

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

26 March 2004  
SLM/ms

Dear Lemarne Shareholder,

On behalf of Lemarne Corporation Limited (**Lemarne**), your directors are pleased to recommend that shareholders authorise and approve the off-market share buy-back (**Buy-Back**) on the terms announced to ASX on 24 February 2004, to buy-back 35% of each shareholder's holding of shares.

The price for the Buy-Back has been set at \$2.34 per share adjusted for movements in the All Industrials Index.

If the scheme is approved in General Meeting then shareholders can decide whether to participate in the buy-back or not, when the offers are despatched.

Your directors believe that the Buy-Back represents an efficient means of returning excess capital to shareholders and reducing the record number of shares on issue.

The Board is of the view that the Buy-Back is in the best interests of shareholders and has the following benefits:

- it should reduce the negative impact on EPS currently caused by the relatively low return on cash held on deposit;
- for a given profit level and a given dividend level, it will increase EPS and the dividend rate;
- it should enable Lemarne to effectively use a portion of its franking account balance; and
- returns to shareholders should improve with an appropriate level of gearing. This is expected to be achieved by future growth and acquisitions being partly funded by borrowings.

The Buy-Back has also been extended to buy-back 100% of a shareholder's holding of shares if participation in the Buy-Back would result in a shareholder holding less than a marketable parcel.

You should read the Explanatory Notes accompanying the Notice of Meeting for more details about the Buy-Back and its terms and advantages.

If you are unable to attend the General Meeting scheduled for 11 a.m. on Wednesday 28 April 2004, I encourage you to send in your proxy form in favour of the Buy-Back, promptly. The Buy-Back can only proceed if it is approved by shareholders at the General Meeting.

Please contact Lemarne's Company Secretary, Stephen Mason on (03) 9820 2400 or your financial adviser, if you have any questions.

Yours sincerely,

**Brian Noxon**  
Chairman

**LEMARNE CORPORATION LIMITED**  
**ABN 72 004 834 584**

**Notice of General Meeting**

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Notice is given that a General Meeting of Shareholders of Lemarne Corporation Limited ABN 72 004 834 584 (**Company**) will be held at Australian Institute of Management, 181 Fitzroy Street, St.Kilda, Victoria at 11 a.m. on Wednesday 28 April, 2004.

**1. Special Business**

To consider and, if thought fit, pass the following resolution:

**“That shareholders authorise and approve:**

- (a) **the buy-back by the Company of its issued ordinary shares under an off-market share buy-back; and**
  - (b) **the terms, and the entry into, of buy-back agreements to effect such buy-back;**
- as detailed in the Explanatory Notes accompanying this Notice of General Meeting.”**

**2. Other Business**

To transact any other business that may be legally brought forward.

Shareholders' attention is drawn to the accompanying Explanatory Notes which contain important information for shareholders in relation to the proposed resolution. Shareholders should read and consider that information carefully in addition to this Notice of General Meeting.

**3. Voting Entitlement**

The Company has determined in accordance with regulation 7.11.37 of the *Corporations Regulations* 2001 that, for the purpose of voting at the General Meeting, shares will be taken to be held by those persons who hold them at 7 p.m. on 26 April 2004.

Dated 26 March 2004

By order of the Board

**S.L. Mason**  
Company Secretary

## **Information of Proxies**

- A shareholder entitled to attend and vote at the General Meeting is entitled to appoint a proxy.
- A proxy need not be a shareholder of the Company.
- A shareholder who is entitled to cast 2 or more votes may appoint not more than 2 proxies and may specify the proportion or number of votes that each proxy is appointed to exercise. If a shareholder appoints 2 proxies and the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the votes (disregarding fractions).
- For an appointment of a proxy to be effective, the form appointing the proxy and, if the form is signed by the appointor's attorney, the authority under which the form is signed (or a certified copy of the authority) must be received at the following address or by fax at least 48 hours prior to the meeting at which the proxy intends to vote:

Lemarne Corporation Limited  
Level 1  
492 St Kilda Road  
MELBOURNE. VIC. 3004

Fax: (03) 9820 2038

A proxy form accompanies this Notice of General Meeting. Additional proxy forms are available on request from the registered office of the Company.

