

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 2004

Results for announcement to the market

			\$A'000
Revenues from ordinary activities	up/ down	17% to	36,045
Profit (loss) from ordinary activities after tax attributable to members	up/ down	193% to	2,652
Net profit (loss) for the period attributable to members	up/ down	193% to	2,652
Dividends (distributions)	Amount per security	Franked amount per security	
Interim dividend *	8.0¢	8.0¢	
Previous corresponding period	5.0¢	5.0¢	
	Current period \$A'000	Previous corresponding period - \$A'000	
+ Ordinary securities	* 1,143	890	
Total	1,143	890	
†Record date for determining entitlements to the dividend,		18 March 2005	
* The interim dividend was declared after 31 December 2004 and is therefore not provided for in the accounts for the Half Year ended 31 December 2004.			

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
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	Consolidated	
	2004	2003
	\$000	\$000
Revenue from sale of goods	34,107	29,982
Revenue from the rendering of services	<u>1,071</u>	<u>-</u>
	35,178	29,982
Cost of goods sold/provision of services	(25,947)	(22,105)
Gross Profit	9,231	7,877
Other revenues from ordinary activities	868	714
Selling and distribution expenses	(2,203)	(2,135)
Administration expenses	(4,098)	(4,382)
Borrowing costs	(79)	(50)
Other expenses from ordinary activities	(329)	(98)
Profit/(loss) from ordinary activities before income tax expense	3,390	1,926
Income tax (expense)/benefit	(729)	(625)
Profit/(loss) from ordinary activities after income tax expense	2,661	1,301
Net profit/(loss) attributable to outside equity interests	<u>9</u>	<u>396</u>
Net profit/(loss) attributable to members of the parent entity	2,652	905
Non-owner transaction changes in equity		
Increase/(decrease) in asset revaluation reserve	-	(34)
Net exchange difference on translation of financial statements of self- sustaining foreign operations	(1,634)	(840)
Total revenues, expenses and valuation adjustments attributable to members of the parent entity recognised directly in equity	(1,634)	(874)
Total changes in equity other than those resulting from transactions with owners as owners	<u>1,018</u>	<u>31</u>
Basic earnings per share (cents)	17.8	6.1
Diluted earnings per share (cents)	17.5	6.1

The statement of financial performance is to be read in conjunction with notes 1 to 10 to the half-year financial statements.

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2004

	Note	31 December 2004 \$000	Consolidated 30 June 2004 \$000
Current assets			
Cash assets		4,312	25,068
Receivables		11,640	11,087
Inventories		9,894	9,875
Other assets		<u>556</u>	<u>296</u>
TOTAL CURRENT ASSETS		<u>26,402</u>	<u>46,326</u>
Non-current assets			
Property, plant and equipment		13,118	11,153
Deferred tax assets		483	480
Intangibles		<u>14,340</u>	<u>347</u>
TOTAL NON-CURRENT ASSETS		<u>27,941</u>	<u>11,980</u>
TOTAL ASSETS		<u>54,343</u>	<u>58,306</u>
Current liabilities			
Payables		9,550	10,567
Interest bearing liabilities		2,922	172
Current tax liabilities		944	664
Provisions		905	1,104
Other liabilities		<u>-</u>	<u>28</u>
TOTAL CURRENT LIABILITIES		<u>14,321</u>	<u>12,535</u>
Non-current liabilities			
Interest bearing liabilities		478	204
Deferred tax liabilities		625	670
Provisions		631	592
Other liabilities		<u>51</u>	<u>57</u>
TOTAL NON-CURRENT LIABILITIES		<u>1,785</u>	<u>1,523</u>
TOTAL LIABILITIES		<u>16,106</u>	<u>14,058</u>
NET ASSETS		<u>38,237</u>	<u>44,248</u>
Equity			
Contributed equity	4	6,120	11,434
Reserves		849	1,683
Retained profits	5	<u>29,060</u>	<u>31,131</u>
TOTAL PARENT ENTITY INTERESTS		36,029	44,248
Outside equity interests in controlled entities		<u>2,208</u>	<u>-</u>
TOTAL EQUITY		<u>38,237</u>	<u>44,248</u>

The statement of financial position is to be read in conjunction with notes 1 to 10 to the half-year financial statements.

