

Lemarne Corporation Limited
ACN 004 834 584

Lemarne Corporation Limited

Buy-Back Offer

This is an important document and requires your immediate attention. If you are in any doubt as to the action you should take, please consult your stockbroker, accountant or other professional adviser immediately.

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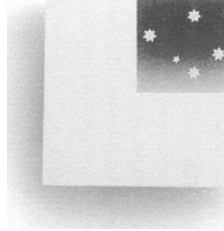
5. Definitions and Interpretation

Acceptance Form - enclosed

This is an important document and requires your immediate attention. It should be read in its entirety. To accept the Buy-Back Offer, please complete and sign the enclosed Acceptance Form and send it to Computershare Investor Services Pty Limited, GPO Box 52, Melbourne, Victoria, 8060 so that it is received by no later than 5:00pm, 30 July 2004. If you have a CHESS Holding, instruct your controlling participant (normally your broker) in sufficient time for your controlling participant to process your acceptance no later than 5:00pm, 30 July 2004. If you have any queries in relation to the Buy-Back Offer please call (03) 9820 2400.

Timetable of Important Dates

| Event | Date |
|---|------------------|
| Announcement of Buy-Back | 24 February 2004 |
| Approval of General Meeting | 28 April 2004 |
| Record Date for participation in Buy-Back is 7:00pm | 25 June 2004 |
| Completion of despatch of Buy-Back documentation to Shareholders | 29 June 2004 |
| Buy-Back Offer opens for acceptance | 30 June 2004 |
| Buy-Back Offer closes and acceptances must be received no later than 5:00pm | 30 July 2004 |
| Announcement of final Buy-Back Price | 2 August 2004 |
| Despatch of cheques to participating Shareholders by | 13 August 2004 |



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

28 June 2004

Dear Lemarne Shareholder,

On behalf of Lemarne Corporation Limited (**Lemarne**), your directors are pleased to provide you with the opportunity to participate in the off-market share buy-back (**Buy-Back**) on the terms approved by shareholders on 28 April 2004, to buy-back 35% of each shareholder's holding of shares.

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.

The price for the Buy-Back has been set at \$2.34 per share adjusted for movements in the All Industrials Index from 24 February 2004 to the date the Buy-Back closes on 30 July 2004.

The Australian Taxation Office has indicated that it will be issuing a private tax ruling to Lemarne and a class ruling for Lemarne's shareholders in relation to certain tax implications of the Buy-Back. It is expected that these rulings will confirm that 40% of the buy-back price will be treated as a frankable dividend and 60% of the buy-back price will be treated as proceeds from the disposal of the shares in Lemarne bought back, for capital gains tax purposes.

As previously advised, 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.

Your directors are not making any recommendations as to whether you should participate in the Buy-Back or not. Some directors may accept the offer while others may not. However, your directors do strongly recommend you consult your advisers in this matter and read the accompanying Buy-Back Offer booklet carefully for more details about the Buy-Back and its terms and advantages.

At this stage, we forecast a net profit before tax (NPBT) of \$4.6 million for the year ending 30 June 2004 and an earnings per share (EPS) of 17 cents. We continue to actively search for new acquisitions and shareholders should recognise that Lemarne's share price may be affected by our success or otherwise in this endeavour, as well as by our future earnings.

If you wish to participate in the Buy-Back, I encourage you to complete the Acceptance Form and return it to our Share Registrar, Computershare Investor Services Pty Ltd, in the enclosed reply paid envelope promptly.

The Buy-Back is scheduled to close at 5:00pm 30 July 2004. Acceptances need to be received on or prior to that date to participate in the Buy-Back. Cheques will be despatched to those shareholders who elect to participate in the Buy-Back by no later than 13 August 2004.

Yours sincerely,

Brian Noxon
Chairman

INCORPORATED IN VICTORIA
LEVEL 1, 492 ST. KILDA ROAD, MELBOURNE, VICTORIA, 3004 AUSTRALIA
TELEPHONE 613 9820 2400 FACSIMILE 613 9820 2038

Section 1 – Overview of Buy-Back

1.1 Background

On 24 February 2004 Lemarne announced its intention to undertake an off-market share buy-back of 35% of each Shareholder's holding of Shares.

On 28 April 2004 Lemarne Shareholders overwhelmingly approved the Buy-Back.

This booklet contains material information on the Buy-Back and is provided to enable you to make an informed decision on whether to participate in the Buy-Back.

A number of defined terms are used in this booklet which are explained in section 5.

1.2 Why is Lemarne implementing the Buy-Back?

Your 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.

Your 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 on deposit;
- for a given profit and dividend level, it will increase EPS and the 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.

1.3 Who may participate in the Buy-Back?

Only those Shareholders holding Shares at 7:00pm on 25 June 2004 may participate in the Buy-Back.

1.4 **Do I have to sell any of my Shares?**

No. If you do not want to sell any of your Shares you do not need to take any action. If you do nothing, the number of Shares you hold will not change as a result of the Buy-Back. As Lemarne will cancel any Shares bought back, your proportional shareholding in Lemarne may increase.

