



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

TO: Australian Stock Exchange
Company Announcements Office

FROM: S L Mason, Company Secretary

DATE: 31 January 2007

**RE: RESULTS FOR ANNOUNCEMENT TO THE MARKET FOR THE HALF
YEAR ENDED 31 DECEMBER 2006**

SUMMARY OF CONTENT OF ANNOUNCEMENT:

- Sales revenue (from continuing operations) up 18% to \$34.0 million.
- Sales growth of Electronics business up 33.7% for the half year.
- Underlying EBITDA (from continuing operations) up 40.2% to \$3.4 million.
- Underlying EBIT (from continuing operations) up 56.5% to \$2.6 million.
- Operating Profit After Tax (from continuing operations) up 146% to \$2.4m.
- Statutory Operating Profit After Tax (including discontinued operations) down 6.4% to \$2.4 million.
- Net Tangible Asset Backing per share \$2.89 up from \$2.50 as at 30 June 2006.
- Basic Earnings Per Share from continuing operations 17.2 cents up from 6.7 cents last year.
- Diluted Earnings Per Share from continuing operations 17.1 cents up from 6.6 cents last year.
- Interim Dividend declared of 8.5 cents per share (franked).
- Appendix 4D – Half Yearly Report including Directors' Report and Review of Operations

Full details of the announcement are attached.

S L Mason
Company Secretary

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[ASX release 31 December 2006 results]

Appendix 4D

Half yearly report

Name of entity

LEMARNE CORPORATION LIMITED

ABN or equivalent company reference

72 004 834 584

Half yearly (*tick*)

Half year ended ('current period')

31 DECEMBER 2006

Results for announcement to the market

			\$A'000
Revenues from ordinary activities	up /down	27 % to	35,109
Profit (loss) from ordinary activities after tax attributable to members	up /down	6 % to	2,355
Net profit (loss) for the period attributable to members	up /down	6 % to	2,355
Dividends (distributions)	Amount per security	Franked amount per security	
Interim dividend *	8.5¢	8.5¢	
Previous corresponding period	8.0¢	8.0¢	
	Current period \$A'000	Previous corresponding period - \$A'000	
+ Ordinary securities	* 806	1,153	
Total	806	1,153	
Record date for determining entitlement to dividend	16 March 2007		
<p>* The interim dividend will be paid on 23 March 2007. The interim dividend was declared after 31 December 2006 and is therefore not provided for in the accounts for the Half Year ended 31 December 2006.</p>			

This half year report is to be read in conjunction with the most recent annual financial report.

LEMARNE CORPORATION LIMITED A.B.N. 72 004 834 584 AND ITS CONTROLLED ENTITIES
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Note	2006 \$000	2005 \$000 * Restated
Continuing operations			
Revenue		34,044	28,856
Cost of sales		<u>(26,008)</u>	<u>(21,598)</u>
Gross Profit		8,036	7,258
Other operating income		387	30
Distribution expenses		(2,790)	(2,511)
Administrative expenses		(3,700)	(3,076)
Other operating expenses		<u>2</u>	<u>(81)</u>
Results from operating activities		1,935	1,620
Finance income		678	50
Finance expenses		<u>(85)</u>	<u>(151)</u>
Net finance costs		593	(101)
Profit before income tax		2,528	1,519
Income tax expense		<u>(173)</u>	<u>(562)</u>
Profit from continuing operations		<u>2,355</u>	<u>957</u>
Discontinued operation			
Profit from discontinued operation (net of tax)	2	<u>-</u>	<u>1,560</u>
Profit for the period		2,355	2,517
Attributable to:			
- Shareholders of the Company		<u>2,355</u>	<u>2,517</u>
Profit for the period		<u>2,355</u>	<u>2,517</u>
Earnings per share			
Basic earnings per share		17.2	17.5
Diluted earnings per share		17.1	17.4
Continuing operations			
- Basic earnings per share		17.2	6.7
- Diluted earnings per share		17.1	6.6

* Restated due to discontinued operations – refer note 2.

The income statement is to be read in conjunction with the condensed notes 1 to 11 to the consolidated interim financial statements.

