



Lemarne Corporation Limited

Managing Director's Operational Review

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

11.30 a.m.  
Wednesday 27<sup>h</sup> October 2010  
Australian Institute of Management House  
181 Fitzroy Street  
Melbourne

Good morning Ladies and Gentlemen,

Welcome to Lemarne's 40<sup>th</sup> Annual General Meeting.

Today I will review Lemarne's operating performance for the financial year ending 30 June 2010 and provide a brief overview on how we see the company operating in the current financial year. In addition, to provide a review of the Lemtronics' business and outline of some of the options we are exploring.

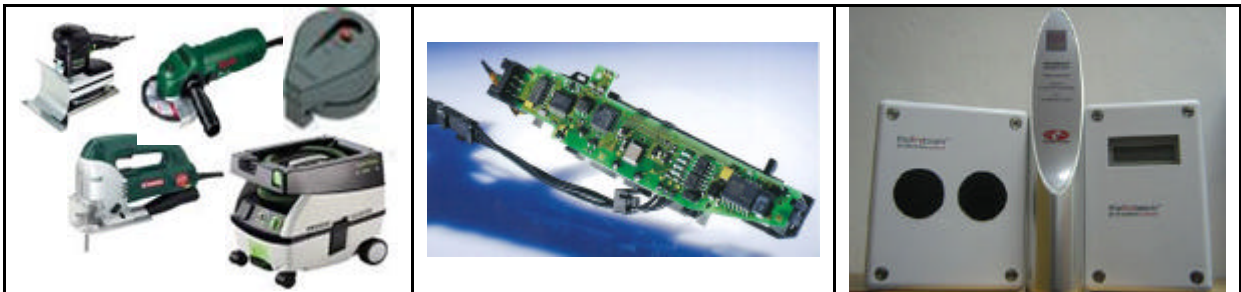
As you are aware, over the last few years Lemarne has successfully divested all of its Australian based operating businesses. Lemtronics is currently the sole operating division of Lemarne and thus Lemarne's results will directly reflect the performance of Lemtronics.

Accordingly, I will focus on Lemtronics and its business activities, performance and more importantly its future plans.

Lemtronics is a unique provider of high mix, low volume electronic manufacturing services and is located in Penang, Malaysia.

Lemtronics is a wholly owned subsidiary of Lemarne and was acquired in 1988. Lemtronics has earned a strong reputation as a manufacturer of quality products, it provides a diverse product set, manufacturing over 350 types of assemblies/products for its international customer base. These products are supplied in a timely and responsive manner at commercially competitive prices across the world. Its products are used in power tools, automotive products as well as high value add fire detection and security products.

**Exhibit 1: Lemtronics Products**



Power Tools and Power Management Systems

RF and Automotive

Fire Detector

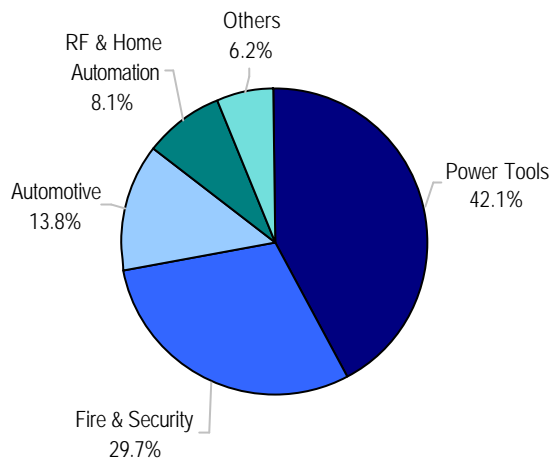
The core customer base is predominantly international companies who span across multiple industries thereby producing diversity in Lemtronics revenue base.

**Exhibit 2: Lemtronics Customers**

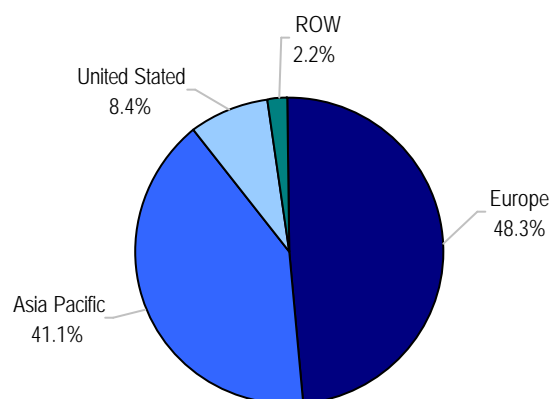
Power Tools	RF & Automotive	Fire Detection & Security

In the 2009/2010 financial year, Lemtronics' revenue of MYR 145 million was achieved across three main end markets, power tools, fire and security and automotive products. These end markets are in Europe, Asia Pacific and United States and with countries such as China, Korea, Australia, Sweden, United Kingdom, Hungary and the Czech Republic being key revenue providers.