## **Bodies Corporate**

A body corporate may appoint an individual as a representative to exercise all or any of the powers the body corporate may exercise at meetings of the Company's shareholders. The appointment may be a standing one. Unless otherwise specified in the appointment, the representative may exercise, on the body corporate's behalf, all of the powers that the body could exercise at a meeting or in voting on a resolution.



## NOTES

A shareholder entitled to attend and vote at the General Meeting is entitled to appoint a proxy.

A proxy need not be a shareholder of the Company.

A shareholder who is entitled to cast 2 or more votes may appoint not more than 2 proxies and may specify the proportion or number of votes that each proxy is appointed to exercise. If a shareholder appoints 2 proxies and the appointment does not specify the proportion or number of the shareholder's votes each proxy may exercise, each proxy may exercise half of the votes (disregarding fractions). Additional appointments of proxy are available on request.

For an appointment of a proxy to be effective, the form appointing the proxy and, if the form is signed by the appointor's attorney, the authority under which the form is signed (or a certified copy of the authority) must be received at the following address or by fax at least 48 hours prior to the meeting at which the proxy intends to vote:

Lemarne Corporation Limited  
Level 1  
492 St Kilda Road  
MELBOURNE. VIC. 3004

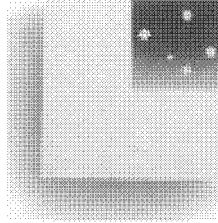
Fax: (03) 9820 2038

Proxies by shareholders which are companies can be signed:

- (1) under seal;
- (2) under the hand of an attorney duly authorised;
- (3) by any 2 directors or a director and secretary of the company; or
- (4) if there is only one person who is the sole director and sole company secretary, that person.

A body corporate may appoint an individual as a representative to exercise all or any of the powers the body corporate may exercise at meetings of a company's shareholders. The appointment may be a standing one. Unless otherwise specified in the appointment, the representative may exercise, on the body corporate's behalf, all of the powers that the body could exercise at a meeting or in voting on a resolution.

If a shareholder leaves the form of proxy blank as to the person primarily appointed as proxy or if the person or persons named as proxies fails or fail to attend, the Chairman of the meeting is appointed as proxy. All undirected proxies held by the Chairman will be voted in favour of the resolution.



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

# **Explanatory Notes to Shareholders**



# Explanatory Notes to Shareholders

## 1. BACKGROUND

On 24 February, 2004 Lemarne announced its intention to undertake an off-market buy-back of 35% of each shareholder's holding of Shares subject to receiving shareholder approval as set out in the Notice of Meeting and a ruling from the Australian Tax Office acceptable to the Directors. The Buy-Back is for a fixed proportion (35%) of each shareholder's holding of Shares.

Lemarne also announced on that date that the Buy-Back may be extended so as to buy-back 100% of a shareholder's holding of Shares if participation in the Buy-Back would result in the shareholder holding less than a Marketable Parcel. Lemarne has received that approval and the Buy-Back will now be extended as described in paragraph 2.1 below.

A booklet containing further details of the Buy-Back Offer will be sent to eligible shareholders at a later date.

Some of the terms used in these Explanatory Notes are defined in the glossary set out in paragraph 7 below.

### 1.1 Purpose of the Buy-Back Resolution

The purpose of the Buy-Back resolution is to seek shareholder approval to the terms of the Buy-Back.

Under the Corporations Act as modified by ASIC (as outlined in paragraph 6.4 below), Lemarne must obtain approval of its shareholders if the number of Shares proposed to be bought back is more than 10% of the smallest number of votes attaching to voting shares that Lemarne had on issue during the 12 months period preceding the Buy-Back.

The Buy-Back resolution will be passed if more than 50% of the votes cast at the general meeting are in favour of it.