1.5 **For how many Shares can I accept the Buy-Back?**

The Buy-Back offers you the opportunity to sell to Lemarne:

- if you held at least 350 Shares on the Record Date, 35% of your holding of Shares (fractions being rounded downwards); and
- if you held less than 350 Shares on the Record Date, 100% of your holding of Shares.

The number of Shares in respect of which you may accept the Buy-Back Offer will be printed in the Acceptance Form. You may only accept the Buy-Back Offer for that number.

1.6 **At what price will the Shares be bought back?**

The Buy-Back Price will be \$2.34 adjusted upwards or downwards for the percentage change in the All Industrials Index from the commencement of trading on 24 February 2004 (being the day of the announcement of the Buy-Back) to the close of trading on 30 July 2004 (being the last day of the Buy-Back Period).

The formula for calculating the Buy-Back price is:

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

* 3,714.5 was the opening level of the All Industrials Index on 24 February 2004

Since the Buy-Back Price is calculated by reference to the All Industrials Index at the close of trading on 30 July 2004, it cannot be calculated before that time. The All Industrials Index may increase or decrease before that time. You can check the level of the All Industrials Index in many daily newspapers.

The Buy-Back Price will be announced on 2 August 2004.

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

In inviting Shareholders to participate in the Buy-Back, 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.

Your directors recommend that Shareholders should obtain their own professional advice including taxation advice before participating in the Buy-Back.

1.7 **How many shares will Lemarne Buy-Back?**

Lemarne has currently 17,808,333 Shares on issue. 4,578,236 Shares were issued as a result of Lemarne's recent successful takeover of Lemvest.

If all the Buy-Back Offers are accepted, Lemarne will buy-back approximately 6,233,000 Shares and return to Shareholders approximately \$14.6 million in cash (assuming a Buy-Back Price of \$2.34 per Share).

All Shares brought back under the Buy-Back will be cancelled.

1.8 **How do I accept the Buy-Back Offer?**

The Buy-Back Offer will remain open for acceptance for the period commencing on Wednesday 30 June 2004 ending at 5:00pm on Friday 30 July 2004.

(a) **Issuer Sponsored Holdings**

Enclosed with this booklet is a personalised Acceptance Form which contains instructions on how to accept the Buy-Back Offer.

If you wish to accept the Buy-Back Offer, you need only sign the Acceptance Form where indicated and return it to Lemarne's Share Registry, Computershare Investor Services Pty Limited, GPO Box 52, Melbourne, Victoria, 8060 so that it is received no later than 5:00pm on Friday 30 July 2004. A reply paid envelope is enclosed for use within Australia.

(b) **CHESS Holdings**

If you have a CHESS Holding, you need only contact your controlling participant (normally your broker) in sufficient time for them to process your acceptance by no later than 5:00pm on Friday 30 July 2004. You should not send your Acceptance Form to Lemarne's Share Registry as they cannot act on your instructions. Only your controlling participant can act on your behalf.

1.9 **Can I withdraw my acceptance?**

You may only withdraw your acceptance of the Buy-Back Offer by following the procedures set out below.

(a) **Issuer Sponsored Holdings**

You may withdraw your acceptance of the Buy-Back Offer by notifying Lemarne or its Share Registry in writing of the withdrawal of your acceptance. This withdrawal must be received by the Share Registry by no later than 5:00pm on Friday 30 July 2004. You may not withdraw your acceptance of the Buy-Back Offer after this time.

(b) **CHESS Holdings**

If you have a CHESS Holding you will need to instruct your controlling participant in sufficient time for them to process your withdrawal by no later than 5:00pm on Friday 30 July 2004.

1.10 **When will I be paid?**

Payment for Shares bought back under the Buy-Back will be mailed to you by cheque by no later than Friday 13 August 2004. Unless written advice to the contrary is received by the Share Registry prior to despatch, your cheque will be mailed to the address shown in the register of members at the close of the Buy-Back Offer.

Section 2 – Australian Tax Implications for Shareholders

The following is a general summary of the Australian income tax implications of participating in the Buy-Back for Australian resident individuals, Australian resident companies, Australian complying superannuation entities and non-residents that hold their Shares on capital account. This summary does not apply to Shareholders who hold their Shares on revenue account or to Shareholders who are professional share traders, banks or insurance companies.

Lemarne has applied for a class ruling from the Australian Taxation Office (ATO) on certain aspects of this summary. It is possible, although not anticipated, that the class ruling when it is finally issued by the ATO could express views that are contrary to those expressed below.

This summary is of a general nature only and is not intended to be legal or tax advice and should not be relied upon as such. You should consult your professional adviser regarding the tax implications of participating in the Buy-Back relevant to your own particular circumstances.

2.1 General

The Buy-Back constitutes an “off market” Share buy-back for the purposes of the tax legislation.

