Appendix 4D

Half yearly report

Name of entity

LEMARNE CORPORATION LIMITED

ABN or equivalent company reference	Half yearly *(tick)*	Half year ended ('current period')
72 004 834 584	√	**31 DECEMBER 2005**

Results for announcement to the market

				$A'000
Revenues from ordinary activities	up/~~down~~	34%	to	48,373
Profit (loss) from ordinary activities after tax attributable to members	~~up~~/down	0%	to	2,517
Net profit (loss) for the period attributable to members	~~up~~/down	0%	to	2,517

Dividends (distributions)	Amount per security	Franked amount per security
Interim dividend *	8.0¢	8.0¢
Previous corresponding period	8.0¢	8.0¢

	Current period $A'000	Previous corresponding period - $A'000
+ Ordinary securities	*1,153	1,147
Total	**1,153**	**1,147**

+Record date for determining entitlements to the dividend,	17 March 2006

* The interim dividend was declared after 31 December 2005 and is therefore not provided for in the accounts for the Half Year ended 31 December 2005.

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
CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	2005 $000	2004 $000
Revenue	48,009	35,178
Cost of sales	(35,349)	(26,054)
Gross Profit	12,660	9,124
Other operating income	280	527
Distribution expenses	(3,636)	(2,203)
Administrative expenses	(5,212)	(4,236)
Other operating expenses	(117)	(197)
Operating profit before financing costs	**3,975**	**3,015**
Financial income	84	316
Financial expenses	(250)	(79)
Net financing costs	**(166)**	**237**
Profit before tax	**3,809**	**3,252**
Income tax expense	(1,292)	(693)
Profit after tax for the period	**2,517**	**2,559**
Attributable to:		
- Equity holders of the parent	2,517	2,535
- Minority interest	-	24
Profit for the period	**2,517**	**2,559**
Basic earnings per share attributable to ordinary equity holders	17.5	17.1
Diluted earnings per share attributable to ordinary equity holders	17.4	16.9

The income statement is to be read in conjunction with notes 1 to 12 to the interim financial statements.

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

CONDENSED CONSOLIDATED STATEMENT OF

RECOGNISED INCOME AND EXPENSE

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	31 Dec 2005 $000	31 Dec 2004 $000
Foreign exchange translation differences	591	(1,600)
Options granted reserve	115	135
Net income recognised directly in equity	**706**	**(1,465)**
Profit for the period	**2,517**	**2,559**
Total recognised income and expense for the period	**3,223**	**1,094**
Attributable to:		
- Equity holders of the parent	3,223	1,070
- Minority interest	-	24
Total recognised income and expense for the period	**3,223**	**1,094**

Other movements in equity arising from transactions with owners as owners are set out in note 6.

The statement of recognised income and expense is to be read in conjunction with notes 1 to 12 to the interim financial statements.

LEMARNE CORPORATION LIMITED A.B.N. 72 004 834 584 AND ITS CONTROLLED ENTITIES
CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	31 Dec 2005 $000	30 June 2005 $000
Current assets			
Cash and cash equivalents		8,393	7,310
Trade and other receivables		14,682	12,958
Inventories		11,743	11,496
Prepayments		826	629
TOTAL CURRENT ASSETS		35,644	32,393
Non-current assets			
Property, plant and equipment	4	16,109	13,232
Deferred tax assets		596	590
Intangible assets		14,408	14,468
TOTAL NON-CURRENT ASSETS		31,113	28,290
TOTAL ASSETS		**66,757**	**60,683**
Current liabilities			
Bank overdraft		1,245	102
Trade and other payables		12,179	12,479
Interest bearing loans and borrowings		6,720	3,708
Employee benefits		779	987
Income tax liabilities		1,505	1,601
Provisions		237	210
Deferred income		94	-
TOTAL CURRENT LIABILITIES		22,759	19,087
Non-current liabilities			
Interest bearing loans and borrowings		511	327
Deferred tax liabilities		805	768
Employee benefits		674	679
Deferred income		43	46
Deferred consideration	5	3,000	-
TOTAL NON-CURRENT LIABILITIES		5,033	1,820
TOTAL LIABILITIES		**27,792**	**20,907**
NET ASSETS		**38,965**	**39,776**
Equity			
Issued capital		6,306	6,187
Reserves		(606)	(512)
Retained earnings		33,265	31,799
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	6	38,965	37,474
Minority interest		**-**	2,302
TOTAL EQUITY		**38,965**	**39,776**

The balance sheet is to be read in conjunction with notes 1 to 12 to the interim financial statements.