LEMARNE CORPORATION LIMITED A.B.N. 72 004 834 584 AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF
RECOGNISED INCOME AND EXPENSE
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	31 Dec 2006 \$000	31 Dec 2005 \$000
Foreign exchange translation differences	<u>(193)</u>	<u>591</u>
Income recognised directly in equity	(193)	591
Profit for the period	<u>2,355</u>	<u>2,517</u>
Total recognised income and expense for the period	<u>2,162</u>	<u>3,108</u>
Attributable to:		
- Shareholders of the Company	<u>2,162</u>	<u>3,108</u>
Total recognised income and expense for the period	<u>2,162</u>	<u>3,108</u>

Other movements in equity arising from transactions with owners as owners are set out in note 7. The amounts recognised directly in equity are disclosed net of tax.

The statement of recognised income and expense is to be read in conjunction with the condensed notes 1 to 11 to the consolidated interim financial statements.

LEMARNE CORPORATION LIMITED A.B.N. 72 004 834 584 AND ITS CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	31 Dec 2006 \$000	30 June 2006 \$000
Current assets			
Cash and cash equivalents		12,741	27,615
Trade and other receivables		10,182	10,193
Inventories		7,505	6,982
Prepayments and deposits		394	355
Income tax refundable		128	-
TOTAL CURRENT ASSETS		<u>30,950</u>	<u>45,145</u>
Non-current assets			
Other investments		5,156	4,873
Property, plant and equipment	5	5,645	6,195
Deferred tax assets		403	306
Intangible assets		6,313	9,386
TOTAL NON-CURRENT ASSETS		<u>17,517</u>	<u>20,760</u>
TOTAL ASSETS		<u>48,467</u>	<u>65,905</u>
Current liabilities			
Bank overdraft		236	132
Trade and other payables		9,495	9,735
Loans and borrowings		2,683	2,242
Employee benefits		910	1,218
Income tax payable		-	122
Provisions		115	2,320
Deferred income		499	195
TOTAL CURRENT LIABILITIES		<u>13,938</u>	<u>15,964</u>
Non-current liabilities			
Loans and borrowings		260	387
Deferred tax liabilities		326	228
Employee benefits		239	224
Deferred consideration	6	-	3,000
TOTAL NON-CURRENT LIABILITIES		<u>825</u>	<u>3,839</u>
TOTAL LIABILITIES		<u>14,763</u>	<u>19,803</u>
NET ASSETS		<u>33,704</u>	<u>46,102</u>
Equity			
Issued capital	7	3,491	6,867
Reserves		(205)	(46)
Retained earnings	7	30,418	39,281
TOTAL EQUITY	7	<u>33,704</u>	<u>46,102</u>

The balance sheet is to be read in conjunction with the condensed notes 1 to 11 to the consolidated interim financial statements.

LEMARNE CORPORATION LIMITED A.B.N. 72 004 834 584 AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	31 Dec 2006 \$000	31 Dec 2005 \$000
Note		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	35,141	49,981
Cash paid to suppliers and employees	<u>(33,527)</u>	<u>(47,467)</u>
Cash generated from operations	1,614	2,514
Interest received	678	84
Interest paid	(85)	(250)
Income taxes paid	<u>(415)</u>	<u>(1,376)</u>
Net cash from operating activities	<u>1,792</u>	<u>972</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of intellectual property	-	100
Proceeds from sale of property, plant and equipment	57	34
Payments for costs of disposal of business/controlled entity	(70)	-
Acquisition of subsidiaries/business	-	(12)
Acquisition of property, plant and equipment	5 <u>(279)</u>	<u>(3,319)</u>
Net cash from investing activities	<u>(292)</u>	<u>(3,197)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	7 -	119
Share buy-back	7 (14,594)	-
Proceeds from borrowings	579	3,553
Repayment of borrowings	(264)	(357)
Dividends paid	<u>(2,201)</u>	<u>(1,153)</u>
Net cash from financing activities	<u>(16,480)</u>	<u>2,162</u>
Net (decrease) in cash and cash equivalents	<u>(14,980)</u>	<u>(63)</u>
Cash and cash equivalents at 1 July	27,483	7,208
Effect of exchange rate fluctuations on cash held	<u>2</u>	<u>3</u>
Cash and cash equivalents at 31 December	<u>12,505</u>	<u>7,148</u>

The statement of cash flows is to be read in conjunction with the condensed notes 1 to 11 to the consolidated interim financial statements.

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

1. Significant accounting policies
2. Discontinued operations
3. Dividends provided for or paid
4. Write-down of inventory
5. Property, plant and equipment
6. Deferred consideration
7. Capital and reserves
8. NTA backing
9. Segment reporting
10. Seasonality of operations
11. Subsequent events

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

Lemarne Corporation Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interests in associates and jointly controlled entities.