Lemarne has obtained preliminary confirmation from the ATO that the Buy-Back Price has been set in accordance with the recently released draft tax determination TD2004/D1. Lemarne expects that the ATO will confirm that 40% of the Buy-Back Price will be treated as a franked dividend, which Lemarne will frank to 100%. The remaining 60% of the Buy-Back Price will be capital proceeds for the disposal of each Share for Capital Gains Tax (CGT) purposes.

2.2 Tax implications for Australian resident individual Shareholders and complying superannuation entity Shareholders

(a) Franked dividends

An Australian resident individual or complying superannuation entity Shareholder participating in the Buy-Back will be deemed to have received a fully franked distribution of 40% of the Buy-Back Price per Share. The Shareholder will be required to include the amount of the franked distribution grossed up by an amount equal to the company tax attributable to the franked distribution in their assessable income. The “gross up amount” is calculated by multiplying the amount of the franked distribution by 30/70.

Subject to minimum holding period rules (see section 2.5), the Shareholder is then entitled to a tax offset equal to the gross up amount that may be offset against the total tax payable on their taxable income. If the Shareholder's total tax offsets exceed the amount of income tax otherwise payable, the Shareholder should be entitled to a refund of that excess.

For tax purposes, Lemarne will be treated as having paid a dividend to each Shareholder who participates in the Buy-Back on the Buy-Back Date.

(b) Capital gains tax

For CGT purposes, the Buy-Back will constitute a disposal of each Share. An Australian resident individual or a complying superannuation entity Shareholder will be deemed to have disposed of each Share for capital proceeds equal to 60% of the Buy-Back Price per Share. Generally, the Shareholder's CGT cost base will be the amount the Shareholder paid to acquire the Share, together with any incidental costs of acquisition such as stamp duty and brokerage fees, and certain incidental costs of disposal.

A capital loss will arise to the extent that the unindexed cost base of the Share disposed of under the Buy-Back exceeds the deemed capital proceeds. Any capital losses can only be used to offset capital gains made by the Shareholder, and any unused capital losses may be carried forward indefinitely.

A capital gain will arise if the CGT cost base of the Shares disposed of under the Buy-Back is less than the deemed capital proceeds of the Shares. The calculation of the capital gain is dependent upon whether the Shares were acquired before or after 11.45am (EST) on 21 September 1999. For Shares acquired after 21 September 1999, the calculation of the capital gain is also dependent on whether the Shares were held for 12 months or longer prior to disposal under the Buy-Back.

The following summarises the tax implications:

- If a Shareholder acquired the Shares after 21 September 1999 and held them for 12 months or longer, the Shareholder must apply the discount capital gain method in calculating the capital gain on disposal. Under this method, a resident individual Shareholder will include one-half of the nominal gain, being the excess of the deemed capital proceeds over the unindexed CGT cost base, in their assessable income. Complying superannuation entity Shareholders will include two-thirds of the nominal gain in their assessable income. If the Shareholder has any current or prior year capital losses, these must be applied to offset the nominal capital gain before discounting the capital gain by one-half or two-thirds as applicable.

- If a Shareholder acquired the Shares after 21 September 1999 and held them for less than 12 months, the discount capital gain method in calculating the capital gain on disposal will not be available. The Shareholder will include the entire gain, being the excess of the deemed capital proceeds over the unindexed CGT cost base, in the Shareholder's assessable income. If the Shareholder has any current or prior year capital losses, these must be applied to offset the capital gain.
- If a Shareholder acquired the Shares before 21 September 1999, the Shareholder will have a choice of applying the discount capital gain method as outlined above or, alternatively, may calculate the capital gain as the difference between the capital proceeds and the CGT cost base of the Shares indexed up to 30 September 1999.

To the extent that Shares were acquired before 20 September 1985, there will be no CGT consequences for the Shareholder as a result of the Buy-Back.

If a Shareholder is subject to CGT on the Buy-Back, the Shareholder will be treated for CGT purposes as having disposed of the shares bought back on the Buy-Back Date.

2.3 Tax implications for Australian resident corporate Shareholders

(a) Franked dividends

An Australian resident corporate Shareholder participating in the Buy-Back will be deemed to have received a fully franked distribution of 40% of the Buy-Back Price per Share.

The Shareholder will be required to include the amount of the franked distribution grossed up by an amount equal to the company tax attributable to the franked distribution in their assessable income. The "gross up amount" is calculated by multiplying the amount of the franked distribution by $30/70$.

Subject to minimum holding period rules (see section 2.5), the Shareholder is then entitled to a tax offset equal to the gross up amount that may be offset against the total tax payable on the Shareholder's taxable income. A corporate Shareholder will also be entitled to credit its franking account for the amount equal to the franking credits on the deemed dividend. Corporate Shareholders are not entitled to a refund of excess franking credits.

For tax purposes, Lemarne will be treated as having paid a dividend to each Shareholder who participates in the Buy-Back on the Buy-Back Date.