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

**Statement of Cash Flows
For the Half Year Ended 31 December 2004**

	Consolidated	
	2004	2003
	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts in the course of operations	38,360	34,938
Cash payments in the course of operations	(37,076)	(31,432)
Interest received	386	640
Borrowing costs paid	(79)	(50)
Income tax paid	<u>(592)</u>	<u>(247)</u>
Net cash provided by operating activities	<u>999</u>	<u>3,849</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of intellectual property	100	-
Proceeds from sale of plant and equipment	58	23
Payments for controlled entities/business purchased	(12,644)	(99)
Payments for costs of disposal of business/controlled entity	(17)	(352)
Payments for plant and equipment	<u>(1,541)</u>	<u>(2,179)</u>
Net cash provided by/(used in) investing activities	<u>(14,044)</u>	<u>(2,607)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	144	-
Payment for share buy-back	(9,109)	(6,002)
Proceeds from borrowings	2,107	207
Repayment of borrowings	(182)	(131)
Dividends paid - members of parent entity	(1,072)	(992)
Dividends paid - outside equity interests	<u>-</u>	<u>(382)</u>
Net cash provided by/(used in) financing activities	<u>(8,112)</u>	<u>(7,300)</u>
Net increase/(decrease) in cash held	<u>(21,157)</u>	<u>(6,058)</u>
Cash at the beginning of the financial year	25,068	31,468
Exchange rate adjustments	(212)	(72)
Cash introduced on the acquisition of a controlled entity	<u>355</u>	<u>-</u>
Cash at the end of the period	<u>4,054</u>	<u>25,338</u>

The statement of cash flows is to be read in conjunction with notes 1 to 10 to the half-year financial statements.

RECONCILIATION OF CASH

Cash includes cash on hand and at bank and short term deposits at call, net of bank overdrafts. Cash at the end of the half year as shown in the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:

Cash	4,312	5,047
Short term deposits	-	20,948
Bank overdraft	<u>(258)</u>	<u>(657)</u>
	<u>4,054</u>	<u>25,338</u>

LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1. Statement of significant accounting policies
2. Profit/(loss) from ordinary activities
3. Dividends provided for or paid
4. Contributed equity
5. Retained profits
6. NTA Backing
7. Contingent liabilities and contingent assets
8. Segment reporting
9. Acquisition of controlled entities
10. Events subsequent to balance date

LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1. **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of preparation of half-year financial report**

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting". The recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 30 June 2004 Annual Financial Report and any public announcements by Lemarne Corporation Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those applied in the 30 June 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

(b) **Changes in accounting policies**

There are no material changes in accounting policies for the half year ended 31 December 2004.

LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	Consolidated	
	2004	2003
	\$000	\$000
2. <u>PROFIT FROM ORDINARY ACTIVITIES</u>		
(a) Individually significant items included in profit from ordinary activities before income tax expense:		
Bad and doubtful debts expense	-	474
Provision for write down of inventories	-	455
3. <u>DIVIDENDS PROVIDED FOR OR PAID</u>		
The amounts paid, declared or provided for by way of dividend by the parent entity are:		
(i) a final fully franked dividend at 30% of 7.5 cents per share (2003: 7.5 cents per share fully franked) in respect of the year ended 30 June 2004 was paid on 22 October 2004 which was not provided for at 30 June 2004	<u>1,072</u>	<u>992</u>
(ii) after the half year end an interim fully franked ordinary dividend of 8 cents per share (2003: 5 cents per share fully franked) has been declared payable on 24 March 2005	<u>1,143</u>	<u>890</u>
4. <u>CONTRIBUTED EQUITY</u>	31 December 2004	30 June 2004
<u>Issued and paid up capital</u>		
14,293,727 (2003 – 17,808,333) ordinary shares fully paid	<u>6,120</u>	<u>11,434</u>
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
Balance at the beginning of the half year	11,434	4,574
Share buy-back: 3,614,606 shares (2004: 3,306,369)	(5,458)	(3,670)
Shares issued: 100,000 from the exercise of options under the Key Executive Option Plan (2004: 4,578,236 pursuant to takeover of Lemvest Limited)	<u>144</u>	<u>10,530</u>
	<u>6,120</u>	<u>11,434</u>

LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

4. CONTRIBUTED EQUITY (CONTINUED)

Issued and paid up capital (cont.)

On 2 August 2004 the Company cancelled 3,614,606 ordinary shares pursuant to an off market share buy-back approved by shareholders. The capital portion of the share buy-back was \$1.51 per share.

On 13 October 2004, 100,000 options issued under the Key Executive Option Plan No.4 were exercised at a price of \$1.44 each totalling \$144,000.

Lemarne Corporation Limited's share price at 31 December 2004 was \$2.50 (30 June 2004: \$2.21).