**Exhibit 3: Revenue by End Market**



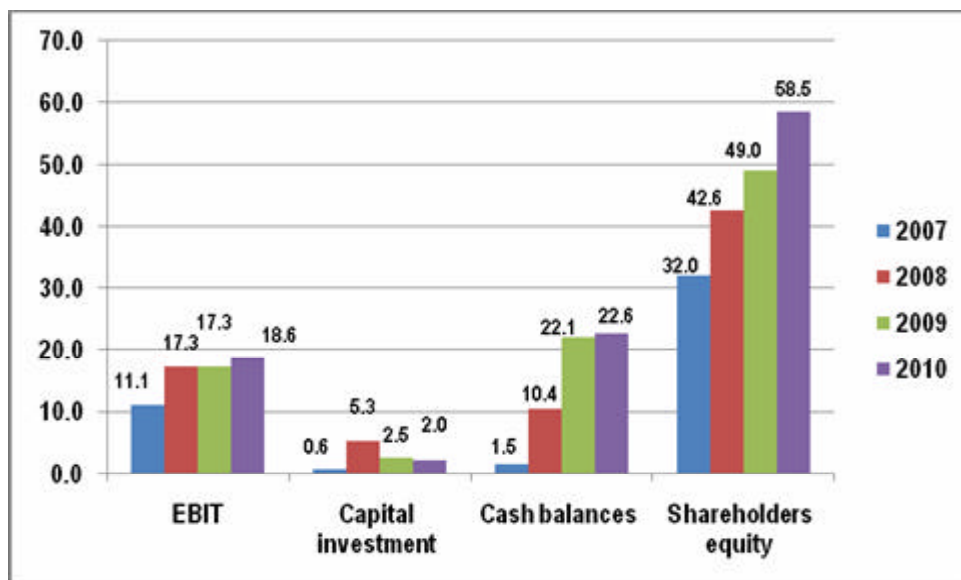
**Exhibit 4: Revenue by Geography**



The financial results of the company over the last four years have been outstanding with:

- Increased earnings before interest and tax
- Continuous investment in plant and equipment as well as the development and training of its 600 + personnel
- A strong balance sheet with no debt and funds on deposit
- Increased shareholders' equity reflecting the growth in revenue and profits.

**Exhibit 5: Lemtronics Performance (Millions - MYR)**

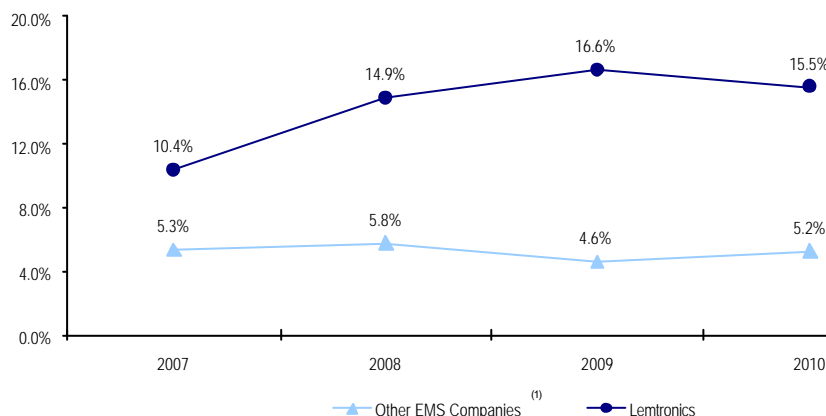


Note: Results exclude holding company (Fine Pearl Sdn Bhd)

Lemtronics has succeeded in growing its business despite the significant downturn in the overall global electronics industry and has created a highly profitable EMS platform.

Lemtronics achieved EBITDA margins of some 15.5% in 2010 compared to the lower margins achieved in other sectors of the EMS industry. These results reflect the strong focus by Lemtronics' management team on cost control, investment in plant and equipment to improve productivity, and on its supply chain management.

