

# Lemarne Corporation Limited

2008 ANNUAL REPORT

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**NOTICE OF ANNUAL GENERAL MEETING** Notice is hereby given that the Annual General Meeting of Shareholders of Lemarne Corporation Limited (ACN 004 834 584) will be held at Australian Institute of Management, 181 Fitzroy Street, St.Kilda, on 29 October 2008 at 11.30 a.m.

A formal notice of meeting and proxy form are enclosed herewith.

## Philosophy and Objectives

While our Company is a corporate body, our management philosophy emphasises partnership: a partnership between customers, employees and shareholders.

Most directors are major shareholders.

Our long-term financial goal is to maximise growth in intrinsic business value per ordinary share. We do not measure the economic significance or performance of Lemarne by sales or by size but rather by per-share-performance.

Our preference is to reach this goal by owning the majority share in businesses that generate cash and earn above-average returns on capital. We focus on the development of a limited number of niche businesses which are, or have the potential to be, market leaders and which give the Group stability through limited diversity.

We are sensitive to our fiduciary obligations to the Company's lenders, suppliers and its many long-term shareholders, some of whom have committed significant portions of their investment portfolio to our care. Consequently, we maintain a conservative approach to funding, rejecting opportunities rather than over-leveraging our balance sheet. This policy may penalise results, but it is the only behaviour which leaves us comfortable, considering our obligations.

We endeavour to operate our businesses in a totally ethical way, complying with the best operating practices, meeting our social and environmental obligations, and being a good corporate citizen.

We are candid in our reporting, telling

shareholders business facts that we believe they would want to know. We are nevertheless careful in reporting certain activities such as technical breakthroughs or potential acquisitions, where public knowledge of such might disadvantage the entity to the detriment of our shareholders.

We believe our success is dependent upon attracting and retaining first-class people. To this end, we aim to provide challenging career opportunities in a stimulating environment and are committed to a widespread scheme of profit sharing. We are also committed to assisting those personnel who are primarily responsible for our successful growth to obtain equity in the holding company.

# HIGHLIGHTS

**Operating profit before tax from continuing operations increased to \$9.2 million.**

**Shareholder funds \$36.8 million at 30 June 2008 with cash on deposit totalling \$24.2 million.**

**Earnings per share from continuing operations 73.4 cents.**

**Net tangible asset backing per share increased to \$3.73 per share from \$3.15 per share last year.**

**Final franked dividend of 12.5 cents per share bringing total dividends for the year to 25 cents per share.**

## GROUP FINANCIAL PERFORMANCE

		2008	2007	CHANGE
EBIT (from continuing operations)	\$000s	<b>9,261</b>	8,951	+ 3%
Operating profit/(loss) after income tax from continuing operations	\$000s	<b>7,053</b>	7,582	- 7%
Operating profit/(loss) after income tax and minority interests	\$000s	<b>3,177</b>	6,141	- 48%
Earnings per ordinary share	cents	<b>33.1</b>	52.7	- 37%
Net tangible asset backing per ordinary share	cents	<b>373</b>	315	+ 18%
Dividend paid per ordinary share*	cents	<b>25.0</b>	18.5	
Shareholders' equity	\$000s	<b>36,809</b>	36,361	+ 1%
Operating profit after income tax/shareholders' equity	%	<b>8.6</b>	16.9	- 49%
Net borrowings/shareholders' equity	%	<b>(65)</b>	(37)	
Share price (at 30 June)	cents	<b>348</b>	253	+ 38%
Number of employees	No.	<b>717</b>	787	- 9%

These figures are based on the consolidated accounts.

\* 2008 includes the final dividend of 12.5 cents per share which has been declared but is not in the accounts.

\* 2007 includes the final dividend of 10 cents per share which had been declared but was not in the accounts.

## FIVE YEAR GROUP RECORD

	2008 <sup>1,2</sup> \$'000s	2007 <sup>2</sup> \$'000s	2006 <sup>2</sup> \$'000s	2005 <sup>2</sup> \$'000s	2004 \$'000s
<b>OPERATING RESULTS</b>					
Group sales	<b>65,610</b>	71,013	85,085	76,738	62,590
EBITDA before non-recurring items	<b>8,971</b>	6,628	7,808	9,412	7,600
EBIT before non-recurring items	<b>7,839</b>	5,032	5,664	7,460	5,958
Non-recurring significant items before tax	<b>(3,062)</b>	1,658	8,173	–	(510)
Borrowing costs	<b>(60)</b>	(158)	(438)	(256)	(78)
Profit/(loss) before tax	<b>4,717</b>	6,532	13,399	7,204	5,370
Income tax expense/(benefit)	<b>1,540</b>	391	1,510	1,821	1,499
Profit for the year	<b>3,177</b>	6,141	11,889	5,383	3,871
Minority interests	–	–	–	102	396
Operating profit after tax attributable to shareholders	<b>3,177</b>	6,141	11,889	5,281	3,475
Dividends – ordinary <sup>1</sup>	<b>1,201<sup>1</sup></b>	1,777 <sup>1</sup>	4,508 <sup>1</sup>	2,294	1,882
Payout ratio	<b>38<sup>1</sup></b> %	29 <sup>1</sup>	38 <sup>1</sup>	43	54
<b>FINANCIAL POSITION</b>					
Share capital	<b>4,178</b>	3,677	6,867	6,187	11,434
Total equity	<b>36,809</b>	36,361	46,102	39,776	44,248
Net borrowings	<b>(23,800)</b>	(13,585)	(24,854)	(3,173)	(24,692)
Current assets	<b>40,351</b>	35,237	45,145	32,393	46,326
Total assets	<b>44,838</b>	47,301	65,905	60,683	58,306
Current liabilities	<b>7,451</b>	10,438	15,964	19,087	12,535
Non-current liabilities	<b>578</b>	502	3,839	1,820	1,523
<b>PER ORDINARY SHARE</b>					
Earnings	<b>33.1</b>	52.7	82.3	36.2	21.3
Net tangible asset backing	<b>373</b>	315	250	160	247
Asset backing	<b>376</b>	379	314	261	248
Dividend <sup>1</sup>	<b>25.0<sup>1</sup></b>	18.5 <sup>1</sup>	31.0 <sup>1</sup>	15.5	12.5
<b>ANALYTIC INFORMATION</b>					
EBIT/total assets	<b>11</b> %	14	21	12	9
EBIT/trading capital employed	<b>13</b> %	17	28	17	12
Operating profit after tax/members' equity	<b>9</b> %	17	26	14	8
Net borrowings/total equity	<b>(65)</b> %	(37)	(54)	(8)	(56)
Total debt/total assets	<b>1</b> %	7	4	7	1
Current assets/current liabilities	<b>5.4</b> times	3.4	2.8	1.7	3.7
Net interest cover	<b>79.5</b> times	42.4	31.6	29.0	69.8
Shares on issue	<b>9.8</b> millions	9.6	14.7	14.3	17.8

<sup>1</sup> 2008 includes the final dividend of 12.5 cents per share which has been declared but is not in the accounts.

<sup>2</sup> 2008, 2007, 2006 and 2005 results have been prepared under AIFRS. 2004 comparatives are under the previous AGAAP.

DEAR SHAREHOLDER

2007/2008 was a year of consolidation for the Lemarne Group with the focus being placed on its continuing core businesses, Lemtronics and C10. These operations performed strongly and the Group posted sales revenues of \$66 million. Profits before tax and before losses on disposal of businesses were \$7.8 million compared to \$5.9 million in the previous year.

In January 2008 Lemarne Healthcare Pty Ltd was divested and in April 2008 the ValueNet business was also sold. The sale of these businesses coupled with the cash generating activities of the Group's continuing businesses, resulted in the funds on deposit as at 30 June 2008 totalling \$24.2 million. The continuing operations of the Group generated profits before tax of approximately \$9.2 million compared to \$8.8 million in the previous year. These businesses continue to post strong profits and cash flows, and it is in these areas that Lemarne will focus its attention. The Company has an ungeared balance sheet, significant funds on deposit and a strong order book.

Further investments were made in Lemtronics with the purchase of new manufacturing equipment and this coupled with an upgrading of the company's operations resulted in Lemtronics posting a net profit before tax of \$5.8 million. C10 operated profitably and posted a profit before tax of \$1.9 million which was in line with the results the previous year which includes the operating losses for the ValueNet business.

## **DIVIDENDS**

In March 2008 an interim fully franked dividend of 12.5 cents per share was paid and the Directors have declared a final dividend of 12.5 cents per share to be paid on 20 October 2008 which is in line with the Company's long held policy of maximizing its return to shareholders.

## **FUTURE**

Barring any further major changes in the global economy, it is expected that the Lemarne Group will continue its growth in profits and revenues in 2008/2009.

**BRIAN NOXON**  
**CHAIRMAN**

**PETER MURPHY**  
**MANAGING DIRECTOR**

# LEMTRONICS OPERATIONS REVIEW

		2008 <sup>1</sup>	2007 <sup>1</sup>	2006 <sup>1</sup>	2005 <sup>1</sup>	2004
Total sales	\$000s	<b>48,745</b>	49,491	38,568	29,507	26,780
EBIT before non-recurring items	\$000s	<b>5,837</b>	3,439	339	1,300	1,945
EBIT	\$000s	<b>5,837</b>	3,979	(1,456)	1,300	1,431
Total assets	\$000s	<b>20,031</b>	19,007	17,474	14,432	14,106
Employees		<b>701</b>	688	576	515	561

<sup>1</sup> 2008, 2007, 2006 and 2005 results have been prepared under AIFRS. 2004 comparatives are under the previous AGAAP.

## MAIN PRODUCTS

Turnkey electronics subcontractor providing services in manufacturing, test engineering and design of consumer and commercial goods, telecommunications, automotive and security products.

Lemtronics posted strong operating profits in 2007/2008 and its net profit before interest expense and tax of \$5.8 million was significantly ahead of the \$4 million achieved in the previous year.

Sales revenue totalled \$48.7 million and was less than the previous year's figure of \$49.5 million due entirely to the strengthening of the Australian dollar relative to the Malaysian Ringgit; in terms of Malaysian Ringgit revenue in 2007/2008 was 4.6% above the revenue achieved in 2006/2007.

In 2007/2008 the company further strengthened its manufacturing operations with a substantial investment in new plant and equipment in particular:

- A Siemens Surface Mount Technology line resulting in Lemtronics having 3 modern SMT lines to meet anticipated growth in future revenues,
- Several optical inspection and in circuit testing machines to enhance the quality control systems for its products, and
- Automatic lacquering machines to meet specific market requirements.

Initiatives taken in 2007/2008 to improve its supply chain management has resulted in substantial cost savings in material costs and facilitated its reduction in inventory levels.

The company continues to strengthen its engineering and development capabilities and has successfully recruited a number of development and design engineers throughout the year. This objective will be continued as the company is focused on providing a greater contribution to the 'value add' of its customer products.

It is anticipated that Lemtronics will continue to post further growth in revenues and profits in 2008/2009 with the several opportunities to increase existing customer business as well as the gain in new business expected to be crystallised in the first quarter of the year.

Currency changes, particularly with the continuing weakening of the US dollar and continuous increases in oil prices against a background of global economic uncertainty will present challenges to the company. However Lemtronics anticipates that it will continue to maintain strong operating results in 2008/2009.

**Kong Hoe Mun** FCPA  
**MANAGING DIRECTOR**

# C10 COMMUNICATIONS OPERATIONS REVIEW

		2008 <sup>1</sup>	2007 <sup>1</sup>	2006 <sup>1</sup>	2005 <sup>1</sup>	2004
Total sales	\$000s	<b>12,612</b>	13,722	14,317	10,638	6,725
EBIT before non-recurring items	\$000s	<b>1,944</b>	1,845	2,828	2,451	1,335
EBIT	\$000s	<b>1,285</b>	1,688	2,828	2,451	1,335
Total assets	\$000s	<b>4,455</b>	4,522	4,724	4,361	3,048
Employees		<b>13</b>	24	22	20	10

<sup>1</sup> 2008, 2007, 2006 and 2005 results have been prepared under AIFRS. 2004 comparatives are under the previous AGAAP.

## MAIN PRODUCTS & SERVICES

Access Network Products (telephone accessories, ADSL filters), Data Communications Products (ISDN, ADSL).

In April 2008 the ValueNet business operations of C10 were divested. Whilst it was acknowledged that the hosted IP telephony market did promise significant potential for revenue and profits, the investment needed to grow the business was increasing substantially and the likelihood of achieving an acceptable return on investment was diminishing. Accordingly it was decided to withdraw from this market segment and focus on C10 Communications core business; the design and manufacture of a range of telecommunication products.

The overall C10 business operated profitably in 2007/2008 and posted profits before abnormals and tax of \$1.9 million which was in line with the 2006/2007 results. Investment is continuing to be made in new product development and in 2007/2008 several new business contracts were won for the Company's ADSL filter products.

It is expected that the C10 products business will continue to post acceptable revenue and profits in 2008/2009 and without the drag on earnings experienced with the divested ValueNet business, C10 Communications will increase its cash generating contribution to the Lemarne Group.

**Bradley Dolphin** <sup>BE</sup>  
MANAGING DIRECTOR

This statement outlines the main corporate governance practices in place throughout the year, which comply with Australian Stock Exchange Corporate Governance Council recommendations unless otherwise stated.

The board of directors is committed to the principles of good corporate governance consistent with the prudent management of shareholders funds. The board supports the principles of self regulation.

The board is responsible for the overall governance of the Company including the establishment of its goals and strategies and monitoring the achievements. Each subsidiary has its own board and business plan and at least two main board directors sit on each subsidiary board.

Lemarne has a relatively small board of five directors in keeping with its size, four of whom including the Chairman are non executive directors. As two of the non-executive directors hold more than 5% of the voting shares of the Company, they do not fit the definition of an independent director. The board believes that the non-executive directors' interests are closely aligned with all other shareholders by virtue of their substantial shareholdings and believes this has considerable merit and does not interfere with their ability to act in the best interest of the Company. As a result of the majority of the board being substantial shareholders it does not comply with best practice recommendations 2.1, 2.2 and 4.3. The board is of the opinion that the maintenance of a stable and experienced board is important. The board does not believe that the tenure of a director necessarily interferes with the director's ability to act in the best interests of the Company.