(b) Capital gains tax

For CGT purposes, the Buy-Back will constitute a disposal of each Share. An Australian resident corporate Shareholder will be deemed to have disposed of each Share for capital proceeds equal to 60% of the Buy-Back Price per Share. Generally, the Shareholder's CGT cost base will be the amount the Shareholder paid to acquire the Share, together with any incidental costs of acquisition such as stamp duty and brokerage fees, and certain incidental costs of disposal. A corporate Shareholder that acquired the Shares before 11.45 a.m. (EST) on 21 September 1999 will be entitled to index the cost base of those Shares up to 30 September 1999 when calculating any capital gain. Corporate Shareholders are not eligible for discount capital gains treatment.

A capital loss will arise to the extent that the unindexed cost base of the Share disposed of under the Buy-Back exceeds the deemed capital proceeds. Any capital losses can only be used to offset capital gains made by the Shareholder, and any unused capital losses may be carried forward indefinitely.

The position under the tax legislation as currently enacted with respect to the realisation of capital losses by companies under an off-market share buy-back has changed due to the abolition of the intercorporate dividend rebate and its replacement with the tax offset provisions for companies. In essence, an Australian resident company Shareholder would realise a capital loss to the extent that the unindexed cost base of the Share bought back exceeded the deemed capital proceeds. Under the previous provisions, capital losses incurred by an Australian resident corporate Shareholder were reduced where part of the buy-back consideration was a rebateable dividend. It is conceivable that the tax legislation will be amended with retrospective effect to reinstate the previous position in relation to the realisation of capital losses by companies under an off-market share buy-back where the deemed dividend component is franked. Corporate Shareholders should seek their own independent advice as to the status of the law with respect to this issue.

To the extent that Shares were acquired before 20 September 1985, there will be no CGT consequences for the Shareholder as a result of the Buy-Back.

If a Shareholder is subject to CGT on the Buy-Back, the Shareholder will be treated for CGT purposes as having disposed of the Shares bought back on the Buy-Back Date.

2.4 Tax implications for non-resident Shareholders

(a) Franked dividends

A non-resident Shareholder participating in the Buy-Back will be deemed to have received a fully franked dividend distribution of 40% of the Buy-

Back Price per Share. For tax purposes, Lemarne will be treated as having paid a dividend to each Shareholder that participates in the Buy-Back on the Buy-Back Date.

As the deemed dividend is fully franked, a non-resident Shareholder will not be liable to Australian withholding tax on any part of the Buy-Back Price.

Minimum holding period rules (as outlined in section 2.5) should not apply to non-resident Shareholders on the basis that those Shareholders would not be entitled to any tax offsets or franking credits for fully franked dividends received.

(b) Capital gains tax

Although the Buy-Back of the Shares will constitute a disposal for CGT purposes, a non-resident Shareholder will not be subject to CGT unless the Shareholder, together with any associates, has held at least 10% of the Shares (by value), or options to acquire 10% of the value of the Shares, at any time during the 5 years up to the Buy-Back Date.

If a Shareholder is subject to CGT, the Shareholder will be treated for CGT purposes as having disposed of the Shares bought back on the Buy-Back Date.

(c) Foreign tax implications

You should consult your professional adviser regarding any foreign tax implications of participating in the Buy-Back relevant to your own particular circumstances.

2.5 **Capital and dividend components of the Buy-Back Price – anti-avoidance provisions**

The taxation legislation contains certain anti-avoidance provisions, which operate where either capital benefits or franking credits are streamed to particular Shareholders who can obtain greater benefits from the capital benefits or franking credits.

(a) Capital Benefits

Where the capital benefits anti-avoidance provisions apply, all or part of the capital benefit is treated as an unfranked dividend, paid out of profits. Based on preliminary discussions with the ATO, Lemarne does not expect that the Commissioner of Taxation will seek to apply these provisions.

(b) Franking Credits

Where the franking credits anti-avoidance provisions apply, a Shareholder may be denied the benefit of tax offsets (and, in the case of an Australian corporate Shareholder, franking credits) attributable to the dividend component of the Buy-Back Price. These measures can apply to all Shareholders generally, or to particular Shareholders on the basis of their specific circumstances.

Again, based on preliminary discussions with the ATO, Lemarne does not expect that the Commissioner of Taxation will make a determination to deny all Shareholders the benefit of tax offsets (and franking credits) on the franked dividend component of the Buy-Back Price.

(c) Franking Credits/45 Day Rule

The "45 day rule" provides that the Shares must be held at risk for a continuous period of at least 45 days (not including the date of acquisition or disposal), within a period beginning on the date the Shares were acquired and ending 45 days after the Shares became ex-dividend. The 45 day rule operates on a last-in-first-out basis, so that the Shareholder will be deemed to have disposed of their most recently acquired Shares for the purposes of applying the 45 day rule.

A Shareholder that participates in the Buy-Back will not be considered to hold the Shares that are the subject of the Buy-Back at risk, from the Buy-Back Date. Consequently, a Shareholder who has acquired Shares within 45 days prior to the Buy-Back Date would fail the 45 day rule in respect of those Shares. On the basis that the Buy-Back Date will be 30 July 2004, a Shareholder will fail the 45 day rule if Shares were acquired by the Shareholder on or after 15 June 2004.

