



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

19 February 2003
SLM/ms

Half Yearly Report to Shareholders

Dear Shareholder,

The half year results confirm the strong turnaround that has taken place in the Group since the sale of the Com 10 Power business on 19 November 2001.

Operating profit before tax was \$4.4 million, a \$10.8 million improvement on the previous corresponding period. The net profit after tax attributable to shareholders was \$2.2 million, a \$6.0 million improvement on the previous corresponding period.

This has resulted in an earnings per share of 14 cents for the half year, and an NTA of \$1.94 (2001:\$1.90) at 31 December 2002. In addition, the gearing improved markedly from 17% last year (net borrowings \$6.6 million) to nil gearing and a net \$5.6 million cash on deposit at 31 December 2002. This was due to strong cash flow, with \$10 million being generated from operating activities largely related to improved trading and tighter control over working capital.

The operating profit before tax of the continuing operations increased from \$2.8 million last year to \$4.4 million this year. This is a 57% increase on the previous corresponding period. The EPS on the continuing operations was 14 cents per share compared to 9 cents per share last year.

The Group's four main subsidiaries, Pacific Composites Pty. Ltd. ("PC"), Richardson Pacific Limited ("Richardson Pacific"), Lemtronics Sdn Bhd ("Lemtronics") and C10 Communications Pty. Ltd. ("C10"), all recorded profits and improved results on the previous corresponding period.

Dividend

Following the strong result, an interim fully franked dividend of 7.5 cents per share (5 cents per share last year) has been declared, payable on 28 March 2003 to those shareholders registered at the close of business on 21 March 2003. This is a 50% increase on the previous corresponding period.

Preliminary Half Year Results

CONTINUING OPERATIONS

		SIX MONTHS TO 31 DECEMBER				
		1998	1999	2000*	2001*	2002
Sales	(\$millions)	83	81	64	61	57
Profit before tax	(\$millions)	3.3	6.1	4.5	2.8	4.4
Profit after tax and OEI	(\$millions)	1.0	2.8	2.2	1.5	2.2
Earnings per share	(cents)	6	17	13	9	14
Interim dividend	(cents)	6.5	7.5	7.5	5.0	7.5
Gearing	(%)	62	48	59	17	-

* Excludes U.R. Machinery and Com 10 Power results.

Review of Operations

Pacific Composites

Pacific Composites has achieved a sound first half result, exceeding last year's operating profit before tax by 8%.

The Australian operations have performed above expectations largely as a result of securing a significant export order coupled with strong domestic demand. The appointment of a full time sales representative, based in Singapore, has also made a strong contribution to the increased sales over those of last year. Overall, the Australian operations have recorded a 19% improvement in operating profit before tax compared to the previous corresponding period.

In the U.K., Fibreforce has increased sales by 12% compared to last year, with operating profit before tax increasing by 5%. This reflects tighter margins caused by raw material price pressures and low margins on a high profile bridge project which will be completed in March. Pultrex has had a difficult first half, but has a strong order book for the second half, which we expect will return it to profit for the year.

Overall the Pacific Composites' net profit forecast for the year is strong as we expect an improved level of activity in all the U.K. operations and hence much improved results in the second half. This may be partly offset by the results of the Australian operations which could be adversely effected by the lack of major project work available in the second half.

LEMVEST

Lemtronics

The EMS industry continued to be adversely affected by world economic conditions. Lemtronics performed marginally better than was expected due to careful cost management and favourable exchange movements, while increased provisioning for inventory write-downs was carried out to recognise slow moving stock lines. Revenues were generally in line with expectations with profits being slightly ahead of budget. Our major European customers in the power tool segment continue to be under pressure from low cost Asian equipment suppliers whilst other customers in the home automation business have seen some steady growth.

The outlook for the second half continues to look relatively flat, with customers taking further action to cut their inventories. However, Lemtronics has been successful recently, in attracting some new customers, the full effects of which will be seen in the next financial year.

Richardson Pacific

Richardson Pacific has enjoyed a strong first half with profit before tax ahead of last year.

Richardson Pacific's metal perforating operations in both Australia and New Zealand, together with the polyurethane screening business all recorded operating profits above last year's levels.