The term of office for each director (apart from the Managing Director), is 3 years in accordance with the

Company's Constitution.

Details of directors are set out in the Directors' Report. There are three board sub-committees, consisting of the non-executive directors, namely Audit, Remuneration and Succession Planning and Corporate Governance. The role of the Remuneration and Succession Planning Committee also includes Nomination. Its other responsibilities include:

- reviewing board composition and the requisite competencies of members;
- reviewing the performance of the managing director;
- evaluating and identifying future needs of the board, and
- making recommendations on appointments to the board.

No non-executive director of the board had, during the year, any association or relationship with the Company that required assessments of their independence.

The Audit Committee reviews the performance of the external auditors on an annual basis and meets with them during the year as appropriate. The Audit Committee has a formal Audit Committee Charter which is disclosed on the Lemarne website ([www.lemarne.com.au](http://www.lemarne.com.au)). The Company's external auditor, KPMG has a policy of regularly rotating the primary audit partner and undertakes a thorough second partner review. As Lemarne is an international group it only engages reputable international audit firms and any change in auditor is subject to shareholder approval.

#### **DIRECTORS' DEALINGS IN COMPANY SHARES**

The Constitution permits directors to acquire shares in the Company and most directors have significant shareholdings.

Company policy prohibits directors and officers from dealing in Company shares whilst in possession of price

sensitive information. Share dealings are only permitted in the one month following the release of the Company's half year and annual results to the Australian Stock Exchange and the Annual General Meeting, or when the board deems the market to be fully informed following an announcement. Directors must notify the Chairman when they intend to buy or sell Company shares.

#### **INDEPENDENT PROFESSIONAL ADVICE**

Each director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

#### **HALF YEAR AND ANNUAL REPORTING**

The board and the Audit Committee:

- reviews the half year and preliminary final statement prior to lodgement of those documents with the Australian Stock Exchange, and any significant adjustments required as a result of the audit;
- reviews the results and findings of the audit, the adequacy of accounting and financial controls, and monitors the implementation of any recommendations made; and
- reviews the draft financial statements and the audit report prior to the approval of the financial statements.

#### **AUSTRALIAN STOCK EXCHANGE**

The Company Secretary, Akaterine Kotsiopoulos, acts as the Company's ASX Liaison Officer, and in conjunction with the Company's Solicitors, Minter Ellison, is responsible for ensuring that the Company complies with ASX Listing Rules disclosure requirements.

## **INTERNAL CONTROL FRAMEWORK**

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the board has instigated an internal control framework that can be described under six headings:

- Financial reporting - there is a comprehensive budgeting system with an annual budget approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The consolidated entity reports to shareholders half yearly. Procedures are also in place to ensure that price sensitive information is reported to the Australian Stock Exchange in accordance with Continuous Disclosure Requirements.
- Quality and integrity of personnel - the consolidated entity's policies are detailed in Employee Manuals. Confirmation of compliance with policies is obtained from all operating units. Formal appraisals are conducted at least annually for employees.
- The board has in place a process for its performance evaluation. The performance of the Managing Director is assessed each year by the Chairman and the Remuneration Committee.
- Operating unit controls - factory controls and procedures including health and safety policies in most instances are detailed in procedures manuals. Most operating units prepare Self Certification Questionnaires confirming compliance with these procedures and as appropriate, arrange external audits.
- Functional speciality reporting - the consolidated entity has identi-

fied a number of key areas which are subject to regular reporting to the board such as treasury operations, environmental, legal, tax and insurance matters.

- Investment appraisal - the consolidated entity has clearly defined guidelines for capital expenditure and acquisition prospects. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

### *Internal Audit*

The board, in conjunction with the Audit Committee, is responsible for approving the program of internal audit visits to be conducted each financial year by the Group Financial Controller and for the scope of the work to be performed at each location.

### *Australian and International Quality Standards*

The consolidated entity strives to ensure that its products are of the highest standard. Towards this aim it has now achieved AS 3902/ISO 9002 accreditation for each of its manufacturing businesses.

## **ETHICAL STANDARDS**

Each subsidiary has an employee manual which sets out the ethical standards an employee of the consolidated entity is expected to comply with.

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

## **RISK MANAGEMENT**

A risk management programme has

been well established. The programme requires each business to systematically identify sources of risk, to qualify the impact of those risks and adopt strategies to manage the Company's exposure in a cost effective manner. External consultants are also used and the board receives statistics and periodic reports and presentations as considered appropriate.

The Managing Director has the formal responsibility for monitoring this function and preparing an audit report to the board for each subsidiary at least annually. This report covers matters such as environmental risks, occupational health and safety, trade practices compliance, equal opportunity, workplace practices, employment issues, financial risk, treasury, insurance and operating risks.

Both the Managing Director and the Financial Controller have stated to the board in writing that the financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board, and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## CORPORATE GOVERNANCE STATEMENT CONT.

### THE ROLE OF SHAREHOLDERS

The board of directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entity's state of affairs. Information is communicated to shareholders as follows:

- the audited annual report is available on the Lemarne website ([www.lemarne.com.au](http://www.lemarne.com.au)) and is only posted to shareholders who request it from the Company. The board ensures that the annual report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- the half yearly financial report is subject to independent review by the auditors and contains summarised financial information including a review of the operations of the consolidated entity during the period. The half yearly financial report (Appendix 4D) is prepared in accordance with the requirements of Australian Accounting

Standards and the Corporations Act 2001 and is lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange.

The financial report is sent to any shareholder who requests it and a summary of the results and a brief review of trading for the half year is posted on the web site and/or distributed to all shareholders;

- copies of releases to the Australian Stock Exchange are generally sent to shareholders and are posted on our web site;
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders; and
- the Company maintains an updated web site for reference by shareholders and the investment community in general.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

It is company policy for the external auditor (KPMG) to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The shareholders are requested to vote on the aggregate remuneration of directors, the granting of options and shares to directors, and changes to the Company's Constitution.

# FINANCIAL STATEMENTS

Financial Statements for the Year ended 30 June 2008 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

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## INCOME STATEMENTS

Income Statements for the Financial Year ended 30 June 2008 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

		<b>2008</b>	*2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
<b>Continuing operations</b>	<i>Note</i>	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
Revenue	5	60,394	62,607	1,154	978
Cost of sales		(45,738)	(48,238)	–	–
Gross profit		14,656	14,369	1,154	978
Other income	5	378	1,135	–	10,027
Distribution expenses		(2,886)	(3,910)	–	–
Administrative expenses		(4,183)	(3,895)	(2,215)	(1,724)
Impairment of goodwill and property, plant and equipment/investment		(7)	(3)	–	–
Other expenses		(16)	(13)	–	–
<b>Results from operating activities</b>		<b>7,942</b>	<b>7,683</b>	<b>(1,061)</b>	<b>9,281</b>
Finance income	9	1,319	1,268	1,159	1,241
Finance expenses	9	(47)	(117)	–	–
<b>Net finance (costs)/income</b>		<b>1,272</b>	<b>1,151</b>	<b>1,159</b>	<b>1,241</b>
<b>Profit from ordinary activities before income tax expense</b>		<b>9,214</b>	<b>8,834</b>	<b>98</b>	<b>10,522</b>
Income tax expense	7(a)	(2,161)	(1,252)	(15)	(27)
<b>Profit/(loss) after tax from continuing operations</b>		<b>7,053</b>	<b>7,582</b>	<b>83</b>	<b>10,495</b>
<b>Discontinued operations</b>					
Profit/(loss) from discontinued operation net of tax	10	(3,876)	(1,441)	(5,896)	622
<b>Profit/(loss) for the year</b>		<b>3,177</b>	<b>6,141</b>	<b>(5,813)</b>	<b>11,117</b>
Attributable to:					
- Equity holders of the parent		3,177	6,141	(5,813)	11,117
<b>Earnings per share:</b>					
Basic earnings per share from all operations (cents)		33.1	52.7		
Basic earnings per share from continuing operations (cents)	12	73.4	65.0		
Diluted earnings per share from all operations (cents)		33.1	52.7		
Diluted earnings per share from continuing operations (cents)	12	73.4	65.0		

The income statements are to be read in conjunction with notes 1 to 33 to the financial statements..

\*Restated : See note 10 Discontinued Operations

## STATEMENTS OF RECOGNISED INCOME AND EXPENSE

Statements of recognised income and expense for the Financial Year Ended 30 June 2008 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

		<b>2008</b>	2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
Foreign currency translation differences for foreign operations	23	(964)	(726)	–	–
<b>Income and expense recognised directly in equity</b>		<b>(964)</b>	<b>(726)</b>	–	–
<b>Profit for the year</b>		<b>3,177</b>	<b>6,141</b>	<b>(5,813)</b>	<b>11,117</b>
<b>Total recognised income and expense for the year</b>		<b>2,213</b>	<b>5,415</b>	<b>(5,813)</b>	<b>11,117</b>
Attributable to:					
Equity holders of the parent		2,213	5,415	(5,813)	11,117

*Other movements in equity arising from transactions with owners as owners are set out in note 23. The amounts recognised directly in equity are disclosed net of tax – see note 7 for tax effect.*

*The statements of recognised income and expense are to be read in conjunction with the notes 1 to 33 to the financial statements.*

## BALANCE SHEETS

Balance Sheets as at 30 June 2008 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

		<b>2008</b>	2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>Assets</b>					
Cash and cash equivalents	30(i)	24,175	16,834	19,241	14,079
Trade and other receivables	13	10,150	10,895	495	93
Inventories	14	5,503	7,080	–	–
Prepayments and deposits for current assets	15	523	428	325	14
<b>TOTAL CURRENT ASSETS</b>		<b>40,351</b>	<b>35,237</b>	<b>20,061</b>	<b>14,186</b>
Receivables	13	–	–	–	3,064
Investments	26	–	–	6,550	15,032
Property, plant and equipment	16	3,765	5,481	6	35
Deferred tax assets	7(e)	425	491	285	130
Intangible assets	17	297	6,086	–	–
Other		–	6	–	6
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,487</b>	<b>12,064</b>	<b>6,841</b>	<b>18,267</b>
<b>TOTAL ASSETS</b>		<b>44,838</b>	<b>47,301</b>	<b>26,902</b>	<b>32,453</b>
<b>Liabilities</b>					
Bank overdraft	30(i)	1	357	–	–
Trade and other payables	18	5,598	5,796	252	128
Loans from controlled entities	18	–	–	2,550	800
Loans and borrowings	19	143	2,781	–	–
Employee benefits	20	1,030	1,047	452	140
Current tax payable	7(c)	262	72	(71)	70
Provisions	21	103	63	–	–
Deferred income	22	314	322	–	–
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,451</b>	<b>10,438</b>	<b>3,183</b>	<b>1,138</b>
Loans and borrowings	19	231	111	–	–
Deferred tax liabilities	7(d)	168	153	34	26
Employee benefits	20	179	238	61	87
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>578</b>	<b>502</b>	<b>95</b>	<b>113</b>
<b>TOTAL LIABILITIES</b>		<b>8,029</b>	<b>10,940</b>	<b>3,278</b>	<b>1,251</b>
<b>NET ASSETS</b>		<b>36,809</b>	<b>36,361</b>	<b>23,624</b>	<b>31,202</b>
<b>Equity</b>					
Issued capital	23	4,178	3,677	4,178	3,677
Reserves	23	(1,773)	(704)	325	430
Retained earnings	23	34,404	33,388	19,121	27,095
<b>TOTAL EQUITY</b>		<b>36,809</b>	<b>36,361</b>	<b>23,624</b>	<b>31,202</b>

The balance sheets are to be read in conjunction with notes 1 to 33 to the financial statements.

## STATEMENT OF CASH FLOWS

Statement of Cash Flows for the Financial Year Ended 30 June 2008 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

		<b>2008</b>	2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from customers		67,289	71,346	870	1,035
Cash paid to suppliers and employees		(58,219)	(68,734)	(1,850)	( 2,059)
Cash generated from operations		9,070	2,612	980	(1,024)
Dividends received		–	74	–	74
Interest received		1,230	1,059	1,159	1,241
Interest paid		(60)	(158)	–	–
Income tax contribution from controlled entities		–	–	(7)	831
Income taxes paid	7	(1,331)	(690)	(259)	(783)
<b>Net cash from/(to) operating activities</b>	<i>30(ii)</i>	<b>8,909</b>	<b>2,897</b>	<b>(87)</b>	<b>339</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of investments/disposal of subsidiary (net of cash disposed)		5,886	5,526	6,000	5,526
Proceeds from sale of property, plant and equipment		31	101	19	–
Payments for other expenditure/acquisition of controlled entities/business (net of cash)		(157)	(6)	(157)	(6)
Acquisition of property, plant and equipment	16	(1,997)	(1,181)	(39)	(2)
Payments for disposal of business/controlled entity		(936)	(1,243)	(664)	(1,243)
Loans advanced to controlled entities		–	–	–	(964)
Loans repaid by controlled entities		–	–	–	1,125
<b>Net cash from/(to) investing activities</b>		<b>2,827</b>	<b>3,197</b>	<b>5,159</b>	<b>4,436</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of share capital	23	501	186	501	186
Share buy-back	23	–	(14,594)	–	(14,594)
Proceeds from borrowings		416	741	–	–
Repayment of borrowings		(2,759)	(421)	–	–
Loans from controlled entities		–	–	1,750	1,000
Dividends paid	11	(2,161)	(3,018)	(2,161)	(3,018)
<b>Net cash from/(to) financing activities</b>		<b>(4,003)</b>	<b>(17,106)</b>	<b>90</b>	<b>(16,426)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>7,733</b>	<b>(11,012)</b>	<b>5,162</b>	<b>(11,651)</b>
<b>Cash at the beginning of the financial year</b>	<i>30(i)</i>	16,477	27,483	14,079	25,730
Effect of exchange rate fluctuations on cash held		(35)	6	–	–
<b>Cash at the end of the financial year</b>	<i>30(i)</i>	<b>24,175</b>	<b>16,477</b>	<b>19,241</b>	<b>14,079</b>

The statement of cash flows are to be read in conjunction with notes 1 to 33 to the financial statements.

