **Outlook**

The 2004/5 financial year promises to be a year of consolidation and evolution for the Lemarne group. Pacific Composites' businesses are looking to consolidate the Melbourne based operations, while continuing to pursue growth in Europe and Asia. Additionally, research and development effort has been directed towards developing new products that are tentatively scheduled for release over the next few months. Success in these endeavours will have the businesses well placed to build profitability in the future.

Lemtronics will continue its attempts to expand its customer base geographically, so as to reduce its current heavy dependence on customers based in Germany. Efforts will continue to forge alliances with similar electronic manufacturing services ("EMS") businesses that have a presence in Eastern Europe, as this will provide an ability to further improve service levels offered to European based customers. This will complement the support currently provided from the sales and engineering support offices that Lemtronics recently established in Germany and England. While the EMS market is expected to improve in 2004/5, the level of competition is also expected to remain very high. Therefore, Lemtronics' management will continue to focus on improving the business' cost base, while continuing to upgrade equipment levels and broaden its customer base.

In 2004/5 C10 Communications' management will focus on increasing its market share by continuing to develop the range of ISDN, ADSL and general telecommunications accessories offered to the Australian market. To achieve this, efforts will be directed towards further developing current distribution channels and in establishing alliances with retail distribution channels. C10 Communications will also fund the establishment of the recently acquired start-up business ValueNet, further details of which are outlined in that subsidiary's review of operations, which follows. This business will require substantial funding in 2004/5 to consolidate its operating systems and to establish its position in the marketplace, as such ValueNet is not projected to commence contributing to profitability until 2006.

At 30 June 2004, Lemarne had cash reserves of \$25 million, of which approximately \$9.1 million was utilised in the share buy-back completed on 13 August 2004. The remaining funds will be directed toward the further development of our existing subsidiaries and the acquisition of a new business, which

has the quality of earnings and growth opportunities to enhance Lemarne's earnings in the years to come.

Lemarne's profitability in 2004/5 will decline in the short term, prior to acquiring a new business, due to the investment and start-up costs required to establish C10 Communications' ValueNet business. Directors believe that the steps being taken are appropriate in positioning Lemarne for sound ongoing earnings growth.

**13. EVENTS SUBSEQUENT TO BALANCE DATE**

*Share Buy-Back*

On 2 August 2004 the Company bought back and cancelled 3,614,606 ordinary shares pursuant to an off market buy-back approved by shareholders.

The buy-back price was \$2.52 per share resulting in a total consideration of \$9,108,807.12 which was paid to shareholders on 13 August 2004. The buy-back price consisted of a fully franked deemed dividend of \$1.01 and a capital component of \$1.51.

**14. ANNUAL MEETING**

*(Preliminary final report only)*

The annual meeting will be held as follows:

Place

Australian Institute of Management
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Date

Friday 29 October 2004
------------------------

Time

11 a.m.
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Approximate date the <sup>+</sup>annual report will be available

17 September 2004
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**15. 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 <sup>+</sup>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: 25/08/2004  
(Director/Company Secretary)

Print name: **STEPHEN L. MASON**