Also, Lemarne under the Corporations Act is required to disclose all information known to it that is material to the decision as to how the vote on the Buy-Back resolution. However, Lemarne does not have to disclose information if it would be unreasonable to require Lemarne to do so because Lemarne had previously disclosed the information to its shareholders. In addition to these Explanatory Notes, further information regarding Lemarne can be obtained from Lemarne's website at [www.lemarne.com.au](http://www.lemarne.com.au) or from the website of ASX at [www.asx.com.au](http://www.asx.com.au).

### 1.2 Board Recommendation

Your Directors unanimously recommend that shareholders vote in favour of the Buy-Back resolution.

They believe the Buy-Back represents an efficient means of returning excess capital to shareholders at this point in time.

All of your Directors intend to participate in the Buy-Back for all Shares individually held by them beneficially. Particulars regarding the Directors and their holdings are set out in paragraphs 5.7 and 6.5 below.

Please note that by making the Buy-Back Offer, neither Lemarne nor its Directors are making a recommendation or providing any advice in relation to the value of the Shares nor as to whether shareholders should accept the Buy-Back Offer. Shareholders should make their own individual choice as to whether or not to participate in the Buy-Back. A booklet containing the terms of the Buy-Back Offer will be sent to eligible shareholders in due course. Your Directors recommend that shareholders should obtain their own independent professional advice including taxation advice before participating in the Buy-Back.

## **2. OUTLINE OF BUY-BACK AND PROCESS**

### **2.1 Offer Terms**

Under the Buy-Back, Lemarne will offer to buy-back from holders of Shares recorded in its register of members on the Record Date (which is currently expected to be 7 May, 2004) the number of Shares held by them on the following basis:

- 35% of each shareholder's holding of Shares (where that shareholder holds at least a Minimum Parcel of Shares). In calculating this number, fractions will be rounded down; and
- 100% of a shareholder's holding of Shares where that shareholder holds less than a Minimum Parcel of Shares.

As at the date of the announcement of the Buy-Back on 24 February 2004, a Marketable Parcel would comprise 214 Shares (based on a closing price of \$2.34) resulting in a Minimum Parcel of 330 Shares. For example, had the Buy-Back Offers been made on 24 February 2004, shareholders holding 229 Shares or less would be made offers for 100% of their Shares and shareholders holding at least 330 Shares would be made offers for 35% of their Shares.

The number of Shares which comprise a Minimum Parcel may change between the date of the announcement and the Record Date.

The Buy-Back will be conducted off-market (not on ASX), with Lemarne dealing directly with each of its shareholders.

The proposed timetable for the Buy-Back is set out in paragraph 3 below. While Lemarne does not anticipate changing any of the dates and times set out in that paragraph, it reserves its right to do so by announcement to ASX.

Participation in the Buy-Back is voluntary. Eligible shareholders are not obliged to sell their Shares in the Buy-Back. However, if all shareholders participate in the Buy-Back, Lemarne will buy-back approximately 6,233,000 of its Shares. This is an approximate number of Shares which may be repurchased rather than the actual number that will definitely be bought back.

If shareholders do not approve the Buy-Back resolution, Lemarne will not be able to proceed with the Buy-Back. Failure to approve the Buy-Back will not affect Lemarne's entitlement to undertake a buy-back that is otherwise permitted by the Corporations Act.

## 2.2 Buy-Back Price

Under the Buy-Back, Lemarne will pay the Buy-Back Price of \$2.34 for each Share which is bought back. This Buy-Back Price will be adjusted for the percentage change in the All Industrials Index from the opening of trading on 24 February, 2004 (being the day of the announcement of the Buy-Back) to the close of trading on the last day of the Buy-Back Period (which is currently expected to be 4 June, 2004). \$2.34 was the volume weighted average closing price of the Shares on ASX over the last 5 trading days prior to the announcement of the Buy-Back on 24 February, 2004.