# NOTES TO THE ACCOUNTS

Notes to the Consolidated Financial Statements for the Financial Year Ended 30 June 2008 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

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## 1 REPORTING ENTITY

Lemarne Corporation Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 1, 492 St Kilda Road, Melbourne, Victoria 3004. The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "consolidated entity"). The consolidated entity primarily is involved in the manufacture of electronic components.

## 2 BASIS OF PREPARATION

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations) and the financial report of the Company adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The consolidated financial report of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 26 August 2008.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

Certain comparative amounts have been classified to conform with the current year's presentation, refer note 18.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- note 17 – measurement of the recoverable amounts of cash-generating units containing goodwill

- note 7 – utilization of tax losses
- note 24 – measurement of share-based payments
- notes 21 and 25 – provisions and contingencies
- note 31 – valuation of financial instruments.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities in the consolidated entity.

The Company and consolidated entity have not elected to early adopt any accounting standards or amendments.

The comparative income statement and segment reporting note have been represented as if the operations discontinued during the current period had been discontinued from the start of the comparative period (see note 10).

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the consolidated entity.

#### (ii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

#### (iii) Changes in ownership interest

##### *Loss of control, no joint control or significant influence*

When control ceases, a gain or loss is recognised as the difference between net sales proceeds, if any, and the consolidated carrying amount (including post-acquisition share of profits, goodwill and equity).

#### (iv) New issue of capital by controlled entity

When a controlled entity makes a new issue of capital and the consolidated entity's percentage ownership changes, the share of retained profits and reserves attributed to the Company reflects the new ownership interest. The adjustment is not reflected in net profit but as a direct adjustment to the specific equity accounts.

### (b) Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to Australian dollars at the foreign exchange rate at that date.

Foreign exchange differences arising on retranslation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are retranslated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to Australian dollars at foreign exchange rates at the dates the fair value was determined.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at reporting date. The income and expenses of foreign operations, are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign exchange differences arising on retranslation are recognised directly in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

**(c) Derivative financial instruments**

The consolidated entity is exposed to changes in interest rates and foreign exchange rates arising from operational, financing and investment activities. The consolidated entity uses forward foreign exchange contracts to hedge these risks. Derivative financial instruments are not held for speculative purposes.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement at each reporting date is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy (d)).

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. If a quoted market price is not available, then the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

**(d) Hedging**

**(i) Cash flow hedges**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point

remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

**(ii) Hedge of monetary assets and liabilities**

When a derivative financial instrument is used to hedge the fair value of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement in the same period as the change in value of the monetary asset or liability.

**(e) Property, plant and equipment**

**(i) Owned assets**

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" in profit or loss.

**(ii) Leased assets**

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy (i)).

**(iii) Subsequent costs**

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

**(iv) Depreciation**

Depreciation is charged to the income statement on a straight-line or diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives in the current and comparative periods are as follows:

- buildings 25-40 years
- leasehold land and buildings 30 – 50 years
- leasehold improvements 5 years
- plant and equipment 3 - 15 years
- fixtures and fittings 5 - 15 years

The residual value, if not insignificant, is reassessed annually together with the depreciation method and useful life. Interest costs are not capitalised into the cost of property, plant and equipment.

## **(f) Intangible assets**

### *(i) Goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy (i)).

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

### *(ii) Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Borrowing costs related to the development of the expenditure are recognized in profit or loss as incurred. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (i)).

### *(iii) Intellectual property*

Other intangible assets such as intellectual property that is acquired by the consolidated entity is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (i)).

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

### *(iv) Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### *(v) Amortisation*

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- intellectual property, patents and trademarks 10 - 20 years

## **(g) Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

### *Trade and other receivables*

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (i)).

### *Cash and cash equivalents*

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### *Trade and other payables*

Trade and other payables are stated at amortised cost.

### *Interest bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### *Derecognition of financial assets and liabilities*

A financial asset (or, where applicable, a part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the assets have expired
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit and loss.

## **(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories are assigned on a first-in first-out basis and weighted average methods and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

## **(i) Impairment**

### Financial Assets

#### *(i) Calculation of recoverable amount*

The recoverable amount of the consolidated entity's financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognized until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed.

Receivables that are not assessed as impaired and non-significant receivables are placed in portfolios of receivables with similar risk profiles and a collective assessment of impairment is performed, using objective evidence from historical experience and existing conditions at balance date.

#### *(ii) Reversals of impairment*

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

### Non-financial assets

The carrying amounts of the consolidated entity's non financial assets, other than inventories (see accounting policy (h)), and deferred tax assets (see accounting policy (p)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (i(i))).

For goodwill and intangible assets that have an indefinite useful life or are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

#### *(i) Calculation of recoverable amount*

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *(ii) Reversals of impairment*

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there is an indication that the impairment loss no longer exists and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **(j) Share capital**

### *(i) Issue of shares*

Incremental costs directly attributable to the issue of shares and share options are recognised as a deduction from equity, net of any tax effects.

### *(ii) Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

### *(iii) Dividends*

Dividends are recognised as a liability in the period in which they are declared.

## **(k) Employee benefits**

### *(i) Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit or loss as incurred.

### *(ii) Long-term service benefits*

The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected future increases in wage and salary rates including related oncosts and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

### *(iii) Share-based payment transactions*

Where options are issued to employees as part of their remuneration package details are contained in the Annual Report.

Employee share option plans are approved by shareholders at the Annual General Meeting and refreshed every three years.

Under the Key Executive Option Plan the exercise price is 10 per cent above the market price at the date the options are issued, while with the Subsidiary Executive Option Plan, the options only have a value if the performance of the subsidiary in the three financial years immediately following the issues of the options, is superior to the three financial years preceding the issue of the options. Options are only offered to subsidiary company executives when the board is satisfied with the subsidiary's performance in the three preceding years.

The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

When the Company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognized as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

***(iv) Wages, salaries, annual leave, sick leave and non-monetary benefits***

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as interest free loans are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

***(v) Profit sharing and bonus plans***

A liability is recognised for profit sharing and bonus plans, when there is a present obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

***(vi) Termination benefits***

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**(l) Deferred income**

Deferred income consists of customer advances for project work in progress.

**(m) Provisions**

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

***(i) Warranties***

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Estimated net future cash flows are based on the assumption that all claims will be settled by repairing the item within three months of notification and the weighted average cost of historical claims adjusted for inflation will continue to approximate future costs.

***(ii) Restructuring***

A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(n) Revenue**

***(i) Goods sold and services rendered***

Revenue from the sale of goods is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

**(o) Expenses**

***(i) Operating lease payments***

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Fixed rental increases are not brought to account at the time of the increase but have been incorporated in the total lease cost which is expensed on a straight line basis.

Lease incentives received are recognised in the profit or loss as an integral part of the total lease expense and spread over the lease term.

**(ii) Finance income and expenses**

Finance income comprises interest income, is recognised in the profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit or loss on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the profit or loss using the effective interest rate method.

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method, and gains and losses on hedging instruments that are recognised in the profit or loss (see accounting policy (d)).

Foreign currency gains and losses are reported on a net basis.

**(p) Income tax**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Tax consolidation

The company and its wholly owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Lemarne Corporation Ltd. Partly controlled entities do not form part of the Lemarne tax consolidated group, but form a separate tax consolidated group.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the stand alone taxpayer approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group). Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Nature of tax funding arrangements and tax sharing agreements

The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) in the separate financial statements of the members of the tax consolidated groups equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current tax amounts, since they are also due to or from the same tax authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

Subsidiaries who exit the tax consolidated group are required to make an exit payment prior to exiting the group in accordance with the tax sharing agreement.

**(q) Segment reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the consolidated entity's business and geographical segments. The consolidated entity's primary format for segment reporting is based on business segments. The business segments are determined based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**(r) Non-current assets held for sale and discontinued operations**

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify. When

an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

**(s) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

**(t) Earnings per share**

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(u) New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net asset; guidance on issues such as acquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the consolidated entity's 30 June 2010 financial statement. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.

- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly “primary” statement) the “statement of comprehensive income”. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity’s 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity’s disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated entity’s 30 June 2010 financial statements and will constitute a change in accounting policy for the consolidated entity. In accordance with the transitional provisions the consolidated entity will apply the revised AASB 123 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. The consolidated entity has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognized in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity’s 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity’s financial report.
- AASB 8 *Operating Segments* introduces the “management approach” to segment reporting. AASB 8 which becomes mandatory for the consolidated entity’s 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated entity’s Managing Director in order to assess each segment’s performance and to allocate resources to them. Currently the consolidated entity presents segment information in respect of its business and geographical segments (see note 28). The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity’s financial report.

## 4 FINANCIAL RISK MANAGEMENT

### Overview

The Company and consolidated entity have exposure to the following risks from their use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk.

This note presents information about the Company’s and consolidated entity’s exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Managing Director and Group Financial Controller are responsible for the risk management framework. The Managing Director and Group Financial Controller develop and monitor risk management policies and regularly report to the Board of Directors.

Risk management policies are established to identify and analyse the risks faced by the Company and consolidated entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s and the consolidated entity’s activities.

The Audit Committee oversees how management monitors compliance with the Company’s and consolidated entity’s risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and consolidated entity. Internal Audits are undertaken to include both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### Credit risk

Credit risk is the risk of financial loss to the Company and consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company and consolidated entity’s receivables from customers and investment funds on deposit.

#### Trade and other receivables

The Company’s and consolidated entity’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the consolidated entity’s customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Board of Directors for each company has established a credit committee and credit policy under which each new customer is analysed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. Purchase limits are established for each

customer, which represents the maximum open amount without requiring approval from the credit committee; these limits are reviewed frequently. Customers that fail to meet each company's benchmark creditworthiness may transact with the consolidated entity only on a prepayment basis.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the consolidated entity may have a secured claim. The consolidated entity does not require collateral in respect of trade and other receivables.

The Company and consolidated entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

#### Cash including short term deposits

The Company and consolidated entity minimise credit risk on short term deposits by ensuring funds are placed with major banks, who have a minimum credit rating of A.

#### Guarantees

Group policy is to provide financial guarantees only to wholly-owned subsidiaries. Details of outstanding guarantees are provided in note 25.

#### **Liquidity risk**

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 to 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

#### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures.

#### Currency risk

The consolidated entity is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company and its controlled entities, primarily the Australian dollar (AUD), but also the Malaysian Ringgit (MYR). The currencies in which these transactions primarily are denominated are United States Dollars (USD) and Euros.

The consolidated entity uses forward exchange contracts to hedge its currency risk. Most with a maturity of less than one year from the reporting

date. When necessary, forward exchange contracts are rolled over at maturity.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the consolidated entity, primarily Malaysian Ringgit. This provides an economic hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the consolidated entity ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

#### **Interest rate risk**

The Group adopts a policy that a portion of its exposure to changes in interest rates on borrowings is on a fixed rate basis in order to manage the risk of fluctuations in interest rates .

#### **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the consolidated entity defines as operating profit before tax and interest expense divided by capital employed (being net assets plus interest bearing borrowings less net deferred tax assets). The consolidated entity's return on capital employed for the year ended 30 June 2008 was 12.9% (including losses on disposal of businesses during the year) (2007: 17.0%). The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the consolidated entity's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

	<b>2008</b>	*2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>	<i>Lemarne Corporation Limited</i>	
<b>5 REVENUE</b>				
<b>Revenue from continuing operations</b>				
Sale of goods revenue		60,394	62,607	–
Rendering of services		–	–	1,154
Other income				
Dividends:				
Controlled entity		–	–	9,300
Other		–	74	74
Net gain on disposal of non-current assets:				
plant and equipment		3	22	–
shares held for trading		–	653	653
Other		375	385	–
Total other income		378	1,134	10,027
<b>Total revenues from continuing operations</b>		<b>60,772</b>	<b>63,741</b>	<b>1,154</b>
<b>Revenues from discontinued operations</b>				
Revenue from sale of goods		5,216	8,406	–
Other income				
Other income		–	113	–
Total other income		–	113	–
Net gain on sale of business/controlled entity	<i>6(a)</i>	–	622	622
<b>Total revenues from discontinued operations</b>		<b>5,216</b>	<b>9,141</b>	<b>622</b>
<b>Total revenues</b>		<b>65,988</b>	<b>72,882</b>	<b>1,154</b>

\*Restated

		<b>2008</b>	*2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>6 PROFIT/(LOSS) FROM OPERATIONS</b>					
(a) Items included in profit/(loss) from discontinued operations before income tax expense.					
Revenue from sale of controlled entity/business		6,150	–	6,000	–
Cost of disposal	10	(9,212)	622	(9,035)	622
Intercompany loans written off		–	–	(2,861)	–
Net profit/(loss) on disposal		(3,062)	622	(5,896)	622
(b) Profit from continuing operations before income tax has been arrived at after charging/(crediting) the following specific expenses:					
<u>Impairment losses</u>					
Property, plant and equipment		7	3	–	–
Stock obsolescence provisions		51	(540)	–	–
		58	(537)	–	–
Other expenses:					
<u>Personnel expenses</u>					
Wages and salaries		6,255	6,233	1,216	888
Contributions to defined contribution superannuation funds		258	205	153	138
Other associated personnel expenses		1,575	1,757	72	57
Increase in liability for annual leave		61	5	35	(14)
Increase in liability for long service leave		16	20	16	2
Share based payments		(71)	68	7	68
Terminations benefits		145	–	145	–
		8,239	8,288	1,644	1,139
<u>Depreciation of non-current assets:</u>					
Plant and equipment		687	783	46	14
<u>Amortisation of non-current assets:</u>					
Leasehold property		36	38	–	–
		36	38	–	–
<b>Total depreciation and amortisation</b>		<b>723</b>	<b>821</b>	<b>46</b>	<b>14</b>
<u>Other expense items</u>					
Movement in impairment of receivables		(33)	184	–	–
Movement in stock obsolescence provision		51	(540)	–	–
Movement in warranty provision		47	–	–	–
Net foreign exchange loss/(gain)		(189)	(75)	–	–
Operating lease rentals		204	195	94	89
Net profit/(loss) on disposal of property, plant and equipment		1	23	–	–