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available upon request from the Company's registered office at Level 1, 492 St Kilda Road, Melbourne, 3004 or at www.lemarne.com.au.

(b) Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006.

The consolidated interim financial report was approved by the Board of Directors on **29th January 2007**.

The consolidated entity is of a kind referred to in ASIC Class order 98/100 dated 10 July 1998 and in accordance with the Class order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(c) Significant accounting policies

Except as described below, the accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

In the prior financial year the consolidated entity adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005, as disclosed in the Reconciliation of movements in equity (note 7).

(d) Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2006.

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Estimates (cont)

During the six months ended 31 December 2006 management reassessed its estimates in respect of:

- Cashflow projections for cash generating units containing goodwill (Healthcare). The revised projections did not alter the net recoverable amount of the above cash generating unit.
- The deferred consideration relating to Lemarne's option to acquire the remaining 20% of shares it does not own in Lemarne Healthcare has been adjusted following re-assessment of its fair value based on the profitability of Lemarne Healthcare. Refer note 6.

2. DISCONTINUED OPERATIONS

On 28 February 2006, the consolidated entity sold its shares in Pacific Composites Pty Ltd, the reinforced plastics business segment.

The results of the discontinued operation for the six months ended 31 December 2005 are presented below:

	Discontinued Operations 2005 \$000
(i) <u>Financial performance information</u>	
Revenue	19,153
Cost of sales	(13,752)
Gross profit	5,401
Other income	249
Distribution expenses	(1,124)
Administrative expenses	(2,136)
Other operating expenses	(35)
Results from operating activities	2,355
Financial income	34
Financial expenses	(99)
Net financing (costs)/income	(65)
<i>Profit before income tax</i>	2,290
Income tax expense	(730)
<i>Profit from discontinued operations(net of tax)</i>	<u>1,560</u>
(ii) <u>Cash flow information</u>	
Net cash inflow from operating activities	2,689
Net cash (outflow) from investing activities	(2,112)
Net cash inflow from financing activities	<u>417</u>
<i>Net cash inflow</i>	<u>994</u>

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

	31 Dec 2006	31 Dec 2005
	\$000	\$000
3. <u>DIVIDENDS PROVIDED FOR OR PAID</u>		
The amounts paid, declared or provided for by way of dividend by the parent entity for the six months ended 31 December:		
In accounts		
- Nil (2005: 8.0 cents per share fully franked in respect of the year ended 30 June 2005 was paid on 21 October 2005 which was not provided for at 30 June 2005)	-	<u>1,153</u>
Not provided for in accounts		
- after the half year end an interim fully franked ordinary dividend of 8.5 cents per share (2005: 8 cents per share fully franked) has been declared payable on 23 March 2007	806	1,153
A portion of the share buy-back consisted of a fully franked deemed dividend of \$2.16 per share which was paid to shareholders on 30 November 2006. Refer note 7.		
4. <u>WRITE-DOWN OF INVENTORY</u>		
During the six months ended 31 December 2006 the consolidated entity did not write-down any finished goods and raw material inventories.		
The inventory write-down for the six month period ended 31 December 2005 was \$144,000 which was offset against existing provisions.		
5. <u>PROPERTY, PLANT AND EQUIPMENT</u>		
<u>Acquisitions and disposals</u>		
During the six months ended 31 December 2006, the consolidated entity acquired assets with a cost of \$279,293 (six months ended 31 December 2005: \$3,724,741).		
No assets were acquired through business combinations (six months ended 31 December 2005: Nil).		
Assets with a net book value of \$47,081 were disposed of during the six months ended 31 December 2006 (six months ended 31 December 2005: \$30,983), resulting in a net gain on disposal of \$9,992 (six months ended 31 December 2005: gain of \$2,876).		
<u>Capital commitments</u>		
The estimated maximum amount of capital commitments not provided for in the interim financial report of the group as at 31 December 2006 are set out below:		
Due: Within one year	<u>389</u>	<u>-</u>

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

	31 Dec 2006 \$000	30 June 2006 \$000
6. <u>DEFERRED CONSIDERATION</u>	<u>-</u>	<u>3,000</u>

Lemarne has an option to acquire the remaining 20% of the shares that it does not own in Lemarne Healthcare for a consideration of \$3 million if it exercises its call option prior to 1 July 2007. The minority interest holder also has a put option to sell this interest to Lemarne on or after 1 July 2007.