LEMARNE CORPORATION LIMITED A.B.N. 72 004 834 584 AND ITS CONTROLLED ENTITIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Note	31 Dec 2005 $000	31 Dec 2004 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		49,981	38,360
Cash paid to suppliers and employees		(47,467)	(37,076)
Cash generated from operations		2,514	1,284
Income taxes paid		(1,376)	(592)
Interest paid		(250)	(79)
Interest received		84	386
Net cash from operating activities		**972**	**999**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale of intellectual property		100	100
Proceeds from sale of property, plant and equipment		34	58
Payments for costs of disposal of business/controlled entity		-	(17)
Acquisition of subsidiaries/business		(12)	(12,289)
Acquisition of property, plant and equipment	4	(3,319)	(1,541)
Net cash from investing activities		**(3,197)**	**(13,689)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	6	119	144
Share buy-back		-	(9,109)
Proceeds from borrowings		3,553	2,107
Repayment of borrowings		(357)	(182)
Dividends paid		(1,153)	(1,072)
Net cash from financing activities		**2,162**	**(8,112)**
Net (decrease) in cash and cash equivalents		**(63)**	**(20,802)**
Cash and cash equivalents at 1 July		**7,208**	**25,068**
Effect of exchange rate fluctuations on cash held		3	(212)
Cash and cash equivalents at 31 December		**7,148**	**4,054**

The statement of cash flows is to be read in conjunction with notes 1 to 12 to the interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Lemarne Corporation Limited (the 'Company') is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity').

The condensed consolidated interim financial report was authorised for issuance on 13 February 2006.

(a) Statement of compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The interim financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must also be read in conjunction with any public announcements made by Lemarne Corporation Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 10. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRSs.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, and financial instruments classified as available-for-sale.

The Company 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 and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

1. ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation (cont.)

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted (accounting policies) when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006.

The entity has elected to early adopt the following revised accounting standards:

- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*;
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 132 *Financial Instruments: Disclosure and Presentation,* AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts,* AASB 1038 *Life Insurance Contracts;*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations;*
- AASB 2005-7 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 134 *Interim Financial Reporting;*
- AASB 2005-11 *Amendments to Australian Accounting Standards* (September 2005) amending AASB 101 *Presentation of Financial Statements,* AASB 112 *Income Taxes,* AASB 132 *Financial Instruments: Disclosure and Presentation,* AASB 133 *Earnings per Share,* AASB 139 *Financial Instruments: Recognition and Measurement,* and AASB 141 *Agriculture.*

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements except for the change in accounting policy relating to the classification and measurement of financial instruments (refer (e) and note 11). They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards - AIFRSs, as required by AASB 1.The impact of the transition from previous GAAP to AIFRSs is explained in note 10.

Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy. The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

1. ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial report from the date that control commences until the date that control ceases.

Minority interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements subject to the change in accounting policy set out in note 11.

(ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements.

(iii) Changes in ownership interest

Loss of control, no joint control or significant influence

When control ceases, a gain or loss is recognised as the difference between net sales proceeds, if any, and the consolidated carrying amount (including post-acquisition share of profits, goodwill and equity).

(iv) New issue of capital by controlled entity

When a controlled entity makes a new issue of capital and the consolidated entity's percentage ownership changes, the share of retained profits and reserves is attributed to the Company and minority interests reflect the new ownership interest. The adjustment is not reflected in net profit but as a direct adjustment to the specific equity accounts.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

1. ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency (cont)

(iii) Net investment in foreign operations
Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the translation reserve. They are released into the income statement after disposal.

In respect of all foreign operations, any differences that have arisen before 1 July 2004, the date of transition to AIFRS, have been transferred to retained profits **(see note 10).**

(e) Derivative financial instruments

Current period policy
The consolidated entity is exposed to changes in interest rates and foreign exchange rates arising from operational, financing and investment activities. The consolidated entity uses forward foreign exchange contracts to hedge these risks. Derivative financial instruments are not held for speculative purposes.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement at each reporting date is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy f).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Comparative period policy
The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses forward foreign exchange contracts to hedge these risks. Derivative financial instruments are not held for speculative purposes.