The formula for calculating the Buy-Back Price is:

$$\frac{\$2.34 \times \text{closing level of All Industrials Index on the last day of the Buy-Back Period}}{3,714.5^*}$$

\* 3714.5 was the opening level of the All Industrials Index on 24 February 2004

The Buy-Back Price is dependent on the All Industrials Index at the close of trading at the end of the Buy-Back Period and so cannot be calculated before that time. The All Industrials Index may increase or decrease before that time. The level of the All Industrials Index is available in major daily newspapers.

The Buy-Back Price will be announced on the first business day after the end of the Buy-Back Period (currently expected to be 7 June, 2004).

Shareholders may be able to sell their Shares on ASX for a price which is higher than the Buy-Back Price (although different tax consequences may result). The market price of the Shares on ASX may be the same, or may move, higher or lower than the Buy-Back Price during the Buy-Back Period. Lemarne's share price may also rise or fall significantly in the future.

## 2.3 Participation in Buy-Back

Shareholders holding Shares at 7.00pm Melbourne time on the Record Date may participate in the Buy-Back. The Record Date is currently expected to be 7 May, 2004.

Participation in the Buy-Back is voluntary. Whilst Shareholders are able to choose whether or not they participate in the Buy-Back, if they do choose to participate, Shareholders can only accept Lemarne's offer for 35% of their shareholding (subject to the shareholding being at least a Minimum Parcel of Shares as explained in paragraph 2.1 above). Shareholders participating in the Buy-Back who hold less than a Minimum Parcel of Shares will have a 100% of their Shares bought back.

If shareholders do not wish to participate in the Buy-Back, no action needs to be taken by them when they receive the Buy-Back Offer. They will continue to hold their Shares in Lemarne. Nevertheless, such shareholders are encouraged to attend and vote at the general meeting in favour of the Buy-Back resolution.

## 2.4 Number of Shares to be bought back

Under the Buy-Back Lemarne will offer to buy-back or otherwise invite shareholders to sell:

- 35% of all Shares held by any shareholder who holds at least Minimum Parcel of Shares (fractions being rounded downwards); and
- all Shares held by any shareholder who holds less than a Minimum Parcel of Shares.

If all shareholders participate in the Buy-Back, Lemarne will buy-back approximately 6,233,000 Shares and return to shareholders (based on a Buy-Back Price of \$2.34 per Share) approximately \$14.6 million in cash.

## 2.5 Brokerage and Handling Fees

Shareholders who participate in the Buy-Back should not have to pay brokerage or stamp duty.

## 2.6 Conditions of the Buy-Back

Lemarne has sought and obtained an exemption from ASIC which is set out at paragraph 6.4 below. This exemption is conditional on Lemarne not proceeding with the Buy-Back unless the shareholders pass an ordinary resolution approving the Buy-Back as set out in the Notice of Meeting.

The Buy-Back is also conditional on Lemarne receiving a ruling from the Australian Tax Office in relation to the Buy-Back in a form acceptable to the Board.

The Board may also in its absolute discretion determine not to proceed with the Buy-Back or, if it elects to proceed with the Buy-Back, terminate the Buy-Back at any time prior to the commencement of the Buy-Back Period by making an announcement to ASX to that effect.

## 3. PROPOSED TIMING FOR BUY-BACK

The indicative timetable of the Buy-Back is set out below.

Lemarne does not currently intend to change any of the dates or times set out below, however, it reserves its right to do so by announcement to ASX.

<b>EVENT</b>	<b>DATE</b>
Announcement of details of Buy-Back	24 April 2004
General Meeting to approve Buy-Back	28 April 2004
Record Date for determination of entitlements to participate in Buy-Back	7:00 pm 7 May 2004

EVENT	DATE
Completion of dispatch of the Buy-Back Offer documentation to shareholders	12 May 2004
Buy-Back Period	13 May 2004 to 5:00 pm 4 June 2004
Announcement of the Buy-Back Price	7 June 2004
Announcement of acceptances of the Buy-Back	7 June 2004
Dispatch of cheques	18 June 2004

#### 4. INFORMATION ON LEMARNE

##### 4.1 Share Price Information

A graph indicating the Share price performance of Lemarne over the period from March 2000 to March 2004 is set out below:



##### 4.2 Outlook for Lemarne

Directors anticipate that Lemarne's profit after tax in the second half year (ending 30 June 2004) will be well up on that achieved in the first half, barring unforeseen circumstances and should result in a higher dividend per Share.