**Exhibit 6: Average EMS Industry EBITDA Margin Comparison 2007-2010**



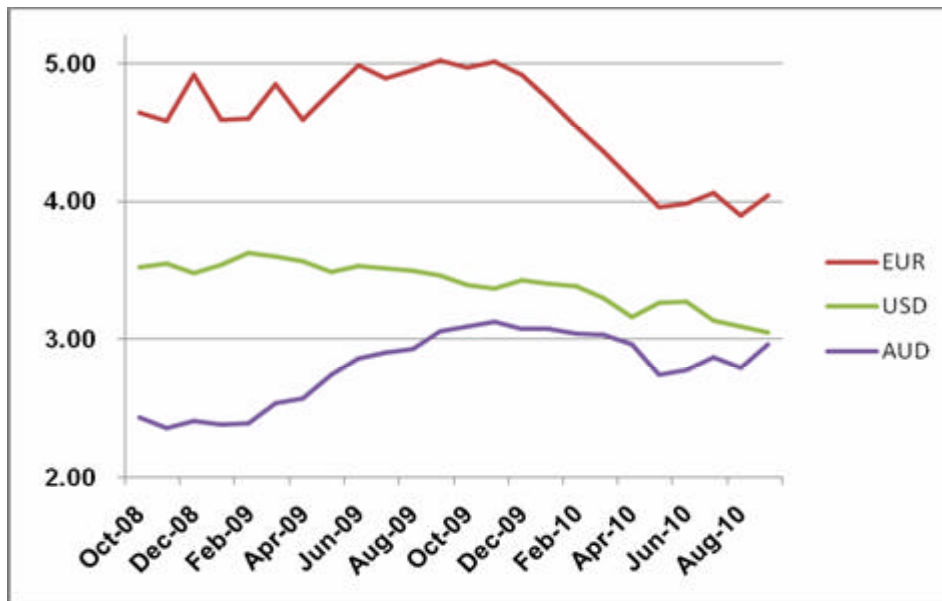
Note: EMS industry EBITDA margins based on industry research commissioned by management. EBITDA margins exclude Lemarne management fees.

In summary, Lemtronics has built a strong EMS platform with a unique combination of a number of attributes which include:

- Unique high mix, low volume manufacturing operation based in Penang, Malaysia
- Strong financial performance with best in class EBITDA margins
- Loyal and diverse multinational customer base
- Broad product mix with customer and product type diversity
- Highly focussed management team supported by an experienced and stable employee base.

However, results are being impacted by realised and unrealised losses incurred through the significant fluctuations in exchange rates between the Malaysian Ringgit and the company's key trading currencies, which include the US Dollar, Euro and British Pound. Traditionally, Lemtronics had a natural currency hedge through its sales and material purchases but this natural hedge has been totally overridden by changes in customer mix combined with extreme currency changes over the last twelve months.

**Exhibit 7: Major trading currencies' exchange rate against MYR**



Hedging finance is an expensive tool to manage these extreme currency fluctuations and for a company of Lemtronics size has not been commercially feasible in the past. We are currently in discussions with our bankers to determine what tools are currently available to manage these currency fluctuations in a cost effective manner.

The future focus must be on growth and the acceleration of the Lemtronics business. :

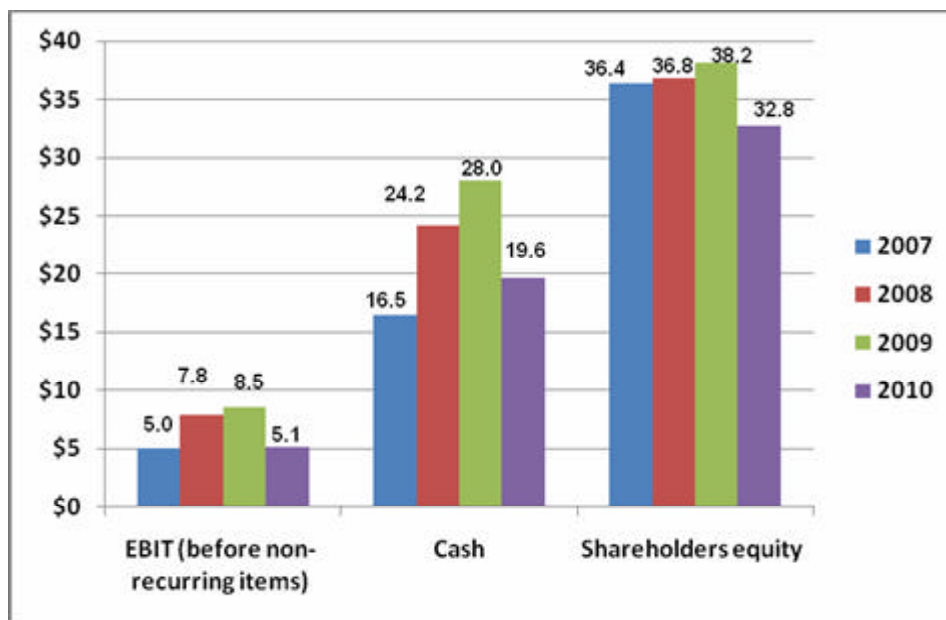
In 2011, Lemtronics will seek to recruit experienced senior executives responsible for developing Lemtronics' customer base in the USA and for specific countries in Europe. However, the return on these investments is unlikely to be realised until 2012 as the gestation period for gaining new business can range between 1 – 3 years.

