



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

**CHAIRMAN'S ADDRESS AT THE 36th
ANNUAL GENERAL MEETING ON 27 OCTOBER 2006**

Before inviting questions and asking our Managing Director, Peter Murphy, to comment on the first quarter's results and plans, I should like to dwell for a moment on the initiatives taken to reposition the Group leading up to the current buy-back which expires on 20 November 2006.

Our strategy in 2002 was to divest our manufacturing businesses in Australia and in future to invest in niche businesses in the services sector, with solid recurring income streams. The main steps in this process have been:

Date	Action	Lemarne shares on issue	Lemarne share price
July 2002	Consolidation following sale of UR Machinery and Com10 Power	16.5 million	\$1.20
March 2003	Lemvest sold Richardson Pacific Limited for \$21.4 million and a profit after tax of \$10.2 million	16.5 million	\$1.86
September 2003	Lemarne bought back 3.3 million shares from HGL at \$1.80 per share following their unsuccessful bid for the Company	Reduction of 3.3 million to 13.2 million	\$2.21
December 2003	Lemarne completed the successful take-over of Lemvest with the issue of 4.6 million new shares	Increase of 4.6 million to 17.8 million	\$2.30
February 2004	Off-market share buy-back offer for up to 35% of each shareholder's holding at a price of \$2.52 per share resulting in a 58% acceptance level and \$9.1 million returned to shareholders.	Reduction of 3.6 million to 14.2 million	\$2.35
February 2006	Sale of Pacific Composites for \$32.5 million and a profit after tax of \$14.9 million	14.2 million	\$2.72

Date	Action	Lemarne shares on issue	Lemarne share price
July 2006	Payment of special dividend of 15 cents per share fully franked	14.2 million	\$3.05
September 2006	Buy-back approved for up to 50% of each shareholders' holding for \$2.70 per share (adjusted for movements in the Industrials index)	14.2 million	\$2.80
November 2006	Buy-back offer closes on 20 November 2006		

Directors are pleased that while this major transformation has occurred, the share price has steadily increased and excess funds have been returned in a tax effective way to those shareholders that wished to participate.

Our focus now is on developing Lemarne's current businesses which are in very different strategic positions.

At our oldest subsidiary, Lemtronics, the new management team is concentrating on consolidating its position as a high performance niche contract manufacturer with longstanding European customers.

At Lemarne Healthcare, which is market leader in Queensland and Western Australia, in skin cancer detection, treatment and prevention, we are carefully evaluating the alternatives for strengthening our position in Australia either through organic growth or acquisition.

At C10, its products division is assessing the prospects of selling some of its broadband products into specific overseas markets as well as expanding its established range in Australia.

C10's ValueNet division is exploring how best to exploit its position as a provider of hosted and managed services to the SME market using VoIP technology. Based on market research and history in the United States, this is thought to be a rapidly expanding market with considerable potential.

These initiatives will require further significant investment this year, however if we are successful, and with a reduced number of shares on issue, Directors believe there should be stronger EPS and DPS growth from 2007/8 onwards.

Before handing over the Peter I would like to comment on Exel's claim. On 31 August 2006 we advised the market that we had received a claim from Exel alleging breach of warranty and claiming damages of \$6.5 million. We re-iterate that Lemarne strongly disputes this claim, does not accept that Exel has suffered loss, and is vigorously defending the claim.

On behalf of the Board, I would like to thank shareholders for their continuing support during this period of transformation.

Brian Noxon
Chairman, 27 October 2006



Lemarne Corporation Limited

Managing Director's Operational Review

36th Annual General Meeting

11 a.m.
Friday 27th October 2006
Australian Institute of Management House
181 Fitzroy Street
Melbourne

Good morning Ladies and Gentlemen,

I would like to briefly comment on the progress each of the subsidiaries have made in the first quarter ended 30 September 2006, and the outlook for the year ahead..

As Brian has mentioned, each of our subsidiaries is at a different phase in terms of its business development, ranging from a start up business at ValueNet, to Lemtronics which has been within the Lemarne Group for some 20 years.