The Board believes that the recent acquisition of Lemvest Limited and the Buy-Back will, in the longer term, improve returns to shareholders.

The Buy-Back will reduce the number of Shares on issue and should increase earnings per Share (**EPS**), assuming a given level of profit.

The Board further considers that the relatively low return on the substantial sum of cash on deposit is also having a negative effect on Lemarne's EPS and that undertaking the proposed Buy-Back will remove this factor and EPS should consequently improve. This improvement in EPS should subsequently improve the Share price.

#### **4.3 Summary of latest financial results of Lemarne**

As set out in paragraph 5.2 below, operating profit before tax for the 6 months ended 31 December, 2003 was \$1.9 million, while net profit after tax attributable to shareholders was \$905,000. This was largely due to lower profits in Lemvest Limited as a result of the sale of Richardson Pacific Ltd, the lack of project work at Pacific Composites Pty Ltd and the relatively low returns generated on the substantial sum of cash currently on deposit with the bank.

This has resulted in an earnings per Share of 6 cents for the half year, and a net tangible assets (**NTA**) of \$2.29 (compared with 2002 NTA of \$1.94), at 31 December 2003. In addition, the gearing continued to improve markedly from a net \$5.6 million cash on deposit at 31 December 2002 to a net \$24.7 million on deposit at 31 December 2003. This was due to proceeds from the Richardson Pacific Ltd sale and a continuing strong cash flow, with \$4 million being generated from operating activities largely related to profitable trading and the ongoing tight control of working capital.

The operating profit before tax of the continuing operations decreased from \$2.2 million last year to \$1.9 million this year. This was a 12% decrease on the previous corresponding period.

### **5. EFFECT OF THE SHARE BUY-BACK ON LEMARNE**

#### **5.1 Funding of the Buy-Back**

Based on a Buy-Back Price of \$2.34 per Share, Lemarne will return to shareholders approximately \$14.6 million in cash assuming all the Buy-Back Offers are accepted. The cash reserves of Lemarne Group currently exceed \$24 million.

## 5.2 Financial Position

**LEMARNE CORPORATION LIMITED ABN 72 004 834 584  
AND ITS CONTROLLED ENTITIES  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

	<b>Consolidated</b>	
	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>
Revenue from sale of goods	29,982	56,835
Cost of goods sold	(22,105)	(40,582)
Gross Profit	7,877	16,253
Other revenues from ordinary activities	714	552
Selling and distribution expenses	(2,135)	(4,918)
Administration expenses	(4,382)	(6,922)
Borrowing costs	(50)	(311)
Other expenses from ordinary activities	(98)	(282)
<b>Profit/(loss) from ordinary activities before income tax expense</b>	<b>1,926</b>	<b>4,372</b>
Income tax (expense)/benefit	(625)	(960)
<b>Profit/(loss) from ordinary activities after income tax expense</b>	<b>1,301</b>	<b>3,412</b>
Net profit/(loss) attributable to outside equity interests	396	1,179
<b>Net profit/(loss) attributable to members of the parent entity</b>	<b>905</b>	<b>2,233</b>

**LEMARNE CORPORATION LIMITED –  
CONSOLIDATED  
STATEMENT OF FINANCIAL POSITION  
AS AT 29 FEBRUARY 2004**

**Actual  
( \$000'S )**

**CURRENT ASSETS**

Cash assets	24,650
Receivables	8,599
Inventories	8,685
Other assets	506

**TOTAL CURRENT ASSETS**

**42,440**

**NON-CURRENT ASSETS**

Property, plant and equipment	10,096
Deferred tax assets	681
Intangibles	352
Other	12