A Shareholder who acquired their Shares before this date could still fail the 45 day rule if the Shareholder had entered into arrangements (eg hedging arrangements) in relation to their Shares, which meant that the Shareholder had materially reduced the risk in relation to those Shares.

Shareholders who are individuals and whose total franking credit entitlement for the income year does not exceed \$5,000 are not subject to the 45 day rule (provided they satisfy the related payments rule). Broadly, a related payment has the effect of passing the economic benefit of a dividend to another person. The terms of the Buy-Back do not provide for the making of any such 'related payment'.

Where the Shareholder does not qualify for the benefit of franking credits attached to the franked distribution paid on the Shares, then the franking credit is not included in the assessable income of the Shareholder.

Shareholders should seek independent advice regarding the operation of the 45 day rule to their own specific circumstances.

2.6 **Illustrative example**

Illustrative examples of the tax implications of participating in the Buy-Back for resident individual, corporate and complying superannuation funds are provided below. These examples assume a Buy-Back Price of \$2.34, alternative cost bases in the Shares of \$1.00 and \$2.50, and that the Shares are not pre-CGT. The results depicted are hypothetical results only and are based on a number of assumptions as indicated.

Illustrative example

| Shareholder | Australian resident individual | | Australian resident individual | | Australian resident company | | Australian resident complying superannuation fund | |
|--|--|--|--------------------------------|--------------|-----------------------------|-----------------------|---|----------|
| | 18.5% marginal tax rate ⁽¹⁾ | 48.5% marginal tax rate ⁽¹⁾ | 30% corporate tax rate | 15% tax rate | | | | |
| Tax Rate | | | | | | | | |
| Buy-Back Price | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 |
| Assumed CGT Cost Base | \$1.00 | \$2.50 | \$1.00 | \$2.50 | \$1.00 | \$2.50 | \$1.00 | \$2.50 |
| Income Tax Consequences | | | | | | | | |
| Dividend component of the Buy-Back Price | \$0.94 | \$0.94 | \$0.94 | \$0.94 | \$0.94 | \$0.94 | \$0.94 | \$0.94 |
| Plus franking credit gross up ⁽²⁾ | \$0.40 | \$0.40 | \$0.40 | \$0.40 | \$0.40 | \$0.40 | \$0.40 | \$0.40 |
| Taxable Income | \$1.34 | \$1.34 | \$1.34 | \$1.34 | \$1.34 | \$1.34 | \$1.34 | \$1.34 |
| Tax | \$0.25 | \$0.25 | \$0.65 | \$0.65 | \$0.40 | \$0.40 | \$0.20 | \$0.20 |
| Less franking credit ⁽²⁾ | (\$0.40) | (\$0.40) | (\$0.40) | (\$0.40) | (\$0.40) | (\$0.40) | (\$0.40) | (\$0.40) |
| Net tax/(refund) | (\$0.15) | (\$0.15) | \$0.25 | \$0.25 | \$0.00 | \$0.00 | (\$0.20) | (\$0.20) |
| CGT consequences | | | | | | | | |
| Capital component of the Buy-Back Price | \$1.40 | \$1.40 | \$1.40 | \$1.40 | \$1.40 | \$1.40 | \$1.40 | \$1.40 |
| Assumed cost base | \$1.00 | \$2.50 | \$1.00 | \$2.50 | \$1.00 | \$2.50 | \$1.00 | \$2.50 |
| Capital gain/(loss) ⁽³⁾ | \$0.40 | (\$1.10) | \$0.40 | (\$1.10) | \$0.40 | (\$1.10) | \$0.40 | (\$1.10) |
| Discount capital gain ⁽⁴⁾ | \$0.20 | NA | \$0.20 | NA | NA | NA | \$0.27 | NA |
| Tax | \$0.04 | NA | \$0.10 | NA | \$0.12 | NA | \$0.04 | NA |
| Net after tax position | | | | | | | | |
| Consideration received | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 | \$2.34 |
| Less tax and/or plus refund | \$0.12 | \$0.15 | (\$0.35) | (\$0.25) | (\$0.12) | \$0.00 | \$0.16 | \$0.20 |
| After-tax benefit ⁽⁵⁾ | \$2.46 | \$2.49 | \$1.99 | \$2.09 | \$2.22 | \$2.34 | \$2.50 | \$2.54 |
| Capital loss benefit ⁽⁵⁾⁽⁶⁾ | NA | \$0.10 | NA | \$0.27 | NA | \$0.33 ⁽⁷⁾ | NA | \$0.11 |

⁽¹⁾ It is assumed that the marginal rate includes the Medicare Levy at a rate of 1.5%. The liability of an individual to pay the Medicare Levy depends on the individual's own circumstances

⁽²⁾ This assumes that the Shareholder is fully entitled to franking credit benefits.

⁽³⁾ Capital losses can only be offset against capital gains. Corporate Shareholders should ensure that they can offset any current or prior year losses against capital gains from the Buy-Back.