The change in policy has not resulted in a significant effect on the accounts of the consolidated entity.

(f) Hedging

(i) Cash flow hedges
Current period policy
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non- financial liability, or the forecast transaction for a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

1. ACCOUNTING POLICIES (CONTINUED)

(f) Hedging (cont)

(i) Cash flow hedges (cont)
Current period policy (cont)

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities
When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement in the same period as the change in value of the monetary asset or liability.

Comparative period policy
(i) Cash flow hedges
Transactions are designated in cash flow hedges as a hedge of the anticipated specific purchase or sale of goods or services or purchase of qualifying assets, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the balance sheet from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the income statement for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the income statement for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the income statement.

1. ACCOUNTING POLICIES (CONTINUED)

(f) Hedging (cont)

Comparative period policy (cont)

(ii) Hedge of monetary assets and liabilities

All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the rates ruling on that date and any gains or losses are brought to account in the income statement.

Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy l).

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards - AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy l).

(iii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

1. ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (cont)

(iv) Depreciation (cont)

- buildings 25-40 years
- leasehold land and buildings 30 – 50 years
- leasehold improvements 5 years
- plant and equipment 3 - 15 years
- fixtures and fittings 5 - 15 years

The residual value, if not insignificant, is reassessed annually together with the depreciation method and useful life. Interest costs are not capitalised into the cost of property, plant and equipment.

(h) Intangible assets

(i) Goodwill

Business combinations prior to 1 July 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004 (see note 9).

Business combinations since 1 July 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy l).

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy l).

(iii) Intellectual property

Other intangible assets such as intellectual property that is acquired by the consolidated entity is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy l).

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

1. ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (cont)

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- intellectual property, patents and trademarks 10 - 20 years

(i) Trade and other receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful debts.

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (l)).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories are assigned on a first-in first-out basis and weighted average methods and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (see accounting policy j), and deferred tax assets (see accounting policy t), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy l(i)).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

1. ACCOUNTING POLICIES (CONTINUED)

(l) Impairment (cont)

An impairment loss is recognised whenever the carrying amount of an asset of its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed.

Receivables that are not assessed as impaired and non-significant receivables are placed in portfolios of receivables with similar risk profiles and a collective assessment of impairment is performed, using objective evidence from historical experience and existing conditions at balance date.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment loss no longer exists and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. ACCOUNTING POLICIES (CONTINUED)

(m) Share capital

(i) Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

(ii) Dividends
Dividends are recognised as a liability in the period in which they are declared.

(n) Interest bearing borrowings

Current accounting policy
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Comparative period policy
Bank loans and other loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is recognised on an accrual basis at the contracted rate and included in Trade and Other Payables.

The change in policy has not resulted in a significant effect on the accounts of the consolidated entity.

(o) Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits
The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected future increases in wage and salary rates including related oncosts and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Share-based payment transactions
Where options are issued to employees as part of their remuneration package details are contained in the Annual Report.

Employee share option plans are approved by shareholders at the Annual General Meeting and refreshed every three years.

Under the Key Executive Option Plan the exercise price is 10 per cent above the market price at the date the options are issued, while with the Subsidiary Executive Option Plan, the options only have a value if the performance of the subsidiary in the three financial years immediately following the issues of the options, is superior to the three financial years preceding the issue of the options. Options are only offered to subsidiary company executives when the board is satisfied with the subsidiary's performance in the three preceding years.

The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a black scholes model, taking into account the terms and conditions upon which the options were granted. The amount

1. ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits (cont)

(iii) Share-based payment transactions (cont)
recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

On first-time adoption of AIFRSs, retained earnings at 1 July 2004 and reported results for the financial year to 30 June 2005 were adjusted for all share-based payments granted after 7 November 2002, which did not vest prior to 1 January 2005.

(iv) Wages, salaries, annual leave, sick leave and non-monetary benefits
Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as interest free loans are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(v) Profit sharing and bonus plans
A liability is recognised for profit sharing and bonus plans, when there is a present obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

(p) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(i) Warranties
A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Estimated net future cash flows are based on the assumption that all claims will be settled by repairing the item within three months of notification and the weighted average cost of historical claims adjusted for inflation will continue to approximate future costs.