In relation to increasing Lemtronics' critical mass, Lemarne has commissioned a USA based International Investment Bank to identify EMS companies into which Lemtronics could be merged. In addition, Lemarne is investigating other EMS companies which could be acquired by Lemtronics. These projects could lead to various outcomes including joint venture, acquisitions or other variations. In assessing any potential transaction, the Board of Lemarne will be driven by the principal objective of maximising shareholder value.

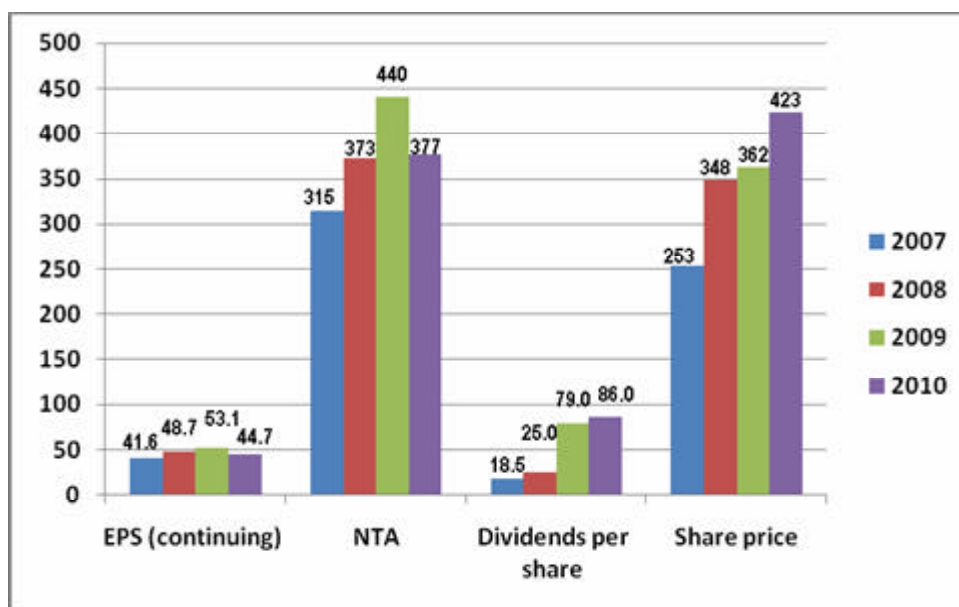
Overall, Lemtronics has established itself as a profitable, financially secure EMS company with competent and committed personnel, in a highly competitive, global market. It has built a strong niche base from which it must grow its business to obtain critical mass, and retain its competitive edge.

As stated previously, Lemarne’s result in 2009/2010 directly reflected the operating performance of Lemtronics. Profit before tax amounted to \$5.1 million and profit after tax totalled \$3.9 million. Shareholders’ funds totalled \$32.8 million with cash on deposit at 30 June 2010 totalling \$19.6 million. Earnings per share from continuing operations were 44.7 cents per share and the net tangible asset backing per share was \$3.77.

**Exhibit 8: Lemarne Group Financial Performance – Millions \$AUD**



**Exhibit 9: Lemarne Group Financial Performance – Cents per share**



Lemarne’s balance sheet remains ungeared and the company is financially secure.

Results in 2009 were significantly influenced by divestments and thus the 2010 results were substantially down on the previous year which included returns from units no longer in the Lemarne group.

The challenge facing Lemarne is how to grow its business in the future and continue to provide its shareholders with a superior market return whilst at the same time continuing its traditional conservative and minimal risk approach to investments.

One of the keys to Lemarne's future is to determine the appropriate strategy for its sole operating unit, Lemtronics. This project is in progress and its outcome will pave a way for Lemarne to actively consider:

- The return to its previous, successful charter of acquisitions of companies with growth potential, operating in niche markets,
- The exploitation of its strong balance sheet and capitalising on its loyal shareholder base to acquire a new business of substance, or
- The continued investment in its Lemtronics' business.

In 2010/2011, Lemarne's results will again directly reflect Lemtronics' operating performance. Lemtronics' revenue for the first half of 2010/2011 is expected to be approximately 10% up on last year whilst profits could be substantially down if the current exchange rates for the US\$ and Euro against the MYR do not move in a favourable direction. The continued increase in the value of the AUD against the MYR will also effect the future translation of Lemtronics' results.

Against this background, the company is taking action to ensure its shareholders continue to enjoy above market returns.

Peter Murphy  
Managing Director  
27 October 2010