\*Restated

		<b>2008</b>	2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>	<i>Lemark Corporation Limited</i>		
<b>7 INCOME TAX</b>					
(a) Recognised in the income statement					
<i>Current tax expense</i>					
Current year		2,163	1,478	45	133
Adjustments for prior years		(84)	(170)	(54)	(39)
		2,079	1,308	(9)	94
<i>Deferred tax expense</i>					
Origination and reversal of temporary differences		76	(56)	24	(67)
Benefit of tax losses recognised		6	–	–	–
		82	(56)	24	(67)
Total income tax expense in income statement excluding tax on discontinued operations		2,161	1,252	15	27
Attributable to:					
Continuing operations		2,161	1,252	15	27
Income tax related to discontinued operations	<i>10</i>	(621)	(861)	–	–
<b>Total income tax expense in income statement</b>		<b>1,540</b>	<b>391</b>	<b>15</b>	<b>27</b>
(b) Reconciliation between tax expense and pre-tax net profit					
Profit/(loss) before tax—continuing operations		9,214	8,834	98	10,522
Profit before tax discontinued operations		(4,497)	(2,302)	(5,896)	622
Profit/(loss) before tax		4,717	6,532	(5,798)	11,144
Income tax using the domestic corporation tax rates of 30%		1,415	1,959	(1,739)	3,343
Increase in income tax expense due to:					
Capital losses not brought to account		720	–	1,769	–
Employee share options expensed		(31)	20	2	6
Amortisation of intellectual property		–	44	–	–
Depreciation		–	8	–	–
Timing differences and tax losses not recognised		–	37	–	–
Sundry items		104	74	37	1
Decrease in income tax expense due to:					
Non-assessable capital profits		–	(494)	–	(494)
Effect of lower rates of tax on overseas income		(237)	(115)	–	–
Tax amortisation of intellectual property		–	(17)	–	–
Dividends received		–	–	–	(2,790)
Export and other allowances		(244)	(336)	–	–
Capital allowances		–	(69)	–	–
Recovery of tax losses not previously brought to account		–	(480)	–	–
Sundry items		(73)	(19)	–	–
		239	612	69	66
Income tax under/(over) provided in prior year		(114)	(221)	(54)	(39)
<b>Income tax expense reported in the income statement</b>		<b>1,540</b>	<b>391</b>	<b>15</b>	<b>27</b>

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
(c) Current tax liabilities				
Movements during the year:				
Balance at beginning of year	72	122	70	(87)
Income tax (paid)	(1,661)	(813)	(589)	(836)
Refund received	330	123	330	53
Current year's income tax	1,609	688	45	131
Exchange rate movement	(6)	(3)	–	–
Transfer to deferred tax asset	–	161	191	–
Contribution from group member	–	–	(7)	831
Balance transferred out on disposal of subsidiary	–	–	(38)	–
Losses utilised	(52)	–	(52)	–
Under/(over) provision in prior year	(30)	(206)	(21)	(22)
	262	72	(71)	70
(d) Deferred tax liabilities				
Accelerated depreciation for tax purposes	132	122	–	–
Expenditure currently deductible for tax but deferred and amortised for accounting purposes	36	31	34	26
	168	153	34	26
(e) Deferred tax assets				
Employee benefit	103	195	115	33
Provisions	183	135	31	97
Tax losses carried forward	139	161	139	–
	425	491	285	130
(f) Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Capital losses carried forward	2,298	475	2,298	475
	2,298	475	2,298	475

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the group can utilise the benefits therefrom.

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$</b>	\$	<b>\$</b>	\$
	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>8 AUDITORS' REMUNERATION</b>				
<u>Audit services</u>				
Auditors of the Company				
<i>KPMG Australia:</i>				
Audit and review of financial reports	133,125	133,974	108,971	66,377
<i>Overseas KPMG Firms:</i>				
Audit and review of financial reports	11,437	13,268	–	–
<i>Other auditors</i>				
Audit and review of financial reports	–	8,975	–	8,975
	144,562	156,217	108,971	75,352
<u>Other services</u>				
Auditors of the Company				
<i>KPMG Australia:</i>				
Other assurance services	10,000	58,268	10,000	58,268
Taxation services	71,531	112,298	62,231	87,375
<i>Overseas KPMG Firms:</i>				
Taxation services	2,974	4,306	–	–
KPMG related practices				
Due diligence services	30,000	–	30,000	–
	114,505	174,872	102,231	145,643
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
<b>9 NET FINANCING COSTS</b>				
Interest income	(1,319)	(1,268)	(1,159)	(1,241)
Total financial income	(1,319)	(1,268)	(1,159)	(1,241)
Interest expense	47	117	–	–
Total financial expenses	47	117	–	–
Net financing costs (income)	(1,272)	(1,151)	(1,159)	(1,241)

	<b>2008</b>	2007
	<b>\$000</b>	\$000
		<i>Discontinued Operations</i>
<b>10 DISCONTINUED OPERATIONS</b>		
On 23 January 2008, the consolidated entity sold its shares in Lemarne Healthcare Pty Ltd, the skin cancer medical clinic business segment (see notes 6 and 32). The segment was not a discontinued operation or classified as held for sale as at 30 June 2007 and the comparative income statement and segment reporting has been restated to show the discontinued operation separately from continuing operations.		
On 29 April 2008, the consolidated entity, in subsidiary C10 Communications Pty Ltd, sold its interest in the ValueNet business, part of the telecommunications business segment (see notes 6 and 32). The segment was not a discontinued operation or classified as held for sale as at 30 June 2007 and the comparative income statement and segment reporting has been restated to show the discontinued operation separately from continuing operations.		
The results of the two discontinued operations for the period until disposal are presented below:		
(i) Financial performance information		
Revenue	5,216	8,407
Cost of sales	(2,399)	(5,436)
Gross profit	2,817	2,971
Other income	–	113
Distribution expenses	(1,587)	(1,952)
Administrative expenses	(2,563)	(3,653)
Other operating expenses	–	(154)
Operating profit before financing costs	(1,333)	(2,675)
Financial income	20	35
Financial expenses	(122)	(285)
Net financing (costs)/income	(102)	(250)
<i>Profit/(loss) before income tax</i>	(1,435)	(2,925)
Income tax expense	518	862
<i>Profit after income tax of discontinued operations</i>	(917)	(2,063)
Loss on sale of the controlled entity/business before income tax	(3,062)	–
Tax on loss on sale	103	–
<i>Loss from discontinued operations</i>	(3,876)	–
(ii) Cash flow information		
Net cash inflow/(outflow) from operating activities	(479)	(1,271)
Net cash inflow/(outflow) from investing activities	(141)	(908)
Net cash inflow/(outflow) from financing activities	(105)	(249)
<i>Net cash(outflow)/inflow</i>	(725)	(2,428)
(iii) Carrying amounts of assets and liabilities		
Cash and cash equivalents	264	299
Trade receivables	243	289
Other receivables	132	126
Inventories	26	17
Prepayments and deposits	196	300
Property, plant and equipment	2,323	2,611

	<b>2008</b>	2007
	<b>\$000</b>	\$000
		<i>Discontinued Operations</i>
Deferred tax assets	80	267
Intangibles	5,716	5,789
Interest bearing loans and borrowings	(176)	(281)
Tax liabilities	–	–
Deferred tax liabilities	(2)	(2)
Employee benefits	(237)	(360)
Trade payables	(479)	(662)
Net identifiable assets and liabilities	8,086	8,393
Consideration received, satisfied in cash	6,150	–
Cash disposed of	(264)	–
Net cash (inflow)	5,886	–
Consideration received in cash	6,150	–
Less: Disposal costs paid and accrued	(1,126)	–
Less: Net book value of assets disposed	(8,086)	–
Loss on sale of discontinued operation	(3,062)	–

On 28 February 2006, the consolidated entity sold its shares in Pacific Composites Pty Ltd, the reinforced plastics business segment.

A \$622,000 deferred gain on sale was recognised in the income statement for the year ended 30 June 2007.

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
			<i>Consolidated</i>	<i>Lemarne Corporation Limited</i>
<b>11 DIVIDENDS PROVIDED FOR OR PAID</b>				
The amounts paid, declared or provided for by way of dividend by the parent entity are:				
(i) An interim fully franked ordinary dividend of 12.5 cents per share was paid on 20 March 2008(2007: 8.5 cents)	1,201	816	1,201	816
(ii) No final fully franked ordinary dividend was paid in respect of the year ended 30 June 2008 (2007: 10 cents per share was paid on 19 October 2007)	960	–	960	–
<b>Total dividends in accounts</b>	<b>2,161</b>	<b>816</b>	<b>2,161</b>	<b>816</b>
<b>After Year End</b>				
(iii) 2008: a final fully franked dividend of 12.5 cents per share was declared payable on 20 October 2008; (2007: 10 cents)	1,224	961	1,224	961
This dividend was not provided for in the accounts.				
<u>Dividend franking account</u>				
Franking credits available to shareholders of Lemarne Corporation Ltd for subsequent financial years	990	1,095	990	1,095

The above available amount is based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liability
- franking debits that will arise from the payment of dividends recognised as a liability at the year end
- franking credits that will arise from the receipt of dividends recognised as receivables at the year end
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

	2008	2007
	<i>Consolidated</i>	
<b>12 EARNINGS PER SHARE</b>		
<u>Earnings per share for continuing and discontinued operations</u>		
<i>Basic earnings per share (cents)</i>		
From continuing operations	73.4	65.0
From discontinued operations	(40.3)	(12.3)
	33.1	52.7
<i>Diluted earnings per share (cents)</i>		
From continuing operations	73.4	65.0
From discontinued operations	(40.3)	(12.3)
	33.1	52.7

The calculation of basic earnings per share for the financial year ended 30 June 2008 has been based on the profit attributable to shareholders of \$3,177K (continuing \$7,053K, discontinued \$(3,876K)) (2007: profit attributable to shareholders \$6,141K, being \$7,582K continuing and (\$1,441K) discontinued) and a weighted average number of ordinary shares outstanding of 9,608,263 (2007: 11,660,390) calculated as follows:

	\$000	\$000
<u>Earnings reconciliation</u>		
Net profit/(loss)	3,177	6,141
Basic and diluted earnings	3,177	6,141

	<u>Number of Shares</u>	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	9,608,263	11,660,390
Effect of executive share options on issue	—	—
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	9,608,263	11,660,390

Potential ordinary shares not considered dilutive

At 30 June 2008 the Company did not have any share options on issue.

At 30 June 2007 the Company had on issue the following options which were not considered dilutive.

<u>Number</u>	<u>Exercise Price</u>
187,500	\$2.67
100,000	\$2.57

Further details of these securities are contained in note 24.

		<b>2008</b>	2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>13 TRADE &amp; OTHER RECEIVABLES</b>					
<u>Current</u>					
Trade debtors		10,083	10,625	–	–
Less:					
Provision for impairment losses		(127)	(193)	–	–
		9,956	10,432	–	–
Other debtors		194	463	169	93
Owing by controlled entities	29	–	–	326	–
		10,150	10,895	495	93
<u>Non Current</u>					
Owing by controlled entity	29	–	–	–	3,064
The consolidated entity's currency risk and impairment losses related to trade and other receivables, are disclosed in note 31.					
<b>14 INVENTORIES</b>					
<u>Current</u>					
Finished goods					
At cost		1,461	2,442		
Less: provision for obsolescence		(12)	(30)		
Net realisable value		1,449	2,412		
Raw materials					
At cost		3,577	4,136		
Less: provision for obsolescence		(302)	(347)		
Net realisable value		3,275	3,789		
Work in progress					
At cost		779	879		
Carrying amount of inventories stated at cost or at net realisable value		5,503	7,080		
<b>15 PREPAYMENTS &amp; DEPOSITS</b>					
Prepayments		288	394	94	14
Deposits		4	34	–	–
Deferred expenses		231	–	231	–
		523	428	325	14

	CONSOLIDATED			TOTAL \$000	LEMARNE
	Leasehold land & buildings \$000	Leasehold improvements \$000	Plant & equipment \$000		Plant & equipment \$000
<b>16 PROPERTY, PLANT &amp; EQUIPMENT</b>					
<b>Year ended 30 June 2008</b>					
Balance at 1 July 2007 net of depreciation and impairment	599	687	4,195	5,481	35
Additions	–	10	1,987	1,997	39
Disposals	–	–	(424)	(424)	(22)
Impairment	–	(5)	(9)	(14)	–
Depreciation charge for the year	(22)	(60)	(1,012)	(1,094)	(46)
Exchange rate adjustments	(39)	(14)	(196)	(249)	–
Balance transferred out on disposal of subsidiary	–	(436)	(1,496)	(1,932)	–
<b>Net carrying amount at 30 June 2008</b>	<b>538</b>	<b>183</b>	<b>3,045</b>	<b>3,765</b>	<b>6</b>
<b>At 30 June 2008</b>					
Cost	579	233	7,192	8,003	97
Accumulated depreciation and impairment	(41)	(50)	(4,147)	(4,238)	(91)
<b>Net carrying amount</b>	<b>538</b>	<b>183</b>	<b>3,045</b>	<b>3,765</b>	<b>6</b>
<b>Year ended 30 June 2007</b>					
Balance at 1 July 2006 net of depreciation and impairment	667	533	4,995	6,195	47
Additions	–	277	904	1,181	2
Disposals	–	–	(87)	(87)	–
Impairment	–	–	(3)	(3)	–
Depreciation charge for the year	(39)	(78)	(1,333)	(1,450)	(14)
Exchange rate adjustments	(29)	(45)	(281)	(355)	–
<b>Net carrying amount at 30 June 2007</b>	<b>599</b>	<b>687</b>	<b>4,195</b>	<b>5,481</b>	<b>35</b>
<b>At 30 June 2007</b>					
Cost	621	1,022	10,985	12,628	180
Accumulated depreciation and impairment	(22)	(335)	(6,790)	(7,147)	(145)
<b>Net carrying amount</b>	<b>599</b>	<b>687</b>	<b>4,195</b>	<b>5,481</b>	<b>35</b>

	<b>Intellectual Property \$000</b>	<b>Goodwill \$000</b>	<b>TOTAL \$000</b>
	<i>Consolidated</i>		
<b>17 INTANGIBLE ASSETS</b>			
<b>Year ended 30 June 2008</b>			
Balance at 1 July 2007 net of amortisation and impairment	1,121	4,965	6,086
Balance transferred out on disposal of a subsidiary	(1,048)	(4,668)	(5,716)
Amortisation charge for the year	(73)	–	(73)
<b>Net carrying amount at 30 June 2008</b>	<b>–</b>	<b>297</b>	<b>297</b>
<b>Year ended 30 June 2007</b>			
Balance at 1 July 2006 net of amortisation and impairment	1,266	8,120	9,386
Impairment	–	(155)	(155)
Amortisation charge for the year	(145)	–	(145)
De-recognition of deferred consideration	–	(3,000)	(3,000)
<b>Net carrying amount at 30 June 2007</b>	<b>1,121</b>	<b>4,965</b>	<b>6,086</b>
<b>At 1 July 2006</b>			
Cost or fair value (gross carrying amount)	1,455	8,397	9,852
Accumulated depreciation and impairment	(189)	(277)	(466)
Net carrying amount	1,266	8,120	9,386
<b>At 30 June 2007 and 1 July 2007</b>			
Cost (gross carrying amount)	1,455	5,243	6,698
Accumulated amortisation and impairment	(334)	(278)	(612)
Net carrying amount	1,121	4,965	6,086
<b>At 30 June 2008</b>			
Cost (gross carrying amount)	–	575	575
Accumulated amortisation and impairment	–	(278)	(278)
Net carrying amount	–	297	297

Intellectual property acquired through business combinations has been capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 10 years. If an impairment indication exists, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

#### Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill

	<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$000</b>	<b>\$000</b>
Healthcare	–	4,668
Multiple units without significant goodwill	297	297
	297	4,965

#### 2008

Following the sale of Lemarne Healthcare there is no remaining goodwill in the accounts relating to the Healthcare business.