(ii) Restructuring
A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

1. ACCOUNTING POLICIES (CONTINUED)

(q) Trade and other payables

Trade and other payables are stated at amortised cost.

(r) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed. An expected loss on a contract is recognised immediately in the income statement.

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Fixed rental increases are not brought to account at the time of the increase but have been incorporated in the total lease cost which is expensed on a straight line basis.
Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy f).

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(t) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets

1. ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (cont)

or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation
The company and its wholly owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Lemarne Corporation Ltd. Partly controlled entities do not form part of the Lemarne tax consolidated group, but form a separate tax consolidated group.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the stand alone taxpayer approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group). Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Nature of tax funding arrangements and tax sharing agreements
The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) in the separate financial statements of the members of the tax consolidated groups equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

1. ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (cont)

Nature of tax funding arrangements and tax sharing agreements (cont)
The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current tax amounts, since they are also due to or from the same tax authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

Subsidiaries who exit the tax consolidated group are required to make an exit payment prior to exiting the group in accordance with the tax sharing agreement.

(u) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(v) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

(w) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

		31 Dec 2005 $000	31 Dec2004 $000
2.	**DIVIDENDS PROVIDED FOR OR PAID**		
	The amounts paid, declared or provided for by way of dividend by the parent entity are:		
	In accounts		
	- a final fully franked dividend at 30% of 8.0 cents per share (2004: 7.5 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	1,153	1,072
	Not in accounts		
	- after the half year end an interim fully franked ordinary dividend of 8 cents per share (2004: 8 cents per share fully franked) has been declared payable on 24 March 2006	1,153	1,147

3. WRITE-DOWN OF INVENTORY

During the six months ended 31 December 2005 the consolidated entity wrote-down finished goods and raw material inventories totalling $144,000. These write-downs relate to slow moving stocks identified in the reinforced plastics, telecommunications and electronics businesses. The write-downs were offset against existing provisions and thus there is no impact on the consolidated results for the period. The inventory write-down for the six month period ended 31 December 2004 was $270,000 which was also offset against existing provisions.

4. PROPERTY, PLANT AND EQUIPMENT

Acquisitions and disposals

During the six months ended 31 December 2005, the consolidated entity acquired assets with a cost of $3,724,741 (six months ended 31 December 2004: $5,044,892).

No assets were acquired through business combinations (six months ended 31 December 2004: $3,504,193).

Assets with a net book value of $30,983 were disposed of during the six months ended 31 December 2005 (six months ended 31 December 2004: $24,671), resulting in a net gain on disposal of $2,876 (six months ended 31 December 2004: gain of $33,072).

	31 Dec 2005 $000	31 Dec 2004 $000
5. DEFERRED CONSIDERATION	3,000	-

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. The minority interest holder also has an option to sell this interest to Lemarne subsequent to 1 July 2008.

Under previous GAAP, the 20% share of Lemarne Healthcare not owned by Lemarne was disclosed in equity (minority interests and reserves) and the profit attributable to the 20% minority interest was disclosed separately.

The value of the deferred consideration is valued at reporting date based on the expected amount payable.

6. CAPITAL AND RESERVES

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

Consolidated

	Share capital $000	Translation reserve $000	Options granted reserve $000	Capital profits reserve $000	Retained earnings $000	Total $000	Minority interest $000	Total equity $000
Balance at 30 June 2005	6,187	(1,703)	391	800	31,799	37,474	2,302	39,776
Reclassification of balances due to change in policy on financial instruments as at 1 July 2005 (refer note 11)	-	-	-	(800)	102	(698)	(2,302)	(3,000)
Total recognised income and expense	-	591	115	-	2,517	3,223	-	3,223
Equity-settled transactions, net of tax	-	-	-	-	-	-	-	-
Shares issued	119	-	-	-	-	119	-	119
Dividends to shareholders	-	-	-	-	(1,153)	(1,153)	-	(1,153)
Balance at 31 December 2005	6,306	(1,112)	506	-	33,265	38,965	-	38,965

6. CAPITAL AND RESERVES (CONTINUED)

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 2005

	Share Capital	
	31 Dec 2005	30 June 2005
	$000	$000
Issue of ordinary shares from the exercise of options under the Key Executive Option Plan	119	211

	Ordinary Shares	
	31 Dec 2005	31 Dec 2004
	No.	No.
On issue at 1 July	14,338,727	17,808,333
Issued for cash	80,000	100,000
Share buy-back	-	(3,614,606)
On issue at 31 December fully paid	14,418,727	14,293,727

Issued and paid up capital

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

Lemarne Corporation Limited's share price at 31 December 2005 was $2.35 (30 June 2005: $2.39).