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. These expired on 28 January 2005. 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, 100,000 of these options were exercised on 13 October 2004. 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 that 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 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.

5. RETAINED PROFITS

	Consolidated	
	2004	2003
	\$000	\$000
Balance at beginning of half year	31,131	31,820
Net profit/(loss) attributable to members of the parent entity	2,652	905
Dividends	(1,072)	(992)
Share buy-back *	<u>(3,651)</u>	<u>(2,281)</u>
Balance at end of half year	<u>29,060</u>	<u>29,452</u>

* In relation to the share buy-back, the deemed dividend was \$1.01 per share on the 3,614,606 shares bought back.

6. NTA BACKING

	31 December	30 June
	2004	2004
Net tangible asset backing per ordinary security	<u>\$1.52</u>	<u>\$2.47</u>

LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

Consolidated	
31 December	30 June
2004	2004
\$000	\$000

7. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Other than as set out below, there were no material changes in contingent liabilities or contingent assets since 30 June 2004.

Contingent liabilities

In respect of related entities:

(a) Unlimited guarantee by the parent entity of bank accommodation of controlled entities	2,258	172
(b) In respect of letters of credit established by controlled entities which are payable to the bank	11	11

Service agreements

The maximum contingent liability of the Company and its subsidiaries for termination benefits under service agreements with directors and persons who take part in the management of the Company as at balance date

	726	693
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8. 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.

LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

8. **SEGMENT REPORTING (CONTINUED)**

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.
Telecommunication products	ISDN access products, filters and telephone accessories. Provision of voice over internet protocol services to small to medium sized businesses.

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 and Brisbane and Molescan Clinics in most states.
Asia	Manufacturing facilities for telecommunication and electronic equipment products. Customers for reinforced plastic products.
Europe	Manufacturing facilities and sales offices for reinforced plastic products. Customers, sales and technical support offices for electronic equipment.
North America	Customers for reinforced plastics and electronic equipment.

LEMARNE CORPORATION LIMITED AND ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2004

8. SEGMENT REPORTING (CONTINUED)

<u>Primary reporting</u>	Electronics		Reinforced plastics		Telecommunication products		Healthcare		Unallocated		Eliminations		Consolidated	
<u>Business segments</u>	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
External sales revenue	14,418	12,815	15,319	14,407	4,370	2,760	1,071	-	-	-	-	-	35,178	29,982
Inter-segment revenue	269	415	-	-	-	-	-	-	-	-	(269)	(415)	-	-
Other revenue	352	6	177	7	4	41	-	-	939	1,747	(604)	(1,087)	868	714
Total segment revenue	15,039	13,236	15,496	14,414	4,374	2,801	1,071	-	939	1,747	(873)	(1,502)	36,046	30,696
Result														
Profit/(loss) from ordinary activities before income tax	1,137	623	1,389	760	562	468	150	-	152	75	--	-	3,390	1,926
Income tax (expense)/benefit													729	625
Profit/(loss) from ordinary activities after income tax													2,661	1,301
Depreciation and amortisation	305	316	420	417	51	35	144	-	45	43	-	-	965	811
Non-cash expenses other than depreciation and amortisation	2	968	534	297	34	77	(11)	-	21	(7)	-	-	580	1,335
Inventory write-down	-	256	-	162	-	37	-	-	-	-	-	-	-	455
Bad and doubtful debts	(287)	474	70	4	-	20	-	-	-	-	-	-	(217)	498

9. **ACQUISITION OF CONTROLLED ENTITIES**

During the period the consolidated entity established the company, Lemarne Healthcare Pty Ltd, to acquire the business and intellectual property of Molescan Australia together with the shares of Australian Dermatopathology Laboratory Pty Ltd.

Acquisition 2004	Date established/acquired	Consolidated entity's interest	Contribution to consolidated net profit \$000
Lemarne Healthcare Pty Ltd	26/10/2004	80%	<u>42</u>
<u>Controlled entities</u>			
Molescan Australia Pty Ltd	15/11/2004		
Australian Dermatopathology Laboratory Pty Ltd	15/11/2004		

Lemarne has an option to acquire the remaining 20% of the shares that it does not own in Lemarne Healthcare for a minimum consideration of \$3 million.

On 5 July 2004, C10 Communications Pty Ltd acquired the ValueNet business and assets for \$160,000 plus possible 'earn out' capped at \$130,000. The contribution from this business to the consolidated profit before tax from ordinary activities during the period was a loss of \$379,000.

10. **EVENTS SUBSEQUENT TO BALANCE DATE**

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.