⁽⁴⁾ This assumes that the discount capital gain method is available to Australian resident individuals and complying superannuation funds as outlined in section 2.2(b).

⁽⁵⁾ Amounts have been rounded up or down as appropriate.

⁽⁶⁾ This assumes that the capital losses can be fully utilised, and for individuals and complying superannuation funds that they will be fully offset against future discount capital gains.

⁽⁷⁾ As outlined in section 2.3(b), it is conceivable that tax legislation will be amended with retrospective effect to reduce any capital loss incurred by an Australian resident corporate Shareholder where part of the Buy-Back Price includes a franked dividend.

Section 3 – Additional Information

3.1 Recent share price performance

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



Source: CommSec

3.2 Funding of 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 and its controlled entities currently exceed \$23 million.

3.3 Outlook for Lemarne

Your directors anticipate that Lemarne's profit after tax in the second half year (ended 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.

Your Board believes that the recent acquisition of Lemvest 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 improve EPS, assuming a given level of profit.

Your 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 Buy-Back will remove this factor and EPS should consequently improve. This improvement in EPS should subsequently improve the Share price.

3.4 Summary of latest financial results of Lemarne

As set out in section 3.5, 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 as a result of the sale of Richardson Pacific, the lack of project work at Pacific Composites and the relatively low returns generated on the substantial sum of cash currently on deposit.

This has resulted in an EPS of 6 cents for the half year ended 31 December 2003, a 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 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. Due to the cash on deposit the group may, to some extent, be considered under geared.

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.

3.5 Lemarne's Historical Performance

Set out below is Lemarne's consolidated statement of financial performance for the half-year ended 31 December 2003, consolidated statement of financial position as at 30 April 2004 and proforma consolidated statement of financial position post the Buy-Back assuming an acceptance rate 80% or 100% and a Buy-Back Price of \$2.34.

LEMARNE CORPORATION LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF YEAR ENDED 31 DECEMBER 2003**

| | Consolidated | |
|---|---------------------|------------------|
| | 2003 | 2002 |
| | (\$000's) | (\$000's) |
| 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) |
| Profit/(loss) from ordinary activities before income tax expense | 1,926 | 4,372 |
| Income tax (expense)/benefit | (625) | (960) |
| Profit/(loss) from ordinary activities after income tax expense | 1,301 | 3,412 |
| Net profit/(loss) attributable to outside equity interests | 396 | 1,179 |
| Net profit/(loss) attributable to members of the parent entity | 905 | 2,233 |

LEMARNE CORPORATION LIMITED

CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
AS AT 30 APRIL 2004

| | Actual (\$000's) |
|--|---------------------|
| CURRENT ASSETS | |
| Cash assets | 23,384 |
| Receivables | 10,331 |
| Inventories | 9,417 |
| Other assets | 461 |
| TOTAL CURRENT ASSETS | 43,593 |
| NON-CURRENT ASSETS | |
| Property, plant and equipment | 10,363 |
| Deferred tax assets | 681 |
| Intangibles | 360 |
| Other | 0 |
| TOTAL NON-CURRENT ASSETS | 11,404 |
| TOTAL ASSETS | 54,997 |
| CURRENT LIABILITIES | |
| Payables | 9,925 |
| Interest bearing liabilities | 875 |
| Current tax liabilities | 593 |
| Provisions | 1,144 |
| Other | 0 |
| TOTAL CURRENT LIABILITIES | 12,537 |
| NON CURRENT LIABILITIES | |
| Interest bearing liabilities | 214 |
| Deferred tax liabilities | 319 |
| Provisions | 324 |
| Other | 56 |
| TOTAL NON CURRENT LIABILITIES | 913 |
| TOTAL LIABILITIES | 13,450 |
| NET ASSETS | 41,547 |
| EQUITY | |
| Contributed equity | 11,434 |
| Reserves | 324 |
| Retained profits | 29,789 |
| TOTAL PARENT ENTITY | 41,547 |
| Outside equity interest in controlled entities | 0 |
| TOTAL EQUITY | 41,547 |