If either the put or call option is exercised on or after 1 July 2007 the purchase price will depend on the profitability of Lemarne Healthcare Pty Ltd for the previous two completed financial years of the company.

7. CAPITAL AND RESERVES

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

Consolidated

	Note	Share capital \$000	Trans- lation reserve \$000	Options granted reserve \$000	Retained earnings \$000	Total equity \$000
Balance at 1 July 2006		6,867	(408)	362	39,281	46,102
Total recognised income and expense		-	(193)	-	2,355	2,162
Share based payments		-	-	34	-	34
Share buy back		<u>(3,376)</u>	<u>-</u>	<u>-</u>	<u>(11,218)</u>	<u>(14,594)</u>
Balance at 31 December 2006		<u>3,491</u>	<u>(601)</u>	<u>396</u>	<u>30,418</u>	<u>33,704</u>

Lemarne share buy-back

The Lemarne share buy back was effected on 20 November 2006 at a price of \$2.81 per share and was originally composed of 54 cents capital and \$2.27 deemed dividend based on the draft ATO ruling.

In December 2006, the ATO advised that the indexation component of the buy-back price of 11 cents, should be treated as a capital component of the price as opposed to dividend. Thus, the ATO has now determined that the composition of the buy-back price per share should be 65 cents capital and \$2.16 deemed dividend. The Lemarne Board of Directors has accepted the ATO's decision regarding the allocation of the capital (65 cents) and deemed dividend component (\$2.16) of the share buy back and the half year accounts have been prepared on this basis. New buy back statements will be issued to shareholders following receipt of the final Class ruling from the ATO, to replace those issued to shareholders on 30 November 2006.

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

7. CAPITAL AND RESERVES (CONTINUED)

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

Consolidated

	Note	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		-	591	-	-	2,517	3,108	-	3,108
Share based payments		-	-	115	-	-	115	-	115
Shares issued		119	-	-	-	-	119	-	119
Dividends to Shareholders	3	-	-	-	-	(1,153)	(1,153)	-	(1,153)
Balance at 31 December 2005		<u>6,306</u>	<u>(1,112)</u>	<u>506</u>	<u>-</u>	<u>33,265</u>	<u>38,965</u>	<u>-</u>	<u>38,965</u>

Share capital

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

For the six months ended 31 December 2006

	Share Capital	
	31 Dec 2006	30 June 2006
	\$000	\$000
Issue of ordinary shares from the exercise of options under the Key Executive Option Plan	<u>-</u>	<u>680</u>
	Ordinary Shares	
	31 Dec 2006	30 June 2005
	No.	No.
On issue at 1 July	14,674,977	14,338,727
Issued for cash	-	336,250
Share buy-back	<u>(5,193,763)</u>	<u>-</u>
On issue at 31 December 2006 (30 June 2006) fully paid	<u>9,481,214</u>	<u>14,674,977</u>

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

7. CAPITAL AND RESERVES (CONTINUED)

Issued and paid up capital

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

On 28 November 2006 the Company cancelled 5,193,763 ordinary shares pursuant to an off market share buy-back approved by shareholders. The capital portion of the share buy-back was 65 cents per share (previously 54 cents) following a change in the ATO's advice regarding the allocation of the revenue and capital component. Refer also to the subsequent events note.

On 1 November 2002, after approval by shareholders at the AGM, 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 30 June 2006, C10 Communications Pty Ltd granted options over 460,000 unissued shares under the Subsidiary Executive Option Plan No.5 approved by shareholders to an executive of C10 Communications Pty Ltd. In the event that C10 Communications Pty Ltd is not listed on the Australian Stock Exchange, the option holder is entitled to shares in Lemarne Corporation Limited. As the conversion formula is based on the increase in value of C10 Communications Pty Ltd and in particular its results for the three year period 2007-2009, it is not yet possible to estimate the number of shares (if any) the option holder will be entitled to. The options may be exercised for a period of three months from 30 June 2009.

8. NTA BACKING

	31 December 2006	30 June 2006
Net tangible asset backing per ordinary security	<u>\$2.89</u>	<u>\$2.50</u>

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

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. This segment was sold on 28 February 2006 and is shown as a discontinued operation.
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	Sales offices or Molescan clinics in all states. Manufacturing facilities in Melbourne and Brisbane (discontinued operations).
Asia	Manufacturing facilities for telecommunication and electronic equipment products. Manufacturing facilities for reinforced plastics and customers for reinforced plastic products (discontinued operations).
Europe	Customers, sales and technical support offices for electronic equipment. Manufacturing facilities and sales offices for reinforced plastic products (discontinued operations).
North America	Customers for electronic equipment.