On 15 February 2002 the Company granted 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 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. 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 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.

	31 December 2005	30 June 2005
7. NTA BACKING		
Net tangible asset backing per ordinary security	$1.70	$1.60

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.

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, 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	Manufacturing facilities in Melbourne and Brisbane and sales offices or Molescan clinics in all states.
Asia	Manufacturing facilities for telecommunication and electronic equipment products and reinforced plastics (in progress). 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 electronic equipment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

8. SEGMENT REPORTING (CONTINUED)

Primary reporting

Business segments	Electronics		Reinforced plastics		Telecommunication products		Healthcare		Unallocated		Eliminations		Consolidated	
	2005 $000	**2004 $000**	**2005 $000**	**2004 $000**	**2005 $000**	**2004 $000**	**2005 $000**	**2004 $000**	**2005 $000**	**2004 $000**	**2005 $000**	**2004 $000**	**2005 $000**	**2004 $000**
External sales revenue	17,435	14,418	19,153	15,319	7,396	4,370	4,025	1,071	-	-	-	-	48,009	35,178
Inter-segment revenue	158	269	-	-	-	-	-	-	-	-	(158)	(269)	-	-
Other revenue	23	351	249	170	8	4	-	-	777	587	(777)	(585)	280	527
Total segment revenue	**17,616**	**15,038**	**19,402**	**15,489**	**7,404**	**4,374**	**4,025**	**1,071**	**777**	**587**	**(935)**	**(854)**	**48,289**	**35,705**
Segment Result														
Profit/(loss) from ordinary activities before income tax	(73)	1,137	2,355	1,276	1,714	564	135	227	(322)	48	-	-	3,809	3,252
Income tax (expense)/benefit													(1,292)	(693)
Profit/(loss) from ordinary activities after income tax													**2,517**	**2,559**
Depreciation and amortisation	333	305	414	415	78	49	320	66	15	15	-	-	1,160	850
Non-cash expenses other than depreciation and amortisation	148	2	537	534	42	34	42	(11)	(20)	21	-	-	749	580
Inventory write-down	63	196	75	66	6	8	-	-	-	-	-	-	144	270
Bad and doubtful debts	-	(287)	37	70	-	-	-	-	-	-	-	-	37	(217)

9. SEASONALITY OF OPERATIONS

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

10. EXPLANATION OF TRANSITION TO AIFRSs

As stated in note 1(a), these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards – AIFRSs.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004, the financial statements for the year ended 30 June 2005 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(a) ***Reconciliation of total equity***	**Note**	**Consolidated** **1 July 2004** **$000**	**Consolidated** **31 Dec. 2004** **$000**	**Consolidated** **30 June 2005** **$000**
Total equity:				
As reported under Australian Accounting Standards (previous GAAP)		44,248	38,237	39,680
Adjustments relating to recalculation of deferred tax using the balance sheet method	(d(v))	(303)	(303)	(303)
Reversal of amortisation of goodwill	(d(i))	-	116	469
Operating lease expense restated on a straight line basis	(d(vi))	-	(119)	(142)
Current tax adjustments for the year	(d(vi))	-	36	43
Foreign currency translation adjustments for foreign subsidiaries arising during the year	(d(viii))	-	35	29
Total equity as restated under AIFRS		**43,945**	**38,002**	**39,776**

10. EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

(b) ***Reconciliation of operating profit after tax***

	Note	Consolidated For the 6 months ended 31 Dec 04 $000	Consolidated For the year ended 30 June 05 $000
Operating profit after tax for the period as reported under Australian Accounting Standards		2,661	5,281
Share-based payments earned during the period	(d(iv))	(135)	(268)
Goodwill on consolidation adjustments			
- Reversal of amortisation for the year	(d(i))	116	469
Operating lease expense restated on a straight line basis	(d(vi))	(119)	(142)
Current tax adjustments for the period	(d(vi))	36	43
Total AIFRS adjustments	(c)	(102)	102
Operating profit after tax as restated under AIFRS		**2,559**	**5,383**