**TOTAL NON-CURRENT ASSETS**

**11,141**

**TOTAL ASSETS**

**53,581**

**CURRENT LIABILITIES**

Payables	9,337
Interest bearing liabilities	352
Current tax liabilities	548
Provisions	1,859

**TOTAL CURRENT LIABILITIES**

**12,096**

**NON CURRENT LIABILITIES**

Interest bearing liabilities	234
Deferred tax liabilities	314
Provisions	392
Other	55

**TOTAL NON CURRENT LIABILITIES**

**995**

**TOTAL LIABILITIES**

**13,091**

**NET ASSETS**

**40,490**

**EQUITY**

Contributed equity	11,434
Reserves	91
Retained profits	28,965

**TOTAL EQUITY**

**40,490**

<b>LEMARNE CORPORATION LIMITED – CONSOLIDATED PROFORMA STATEMENT OF FINANCIAL POSITION AS AT 29 FEBRUARY 2004</b>	<b>Assumes 100% Acceptances (\$000's)</b>	<b>Assumes 80% Acceptances (\$000's)</b>
<b>CURRENT ASSETS</b>		
Cash assets	10,065	12,982
Receivables	8,599	8,599
Inventories	8,685	8,685
Other assets	506	506
<b>TOTAL CURRENT ASSETS</b>	<b>27,855</b>	<b>30,772</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	10,096	10,096
Deferred tax assets	681	681
Intangibles	352	352
Other	12	12
<b>TOTAL NON-CURRENT ASSETS</b>	<b>11,141</b>	<b>11,141</b>
<b>TOTAL ASSETS</b>	<b>38,996</b>	<b>41,913</b>
<b>CURRENT LIABILITIES</b>		
Payables	9,337	9,337
Interest bearing liabilities	352	352
Current tax liabilities	548	548
Provisions	1,859	1,859
<b>TOTAL CURRENT LIABILITIES</b>	<b>12,096</b>	<b>12,096</b>
<b>NON CURRENT LIABILITIES</b>		
Interest bearing liabilities	234	234
Deferred tax liabilities	314	314
Provisions	392	392
Other	55	55
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>995</b>	<b>995</b>
<b>TOTAL LIABILITIES</b>	<b>13,091</b>	<b>13,091</b>
<b>NET ASSETS</b>	<b>25,905</b>	<b>28,822</b>
<b>EQUITY</b>		
Contributed equity	838	2,957
Reserves	91	91
Retained profits	24,976	25,774
<b>TOTAL EQUITY</b>	<b>25,905</b>	<b>28,822</b>

#### **Pro-forma Statement of Financial Position - assumptions and adjustments**

The pro-forma consolidated statement of financial position in this paragraph 5.2 has been prepared based on the actual consolidated statement of financial position at 29 February 2004 and the following assumptions and adjustments:

- 6,232,916 (80% is 4,986,333) Shares are brought back at \$2.34 per Share. This is treated as having occurred on 29 February 2004 although it is not scheduled to occur until June 2004.
- Lemarne's interim dividend of \$890,417 has been provided for.

### **5.3 Net Asset Backing per Share and the Number of Shares on Issue**

The NTA at 29 February 2004 is \$2.25 per Share based on 17,808,333 Shares on issue.

### **5.4 Dividends and Impact on Earnings Per Share**

With a reduced number of Shares on issue and a higher EPS, the Board is hoping that the dividend rate will show a steady increase.

### **5.5 Effect of Buy-Back on Lemarne Key Executive Option Plan**

The Buy-Back Offer is only an offer to buy-back a fixed proportion of each shareholder's holding of Shares. It does not extend to options held by Lemarne's executives or employees. However, if by the Record Date the options have been exercised by the holders of them (to the extent they are entitled to do so) and Shares have been issued, then the holders of those Shares will be entitled to participate in the Buy-Back. The Buy-Back will not result in an adjustment to the exercise price or number of Shares to be issued on exercise of the options.