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting standards (IFRS) as issued by the Australian Accounting Standards Board.

The financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between the finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

10. **EVENTS SUBSEQUENT TO BALANCE DATE (CONTINUED)**

International Financial Reporting Standards (cont)

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value
- income tax will be calculated based on the “balance sheet” approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity
- goodwill and intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised
- impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired
- equity-based compensation in the form of shares and options will be recognised as expenses in the period during which the employee provides related services
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

The board has established a project, monitored by the audit committee, to achieve transition to IFRS reporting, beginning with the half year ended 31 December 2005. The Company’s implementation project consists of three phases as described below.

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS

The Company is currently completing the assessment and planning phase. The key differences in accounting policies and disclosures have been identified, however the impact on the financial statements has not been quantified.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS
- developing revised IFRS disclosures
- designing accounting and business processes to support IFRS reporting obligations
- identifying and planning required changes to financial reporting and business source systems
- developing training programs for staff.

The Company has not commenced its design phase. The design phase is expected to be completed during the upcoming financial year.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

10. **EVENTS SUBSEQUENT TO BALANCE DATE (CONTINUED)**

Implementation phase (cont.)

Except for certain training that has been given to head office staff, the Company has not yet commenced the implementation phase. However, the Company expects this phase to be substantially complete by 30 June 2005.

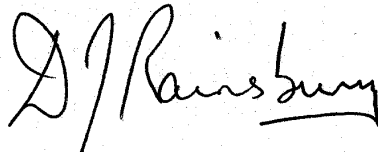
DIRECTORS' DECLARATION

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

- (a) the financial statements and notes, set out on pages 2 to 14, are in accordance with the Corporation Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2004 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 1029 "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.

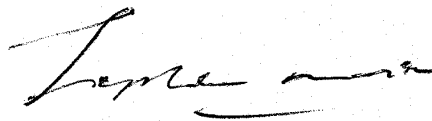
Dated at Melbourne this 14th day of February 2005.

Signed in accordance with a resolution of the directors.



D.J. RAINSBURY

: Directors



S.L. MASON



Independent review report to the members of Lemarne Corporation Limited

Scope

We have reviewed the financial report of Lemarne Corporation Limited ("the Company") for the half-year ended 31 December 2004, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 10 and the directors' declaration set out on page 15. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year. The Company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

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:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

KPMG

M M Craig
Partner

Melbourne
14 February 2005



Directors' Report

The directors have pleasure in presenting their report together with the consolidated financial report for the half-year ended 31 December 2004 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 from 1987 to March 2002. Non-executive Chairman since March 2002.
Director of National Can Industries Limited since 2000.
Chairman of Lemvest Limited from 1987 to March 2002 and non-executive Chairman of Lemvest Limited since March 2002.
Age 66.

Peter Geoffrey Davenport, MA, MIEE
Director since 1981
Director of Lemvest Limited
Previously electrical/electronics engineer and management consultant
Age 67.

John Campbell Larking, MB ChB, MRCOG, FRACOG
Director since 1986
Director of Lemvest Limited
Age 65.

Stephen Leslie Mason, BComm., LLB, FCPA, FCIS
Director since 1997
Finance Director and Group Company Secretary
Age 52.

Darryl Jeffrey Rainsbury, BBus, MBA, FCPA, FCIS
Managing Director since March 2002
Managing Director of Lemvest Limited and former Managing Director of Screenex Australia Pty Ltd and Richardson Pacific Limited.
Age 47.

Messrs E.B. Noxon, P.G. Davenport, J.C. Larking, D.J. Rainsbury and S.L. Mason held office for the entire period.

2. Review of operations

The Group's three continuing subsidiaries, Pacific Composites Pty Ltd ("Pacific Composites"), Lemtronics Sdn Bhd ("Lemtronics") and C10 Communications Pty Ltd ("C10") have all reported healthy profit improvements in the six months ended 31 December 2004. While the Group's newest subsidiary, Lemarne Healthcare Pty Ltd, which was established on 15 November 2004 has performed to expectations during the final period of the first half. A brief overview of the operation of these subsidiaries follows.

2. Review of operations (cont.)

Pacific Composites

Globally, Pacific Composites' net profit performance for the six months ended 31 December 2004 was 80% above that achieved in the corresponding period last year.

Our UK based composite operations experienced a patchy first half, however results in the second half are expected to show significant improvement. Results from research and development projects with industry partners and the development of new product opportunities are showing benefits, the results of which are expected to be apparent in coming months.