(c) ***Reconciliation of retained earnings***

	Note	As at 31 Dec 04 $000	As at 30 June 05 $000
As reported under Australian Accounting Standards		29,060	30,517
Adjustment due to transfer of asset revaluation reserves to retained earnings at 30 June 2004	(d(iii))	1,943	1,943
Adjustment due to transfer of foreign currency translation reserve to retained earnings at 30 June 2004	(d(ii))	(260)	(260)
Adjustment relating to recalculation of deferred tax using the balance sheet method at 30 June 2004	(d(v))	(303)	(303)
Share-based payments adjustments at 30 June 2004		(123)	(123)
AIFRS adjustments to operating profit after tax for the period	(b)	(102)	102
Adjustment to outside equity interest share of retained earnings for the period ended due to AIFRS adjustments		(14)	(77)
Retained earnings as restate under AIFRS for the period ended		**30,201**	**31,799**

10. EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

(d) Adjustments due to transition to AIFRS

(i) The consolidated entity has applied AASB 3 to all business combinations that have occurred since 1 July 2004 (the date of transition to AIFRSs). The consolidated entity has not elected to apply AIFRSs retrospectively to all business combinations that occurred before 1 July 2004. Additionally, from 1 July 2004, goodwill is no longer amortised under AIFRSs, but is tested annually for impairment. As a result of the above adjustments, the carrying amount of goodwill is increased by $115,534 at 31 December 2004 and by $469,587 at 30 June 2005 relating to the reversal of goodwill amortization charges.

(ii) In accordance with the exemption available on first-time adoption of AIFRS, the cumulative translation differences of all foreign operations have been reset to zero. As a result of the above an amount of $259,653 has been transferred from the foreign currency translation reserve to retained earnings.

Translation differences that arose after the date of transition to AIFRSs in respect of all foreign entities are presented as a separate component of equity. On disposal of any foreign operation, the related cumulative translation difference will be transferred to the income statement as part of the gain or loss on disposal.

(iii) At 1 July 2004, 31 December 2004 and 30 June 2005 an amount of $1,943,145 has been reclassified from a revaluation reserve recognised under previous GAAP to retained earnings. The amount represents the balance on the revaluation reserve at 1 July 2004 in respect of assets that are measured on the basis of deemed cost under AIFRSs. The fair value of the assets recognised at deemed cost was $4,330,230 at 1 July 2004.

(iv) The consolidated entity applied AASB 2 to its active share-based payment arrangements at 1 July 2004 except for equity-settled share-based payment arrangements granted before 7 November 2002. The consolidated entity has granted equity-settled share-based payments in 2004 and 2005. Under previous GAAP, the consolidated entity did not account for equity settled share based payments. Such payments are now recognised at fair value in accordance with AASB2.

The effect in the consolidated entity of accounting for equity-settled share-based payment transactions at fair value is to increase administration expenses by $134,177 for the six months ended 31 December 2004 and by $268,355 for the year ended 30 June 2005.

(v) The consolidated entity has applied AASB 112 relating to income taxes in which a balance sheet approach is adopted under which temporary differences are identified for each asset and liability rather than accounting for the effect of timing and permanent differences between taxable and accounting profit. At 1 July 2004 an additional provision for deferred income tax of $302,755 was recognised relating to previous asset revaluations.

(vi) Under previous GAAP total lease costs were not expensed on a straight line basis but rather fixed rental increases were brought to account at the time of the increase.

The effect of expensing these costs on a straight line basis on the income statement for the six months ended 31 December 2004 was to increase expenses by $118,847 and $142,532 for the year ended 30 June 2005. The corresponding income tax expense for the periods was also reduced by $35,654 and $42,758 respectively.

(vii) The consolidated entity had applied UIG 52 for tax consolidation purposes under previous GAAP, resulting in the Company as the head entity of the tax consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax-consolidated group.

Under AIFRS, the consolidated entity has adopted UIG 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability (asset) and tax losses/credit. Hence, under AIFRS the subsidiaries are now required to recognise deferred tax assets relating to temporary differences.

10. EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

(d) Adjustments due to transition to AIFRS (cont)

Upon adoption of UIG 1052 under AIFRS, all tax funding arrangements amounts are recognised as inter-entity amounts, giving rise to a contribution by or distribution to equity participants to the extent they differ from the amounts assumed by the head entity from subsidiaries.