#### 2007

The Healthcare division's goodwill was created by two individual cash generating units treated as a whole, for impairment testing as follows:

- Molescan clinics cash generating units; and
- Pathology laboratory cash generating units.

The recoverable amount of the above cash generating units, treated as a whole, was determined based on a value in use calculation using cash flow projections based on financial budgets and business plans approved by senior management covering a five year period.

The key assumptions used in value in use calculations for the Lemarne Healthcare cash generating units for 30 June 2007 were as follows:

- Gross billings at the clinics are based on budget levels, increased for expected growth and efficiency improvements;
- Pathology laboratory billings are based on budget levels and increased for expected growth and efficiency improvements;
- An appropriate overhead cost structure is maintained.

		<b>2008</b>	2007	<b>2008</b>	2007
		<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Note</i>	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>18 TRADE &amp; OTHER PAYABLES</b>					
<u>Current</u>					
Trade creditors		3,547	3,713	–	2
Other creditors and accruals		2,051	2,083	252	126
		<b>5,598</b>	<b>5,796</b>	<b>252</b>	<b>128</b>
Loans from controlled entity	29	–	–	2,550	800

The consolidated entity's currency and liquidity risks to trade and other payables are disclosed in note 31.

The amounts owing from related parties in 2007 have been reclassified from non-current to current.

### 19 LOANS & BORROWINGS

This note provides information about the contractual terms of the Company's and consolidated entity's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's and consolidated entity's exposure to interest rate, foreign currency and liquidity risk, see note 31.

#### Current

Bank loans and bills – secured		–	2,467	–	–
Hire purchase liabilities		143	314	–	–
		<b>143</b>	<b>2,781</b>	<b>–</b>	<b>–</b>
<u>Non-current</u>					
Hire purchase liabilities		231	111	–	–
		<b>231</b>	<b>111</b>	<b>–</b>	<b>–</b>

The bank overdrafts, commercial bills and loans are secured by fixed and floating charges over the assets and undertakings of the consolidated entity and by guarantees from a parent entity.

#### **Hire purchase liabilities**

Hire purchase liabilities of the consolidated entity are payable as follows:

	<i>Future minimum lease payments 2008</i>	<i>Interest 2008</i>	<i>Present value of minimum lease payments 2008</i>	<i>Future minimum lease payments 2007</i>	<i>Interest 2007</i>	<i>Present value of minimum lease payments 2007</i>
<i>In thousands of AUD</i>						
Less than one year	161	18	143	341	27	314
Between one and five years	242	11	231	116	5	111
More than five years	–	–	–	–	–	–
	<b>403</b>	<b>29</b>	<b>374</b>	<b>457</b>	<b>32</b>	<b>425</b>

The Company has no finance lease liabilities.

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>Facilities used at balance date:</b>				
Bank overdrafts	1	357	–	–
Bank loans and commercial bills	–	2,467	–	–
Hire purchases	374	425	–	–
Standby letters of credit	931	–	–	–
Indemnity/guarantees	1,778	285	–	–
	<b>3,084</b>	<b>3,534</b>	<b>–</b>	<b>–</b>
<b>Facilities not used at balance date:</b>				
Bank overdrafts	1,612	1,338	–	–
Bank loans and commercial bills	2,545	264	–	–
Hire purchases	100	319	–	–
Standby letters of credit	–	1,000	–	–
Indemnity/guarantees	400	3,325	–	–
	<b>4,657</b>	<b>6,246</b>	<b>–</b>	<b>–</b>
<b>20 EMPLOYEE BENEFITS</b>				
<b>Current</b>				
Salaries and wages	751	558	411	116
Long service leave	–	26	41	–
Annual leave	279	463	–	24
	<b>1,030</b>	<b>1,047</b>	<b>452</b>	<b>140</b>
<b>Non-current</b>				
Annual leave	22	15	22	15
Long service leave	157	223	39	72
	<b>179</b>	<b>238</b>	<b>61</b>	<b>87</b>
<b>Contributions to superannuation funds</b>				
The consolidated entity makes contributions to employee superannuation funds which are accumulation type funds. The amount recognised as an expense was \$499,979 for the financial year ended 30 June 2008 (2007: \$559,889) for continuing and discontinued operations				
	No.	No.	No.	No.
Number of employees at end of financial year	717	787	3	4

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>21 PROVISIONS</b>				
<u>Current</u>				
Warranties	103	63	–	–
	103	63	–	–
<u>Reconciliations</u>				
Reconciliations of the carrying amounts of each class of provision, except for employee benefits provision, are set out below:				
<i>Warranties</i>				
Carrying amount at beginning of year	63	119	–	–
Provisions made during the year	47	–	–	–
Payments made during the year	–	(48)	–	–
Exchange rate adjustments	(7)	(8)	–	–
Disposal of a subsidiary	–	–	–	–
	103	63	–	–
<b>22 DEFERRED INCOME</b>				
<u>Current</u>				
Deferred income	314	322	–	–

	<i>Share capital</i>	<i>Translation reserve</i>	<i>Options granted reserve</i>	<i>Capital profits reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
	\$000	\$000	\$000	\$000	\$000	\$000
<b>23 CAPITAL AND RESERVES</b>						
Reconciliation of movement in capital and reserves						
<b>Consolidated</b>						
Balance at 1 July 2006	6,867	(408)	362	–	39,281	46,102
Total recognised income and expense	–	(726)	–	–	6,141	5,415
Amortisation of options	–	–	68	–	–	68
Shares issued	186	–	–	–	–	186
Share buy-back	(3,376)	–	–	–	(11,218)	(14,594)
Dividends to shareholders	–	–	–	–	(816)	(816)
Balance at 30 June 2007	3,677	(1,134)	430	–	33,388	36,361
Balance at 1 July 2007	3,677	(1,134)	430	–	33,388	36,361
Total recognised income and expense	–	(964)	–	–	3,177	2,213
Amortisation of options	–	–	7	–	–	7
Options forfeited	–	–	(112)	–	–	(112)
Shares issued	501	–	–	–	–	501
Dividends to shareholders	–	–	–	–	( 2,161)	(2,161)
Balance at 30 June 2008	4,178	( 2,098)	325	–	34,404	36,809
<b>Lemarne Corporation Ltd</b>						
Balance at 1 July 2006	6,867		362		28,013	35,242
Total recognised income and expense	–		–		11,071	11,071
Amortisation of options	–		68		45	113
Shares issued	186		–		–	186
Share bought back	(3,376)		–		(11,218)	(14,594)
Dividends to shareholders	–		–		(816)	(816)
Balance at 30 June 2007	3,677		430		27,095	31,202
Balance at 1 July 2007	3,677		430		27,095	31,202
Total recognised income and expense	–		–		(5,813)	(5,813)
Options forfeited	–		(112)		–	(112)
Amortisation of options	–		7		–	7
Shares issued	501		–		–	501
Dividends to shareholders	–		–		(2,161)	(2,161)
Balance at 30 June 2008	4,178		325		19,121	23,624

**Share capital**

The consolidated entity recorded the following amount within shareholders' equity as a result of the issue of ordinary shares.

For the year ended 30 June 2008

**Share Capital**

	30 June 2008	30 June 2007
	\$000	\$000
Issue of ordinary shares from the exercise of options under the Key Executive Option Plan	501	186

**Ordinary Shares**

	30 June 2008	30 June 2007
	No.	No.
On issue at 1 July	9,606,214	14,674,977
Issued for cash	187,500	125,000
Share buy-back	–	(5,193,763)
On issue at 30 June fully paid	9,793,714	9,606,214

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

**Share Options**

The Company has share based payment option schemes under which options to subscribe for the Company's shares have been granted to executives and other employees (refer note 24).

**Nature and purpose of reserves****Foreign currency translation reserve**

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self sustaining foreign operation and the translation of self-sustaining foreign controlled entity are brought to account by entries made directly to the foreign currency translation reserve, as described in note 1(d).

**Options granted reserve**

The options granted reserve represents the value of shares held in an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve is not reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

**24 SHARE BASED PAYMENTS**

Share options are granted to senior executives with more than twelve months' service. Details of the share option plans are provided below.

On 31 October 2003, after approval by shareholders at the AGM, 500,000 options were granted to two executive directors of the Company at an exercise price of \$2.67 per share under the same Plan. 156,250 of these options were exercised on 12 April 2006 and 156,250 options were forfeited due to the resignation of the executive. A further 187,500 options were exercised on 27 June 2008.

On 9 June 2004 the Company granted options over 100,000 unissued ordinary shares under the Key Executive Option Plan No.6 to an executive of C10 Communications Pty Ltd at an exercise price of \$2.57. These options were forfeited due to the resignation of the executive.

Under the Key Executive Option Plans, 50 per cent of the options granted may be exercised after the second anniversary but before the fourth, while the outstanding options may be exercised after the fourth anniversary but before the fifth.

There are no outstanding options on issue as at 30 June 2008.

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of and movements in share options during the year:

	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>No.</b>	<b>WAEP</b>	<b>No.</b>	<b>WAEP</b>
	<b>000</b>		<b>000</b>	
Outstanding at the beginning of the year	287	2.64	412	2.29
Forfeited during the year	100	2.57	–	–
Exercised during the year	187	2.67	125	1.49
Expired during the year	–	–	–	–
Outstanding at the end of the year	–	–	287	2.64

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>25 COMMITMENTS AND CONTINGENCIES</b>				
The estimated maximum amount of commitments and contingent liabilities not provided for in the financial statements of the group as at 30 June 2008 are set out below:				
<u>Operating leases</u>				
The economic entity leases property under operating leases expiring from 1 to 3 years. Leases generally provide the economic entity with a right of renewal at which time all terms are re-negotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on movements in the Consumer Price Index.				
<u>Operating lease rental commitments</u>				
Future operating lease rentals of property:				
Due:				
within one year	97	911	76	73
after one year but not more than five years	52	1,250	38	115
	149	2,161	114	188
<u>Capital expenditure commitments</u>				
Property, plant and equipment:				
Due:				
within one year	362	75	–	–
<u>Employee compensation commitments</u>				
Key management personnel commitments under non-cancellable employment contracts not provided for in the financial statements:				
Due:				
within one year	316	564	233	365
<u>Contingent liabilities</u>				
The directors are of the opinion that provisions are not required in respect of these matters as it is not probable that a future sacrifice of economic benefits will be required. In respect of related entities:				
(a) Unlimited guarantee by subsidiary parent entity of bank accommodation of its controlled entities	7,742	6,159	–	–
(b) An overseas subsidiary has received 3 claims for unfair dismissal which it has denied and is challenging				

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
<b>26 INVESTMENTS</b>				
Shares in controlled entities - at original cost	–	–	6,550	16,833
Less: impairment	–	–	–	(1,801)
	–	–	6,550	15,032

**Investments in controlled entities**

Name of entity	Country of incorporation	Ownership interest	
		2008 %	2007 %
<b>Parent entity</b>			
Lemarne Corporation Limited	Australia		
<b>Controlled entities</b>			
Lemvest Limited	Australia	<b>100</b>	<b>100</b>
Controlled entities			
Fine Pearl Sdn.Bhd	Malaysia #	<b>100</b>	<b>100</b>
- Lemtronics Sdn.Bhd	Malaysia #	<b>100</b>	<b>100</b>
C10 Communications Pty Ltd	Australia	<b>100</b>	<b>100</b>
- CTen Communications Pty Ltd	Australia	<b>Nil</b>	<b>100</b>
Lemvest Systems Pty Ltd	Australia	<b>Nil</b>	<b>100</b>
Lemarne Healthcare Pty Ltd	Australia	<b>Nil</b>	<b>83<sup>1</sup></b>
Controlled entities			
Molescan Australia Pty Ltd	Australia	<b>Nil</b>	<b>100</b>
- Molescan Limited	New Zealand *	<b>Nil</b>	<b>100</b>
Australian Dermatopathology Laboratory Pty Ltd	Australia	<b>Nil</b>	<b>100</b>

\*Not audited. (As entity did not trade it did not need to be audited.)

#Controlled entities audited by associated firms of KPMG Australia.

<sup>1</sup>On 1 July 2007 the Company acquired the remaining shares in Lemarne Healthcare to bring its ownership to 100%. On 23rd January 2008 the Company sold Lemarne Healthcare Pty Ltd. Refer to note 10.

CTen Communication Pty Ltd and Lemvest Systems Pty Ltd were deregistered on 12 December 2007 and 21 November 2007 respectively.

