



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

15 February 2005
SLM/ms

Half Yearly Report to Shareholders

Dear Shareholder,

The half year results were in line with our announcement to the market on 31 January 2005.

Operating profit before tax was \$3.4 million compared to \$1.9 million last year, while net profit after tax attributable to shareholders was \$2.65 million, a 193% increase over the previous corresponding period. This was largely due to significantly improved results from all our continuing operations and a lower group tax rate due to favourable tax concessions benefiting our offshore subsidiaries.

This has resulted in an earnings per share of 18 cents for the half year compared to 6 cents last year. NTA reduced from \$2.29 in 2003 to \$1.52 at 31 December 2004, mainly due to the share buy-back in August 2004 and the goodwill associated with the acquisition of the Molescan Group in November 2004. The Balance Sheet remains strong with nil gearing.

Dividend

An interim fully franked dividend of 8 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.

Half Year Results

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.

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.

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.



D.J. RAINSBURY
Managing Director



S.L. MASON
Finance Director