There is nil impact on the consolidated entity as upon consolidation the inter-company balances are eliminated.

(viii) Due to the AIFRS adjustment for the deferred tax liability on revalued property, the net assets of a foreign subsidiary have reduced resulting in a change to the currency translation on conversion to Australian Dollars. The net impact is an increase in the foreign currency translation reserve of $34,887 at 31 December 2004 and $29,199 at 30 June 2005.

11. CHANGE IN ACCOUNTING POLICY

Reconciliation of financial instruments as if AASB 139 was applied at 1 July 2005

In the current financial year the consolidated entity adopted AASB 132 : *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments : Recognition and Measurement.* This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the consolidated entity recognising deferred consideration for the option Lemarne has to acquire the remaining 20% interest in Lemarne Healthcare for $3 million, as disclosed in note 5. This change has been accounted for by adjusting the opening balance of equity (retained earnings, capital profits reserve and minority interest) at 1 July 2005 as disclosed in note 6.

The impact on the balance sheet in the comparative period would be to increase non-current liabilities by $3,000,000 which is recognised as an adjustment to the balance sheet at 1 July 2005. The impact on the income statement of the comparative period would have been to increase the operating profit due to members of the parent entity by $24,000 for the six months ended 31 December 2004. The transitional provisions will not have any effect in future reporting periods.

12. 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.

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 29, 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 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 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 13th day of February 2006.

Signed in accordance with a resolution of the directors.

D.J. RAINSBURY

: Directors

S.L. MASON

KPMG

LEMARNE CORPORATION LIMITED ABN 72 004 834 584 AND ITS CONTROLLED ENTITIES

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 2005, consisting of the condensed consolidated interim statement of income, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes 1 to 12 and the directors' declaration set out on page 30. 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 including the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

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 134 *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 2005 and of its performance 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) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

Adrian V King

Adrian V King
Partner

Melbourne
13 February 2006

Directors' Report

The directors have pleasure in presenting their report together with the consolidated financial report for the half-year ended 31 December 2005 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 now Chairman.
Age 67.

Peter Geoffrey Davenport, MA, MIEE
Director since 1981
Previously electrical/electronics engineer and management consultant
Age 68.

John Campbell Larking, MB ChB, MRCOG, FRACOG
Director since 1986
Age 66.

Stephen Leslie Mason, BComm., LLB, FCPA, FCIS
Director since 1997
Finance Director and Group Company Secretary
Age 53.

Darryl Jeffrey Rainsbury, BBus, MBA, FCPA, FCIS
Managing Director since March 2002
Formerly Managing Director of Screenex Australia Pty Ltd and Richardson Pacific Limited.
Age 48.

All directors held office for the entire period.

2. Review of operations

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

Pacific Composites

Pacific Composites' operating profit before tax for the six months ended 31 December 2005 of $2.3 million is 83% above that achieved in the corresponding period last year.

Our two UK based operations have experienced strong profit improvement in the first half. This encouraging trend is the result of our continuing focus on development projects in association with industry partners and the pursuit of new product opportunities.

2. Review of operations (cont.)

Pacific Composites (cont)

Our Australian operations also achieved results well ahead of the prior year. This profit improvement was greatly assisted by our traditional customer base having relatively strong order books. The near completion of a large transport contract in Melbourne has provided steady work for our fabrication department during the period. Supply of carbon profiles to the Vestas wind turbine plant in Portland commenced in August 2005, and is expected to provide a further source of ongoing work. Our Brisbane business is tracking well, with recreational products in particular demand.

Our new Chinese manufacturing facility was substantially completed in October 2005, with production beginning in earnest the following month. Apart from some small initial teething problems the establishment of this operation has progressed to schedule. We have been very pleased with the efforts of our Nanjing team in delivering an on time and on budget "world class" facility.

The outlook for all sites is reasonably optimistic; although some softening in the U.K. is anticipated as some customers have indicated a slight slowing of activity. The telecommunication industry in both China and Australia appears to be experiencing a period of strong growth, which bodes well for the second half. Work is also continuing on several new projects, which if successful, will provide a sound platform for future growth.