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

9. SEGMENT REPORTING (CONTINUED)

Primary reporting

Business Segments	Continuing Operations												Discontinued 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	23,523	17,435	3,813	4,025	6,708	7,396	-	-	-	-	34,044	28,856	-	19,153	34,044	48,009
Inter-segment revenue	-	158	-	-	-	-	-	-	-	(158)	-	-	-	-	-	-
Other revenue	32	23	47	-	8	7	10,072	777	(9,772)	(777)	387	30	-	250	387	280
Total segment revenue	23,555	17,616	3,860	4,025	6,716	7,403	10,072	777	(9,772)	(935)	34,431	28,886	-	19,403	34,431	48,289
Segment result																
Results from operating activities	1,471	(73)	(270)	135	871	1,714	(137)	(156)	-	-	1,935	1,620	-	2,355	1,935	3,975
Net financing costs	-	-	-	-	-	-	593	(101)	-	-	593	(101)	-	(65)	593	(166)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(173)	(1,292)
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,355	2,517
Depreciation and amortisation	371	333	305	320	92	78	6	15	-	-	774	746	-	414	774	1,160
Non-cash expenses other than depreciation and amortisation	238	148	49	42	35	42	56	(20)	-	-	378	212	-	537	378	749
Individually significant items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventory write-down	-	63	-	-	-	6	-	-	-	-	-	69	-	75	-	144

**LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
31 DECEMBER 2006 INTERIM FINANCIAL REPORT**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

10. SEASONALITY OF OPERATIONS

In the opinion of the Directors, the consolidated entity's operations are not subject to seasonal fluctuations.

11. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Lemarne share buy-back

Following the ATO's determination to change the allocation of capital component to 65 cents (previously 54 cents) and revenue component to \$2.16 (previously \$2.27), Lemarne has amended its accounts accordingly, but is currently awaiting the final class ruling from the ATO.

Following receipt of the final class ruling, new buy-back statements will be issued to Shareholders to reflect the revised allocation of the buy-back price.

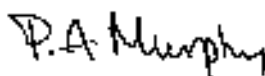
DIRECTORS' DECLARATION

In the opinion of the directors of Lemarne Corporation Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 2 to 15, are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows, for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 31st day of January 2007.

Signed in accordance with a resolution of the directors.


P.A. MURPHY

: Directors


S.L. MASON



Independent auditor's review report to the members of Lemarne Corporation Limited

We have reviewed the accompanying half-year financial report of Lemarne Corporation Limited which comprises the balance sheet as at 31 December 2006, and the consolidated interim income statement, statement of changes in recognised income and expense and cash flow statement for the half-year ended on that date, a statement of accounting policies, other explanatory notes [2 to 11] and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Lemarne Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lemarne Corporation Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of their performance for the half-year ended on that date; and
- (b) complying with Australian Accounting AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Mitch Craig

Partner

Melbourne

31 January 2007

Directors' Report

The directors have pleasure in presenting their report together with the consolidated financial report for the half-year ended 31 December 2006 and the review report thereon.

1. Directors

The directors of Lemarne Corporation Limited in office during or since the end of the half-year are:

Edward Brian Noxon, B Sc (Eng), FIE Aust, FAIM
Managing Director from 1979 to 1999 and from August 2001 to March 2002.
Chairman since 1987.
Director of National Can Industries Limited since 2000 and Chairman since January 2005.
Age 68.

Peter Geoffrey Davenport, MA, MIEE
Director since 1981
Previously electrical/electronics engineer and management consultant
Age 69.

John Campbell Larking, MB ChB, MRCOG, FRACOG
Director since 1986
Age 67.

Stephen Leslie Mason, BComm., LLB, FCPA, FCIS
Director since 1997
Finance Director and Group Company Secretary
Age 54.

Peter Anthony Murphy, B.Sc(Hon)
Appointed Managing Director 31 March 2006
Age 62.

All directors held office for the entire period.

2. Review of operations

A brief overview of the operations of the Group's subsidiaries, Lemtronics Sdn Bhd ("Lemtronics"), C10 Communications Pty Ltd ("C10") and Lemarne Healthcare Pty Ltd ("Lemarne Healthcare") follows:

Lemtronics

Lemtronics revenue and operating profit before tax was significantly ahead of the results achieved in the corresponding period last year.