LEMARNE CORPORATION LIMITED

**PROFORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION
AS AT 30 APRIL 2004**

| | Assumes 100% Acceptances (\$000's) | Assumes 80% Acceptances (\$000's) |
|--|---|--|
| CURRENT ASSETS | | |
| Cash assets | 8,799 | 11,716 |
| Receivables | 10,331 | 10,331 |
| Inventories | 9,417 | 9,417 |
| Other assets | 461 | 461 |
| TOTAL CURRENT ASSETS | 29,008 | 31,925 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 10,363 | 10,363 |
| Deferred tax assets | 681 | 681 |
| Intangibles | 360 | 360 |
| Other | 0 | 0 |
| TOTAL NON-CURRENT ASSETS | 11,404 | 11,404 |
| TOTAL ASSETS | 40,412 | 43,329 |
| CURRENT LIABILITIES | | |
| Payables | 9,925 | 9,925 |
| Interest bearing liabilities | 875 | 875 |
| Current tax liabilities | 593 | 593 |
| Provisions | 1,144 | 1,144 |
| Other | 0 | 0 |
| TOTAL CURRENT LIABILITIES | 12,537 | 12,537 |
| NON CURRENT LIABILITIES | | |
| Interest bearing liabilities | 214 | 214 |
| Deferred tax liabilities | 319 | 319 |
| Provisions | 324 | 324 |
| Other | 56 | 56 |
| TOTAL NON CURRENT LIABILITIES | 913 | 913 |
| TOTAL LIABILITIES | 13,450 | 13,450 |
| NET ASSETS | 26,962 | 29,879 |
| EQUITY | | |
| Contributed equity | 2,683 | 4,433 |
| Reserves | 324 | 324 |
| Retained profits | 23,955 | 25,122 |
| TOTAL PARENT EQUITY | 29,962 | 29,879 |
| Outside equity interest in controlled entities | 0 | 0 |
| TOTAL EQUITY | 26,962 | 29,879 |

Proforma Consolidated Statement of Financial Position

The proforma consolidated statement of financial position in this section 3.5 has been prepared based on the actual unaudited consolidated statement of financial position at 30 April 2004 assuming 6,232,916 (80% is 4,986,333) Shares are brought back at \$2.34 per Share. This is treated as having occurred on 30 April 2004 although it is not scheduled to occur until immediately after the end of the Buy-Back Period.

3.6 Net Asset Backing

The NTA of Lemarne at 30 April 2004 is \$2.31 per Share based on 17,808,333 Shares on issue.

3.7 Impact on Dividend and on Earnings per Share

With a reduced number of Shares on issue and higher earnings per Share, your directors are hopeful that the dividend rate will show a steady increase.

3.8 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.

3.9 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.

As participation in the Buy-Back is voluntary all of your directors have reserved their right to accept or reject the Buy-Back Offer in relation to the Shares held by, or for, them (see the table in section 3.11 for details of particular shareholdings).

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.

3.10 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 described in section 4; and
- seek approval by ordinary resolution of its Shareholders to buy-back Shares under the Buy-Back. Lemarne Shareholders overwhelmingly approved the Buy-Back on 28 April 2004.

3.11 Directors' interests in Shares and Options of Lemarne

Your directors are entitled to participate in the Buy-Back. As participation in the Buy-Back is voluntary for all Shareholder's all of your directors have reserved their rights to accept or reject the Buy-Back Offers for the Shares held by, or for, them.

As at 31 May 2004, your 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):

| Name of Director | No. of Lemarne Shares | No. of Lemarne Options | Registered Holder |
|-------------------------|------------------------------|-------------------------------|---|
| P.G. Davenport | 1,344,369 | Nil | P.G. Davenport |
| P.G. Davenport | 230,000 | 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 |

3.12 Privacy

Lemarne is carrying out the Buy-Back in accordance with the Corporations Act. This involves the collection of some personal information to enable Lemarne to process your acceptance.

The personal information collected by Lemarne will only be disclosed to its Share Registry, to a print and mail service provider, to advisers of Lemarne in relation to the Buy-Back and to financial institutions in respect of payments to you in connection with the Buy-Back or as otherwise authorised by law.

If you wish to access your personal information collected by Lemarne in relation to your holding of Shares, please write to Lemarne care of its Share Registry at the mailing address set out in the Acceptance Form.

Section 4 - Buy-Back Offer

4.1 Buy-Back Offer

Lemarne offers you the opportunity to sell to it:

- if you hold at least 350 Shares on the Record Date, 35% of your holding of Shares (fractions being rounded downwards); and
- if you held less than 350 Shares on the Record Date, 100% of your holding of Shares;

on the terms and conditions set out in this section 4.

4.2 Buy-Back Price

The price Lemarne will pay for each Share bought back is \$2.34 adjusted upwards or downwards for the percentage change in the All Industrials Index from the commencement of trading on 24 February 2004 to the close of trading on 30 July 2004 rounded to the nearest cent.

The formula for calculating the Buy-Back Price is set out in section 1.6.

4.3 Buy-Back Period

The Buy-Back Offer will remain open from Wednesday 30 June 2004 to 5:00pm on Friday 30 July 2004 unless withdrawn or extended at Lemarne's discretion by making an announcement to ASX.

4.4 How do you accept the Buy-Back Offer?

Issued Sponsored Holdings

Enclosed with this booklet is a personalised Acceptance Form which contains instructions on how to accept the Buy-Back Offer.

If you wish to accept the Buy-Back Offer, you need only sign the Acceptance Form where indicated and return it to Computershare Investor Services Pty Limited, GPO Box 52, Melbourne, Victoria, 8060 so that it is received no later than 5:00pm on Friday 30 July 2004. A reply paid envelope is enclosed for use within Australia.

CHESS Holdings

If you have a CHESS Holding, you need only contact your controlling participant (normally your broker) in sufficient time for them to process your acceptance by no later than 5:00pm on Friday 30 July 2004. You should not send your Acceptance Form to Lemarne's Share Registry as they cannot act on your instructions. Only your controlling participant can act on your behalf.

