



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

26 February 2002  
EBN/ms

**Half Yearly Report to Shareholders**

Dear Shareholder,

The half year results have been greatly impacted by the Com 10 Power business which was sold on 19 November 2001. The sale resulted in Com 10 Pty. Ltd. booking a loss of \$6 million on the sale in its half year accounts. In addition Com 10 Power recorded operating losses of over \$3 million in the 5 month period up until its sale.

In the half year ended 31 December 2001, Lemarne's revenue decreased by 5% over the previous corresponding period to \$83 million and for the period its loss before tax was \$6.4 million compared to a profit of \$4.7 million in the previous corresponding period.

After income tax revenue of \$86K and outside equity interests, the operating loss after tax attributable to members was \$3.7 million compared to a profit of \$2.3 million in the previous corresponding period.

This resulted in a negative earnings per share compared to 14 cents last year, while the NTA was \$1.90 per share which was 10% down on last year.

Lemarne's gearing improved from 63% at 30 June 2001 to a conservative 17% at 31 December 2001.

The continuing operations recorded an operating profit before tax of \$2 million and an operating profit after tax and OEI's of \$1.5 million. The EPS on the continuing operations was 9 cents per share for the half year. The results of the continuing operation were adversely affected by two factors:

Firstly, Lemtronics was forced to make a special provision of \$730K for bad and doubtful debts due to financial difficulties being encountered by two of its customers.

Secondly, inventory write downs of \$602K were abnormally high, partly due to a write down in the carrying value of inventory in a business unit that was not achieving satisfactory results.



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Letter to Shareholders re December 2001 Half Year (continued)

**Dividend**

Directors are declaring an interim fully franked dividend of 5 cents per share (7.5 cents per share last year) payable on 29 March 2002 to those shareholders registered at 5 p.m. on 22 March 2002.

**Preliminary Half Year Results**

**CONTINUING OPERATIONS**

		<u>Six Months to 31 December</u>			
		<b>1998</b>	<b>1999</b>	<b>2000*</b>	<b>2001*</b>
Sales	(\$millions)	83	81	64	61
Profit Before Tax:	(\$millions)	3.3	6.1	4.5	2.8
Profit After Tax & OEI	(\$millions)	1.0	2.8	2.2	1.5
Earnings Per Share:	(Cents)	6	17	13	9
Interim dividend	(Cents)	6.5	7.5	7.5	5.0
Gearing	(%)	62	48	59	17

\* Excludes URM and Com 10 Power results.

**Review of Operations**

**PACIFIC COMPOSITES**

*Australian Operations*

Sales were up 26% on the same period last year mainly due to a healthy increase in fibre optic tension member sales and the winning of a significant export contract for pultruded profiles.

The profit before tax was up 110% to \$0.7 million. A solid second half is expected.

*U.K. Operations*

**Fibreforce Composites**

Despite a rather flat U.K. market and subdued exports due to the strong GBP, sales increased by 12% and profit by 28% to \$0.3 million.

The second half is likely to be similar to the first half.



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Letter to Shareholders re December 2001 Half Year (continued)

**Pultrex**

Sales were down by 25% in a very competitive market. The manufacturing and assembly operations have now been closed and this work contracted out, while the key marketing and design personnel have moved to more suitable premises.

Pultrex incurred a small loss in the first half and due to a low forward order book, this is likely to increase in the second half unless good orders are obtained in the next two months.

General

A substantial effort is being made to expand the current pultrusion operation in Australia and the U.K. and a number of interesting growth opportunities are being actively pursued. Most of these are of a longer term nature and therefore unlikely to make any impact until 2003 and beyond.

LEMVEST

Lemtronics

The electronics markets that the Company serves have been depressed and many have shrunk over the past 12 months. Only now are the first tentative signs of recovery evident. Competition has been intense and margins have been under great pressure.

While progress has been made in cutting costs these have not kept up with the decline in sales and gross margins.

Sales decreased by 26% to \$21.6 million and a loss of \$237K before tax was incurred compared with a profit last year of \$1.1 million. The loss was after a special provision for bad and doubtful debts of \$730K. Part of this was brought on by the major shareholder of a customer placing the company into voluntary administration in order to exit. The remainder was due to the U.S. subsidiary of a major European company going into chapter 11 administration.

Management expects the second half trading conditions to remain difficult and some significant downsizing is currently underway. This will involve redundancy payments of approximately \$600K which will impact the second half.

Richardson Pacific

The Metal Perforating operations in Australia, New Zealand and Asia all enjoyed improved trading conditions and sales were 11% up on last year, while the profit before tax was up 51%. However the Metal Systems division, which supplies data communications cabinets mainly to the telecommunications sector, was badly affected by the severe downturn in that market and a loss of \$337K was incurred compared to a profit of \$166K last year. This included inventory writedowns of \$200K.



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Letter to Shareholders re December 2001 Half Year (continued)

The market for polyurethane screens for the mining sector remained very competitive and there was limited growth. Screenex is expanding its product range and service by developing complementary polyurethane products. Profits remained similar to last year.

Richardson Pacific's overall sales were marginally up, while profits were marginally down.

Market conditions in the second half are expected to be similar to the first half.

**C10 Communications**

C10 Communications experienced some softening in demand for its niche range of access and broadband products following the downturn in "dot com" industries and after September 11<sup>th</sup>. Despite this a steady profit was achieved.

C10 Communications is positioned to develop and introduce new broadband communication products specifically tailored for the Australian market. In the first half new products accounted for 80% of total sales.

**OVERALL**

While the overall result shows a huge loss, all of this is associated with Lemvest's Com 10 Power business, which was sold on 19 November 2001 for approximately \$10 million. Lemarne's ongoing operations recorded a profit before tax of \$2.8 million after allowing for write offs and provisions totalling \$1.6 million.

The Group has come through a very challenging period but is now in a greatly improved position.

Barring unforeseen circumstance, operating results in the second half are likely to be similar to those of the continuing operations in the first half, but with less write offs and provisions apart from those at Lemtronics.

**Brian Noxon**

**Chairman**

**Stephen Mason**

**Finance Director**