Our Australian operations produced a sound result in the first half, assisted by the completion of a large export contract and a higher level of demand from our traditional customer base. The third quarter order book is strong and expected demand from the telecommunications sector promises to provide a sound base for the second half.

Recent confirmation of the establishment of a wind turbine blade plant in Portland is a further positive development for the Australian composite industry. Given our strong position in this market in Europe, management believes that Pacific Composites is well placed to become an important component supplier to that installation in future years.

As part of our future growth strategy, management is currently progressing plans to establish a manufacturing operation in China. This initiative is being taken to supplement the services Pacific Composites offers globally via a lower cost Asian manufacturing base, which will also enable the company to capture a share of the growing demand for composites both in China and more broadly in S.E. Asia. The facility is planned to be operational early in the 2005/06 financial year.

Lemtronics

Lemtronics had a good first half showing solid underlying revenue and profit growth, favourably impacted by the resolution of two long-standing collection issues. Several new customers were gained and these projects will go through the early engineering and introduction phase in the second half of the year with full revenue expected to flow in the next financial year. Lemtronics' increasing focus on development and engineering solutions is starting to bear fruit, however, due to the nature of the EMS industry this will not show positive results until next year at the earliest.

The outlook for 2004/05 is for profit growth over the previous year. However, Lemtronics is under pressure from its customer base to reduce costs, which is now a constant consideration for management. The continuing volatility of the currency markets and relative strength of the Australian dollar continues to effect results.

C10 Communications ("C10")

C10's results for the first half are ahead of budget. This result has benefited from delays in ramping up the new ValueNet business and improved sales performance in C10's existing product business

ValueNet was acquired in July 2004 as a start-up business and during the first six months has established the necessary infrastructure to support its planned business model. Delays in recruiting staff with appropriate experience has resulted in budgeted revenue and costs being delayed around three months.

ValueNet has been successful in signing key distribution agreements and will commence supporting commercial services from February 2005. It is expected ValueNet will be able to validate management's initial budget projections by the fourth quarter of this year.

The established products business of C10 has performed well in the first half being ahead of budget. This achievement has been driven primarily by the growing demand for broadband services in Australia. Management expects this to continue in the second half.

C10's results for the 2004-05 year are expected to be approximately half that achieved last year, after allowing for the costs associated with establishing the ValueNet business in the current year. This investment in ValueNet is expected to establish a future revenue stream with ongoing growth potential, which is expected to commence making a positive contribution in the second half of the 2005/06 financial year.

2. Review of operations (cont.)

Acquisition of Molescan Australia Pty Ltd

Molescan and its associated services have largely traded in line with expectation in the 1½ months they have been part of the Group.

The acquisition is now largely “bedded down” with no noticeable disruption to the business.

Since the acquisition two new Skin Cancer Clinics have been opened with further openings planned in coming months. In addition, steps are being taken to strengthen this subsidiary’s senior management team with some key new appointments imminent.

Overall

Lemarne’s net profit after tax attributable to members for the six months ended 31 December 2004 was \$2.65 million. This achievement is pleasing in that it represents a 193% increase over the corresponding period in 2003 and has been achieved by increased contributions from all the Group’s subsidiaries.

Management remains focused on pursuing a number of profitable growth opportunities currently available to subsidiaries. However, as previously advised, a softening in some market segments is anticipated, while investment and start-up costs associated with the establishment of the ValueNet business and the growth of Lemarne Healthcare will impact results in the second half.

The above factors, and those outlined in the Review of Operations are forecast to dampen profits in the second half of 2004/05. However, in the absence of any unforeseen circumstances and significant adverse currency movements, Lemarne’s profit after tax for the full year is anticipated to be well ahead of that achieved in 2003/04.

Dividend

An interim fully franked dividend of 8.0 cents per share (5 cents per share last year) has been declared, payable on 24 March 2005 to those shareholders registered at the close of business on 18 March 2005.

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

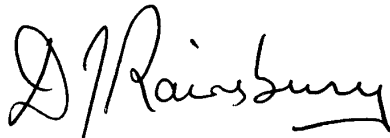
The lead auditor’s independence declaration is set out on page 20 and forms part of the directors’ report for the half-year ended 31 December 2004.

3. Rounding off of amounts

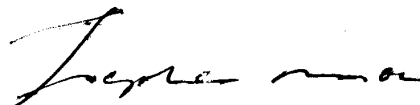
The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Melbourne this 14th day of February 2005.

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



D.J. RAINSBURY (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 2004 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

M M Craig
Partner

Melbourne

14 February 2005