4.5 To decline the Buy-Back Offer

You may choose not to accept the Buy-Back Offer and continue to hold all your Shares. In this case, no action is required by you.

4.6 Withdrawal of Acceptance

You may only withdraw your acceptance of the Buy-Back Offer by following the procedures set out below.

(a) Issuer Sponsored Holdings

You may withdraw your acceptance of the Buy-Back Offer by notifying Lemarne or Lemarne's Share Registry in writing of the withdrawal of your acceptance. This withdrawal must be received by the Share Registry by no later than 5:00pm on Friday 30 July 2004. You may not withdraw your acceptance of the Buy-Back Offer after this time.

(b) CHESSE Holdings

If you have a CHESSE Holding you will need to instruct your controlling participant in sufficient time for them to process your withdrawal by no later than 5:00pm on Friday 30 July 2004.

4.7 Payment of Buy-Back Price

If you have your Shares bought back, Lemarne will despatch you a cheque for the proceeds in Australian dollars by 13 August 2004.

Cheques will be sent, at your risk, by mail addressed to you at the address shown in the register of members at the close of the Buy-Back Offer unless prior to despatch you advise the Share Registry in writing of a different address.

If at the time you accept the Buy-Back Offer, you are resident in, or a resident of, a place outside Australia to which the Banking (Foreign Exchange) Regulations apply, you will not be entitled to receive the Buy-Back Price until all requisite authorities or clearances have been received.

4.8 Variation or Termination of the Buy-Back

Your directors may, in their complete discretion, terminate the Buy-Back at any time on or before the Buy-Back Date by making an announcement to ASX to that effect. Lemarne may also, in its discretion, extend or vary any part of the timetable for the Buy-Back.

4.9 Buy-Back Offer is not a contract until Buy-Back Date

A Buy-Back agreement in respect of the sale to Lemarne of your Shares does not arise until the specified time for acceptance of the Buy-Back Offers has closed.

4.10 **Governing Law**

The Buy-Back Offer and any resulting Buy-Back agreement are governed by the laws of the State of Victoria.

4.11 **Effect of Acceptance**

By signing and returning an Acceptance Form, instructing your controlling participant to accept the Buy-Back Offer or otherwise accepting the Buy-Back Offer you will have:

- (a) agreed to sell to Lemarne on the Buy-Back Date the number of Shares determined under section 4.1;
- (b) warranted to Lemarne that on the Buy-Back Date you are the registered holder of the Shares being bought back, those Shares are and will be free from any mortgage, charge, lien or other third party right or interest and that you have the capacity to sell and transfer those Shares to Lemarne; and
- (c) authorise Lemarne and its directors severally to correct any error in or omission from your Acceptance Form and to complete your Acceptance Form by the insertion of any requisite details.

Section 5 – Definitions and Interpretation

5.1 Definitions

In this booklet and the Acceptance Form, unless the context otherwise requires:

Acceptance Form means the form of acceptance accompanying this booklet.

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.

ATO means Australian Taxation Office.

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 buy-back of Shares proposed, or to be effected, in accordance with the terms of this booklet and the Acceptance Form.

Buy-Back Date means the time Lemarne enters into a Buy-Back agreement with you which will be immediately after the end of the Buy-Back Period.

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 set out in section 4.3.

Buy Back Price means \$2.34 per Share adjusted as described in section 4.2.

CGT means capital gains tax.

CHESS means the Clearing House Electronic Sub-register System.

CHESS Holding means a holding of Shares on the CHESS sub-register of Lemarne.

Corporations Act means the Corporations Act 2001 (Cth).

EPS means earnings per share.

Issuer Sponsored Holding means a holding of Shares on the issuer sponsored sub-register of Lemarne.

Lemarne means Lemarne Corporation Limited ACN 004 834 584.

Lemvest means Lemvest Limited ACN 006 697 703.

NTA means net tangible assets.

Pacific Composites means Pacific Composites Pty Ltd ACN 005 952 698.

Record Date means 7:00pm on 25 June 2004.

Richardson Pacific means Richardson Pacific Limited ACN 004 067 243.

Share means a fully paid ordinary share in the capital of Lemarne which confers upon the holder an entitlement to participate in the Buy-Back.

Share Registry means Computershare Investor Services Pty Ltd ACN 078 279 277.

You or **Shareholder** means a holder of Shares.

5.2 Interpretation

In this booklet and the Acceptance Form, unless the context otherwise requires:

- (a) the singular includes the plural and vice versa and words importing one gender include other genders;
- (b) other parts of speech and grammatical forms of a word or phrase defined in this booklet have a corresponding meaning;
- (c) terms defined in the Corporations Act have the meanings ascribed to them in the Corporations Act;
- (d) a reference to any currency is a reference to Australian currency;
- (e) a reference to a section is a reference to a section of this booklet; and
- (f) a reference to time is a reference to the time in Melbourne.