Lemtronics

Whilst Lemtronics achieved significant growth in its revenue in 2005/06, this was not reflected in its operating profits. Challenges in the area of currency exchange variations, excessive operating costs and the increasing cost of electronic components depressed margins.

In July this year the company was restructured and a strong focus placed on servicing core customers and increasing the margins obtained from these customers; coupled with a reduction in specific operating costs of the company.

Sales revenue has continued to grow and this has been accompanied by an increase in operating margins, resulting in trading profits being posted in August and September, with the company being well ahead for the first quarter, of both budget and the same period last year.

It is expected that Lemtronics will operate profitably throughout the year assuming there is no significant adverse change in currencies. The company is being strongly positioned as a low volume, flexible electronic manufacturing services company.

Lemarne Healthcare

Lemarne Healthcare's operating businesses, Molescan Australia (Molescan) and Australian Dermatopathology Laboratory (ADL) have operated below profit expectations in the first quarter.

It was recognised at the time of acquisition, of this privately owned business, that investments had to be made in strengthening the Molescan operations in particular:

- the recruitment of an experienced management team;
- an upgrade of the management information systems;
- the development of an efficient and effective system to manage patient demand and clinic communication as well, and
- refurbishment of a number of Molescan clinics.

These investments have been and continue to be made. However it has been in an environment where there is a shortage of doctors, a plateauing of patient numbers in some clinics and increasing competition from other skin cancer clinics and general practitioners.

Action has been taken to recruit new doctors to the Molescan clinics and this is proving successful, particularly in Western Australia and specific regions within Queensland. An increased emphasis has been placed on enhancing the knowledge and capability of the Molescan doctors in the detection and treatment of skin cancer and regular doctor forums and programmes are being held to develop a collegiate environment for the Molescan doctors.

Special advertising campaigns have been developed for key clinics to coincide with major Government funded advertising programmes which are focused on encouraging the population to take protection against the sun's rays.

New clinics will be opened in Hobart and Perth and plans are well advanced for establishing more clinics in Victoria and New South Wales. However it is expected that 2006/7 will continue to be a challenging year for the Molescan group.

ADL is operating efficiently and its reputation and profile as a specialist dermatopathology laboratory continues to grow with medical practitioners specialising in the detection and treatment of skin cancer.

C10 Communications ("C10")

Broadband products continue to be in demand from the Australian market and the company is further developing new products to capitalise on its strong market position; profits are ahead of target and we expect this to continue for the remainder of the year.

ValueNet is a start up company in the rapidly expanding hosted VoIP market, and Lemarne will continue to invest in this business, particularly in its sales and marketing operations. Sales revenues are down on expectation and the business does not expect to trade profitably until 2007/8 financial year.

Throughout 2006/7 ValueNet will focus on marketing its services to small and medium size businesses, particularly in Victoria and New South Wales. To achieve sales in this large and diverse market, ValueNet is entering into commercial partnerships with specialised system integrators who already have a vested interest in supplying data communication products and services to the targeted SMEs.

Overall C10 will continue to operate profitably in 2006/7, albeit at a reduced level, as it absorbs the costs of developing the ValueNet business.

Group

Lemarne's profit before abnormals and tax, in the September 2006 quarter, was significantly ahead of that achieved in the corresponding period in 2005, excluding the contribution from Pacific Composites. Lemtronics and C10 Communications subsidiaries have commenced the new financial year strongly, whilst Lemarne Healthcare has performed below expectations due to the reasons outlined.

Lemarne's net profit in 2006/7 is expected to track ahead of last year (excluding the profit on the sale of Pacific Composites) subject to no adverse changes in currencies impacting on Lemtronics' results, and the initiatives being taken within Lemarne Healthcare provide a positive profit contribution in the second half of this financial year.

The ValueNet business, will continue to require ongoing investment, particularly in terms of its sales and marketing resources. The objective is to build a diverse but growing customer base with recurrent revenue streams. The benefits, in terms of cash flow and profit, will not be felt until late in 2007/8.

Overall Lemarne should have a solid trading year as it builds a platform for stronger growth in 2007/8 and beyond.

Peter Murphy
Managing Director
27 October 2006