**27 RELATED PARTIES**

## (a) Details of key management personnel

## (i) Directors:

E B Noxon	Chairman (non-executive)
P A Murphy	Chief Executive Officer
S L Mason	Director (non-executive)
P G Davenport	Director (non-executive)
J C Larking	Director (non-executive)

## (ii) Executives:

A Kotsiopoulos	Group Financial Controller/Company Secretary, Lemarne Corporation Ltd (appointed Company Secretary on 1 November 2007)
K H Mun	Chief Executive, Lemtronics Sdn Bhd
B J Dolphin	Chief Executive, C10 Communications Pty Ltd

The key management personnel compensation included in 'personnel expenses' (see note 3) are as follows:

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<b>Consolidated</b>		<b>Lemarne Corporation Limited</b>	
Short-term employee benefits	2,040,997	1,656,019	1,138,089	886,363
Other long term benefits	(7,215)	16,686	3,584	11,444
Post-employment benefits	211,165	262,946	139,650	158,583
Termination benefits	144,670	–	144,670	–
Equity compensation benefits	(104,823)	33,685	7,406	22,214
	<b>2,284,794</b>	<b>1,969,336</b>	<b>1,433,399</b>	<b>1,078,604</b>

The key management personnel receive no compensation in relation to the management of the Company. The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the group in relation to their services rendered to the Company.

*Individual directors and executives compensation disclosures*

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report on pages 56 to 62

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

*Loans to key management personnel and their related parties (consolidated)*

There were no loans outstanding at the reporting date to key management personnel and their related parties, or at any time in the reporting period, (2007: nil).

**Equity instruments**

All options refer to options over ordinary shares of Lemarne Corporation Limited which are exercisable on a one-for-one basis under the Key Executive Share Option Plan No.6. There were no options outstanding as at 30 June 2008.

**Options and rights over equity instruments granted as remuneration**

During the reporting period no options over ordinary shares were granted under the Key Executive Share Option Plan No.6.

During the period no options over ordinary shares were granted under the Subsidiary Executive Option Plan No. 5.

**Exercise of options granted as remuneration**

During the reporting period the following options were exercised or shares issued.

**Option holdings**

The movement during the reporting period in the number of options over ordinary shares in Lemarne Corporation Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

Current Year

	<i>Held at 1 July 2007</i>	<i>Granted as compensation</i>	<i>Exercised</i>	<i>Forfeited</i>	<i>Held at 30 June 2008</i>	<i>Vested and exercisable at 30 June 2008</i>
<b>Directors</b>						
S L Mason	187,500	–	187,500	–	–	–
<b>Executive</b>						
B J Dolphin	100,000	–	–	100,000	–	–

Previous Year

	<i>Held at 1 July 2006</i>	<i>Granted as compensation</i>	<i>Exercised</i>	<i>Forfeited</i>	<i>Held at 30 June 2007</i>	<i>Vested and exercisable at 30 June 2007</i>
<b>Directors</b>						
S L Mason	232,500	–	45,000	–	187,500	93,750
<b>Executive</b>						
B J Dolphin	100,000	–	–	–	100,000	50,000

On 27 June 2008 S.L. Mason exercised 187,500 Options. On 14 March 2007 S.L. Mason exercised 45,000 Options. On 1 February 2007 D.J. Rainsbury, a former Director, exercised 80,000 Options.

At 30 June 2007 no Options held are vested but not exercisable.

**Movements in shares**

The movement during the reporting period in the number of ordinary shares of Lemarne Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their personally-related entities is as follows:

Current Year

	<i>Held at 1 July 2007</i>	<i>Purchases</i>	<i>Sales</i>	<i>Held at 30 June 2008</i>
<b>Directors</b>				
E B Noxon	1,105,230	–	–	1,105,230
P G Davenport	373,670	–	–	373,670
J C Larking	581,306	11,212	943	591,575
S L Mason	195,345	187,500	–	382,845
P A Murphy	–	32,000	–	32,000
A Kotsiopoulos	–	5,000	–	5,000
<b>TOTAL</b>	<b>2,255,551</b>	<b>235,712</b>	<b>943</b>	<b>2,490,320</b>

Previous Year

	<i>Held at 1 July 2006</i>	<i>Purchases</i>	<i>Disposed of in share buy-back</i>	<i>Sales</i>	<i>Held at 30 June 2007</i>
<b>Directors</b>					
E B Noxon	2,056,865	485,855	974,623	462,867	1,105,230
P G Davenport	735,340	200,000	361,670	200,000	373,670
J C Larking	1,165,566	247,037	547,804	283,493	581,306
S L Mason	300,689	45,000	150,344	–	195,345
<b>TOTAL</b>	<b>4,258,460</b>	<b>977,892</b>	<b>2,034,441</b>	<b>946,360</b>	<b>2,255,551</b>

**Other transactions with the Company or its controlled entities**

There were no transactions between the Company or its subsidiaries and entities that are controlled by key management personnel or their personally related entities.

## 28 SEGMENT REPORTING

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest or dividend earning assets and revenue, interest bearing borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

Electronics	Electronic sub-assemblies used mainly in the power tool, telecommunications, automotive and security industries.
Telecommunication products	ISDN, ADSL access products, filters and telephone accessories.

### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The consolidated entity's business segments operate geographically as follows:

Australasia	Sales offices.
Asia	Manufacturing facilities for electronic equipment products and sub-assemblies.
Europe	Customers for electronic equipment.
North America	Customers for electronic equipment.

**28 SEGMENT REPORTING (Cont.)****Primary reporting**

	Electronics		Telecommunications Products		Unallocated		Eliminations		Subtotal Continuing		Reinforced plastics		Healthcare Telecommunications Products		Subtotal Discontinued		TOTAL OPERATIONS			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000		
<b>Business segments</b>																				
External sales revenue	48,745	49,491	11,649	13,116	-	-	-	-	60,394	62,607	-	-	4,253	7,800	963	606	5,216	8,406	65,610	71,013
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	378	388	-	3	1,154	744	(1,154)	-	378	1,135	-	-	-	112	-	-	112	378	1,247	-
<b>Total segment revenue</b>	<b>49,123</b>	<b>49,879</b>	<b>11,649</b>	<b>13,117</b>	<b>1,154</b>	<b>744</b>	<b>(1,154)</b>	-	<b>60,772</b>	<b>63,742</b>	-	-	<b>4,253</b>	<b>7,912</b>	<b>963</b>	<b>606</b>	<b>5,216</b>	<b>8,518</b>	<b>65,988</b>	<b>72,260</b>
<b>Segment result</b>																				
Results from operating activities	5,764	3,966	3,239	3,735	(1,061)	(18)	-	-	7,942	7,683	-	-	43	(579)	(1,376)	(2,095)	(1,333)	(2,674)	6,609	5,009
Net financing costs	-	-	-	-	-	-	-	-	1,272	1,151	-	-	-	-	(102)	(250)	(102)	(250)	1,170	901
<b>Profit before tax and before disposal of businesses</b>									<b>9,214</b>	<b>8,834</b>					<b>(1,435)</b>	<b>(2,924)</b>	<b>(1,435)</b>	<b>(2,924)</b>	<b>7,779</b>	<b>5,910</b>
Income tax expense	-	-	-	-	-	-	-	-	(2,161)	(1,252)	-	-	-	-	518	861	518	861	(1,643)	(391)
Gain/(loss) on sale of discontinued operation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,062)	622	(3,062)	622	(3,062)	622
Income tax expense on sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	103	-	103	-	103	-
Net gain on sale	-	-	-	-	-	-	-	-	7,053	7,582	-	-	622	(2,959)	622	(2,959)	622	(2,959)	622	622
<b>Profit for the period</b>									<b>7,053</b>	<b>7,582</b>			<b>622</b>	<b>(2,959)</b>	<b>622</b>	<b>(2,959)</b>	<b>622</b>	<b>(2,959)</b>	<b>3,177</b>	<b>6,141</b>
Depreciation and amortisation	650	751	27	57	46	13	-	-	723	821	-	-	315	642	129	132	444	774	1,167	1,595
Non-cash expenses other than depreciation and amortisation	807	345	11	225	53	103	-	-	871	673	-	-	2,344	77	710	-	3,054	77	3,925	750
<b>Individually significant items</b>																				
Inventory write-down	-	535	-	-	-	653	-	-	-	1,188	-	-	622	(2,402)	-	(660)	(154)	(3,062)	468	(3,062)
	(47)	(35)	(4)	-	-	-	-	-	(51)	(35)	-	-	-	-	(109)	-	-	(109)	51	(144)
<b>Assets</b>																				
Segment assets	20,031	19,007	4,217	3,893	29,670	33,252	(9,180)	(21,377)	44,738	34,775	-	-	-	11,897	100	629	100	12,526	44,838	47,301
<b>Liabilities</b>																				
Segment liabilities	5,552	8,091	601	1,098	4,119	1,245	(2,550)	(3,864)	7,722	6,570	-	-	-	4,176	307	194	307	4,370	8,029	10,940
Capital expenditure	1,776	214	40	17	39	2	(35)	-	1,820	233	-	-	140	743	37	205	177	948	1,997	1,181

\* See discontinued operations note 10.

**28 SEGMENT REPORTING (Cont.)**  
**Secondary reporting**

	Australasia		Asia		Europe		North America		Other		Unallocated		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Geographical segments</b>														
External segment revenue by location of customers	16,340	21,181	4,897	3,224	39,107	40,595	5,269	6,013	-	-	-	-	65,610	71,013
Segment assets by location of assets	4,317	16,223	20,031	19,007	-	-	-	-	-	-	20,490	12,071	44,838	47,301
Capital expenditure	182	965	1,776	214	-	-	-	-	-	-	39	2	1,997	1,181

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Consolidated</i>		<i>Lerne Corporation Limited</i>	
<b>29 NON-DIRECTOR RELATED PARTIES</b>				
The consolidated entity has a related party relationship with its subsidiaries (note 26) and with its key management personnel (note 27):				
<u>Transactions</u>				
All transactions with non-director related parties are on normal terms and conditions. Loans to non-director related parties are at commercial interest rates and are repayable on demand. Current account balances (arising from tax consolidations) are interest free.				
The Company arranges for insurance for controlled entities and invoices controlled entities based on the cost of the insurance provided. The Company also provides management, legal, accounting and secretarial services to controlled entities and invoices these services based on normal terms and conditions.				
The transactions that were entered into with related parties for the relevant financial year are as follows:				
<b>Interest revenue-subsidiaries</b>				
Wholly-owned controlled entities	–	–	109	288
<b>Revenue from management fees subsidiaries</b>	–	–	1,154	978
Loans to subsidiaries				
Amounts receivable from subsidiaries - current	–	–	326	–
Amounts receivable from subsidiaries – non-current	–	–	–	3,064
Amounts payable to subsidiaries - current	–	–	2,550	800
<b>Percentage of equity interest</b>				
Details of equity interests held in classes of related parties are set out as follows:				
Controlled entities – note 26.				
Other related party disclosures are contained in notes 24 and 27.				
<b>30 NOTES TO THE STATEMENT OF CASH FLOWS</b>				
[i] Reconciliation of cash				
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts.				
Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:-				
Cash	4,663	4,334	2,847	1,579
Short term deposits	19,513	12,500	16,394	12,500
Bank overdraft	(1)	(357)	–	–
	<b>24,175</b>	<b>16,477</b>	<b>19,241</b>	<b>14,079</b>

The consolidated entity's exposure to interest rate risk is disclosed in note 32.

	<b>2008</b>	2007	<b>2008</b>	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
	<i>Consolidated</i>		<i>Lemarne Corporation Limited</i>	
[ii] Reconciliation of operating profit after income tax to net cash provided by operating activities				
Operating profit after income tax	3,177	6,141	(5,813)	11,117
<u>Add/(less) items classified as investing/financing activities</u>				
(Profit)/loss on sale of non-current assets	2	(667)	2	(653)
(Profit)/loss on sale of subsidiary/business	3,062	(622)	5,896	(622)
<u>Add/(less) non-cash items</u>				
Amortisation	109	184	–	–
Depreciation	1,058	1,411	46	14
Amounts set aside to provisions	637	489	51	102
Bad debts and movement in provision for impairment	221	191	–	–
Fixed assets scrapped/written down	13	145	–	–
Goodwill impairment	–	154	–	–
Discount on acquisition	(10)	(11)	–	–
Equity settled share based payments	(105)	68	7	22
Unrealised foreign exchange gain/(loss) on translation of controlled entities	(700)	(539)	–	–
Net cash provided by operating activities before change in assets and liabilities	7,464	6,944	189	9,980
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities				
(Increase)/decrease in inventories	1,525	532	–	–
(Increase)/decrease in prepayments/deposits	(59)	(73)	(80)	(1)
(Increase)/decrease in trade and other debtors	189	(1,700)	(75)	(84)
(Increase)/decrease in amounts owing to related entity	–	–	(124)	(9,300)
(Decrease)/increase in trade and other creditors	16	(1,388)	50	(100)
Payments from provisions	(411)	(1,236)	243	(231)
(Decrease)/increase in income received in advance	(8)	128	–	–
(Decrease)/increase in current tax payable	190	(50)	(142)	158
(Decrease)/increase in deferred taxes payable	3	(260)	(148)	(83)
<b>Net cash provided by operating activities</b>	<b>8,909</b>	<b>2,897</b>	<b>(87)</b>	<b>339</b>

### 31 FINANCIAL INSTRUMENTS

#### (a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the accounts.

#### (b) Interest rate risk

##### Profile

At the reporting date the interest rate profile of the Company's and the consolidated entity's interest-bearing financial instruments was:

<i>In thousands of AUD</i>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>Consolidated Carrying amount</i>		<i>Company Carrying amount</i>	
<u>Fixed rate instruments</u>				
Financial assets	19,509	13,227	16,394	12,500
Financial liabilities	374	2,892	–	–

All fixed rate financial instruments are accounted for at amortised cost.

The Company and the consolidated entity manage exposure to interest rate risk by ensuring that fixed rate financial assets (ie term deposits) are placed on terms no longer than 180 days.

##### Variable rate instruments

Financial assets	4,666	3,608	2,847	1,579
Financial liabilities	1	357	–	–

##### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would not have a material effect on the profit or loss or equity of the Company or consolidated entity.