Lemtronics

Trading conditions for the first half were very difficult. The depreciation in the Euro has had a considerable negative impact on profitability, which when coupled with margin erosion driven by the competitive environment resulted in a small operating loss before tax being incurred. Revenue, however, has increased significantly year on year as the company starts to see the results of its business development initiatives and improved customer performance levels. The company has attracted a number of new customers and these will develop over time to underpin continued revenue growth.

In recent months, considerable investment has been made in new machinery and equipment to cater for the new ROHS requirements and business growth. Lemtronics has also started to see the benefits of previous investments in new product development and expects to see revenue increasing in this area over the next year.

The outlook for 2005/06 is for a significant decline in profit over the previous year, given the poor first half. However, profitability (excluding currency impacts) is anticipated to recover and be much stronger in the second half.

C10 Communications

The operating profit before tax for C10 Communications ("C10"), comprising the Products and ValueNet businesses, for the first half of 2005/06, is triple the profit achieved in the corresponding period last year.

This improvement in profitability has resulted from increased sales revenues in an increasingly competitive market.

ValueNet also contributed to this result with lower than anticipated start up costs during the continued establishment of the business during the six months. The 2006 strategy to accelerate reseller sales through the appointment of dedicated channel sales staff in Sydney and Melbourne, together with a Sales and Marketing manager was fully implemented in December 2005. With these resources now in place, management's focus is on achieving the transition to becoming a profitable business in the June 2006 quarter.

The services being delivered from the ValueNet network have proven to adequately meet the requirements of its intended business market. The back office implementation satisfies present requirements for provisioning, billing and supplier reconciliation. The ValueNet business was formally accredited to ISO 9001:2000 and incorporated within C10's overall quality accreditation in December 2005.

2. Review of operations (cont.)

C10 Communications (cont)

Additional effort is also being directed within C10's product group to develop new product and market opportunities in 2006 that will become effective in the 2007 financial year.

Profitability in the second half is anticipated to be more subdued due to the impact of new competition in the product area. However, overall results for the full year are anticipated to remain ahead of those achieved last year.

Lemarne Healthcare Pty Ltd

Molescan Australia has experienced a softening in its rate of growth over the last six months, associated with national doctor shortages and increased competition. Patient support remains extremely high.

The management team was strengthened in recent months with the appointment of a General Manager and a Financial Controller, both of whom have considerable experience in the health care sector. Steps were also taken to develop the IT systems and procedures to improve operational efficiency and to accommodate the present and future requirements of the business. While these actions have increased the cost base of the business, management believes these initiatives were necessary to achieve the business' future growth objectives.

Management's focus in the second half of the 2006 financial year will be on doctor recruitment and retention. In addition, variations in clinical models are being developed and will be implemented over the next six months to increase doctor productivity.

Growth in our pathology business, Australian Dermatopathology Laboratory is continuing with an increased and more diversified referral base. Costs are well contained presently and new referrals contribute directly to the operating profit.

Management believes that, as a consequence of the initiatives being taken, and given success in the recruitment of doctors, there is potential for results in the second half of the year to show considerable improvement.

Overall

At Lemarne's AGM, held on 28 October 2005, we advised that the Group's net profit in 2005/06 was expected to decline due to the downturn at Lemtronics, the slow start to the year by Lemarne Healthcare, higher taxes, costs associated with establishing the factory in China and the further investment required in ValueNet.

We can now report that in the six months ended 31 December 2005, Lemarne's net profit before tax was $3.8 million, an increase of 17% over the corresponding prior period. After allowing for income tax expense, which increased by 86% to $1.3 million, the Group's net profit after tax is $2.5 million, similar to that achieved in the first half of 2004/05. This represents earnings per share of 17.5 cents for the period, a slight increase on the 17.1 cents achieved last year.

Dividend

An interim fully franked dividend of 8 cents per share (8 cents per share last year) has been declared, payable on 24 March 2006 to those shareholders registered at the close of business on 17 March 2006.

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

The lead auditor's independence declaration is set out on page 36 and forms part of the directors' report for the half-year ended 31 December 2005.

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 13th day of February 2006.

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

D.J. RAINSBURY (Director)

S L MASON (Director)

KPMG

LEMARNE CORPORATION LIMITED ABN 72 004 834 584 AND ITS CONTROLLED ENTITIES

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 2005 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

KPMG

Adrian V King

Adrian V King
Partner

Melbourne

13 February 2006