The trading position of the metal perforating operation in Hong Kong was below expectations due to depressed market conditions, while the delays experienced with the newly established Shanghai operation has deferred achievement of the level of market penetration in China that had been anticipated. However, results are expected to improve in the second half.

The Metal Systems division, which supplies data communication cabinets primarily to the telecommunications industry, has continued to experience difficult trading conditions due to the ongoing downturn in its major market. As a result of operating losses incurred by this business, avenues for its divestment are being explored.

Overall, Richardson Pacific has commenced the year well and market conditions are expected to be similar in the second half.

C10 Communications (“C10”)

Although the telecommunications market has not generally recovered from its global downturn, C10 has experienced steady sales for the first half of 2003 in line with budget forecasts.

The product mix accounting for these sales however was skewed in favour of two of our new product areas (ISDN and ADSL Filter products) resulting in an improved EBIT over budget. This compensated for declining sales in the older accessories product lines and fierce competition for market share in ADSL modems.

C10 has achieved significant market share for its key products and second half results will closely reflect overall Telco movement during this period. It is expected that C10 will perform well against budget for the overall financial year. During the second half of this current financial year, C10 will be focussing on maintaining current market share and the development and introduction of new intellectual property to broaden the operating base for C10 in 2004.

HGL Takeover Bid

On 7 February 2003, HGL Limited issued a Supplementary Bidder’s Statement but failed to increase the offer price from \$1.70 per share.

Your Directors maintain their unanimous recommendation that **you reject** this inadequate and opportunistic offer because:

- Lemarne’s shares are trading on ASX at a price in excess of the HGL Offer Price.
- The HGL Offer Price is set at a substantial discount to the net tangible asset (“NTA”) backing per share. The NTA at 31 December 2002 was \$1.94 (after providing for the dividend) and will be approximately \$2.30 if Richardson Pacific is sold.
- Lemarne provides a very attractive dividend yield. Based on an annual fully franked dividend of 15 cents per share and a market price of \$1.80 per share, the gross dividend yield (grossed up for imputation) is an impressive 11.9% per annum.
- Lemarne’s long term growth and returns to shareholders have been strong over many years, and the half year results confirm the turnaround in the Group’s profitability as your Directors predicted. The operating profit after tax attributable to shareholders for the continuing operations increased by 50% over last year’s result to \$2.23 million.

To date, the HGL offers have been convincingly rejected by shareholders with HGL, as at 7 February 2003, having acquired only 0.3% of Lemarne’s shares since the date of its offers.

Proposed sale of Richardson Pacific

We previously notified shareholders on 31 January 2003 that Lemvest's Directors had advised that negotiations relating to the proposed sale of Richardson Pacific were well advanced, and that Locker Group had largely completed its due diligence exercise. However, a major impediment to a successful conclusion to this transaction has been the concerns of the ACCC, and in that regard, further information was being gathered in support of the submission made by Lemvest and Locker Group. The process of gathering additional information and addressing the concerns raised by the ACCC is nearing a conclusion and a decision from the ACCC is expected in March, 2003. The exclusivity arrangement with Locker Group continues until 31 March, 2003.

Overall

The result for the first half was pleasing and confirmed the turnaround that Directors had forecast.

Operating profit before tax improved by \$10.8 million compared to the previous corresponding period, while the operating profit before tax of the continuing operations was 57% up on the previous corresponding period. The EPS on the continuing operations increased from 9 cents last year to 14 cents this half year.

Looking at the second half and assuming that Richardson Pacific is not sold and that no unforeseen circumstances occur, Directors estimate that Lemarne's profit after tax attributable to shareholders will be similar to the first half. However, if the current negotiations for the divestment of Richardson Pacific are successfully concluded in the second half, then the operating profit would be reduced by the extent of the Richardson Pacific contribution (which would depend on the timing of the sale) but would be boosted by a profit before tax in Lemvest of approximately \$10 million upon completion of the sale, of which \$6 million would be attributable to Lemarne shareholders.

D.J. RAINSBURY
Managing Director

S.L. MASON
Finance Director



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