### **5.6 Shares on Issue**

Lemarne has currently 17,808,333 Shares on issue. If all the Buy-Back Offers are accepted, Lemarne will buy-back approximately 6,233,000 Shares. All the Shares bought back under the Buy-Back will be cancelled.

### **5.7 Effect of Buy-Back on control of Lemarne**

As participation in the Buy-Back is voluntary, the effect of the Buy-Back on control of Lemarne will not be known until after the end of the Buy-Back Period.

All of the Directors have indicated that they will accept the Buy-Back Offer in relation to the Shares beneficially held by them individually (see the table in paragraph 6.5 below for details of particular shareholdings). No decision has been made in relation to Shares held indirectly or non-beneficially by Directors through companies, trusts and superannuation funds.

The Directors and their families control approximately 38% of the Shares.

The Directors do not expect the Buy-Back to have any material change of control implications for Lemarne.

## **6. OTHER MATERIAL INFORMATION**

### **6.1 Australian Tax Considerations**

Lemarne proposes that, for tax purposes, the Buy-Back Price will have 2 components, a fully franked dividend and a capital component.

Lemarne is currently seeking both a private and class ruling from the Australian Tax Office to confirm this proposed tax treatment. Provided Lemarne obtains this ruling, the Directors do not believe the Buy-Back will have any adverse implications for Lemarne from a taxation perspective. However, as the Buy-Back includes a franked dividend component, a reduction in the Lemarne's franking credit balance will occur. The size of this reduction will depend on the number of shareholders who accept the Buy-Back Offer and the portion of the Buy-Back Price treated as a deemed dividend. In any event, Lemarne will still have a substantial franking account balance after the Buy-Back.

The Buy-Back proceeding is conditional on Lemarne receiving a favourable ruling in relation to that proposed taxation treatment (at the discretion of the Directors).

If the Board decides to proceed with the Buy-Back, general information on the tax implications of participating in the Buy-Back will be provided to shareholders by way of a Buy-Back booklet.

## **6.2 Reasons for Buy-Back**

The Board is of the view that the Buy-Back is in the best interests of shareholders irrespective of whether they choose to participate in it.

The Board considers that the benefits of the Buy-Back are as follows:

- it provides an efficient means of returning excess capital to shareholders;
- it provides an equal opportunity for all eligible shareholders to participate;
- it will enable Lemarne to effectively utilise a portion of its franking account balance;
- it will reduce the negative impact on EPS currently caused by the relatively low return on cash held at bank;
- for a given profit level and a given dividend level, it will increase EPS and dividend rate; and
- returns to shareholders should improve through an appropriate level of gearing. This is expected to be achieved as a result of future growth and business acquisitions being partly funded by borrowings.

## **6.3 Possible Disadvantages of the Buy-Back**

The Board does not think that the Buy-Back has any significant disadvantage to shareholders of Lemarne. However, the Buy-Back will reduce the amount of cash available in Lemarne.

## **6.4 ASIC Exemption**

Under section 257A of the Corporations Act Lemarne is able to buy-back its own Shares if the buy-back does not materially prejudice its ability to pay its creditors and Lemarne follows the procedures set out in Division 2 of Part 2J.1 of the Corporations Act.

By following this procedure, the Corporations Act permits Lemarne to conduct an equal access buy-back scheme if each of the conditions set out in section 257B(2) is satisfied. These conditions are that: offers under the scheme relate only to ordinary shares; the offers are to be made to every person who holds ordinary shares to buy-back the same percentage of their ordinary shares; all persons holding ordinary shares have a reasonable opportunity to accept the offer made to them; buy-back agreements are not entered into until a specified time for acceptances of offers has closed; and the terms of the offers are the same for all holders of ordinary shares.

An equal access scheme in excess of the 10/12 limit (defined in the Corporations Act as 10% of the smallest number of votes attaching to voting shares that the company had on issue that year) also requires approval under section 257C of the Corporations Act by an ordinary resolution passed at a general meeting of the company.

