



Lemarne Corporation Limited

Managing Director's Operational Review

34<sup>th</sup> Annual General Meeting

11 a.m.  
Friday 29<sup>th</sup> October 2004  
Australian Institute of Management House  
181 Fitzroy Street  
Melbourne

Good morning Ladies and Gentlemen,

The Lemarne you see today is very different from the organisation shareholders have known in the past. As with all companies it is evolving under the direction of your Board and Management, striving to achieve the growth objectives and quality of earnings contained in our strategic plans, while living up to the Group's philosophy and objectives as outlined in Lemarne's Annual Report.

Pursuit of this strategy has involved the sale of businesses which were not meeting our corporate objectives (Com 10 Power, URM, Richardson Pacific and Pultrex), utilisation of accumulated income tax losses (both in Australia and in offshore jurisdictions), the acquisition of the balance of Lemvest Limited and subsequent streamlining of our two tiered corporate structure and improving the operations of each of our current subsidiaries. This last point involved strengthening their respective management teams, instilling a focus on tight management of working capital and operating costs, upgrading equipment levels, expanding manufacturing capacity where justified, while maintaining managements' focus on actively pursuing growth opportunities. In some instances this has also involved subsidiaries supplementing their product offerings to customers by significantly increasing the level of additional value adding services provided. This has provided our subsidiaries with a point of differentiation from their competitors, increased the degree of interdependence with their customers and improved profit margins.

Initial evidence of the success of this strategy may be seen in the improved profitability of our continuing operations as set out in Lemarne's 2004 Annual Report. Operating profit before tax of \$5.4 million represented an increase of 100% over the prior year (excluding one off profits associated with the sale of businesses), a significant improvement in earnings per share during the year (first half 6.1 cents, second half 15.2 cents), an 18% increase in shareholders' funds to \$44 million and the very strong Statement of Financial Position (Balance Sheet) as at 30 June 2004.

I would now like to comment on the progress each of our subsidiaries have made in the first quarter (ended 30 September 2004) and our outlook for the year ahead.

#### Pacific Composites

Our Melbourne based operation has commenced the new financial year in the same strong fashion as it ended the previous six months. The main reason for this being the continued production of the large export order I referred to in my address last year. This project is due for completion shortly and there is an expectation that profit in the second half will then decline from the present levels, depending on the timing and scale of project work attained.

Our Melbourne operations recently moved into a new purpose designed and built facility in Boronia. This initiative has resulted in the consolidation of three existing manufacturing operations at the new site. The new facility has incorporated a number of leading edge material handling features that will significantly improve manufacturing efficiency and further improve OH&S. The improvements gained from this consolidation will be ongoing.

In the UK, Fibreforce has experienced a slow start to the new financial year as anticipated. The business has continued to focus on the development of new products in conjunction with a number of select customers. Progress of these initiatives has been slower than expected, due to delays in market testing. However, clearance has recently been received to proceed with one promising new product, which is likely to proceed to full production early in the second half of this financial year.

Overall, Pacific Composites has made a solid start to the new financial year, being comfortably ahead of the corresponding period last year. This level of performance is expected to continue throughout the first half. While the second may be weaker, the full year results are expected to be comfortably up on last year. Development of new products and market expansion should improve future profitability.

### Lemtronics

Lemtronics has made an encouraging start to the year, reflecting the benefits of the investments made in recent years to improve the operational efficiency of the business. The recent profit improvement has resulted from a slight improvement in both the volume and mix of work undertaken and the successful resolution of longstanding disputes, which resulted in the business receiving one off payments from two parties.

Looking ahead and excluding the one off recoveries, the rate of profit generation is expected to be maintained over the balance of the year. Lemtronics' management is continuing its focus on improving the business' cost base, while continuing to upgrade equipment levels and further broadening its customer base.

### C10 Communications

C10 Communications ("C10") has commenced the year with both sales revenues and operating profit significantly ahead of both budget and the corresponding period in 2003. This situation has been driven by the development of the business' core range of products, many of which have benefited from the rapid expansion of broadband internet access services in Australia.

In my address to Shareholders last year, I advised of our goal of developing a value added service revenue stream that complements the products historically offered by C10. In this regard, we were pleased to announce the acquisition of the ValueNet business in July 2004.

This start-up business operates in the provision of voice over internet protocol ("VoIP") services to small to medium sized businesses. This represents an exciting development, which will leverage off C10's considerable industry and business expertise. ValueNet's services effectively provide for the voice and data needs of any business through a broadband connection to the enterprise. These services, together with a range of complementary products, will be marketed through a range of distributors including recognised service providers and systems integrators.

Full year results for C10, after allowing for the costs associated with establishing the ValueNet business in the current year, are expected to be approximately half that achieved in

---

2003/4. However, this investment in establishing a future revenue stream with potentially significant ongoing growth opportunities, is expected to commence making a positive contribution in the second half of next financial year.

Lemarne Healthcare

Your Directors are pleased to have just announced that a new subsidiary Lemarne Healthcare has been established to acquire the business of MoleScan Australia and its associated services. MoleScan operates Australia's largest group of skin cancer detection and treatment centres, having clinics in Queensland, West Australia, South Australia, Tasmania and Victoria.

As Australia has the highest per capita incidence of non-melanoma skin cancer in the world, the need for these services is growing rapidly. Importantly, early detection and treatment of such cancers greatly increases the possibility of a full recovery being achieved. MoleScan aims at meeting this need with its focus on the early diagnosis and treatment of skin cancers.

Market research indicates the need for these services, both in Australia and in several overseas countries, will grow significantly in future and we plan to assist the MoleScan team led by Dr Gordon Patrick to meet these needs.

Group

In summary, each of our subsidiaries has made an encouraging start to the current year and is comfortably ahead of the results achieved in the corresponding period last year. This situation will weaken over the remainder of the year due to the anticipated softening in market conditions, investment and start-up costs associated with the establishment of the ValueNet business and the development of our new subsidiary Lemarne Healthcare. While any number of factors may adversely impact Lemarne's full years' results, current indications are that net profit will exceed that achieved last year after allowance for the start up costs associated with the establishment of the new businesses.

This is an exciting phase in the development of the Group as we position ourself to achieve our stated goal, which is to *maximise growth in intrinsic business value per ordinary share*.

Darryl Rainsbury  
29 October 2004