#### (c) Currency risk

##### Exposure to currency risk

The consolidated entity's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

<i>In thousands of AUD</i>	<b>USD</b>	<b>EURO</b>	<b>GBP</b>	<b>USD</b>	<b>EURO</b>	<b>GBP</b>
		<i>30 June 2008</i>			<i>30 June 2007</i>	
Trade receivables	4,178	3,942	308	5,650	2,792	363
Trade payables	(1,365)	(291)	(95)	(1,600)	(386)	(116)
Gross balance sheet exposure	2,813	3,651	213	4,050	2,406	247

The following significant exchange rates applied during the year:

	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<i>Average rate</i>		<i>Reporting date spot rate</i>	
Euro	0.6179	0.6094	0.6175	0.6379
MYR	2.9589	2.7934	3.1434	2.9293
USD	0.9012	0.7886	0.9674	0.8501
GBP	0.4545	0.4105	0.4888	0.4270

**Sensitivity analysis**

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased (decreased) the profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

<i>Effect in thousands of AUD</i>	<b>Consolidated Profit or loss</b>
<b>30 June 2008</b>	
USD	(241)
Euro	(332)
GBP	(19)
<b>30 June 2007</b>	
USD	(400)
Euro	(219)
GBP	(22)

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had approximately the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**(d) Credit risk****Exposure to credit risk**

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure. The consolidated entity's maximum exposure to credit risk at the report date was:

<i>In thousands of AUD</i>	<i>Note</i>	<b>Carrying amount</b>	
		<b>2008</b>	<b>2007</b>
Loans and receivables	13	10,150	10,895
Cash and cash equivalents	30(i)	24,175	16,834
Other forward exchange contracts		1,675	1,184

The consolidated entity's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

<i>In thousands of AUD</i>	2008	2007
Australasia	1,588	1,818
Europe	6,519	6,933
USA	1,122	584
Asia	854	1,290
	10,083	10,625

The consolidated entity's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

<i>In thousands of AUD</i>	2008	2007
Telecommunications	1,815	1,640
Electronics	8,268	8,741
Healthcare	—	244
	10,083	10,625

The Company's maximum exposure to credit risk for receivables at the reporting date by geographic region was \$326,400 for Asia (2007: Nil). All receivables are with subsidiaries.

**31 FINANCIAL INSTRUMENTS (Cont.)****Impairment losses**

None of the Company's receivables are past due (2007: nil). The aging of the consolidated entity's trade receivables at the report date was:

<i>In thousands of AUD</i>	<b>Gross 2008</b>	<b>Impairment 2008</b>	<b>Gross 2007</b>	<b>Impairment 2007</b>
Not past due	9,345	–	9,478	(62)
Past due 0 – 30 days	459	–	762	–
Past due 31 – 120 days	155	–	231	(131)
Past due 121 days to one year	24	(27)	167	–
More than one year	100	(100)	(13)	–
	10,083	(127)	10,625	(193)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

<i>In thousands of AUD</i>	<b>2008</b>	<b>2007</b>
Balance at 1 July	193	36
Provision for impaired receivables	179	251
Debtors written off against impairment provision	(234)	(87)
Exchange rate adjustments	(11)	(8)
Balance at 30 June	127	193

The total provision for impaired receivables at 30 June 2008 was \$127K, \$109K related to a German customer who has claimed financial problems for their failure to make payment. Payment terms have been re-negotiated and installment payment plans were put in place throughout the year. Due to the customer's failure to meet the installment payments, legal proceedings have begun for recovery of the debt.

The balance of the impairment provision of \$18K relates to an Australian customer for cancellation charges following suspension of services. The customer is disputing these charges and a debt collection agency has been engaged to recover the debt.

There is no collateral held in respect of the above receivables.

Based on historic performance, the consolidated entity does not believe an impairment allowance is necessary in respect of trade receivables not past due or past due up to 30 days. Specific impairment provisions for trade receivables over 30 days is made on a case by case basis.

**(e) Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

<b>Consolidated</b> <i>In thousands of AUD</i>	<b>Carrying Amount</b>	<b>Contractual cash flow</b>	<b>6 mths or less</b>	<b>6-12 mths</b>	<b>1-2 years</b>	<b>2-5 years</b>
<b>30 June 2008</b>						
<i>Non-derivative financial liabilities</i>						
Hire purchase lease liabilities	374	403	89	72	144	98
Trade and other payables *	5,598	5,598	5,598	–	–	–
Bank overdraft	1	1	1	–	–	–
<i>Derivative financial liabilities</i>						
Other forward exchange contracts:						
Inflow	1,675	1,675	1,675	–	–	–
<b>30 June 2007</b>						
<i>Non-derivative financial liabilities</i>						
Secured bank loans	2,467	2,477	2,477	–	–	–
Hire purchase lease liabilities	425	457	201	140	113	3
Trade and other payables *	5,796	5,796	5,793	3	–	–
Bank overdraft	357	357	357	–	–	–
<i>Derivative financial liabilities</i>						
Other forward exchange contracts:						
Inflow	1,184	1,184	1,184	–	–	–

\* Excludes derivatives (shown separately).

**Company****30 June 2008**

Nil

**30 June 2007**

Nil

### 32 ACQUISITION/DISPOSAL OF CONTROLLED ENTITIES

#### 2008 Acquisitions

Nil

#### 2007 Acquisitions

Nil

	<b>Consolidated profit/(loss) on disposal \$000</b>	<b>The consolidated entity's interest %</b>
<b>2008 Disposals</b>		
On 23 January 2008 the consolidated entity sold its shares in Lemarne Healthcare Pty Ltd, the skin cancer medical clinic business segment.	(2,402)	100
On 29 April 2008 the consolidated entity's subsidiary, C10 Communications Pty Ltd sold its interest in the ValueNet business, part of the telecommunications segment.	(660)	100
See notes 6 and 10 for further details.		

#### 2007 Disposals

No entities or businesses were disposed of during the year.

### 33 EVENTS SUBSEQUENT TO BALANCE DATE

There have been no events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2008.

## **DIRECTORS' DECLARATION**

Directors' Declaration – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

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1. In the opinion of the directors of Lemarne Corporation Limited ("the Company"):
  - (a) the financial statements and notes and the remuneration report in section 11 of the Directors' Report, set out on pages 10 to 53 and pages 56 to 62 respectively, are in accordance with the Corporation Act 2001, including:
    - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Group Financial Officer for the financial year ended 30 June 2008.

Dated at Melbourne this 26th day of August 2008.

Signed in accordance with a resolution of the directors.

P A MURPHY  
**Director**

# INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Members of Lemarne Corporation Limited ABN 72 004 834 584

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## Report on the financial report

We have audited the accompanying financial report of Lemarne Corporation ("the Company"), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 33 and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Auditor's opinion

In our opinion:

- (a) the financial report of Lemarne Corporation Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the consolidated entity also complies with International Financial Reporting Standards as disclosed in note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in section 11 of the directors' report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### Auditor's opinion

In our opinion, the remuneration report of Lemarne Corporation Limited for the year ended 30 June 2008, complies with Section 300A of the Corporations Act 2001.

KPMG

Adrian V King  
Partner

Melbourne  
26 August 2008

# DIRECTORS' REPORT

Directors' Report – Lemarne Corporation Limited ABN 72 004 834 584

The directors have pleasure in presenting the Annual Financial Report of the Company and the consolidated entity for the year ended 30 June 2008, and the auditors' report thereon.

## 1. Directors

The directors of Lemarne Corporation Limited in office during or since the end of the financial year are:

Edward Brian Noxon, B.Sc.(Eng.), F.I.E.Aust., F.A.I.M.  
Managing Director from 1979 to 1999 and from August 2001 to March 2002. Chairman since 1987. Director of National Can Industries Limited since 2000 and Chairman since January 2005.  
Age 70.

Peter Geoffrey Davenport, M.A., M.I.E.E.  
Director since 1981 Previously electrical/electronics engineer and management consultant  
Age 70.

John Campbell Larking, M.B. Ch.B., M.R.C.O.G., F.R.A.C.O.G.  
Director since 1986  
Age 69.

Stephen Leslie Mason, B.Comm., LL.B., F.C.P.A., F.C.I.S.  
Director since 1997  
Age 56.

Peter Anthony Murphy, B.Sc(Hon)  
Managing Director since March 2006 Director Anca Pty Ltd.,  
Age 63

In accordance with the Company's Constitution Mr P.G. Davenport retires by rotation from the board of directors and being eligible, offers himself for re-election.

## 2. Company Secretary

Mrs Akaterine Kotsiopoulos the Group Financial Controller was appointed company secretary on 1 November 2007. Mr Stephen Leslie Mason, B.Comm., LL.B., F.C.P.A., F.C.I.S., Dip C.M., the former company secretary resigned on 31 October 2007.

## 3. Directors' meetings

The number of directors' meetings attended by each of the directors of the Company during the financial year are:

Director	Directors' meetings	
	No of meetings attended	No of meetings held
Mr E B Noxon	11	11
Mr P G Davenport	11	11
Mr J C Larking	9	11
Mr S L Mason	10	11
Mr P A Murphy	11	11

## 4. Principal activities

The principal activities of the consolidated entity during the financial year were:

- the manufacture and international sale of electronics and electrical components and sub-assemblies
- the sale and distribution of ISDN/ADSL access products, filters, telephone accessories and voice over internet protocol (VoIP) services
- provision of medical services via skin cancer clinics and dermatopathology services
- provision of financial facilities to related entities.

## 5. Review of operations

A detailed review of operations is set out in pages 3 to 5.

## 6. Dividends

The amounts paid or declared by way of dividend by the Company since the end of the previous financial year are:

	2008 \$000	2007 \$000
(a) No final fully franked dividend (2007: 10.0 cents per share in respect of the year ended 30 June 2007 was paid on 19 October 2007) was paid in respect of the year ended 30 June 2008	960	–
(b) An interim fully franked ordinary dividend of 12.5 cents per share (2007: 8.5 cents) was paid on 20 March 2008	1,201	816
<b>Total dividends paid or provided for in accounts</b>	<b>2,161</b>	<b>816</b>
(c) A final fully franked dividend of 12.5 cents per share was declared by the directors on 26 August 2008 and is payable on 20 October 2008 to members on the register at 7 pm on 10 October 2008.		

## 7. State of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this Annual Report.

## 8. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

## 9. Likely developments

Certain likely developments in the operations of the consolidated entity and the expected results of those operations, in financial years subsequent to the financial year ended 30 June 2007 are referred to in the Chairman/Managing Director's review of operations as set out on page 3 of this Annual Report.

In the opinion of the directors it would prejudice the interests of the consolidated entity if further information which may be required by section 299 of the Corporations Act 2001 to be included in this report was so included, and that information has not been so included.

## 10. Directors interests and benefits

### Indemnification and insurance of officers

Since the end of the previous financial year the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for directors and officers, including executive officers of the Company and directors, executive officers and secretaries of its controlled entities. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

### Interests

The relevant interest of each director in the share capital of the Company shown in the register of directors' shareholdings as at the date of this report is:

	No. of shares	Nature of interest
E B Noxon	567,176	Beneficial interest in shares registered in the name of EBN Super Fund
	403,160	Beneficial interest in shares registered in the name of Lindridge Pty Ltd <The Haldon A/c>
	68,500	Shareholder
J C Larking		Beneficial interest in shares registered in the name of the shareholder as Trustee for:
	324,426	- Larking Superannuation Fund
	193,175	- Larking Family Fund
	33,500	- Jacana Glen Pty Ltd <Larking Super Fund No.2 A/c>
P G Davenport	300,830	Beneficial interest in shares registered in the name of Maintop Superannuation Pty Ltd <Davenport Super Fund A/c>
	60,840	Shareholder
S L Mason	376,735	Shareholder
P A Murphy	32,000	Beneficial interest in shares registered in the name of Rohsian Pty Ltd <P & LS Murphy Superfund A/c>

## 11. Remuneration report - audited

### ***Principles of compensation***

#### Remuneration Policy

The Board's Remuneration and Succession Planning Committee is responsible for reviewing the compensation policies and practices of the Company, including the compensation arrangements for key management personnel. This Committee bases its recommendations on the appropriateness of remuneration packages for executive directors, non-executive directors and senior executives given trends in independent market data for comparative companies.

### ***Non-Executive Director Remuneration***

The compensation of non-executive directors is determined by the Board, on advice from the Remuneration and Succession Planning Committee, within the maximum amount of \$250,000 approved by Shareholders at the 1998 Annual General Meeting.

Lemarne's non-executive directors' fees are presently \$220,000 per annum. The Chairperson receives an annual base fee of \$90,000, while non-executive directors receive a base fee of \$40,000 per annum. Directors' fees cover all main board activities and membership of any sub-committees of the Board. Non-executive director members who chair one or more such sub-committees receive an additional fee of \$10,000 per annum.

Non-executive directors do not receive any performance related remuneration, therefore they do not receive bonuses nor are they issued with share options.

The Company does not have any retirement scheme in place with non-executive directors.

### ***Executive Directors and Senior Management Compensation***

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. Key management personnel includes the five most highly remunerated directors and executives for the Company and the consolidated entity.

Remuneration levels are set, based upon recommendations of the Remuneration and Succession Planning Committee, to attract and retain high calibre executives with the skills necessary to successfully manage Lemarne's operations and achieve the Group's strategic and financial objectives. The Company believes in the use of variable performance based remuneration for executives as an effective incentive in influencing the broader outcome of increasing the consolidated entity's net profit attributable to shareholders, as an intrinsic part of achieving Lemarne's short and long-term financial goals. As a result of this philosophy, an increasing portion of executive remuneration is performance based.

Remuneration packages for executive directors and senior executives generally consist of three parts:

- Fixed remuneration, which is made up of cash salary, salary sacrifice components, superannuation and other benefits such as motor vehicles. Generally, this part of an executives' remuneration is set in the mid range of levels paid by comparable companies for similar positions;
- Short-term incentives result primarily from Lemarne's Performance Bonus Scheme. Benefits derived from this scheme are earned by the executive successfully achieving specific financial and operational targets that contribute to improve shareholder returns. The primary financial target is to increase return on capital employed, while operational targets focus on goals that are specific to the particular executive's sphere of responsibility and may include sales increases, manufacturing efficiency improvements, new product development etc. These performance related bonuses are paid for after the cost of the bonuses have been funded; and
- Long-term incentives may be provided to qualifying executive directors and senior executives in the form of share options. Options may be granted to senior executives under the Subsidiary Executive Option Plan No 5, or in the case of executive directors and qualifying senior executives under the Key Executive Option Plan No 6. Shareholders at the 2002 and 2005 Annual General Meetings approved the trust deeds, under which these option plans are administered. Shareholders at a General Meeting approve all options granted to executive directors. An overview of these option plans and details of the number of options that have been granted are set out in note 22.