The restructuring carried out by the new management team since July 2006, with the focus firmly placed on servicing customers, has resulted in a significant improvement in the company's performance. Operating costs have been reduced, margins improved and these activities coupled with an increase in revenue of nearly 34%, compared to the corresponding period in the previous year, has resulted in significant turnaround in the company's profit and cash generation.

2. Review of operations (cont.)

Lemtronics will continue to invest in its engineering capabilities and enhance its focus on the development of innovative products for its key core customers. Initiatives are also being taken to strengthen its supply chain to cope with the continuing increase in costs of electronics components, which reflect the competitive nature of the worldwide electronic industry.

Overall, Lemtronics has made significant progress in the last six months, and assuming there are no adverse changes in currencies, the company should continue to increase its revenue and operating profit for the remainder of this financial year.

Lemarne Healthcare Pty Ltd

Molescan experienced challenging trading conditions in the period July - December 2006 with the market for skin cancer detection and treatment remaining competitive and fragmented.

Against this background, Molescan has continued to invest in programmes to enhance the knowledge and capability of the Molescan doctors in the detection and treatment of skin cancers; which constitutes the largest proportion of clinical cancers in the Australian population. Initiatives taken in this area include the involvement of Molescan doctors in the Masters of Medicine (Primary Care Skin Cancer Medicine) conducted by the University of Queensland as well as the continued upgrading of the advanced diagnostic equipment used in Molescan clinics located throughout Australia.

New clinics will be opened in the third quarter of this year in Western Australia and Tasmania and plans are proceeding to open further clinics in Victoria and New South Wales.

Patient numbers are increasing, reflecting the significant investment made by the Government in informing the Australian public of the potential damage through excess exposure to the sun, and specific Molescan marketing programmes.

Molescan has yet to realise the benefits of the investment it has made in its operations and it expects challenging trading conditions will remain for the second half of this financial year.

Australian Dermatopathology Laboratory (ADL) continues to grow its business and its operations are both profitable and efficient. Strategies within Lemarne Healthcare are being finalised to further grow ADL's business and expand its activities with medical practitioners specialising in the detection and treatment of skin cancers.

C10 Communications

The C10 Communications' Products Business had a successful first half of the 2006/07 financial year and has gained new business for its broadband products in the Australian Telecommunications market.

Lemarne continues to invest in the ValueNet business and operating costs for the first half have risen due to recruitment of additional sales and engineering executives and the appointment of specialist systems integrators in Victoria and New South Wales. Costs are expected to rise further in the second half as additional staff are employed to further strengthen its sales and marketing operations.

Recently, ValueNet has gained a number of large, hosted VOIP customers and this will assist in building ValueNet into a growing and profitable business in 2007/08.

Overall, C10 is expected to operate profitably for the second half of this financial year which will facilitate the continued investment in its ValueNet operations with the objective of establishing a strong customer base for delivering future recurrent revenue and profits.

2. Review of operations (cont.)

Overall

Lemarne's net operating profit before tax for the July - December 2006 period, (excluding the contribution from Pacific Composites) was significantly ahead (66%) of the same period last year with sales revenue growth in the order of 18%. The share buy back was successfully concluded in November 2006 and the majority of shareholders participated in the scheme. Negotiations with Exel are continuing and it is expected that they will be concluded shortly.

The company has built a strong balance sheet and with profitable trading forecast for the second half of the year, the company is well placed to accelerate its growth in 2007/08.

Dividend

An interim fully franked dividend of 8.5 cents per share (8 cents per share last year) has been declared, payable on 23 March 2007 to those shareholders registered at the close of business on 16 March 2007.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

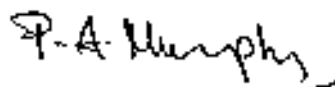
The lead auditor's independence declaration is set out on page 21 and forms part of the directors' report for the half-year ended 31 December 2006.

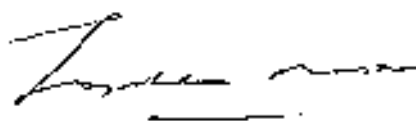
3. Rounding off of amounts

The consolidated entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Melbourne this 31st day of January 2007.

Signed for and on behalf of the board in accordance with a resolution of directors


P.A. MURPHY (Director)


S.L. MASON (Director)



**Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to
the directors of Lemarne Corporation Limited**

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31
December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in
relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Mitch Craig
Partner

Melbourne

31 January 2007