The Buy-Back does not technically comply with the requirements for an equal access buy-back scheme. This means the Buy-Back for the purposes of the Corporations Act is treated as a selective buy-back. However, ASIC has granted Lemarne an exemption under section 257D(4) of the Corporations Act to permit Lemarne to:

- conduct the Buy-Back similarly to the way Lemarne would be required to conduct an equal access scheme;
- buy-back the Shares as set out in paragraph 2.1 above; and
- seek approval by ordinary resolution of its shareholders to buy-back Shares under the Buy-Back.

By obtaining the exemption outlined above, Lemarne is not required to approve the Buy-Back in accordance with section 257D of the Corporations Act (which requires approval of the terms of a selective buy-back by a special resolution on which no votes are cast by persons whose shares are proposed to be bought back or their associates).

## **6.5 Directors' interests in Shares and Options**

Directors are entitled to participate in the Buy-Back. All of the Directors have indicated that they intend to accept the Buy-Back Offers for the Shares individually held by them beneficially. No decision has been made in relation to Shares held indirectly or non-beneficially by Directors through companies, trusts and superannuation funds.

As at 12 March 2004, the Directors held or had a relevant interest in the following Shares or options (as notified to ASX in accordance with the ASX Listing Rules and the Corporations Act):

<b>Name of Director</b>	<b>No. of Lemarne Shares</b>	<b>No. of Lemarne Options</b>	<b>Registered Holder</b>
P.G. Davenport	1,344,369	Nil	P.G. Davenport
P.G. Davenport	30,000	Nil	Maintop Superannuation Pty Ltd as trustee of the Davenport Super Fund
J.C. Larking	1,135,979	Nil	J.C. Larking as trustee of the Larking Family Fund
J.C. Larking	559,715	Nil	J.C. Larking as trustee of the J.C. Larking Superannuation Fund
E.B. Noxon	677,000	Nil	E.B. Noxon
E.B. Noxon	280,358	Nil	E.B. & A.E. Noxon as trustees of the EBN Super Fund
E.B. Noxon	1,240,492	Nil	Lindridge Pty Ltd
D.J. Rainsbury	73,200	672,500	D.J. Rainsbury
D.J. Rainsbury	353	Nil	D.J. & D.M. Rainsbury
S.L. Mason	374,567	277,500	S L Mason

## 7. GLOSSARY

**All Industrials Index** means the sub-indices of the share price index measuring the market prices of the major industrial stocks listed on ASX.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means Australian Stock Exchange Limited ACN 008 624 691.

**Board** and **Directors** means the board of directors, and each director, as the circumstances require, of Lemarne.

**Buy-Back** and **Buy-Back Offer** means the proposed Share buy-back scheme to be made available to all Shareholders generally on the terms set out in these Explanatory Notes.

**Buy-Back resolution** means the resolution set out in the Notice of Meeting relating to the approval of the Buy-Back.

**Buy-Back Period** means the time period beginning when the Buy-Back Offers are open for acceptance and ending when the Buy-Back Offers are unable to be accepted.

**Buy Back Price** means \$2.34 adjusted in accordance with paragraph 2.2 above.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Lemarne** means Lemarne Corporation Limited ACN 004 834 584.

**Marketable Parcel** means a parcel of Shares which would have a market price as at the Record Date of not less than \$500, where the market price of each Share is the closing price on that day.

**Minimum Parcel** means the minimum parcel of Shares at the Record Date which, if the holder of those Shares during the Buy-Back Period accepted the Buy-Back Offer for 35% of the holder's Shares, would leave that shareholder still holding a Marketable Parcel.

**Notice of Meeting** means the notice of meeting in relation to the general meeting convened for the purposes of considering the Buy-Back resolution.

**Share** means a fully paid ordinary share in the capital of Lemarne.

**Record Date** means 7 May 2004 or such other date notified to ASX by Lemarne for the purposes of the Buy-Back.