In accordance with the terms of their respective employment contracts, in the event of an executive director or senior executives' employment being terminated, for reasons other than a breach of contract, a payout of up to 12 months remuneration is payable.

The Company does not provide any loan funding to any director or senior executive.

The Board considers that the performance-linked remuneration structure outlined provides appropriate incentives to key senior executives for the achievement of the short-term and longer-term objectives of Lemarne. Paying competitive base levels of remuneration appropriate to the size of the respective businesses is necessary to attract appropriately trained / experienced employees in the first instance. However, it is the annual performance bonus scheme that provides the added encouragement / reward for above target short-term performance, while the share option schemes provide incentive to qualifying key senior executives to achieve sustained superior returns over a four to five year time frame. Directors believe that the current performance linked remuneration structure will play an important role in supporting the Company's return to profitable growth during a difficult and challenging period of repositioning the Group.

The following table provides details of all directors of the Company and the key executives of the consolidated entity with the greatest authority ("key management personnel") and the nature and amount of the elements of their remuneration for the year ended 30 June 2008.

## Directors' and executive officers' remuneration (Company and consolidated)

Director		Short term		Non-monetary benefits	Post-employment Super contributions	Share based payment Options issued*	Long term benefits Long service leave	Termination benefits	TOTAL	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Base remuneration	Incentive schemes								
P A Murphy	2008	379,433	402,000	29,393	30,654	—	2,276	—	843,756	48	—
	2007	266,569	108,630	28,602	60,833	—	—	—	464,634	23	—
S L Mason	2008	67,359	9,615	22,011	7,755	7,406	(1,452)	144,670	257,364	4	3
	2007	115,040	38,233	25,371	44,091	22,214	9,481	—	254,430	15	9
E B Noxon	2008	52,500	—	—	37,500	—	—	—	90,000	—	—
	2007	90,000	—	—	28,000	—	—	—	118,000	—	—
P G Davenport	2008	—	—	—	50,000	—	—	—	50,000	—	—
	2007	50,000	—	—	—	—	—	—	50,000	—	—
J C Larking	2008	36,700	—	—	3,300	—	—	—	40,000	—	—
	2007	36,700	—	—	3,300	—	—	—	40,000	—	—
<b>Officer of the Company</b>											
A Kotsiopoulos	2008	76,442	27,368	—	6,880	—	2,760	—	113,450	24	—
	2007	77,400	11,623	—	17,865	—	1,963	—	108,851	11	—
S Porter	2008	30,267	5,000	—	3,561	—	—	—	38,828	—	—
	2007	38,195	—	—	4,494	—	—	—	42,689	—	—
<b>Total Lemarne</b>	2008	<b>642,701</b>	<b>443,984</b>	<b>51,404</b>	<b>139,650</b>	<b>7,406</b>	<b>3,584</b>	<b>144,670</b>	<b>1,433,399</b>		
	2007	<b>673,904</b>	<b>158,486</b>	<b>53,973</b>	<b>158,583</b>	<b>22,214</b>	<b>11,444</b>	<b>—</b>	<b>1,078,604</b>		

**Directors' and executive officers' remuneration (Company and consolidated)**

		<u>Short term</u>		<u>Non-monetary benefits</u>	<u>Post employment Super contributions</u>	<u>Share based payment Options issued*</u>	<u>Long term benefits Long service leave</u>	<u>Termination benefits Termination</u>	<u>TOTAL</u>	<u>Proportion of remuneration performance related</u>	<u>Value of options as proportion of remuneration</u>
		<u>Base remuneration</u>	<u>Incentive schemes</u>								
<b>Officer of the Company</b>											
K H Mun	2008	149,042	72,808	7,514	36,723	-	-	-	266,087	31	-
	2007	148,966	75,350	6,995	42,121	-	-	-	273,432	28	-
B J Dolphin	2008	269,858	135,933	-	24,870	(112,229)	(10,799)	-	307,633	44	(36)
	2007	257,008	100,071	-	42,599	11,471	5,242	-	416,391	24	3
J A Keep	2008	72,248	157,500	-	6,502	-	-	-	236,250	67	-
	2007	135,709	12,243	-	16,645	-	-	-	164,597	9	-
G L Patrick	2008	38,005	-	-	3,420	-	-	-	41,425	-	-
	2007	33,314	-	-	2,998	-	-	-	36,312	-	-
<b>Consolidated Totals</b>	2008	<b>1,171,854</b>	<b>810,225</b>	<b>58,918</b>	<b>211,165</b>	<b>(104,823)</b>	<b>(7,215)</b>	<b>144,670</b>	<b>2,284,794</b>		
	2007	<b>1,248,901</b>	<b>346,150</b>	<b>60,968</b>	<b>262,946</b>	<b>33,685</b>	<b>16,686</b>	<b>-</b>	<b>1,969,336</b>		

\* The fair value of Lemarne options granted or on issue during the year has been determined using the Black-Scholes approach. It assumes all options have a value and will be exercised. The value is recognised proportionately on an annual basis over the vesting term of the options which is up to 5 years. In valuing the options, market conditions have been taken to account. There are no options on issue at 30 June 2008 to directors and the abovenamed officers of the Company.

During the year S.L. Mason exercised 187,500 Options at \$2.67 on 30 June 2008.

The following options held by B.J. Dolphin lapsed during the year:

100,000 at \$2.57 in Lemarne Corporation Limited.

460,000 in C10 Communications Pty Ltd under the Subsidiary Executive Option Plan.

## 12. Equity instruments

### Analysis of bonuses included in remuneration – audited

Details of the vesting profile of the short-term incentives cash bonuses awarded as remuneration to each of the five named company executives of the Company and relevant Group executives and other key management personnel are detailed below:

Executives	Short term incentive bonus		
	Included as remuneration \$(A)	% vest in the year	% forfeited in the year (B)
P A Murphy	402,000	100	Nil
S L Mason	9,615	100	Nil
A Kotsiopoulos	27,368	100	Nil
K H Mun	72,808	100	Nil
B J Dolphin	135,933	100	Nil

(A) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2008 financial year.

(B) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

### Options and rights over equity instruments granted as compensation – audited

There were no options over ordinary shares of the Company that were granted as compensation during the reporting period.

No options have been granted since the end of the financial year.

### Analysis of movements in options – audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and each of the five named Company executives and relevant Group executives is detailed below.

Executives	Granted in year \$	Value of options exercised in year (A)	Lapsed in the year \$ (B)
	S L Mason	–	187,500
B J Dolphin	–	–	(112,229)
K H Mun	–	–	–
B J Dolphin	–	–	–

(A) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(B) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the options were granted using Black Scholes model.

### Modification of terms of equity-settled share-based payment transactions – audited

No terms of equity-settled share-based payment transactions including options and rights granted as compensation to a key management person have been altered or modified by the issuing entity during the reporting period or the prior period.

### Exercise of options granted as compensation – audited

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation.

2008	Number of shares	Amount paid \$/share
S L Mason	187,500	2.67

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2008 financial year.

## 13. Audit committee

The Company has an Audit Committee, of which only the non-executive directors are members. All audit activities are monitored by the Audit Committee as detailed in the Corporate Governance Statement. There were two Audit Committee meetings held during the year and all members attended with the exception of one meeting where Mr J.C.Larking gave an apology.

The Company does not comply with ASX Corporate Governance Council Best Practice recommendation 4.3 because a majority of the committee are not independent directors due to their substantial shareholding in the Company. The Company does not believe that this impacts adversely on the workings of the Audit Committee.

## 14. Environmental regulation

The consolidated entity's operations are subject to environmental regulations under both Commonwealth and State legislation in relation to the manufacture of its products.

Most operating entities have active Risk Management Committees which monitor compliance with environmental regulations, in order to maintain a safe and healthy working environment.

Noise levels are also measured and monitored.

External Consultants are used on an as required basis and both internal and external audits undertaken to ensure compliance with both environmental and occupational health and safety legislation.

The directors are not aware of any significant breaches or non-compliance with environmental regulations during the period covered by this report.

**15. Non-audit services**

During the year KPMG, the Company's auditor, has performed certain other services, primarily taxation advice, in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with a resolution of the directors, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- the non-audit services provided do not undermine the general principles relating to the auditor independence as set out in APES110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate of the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	<b>Consolidated</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Statutory audit</b>		
<u>Auditors of the Company</u>		
-audit and review of financial reports (KPMG Australia)	133,125	133,974
-audit and review of financial reports (Overseas KPMG firms)	11,437	13,268
<u>Other auditors</u>		
-audit and review of financial reports (non-KPMG firms)	–	8,975
<b>Services other than statutory audit</b>		
<u>Other assurance services</u>		
-completion audit services (KPMG Australia & overseas)	10,000	58,268
-due diligence services (KPMG related practices)	30,000	–
<u>Other services</u>		
-taxation compliance services (KPMG Australia)	71,531	112,298
-taxation compliance services (Overseas KPMG firms)	2,974	4,306

**16. Lead auditor's independence declaration under Section 307C of the Corporations Act 2001**

The lead auditor's independence declaration is set out on page 63 and forms part of the directors' report for the year ended 30 June 2008.

**17. Rounding off of amounts**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Melbourne this 26 day of August 2008.

Signed for and on behalf of the board in accordance with a resolution of directors

P A MURPHY  
**Director**

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

Lead auditor's independence declaration – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

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## Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

### To: the directors of Lemarne Corporation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporation Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Adrian V King  
Partner  
Melbourne

26 August 2008

## STOCK EXCHANGE INFORMATION

Stock Exchange Information – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

### 1. Share Capital at 15 August 2008

(a) (i) The ordinary share capital of the Company was held by the following number of shareholders:

<b>Shares</b>	<b>Shareholders</b>
1 – 100	14
101 – 1,000	311
1,001 – 10,000	452
10,001 – 100,000	128
100,001 and over	14
<b>Total</b>	<b>919</b>

(ii) Holding less than a marketable parcel 27

(b) Voting rights (Article 89)

On show of hands - one vote per person (shareholder in person, or proxy or attorney or duly authorised representative).

On a poll - every member present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each share they hold.

(c) Twenty largest shareholders

The percentage of total ordinary shares held on 15 August 2008 by or on behalf of the twenty largest shareholders was 51.07%.

(d) Substantial shareholders

The number of shares held by the substantial shareholders as at 15 August 2008 were:

	<i>No.</i>	<i>%</i>
Citicorp Nominees Pty Limited, GPO Box 764G, Melbourne, Vic.	941,769	9.62
Edward Brian Noxon & Ann Elspeth Noxon <EBN Superannuation Fund A/c> C/- E.L. & C. Baillieu, PO Box 48, Collins St West, Vic.	567,176	5.79

(e) Twenty largest shareholders as at 15 August 2007

	<i>Number</i>	<i>Fully paid %</i>
Citicorp Nominees Pty Limited	941,769	9.62
Edward Brian Noxon & Ann Elspeth Noxon <EBN Superannuation Fund A/c>	567,176	5.79
Lindridge Pty.Ltd. <The Haldon A/c>	403,160	4.12
Stephen Leslie Mason	376,735	3.85
HSBC Custody Nominees (Australia) Limited	373,625	3.81
John Larking <Superannuation Fund A/c>	324,426	3.31
Maintop Superannuation Pty Ltd <Davenport Super Fund A/c>	300,830	3.07
Angueline Investments Pty Limited <Angueline A/c>	209,900	2.14
Stephen John Milner & Helen Ruth Milner <Thurso Rental Property Unit A/c>	200,000	2.04
John Larking <Larking Family Fund A/c>	193,175	1.97
Sandhurst Trustees Ltd <JMFG Consol A/c>	182,225	1.86
Ross George Yannis	133,744	1.37
Buduva Pty Ltd	130,625	1.33
Graeme Edmund Moir	124,000	1.27
FDF Commercial Services Pty Ltd	100,000	1.02
Rosherville Pty Ltd	100,000	1.02
Doctors'own Pty Ltd <P&K Bowden Super Fund A/c>	98,839	1.01
Edward James Stephen Dally	85,002	0.87
Milton Yannis	82,819	0.85
Margaret Patricia Young	72,993	0.75
	<b>5,001,043</b>	<b>51.07</b>

### 2. Stock exchange listing

Quotation has been granted for all ordinary shares of the Company on all member exchanges of the Australian Stock Exchange Ltd.

# CORPORATE DIRECTORY

Corporate Directory – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

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## LEMARNE CORPORATION LIMITED

### Board of Directors

E B Noxon, BSc (Eng), FIEAust, FAIM (Chairman)  
P A Murphy, BSc (Hons)  
P G Davenport, MA, MIEE  
J C Larking, MB ChB, MRCOG, FRACOG  
S L Mason, BComm, LLB, FCPA, FCIS

### Company Secretary

A Kotsiopoulos, B.Comm, BEng (Hons), C.A., MBA.

### Group Management

Peter Murphy, Group Chief Executive  
Kathy Kotsiopoulos, Group Company Secretary  
(appointed 1 November 2007) &  
Group Financial Controller  
Kong Hoe Mun, Managing Director,  
Lemtronics Sdn Bhd  
Brad Dolphin, Managing Director,  
C10 Communications Pty Ltd

### Auditors

KPMG, Chartered Accountants

### Tax Agents

KPMG, Chartered Accountants

### Bankers

Australia & New Zealand Banking Group Ltd  
HSBC Bank Malaysia Berhad  
Malayan Bank Berhad

### Solicitors

Minter Ellison

### Share Register

Computershare Investor Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
ABBOTSFORD VIC 3067  
Telephone (03) 9415 5000  
Facsimile (03) 9473 2500

### Registered Office

Lemarne Corporation Limited  
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(links to all subsidiaries appear  
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