Lemarne Corporation Limited

2011 ANNUAL REPORT

CONTENTS

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 28 October 2011 at 11.30 a.m.

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

HIGHLIGHTS

Profit before tax $5.15 million.

Profit after tax $3.72 million.

Shareholder funds $31.5 million at 30 June 2011 with cash on deposit totalling $19.8 million.

Earnings per share from continuing operations 43.2 cents per share.

Net tangible asset backing per share $3.62 per share.

GROUP FINANCIAL PERFORMANCE

		2011	2010	CHANGE
EBIT[1]	$000s	**5,150**	5,162	–
Net profit before tax	$000s	**5,150**	5,127	–
Operating profit/(loss) after income tax	$000s	**3,715**	3,862	(4) %
Earnings per ordinary share	cents	**43.2**	44.9	(4) %
Net tangible asset backing per ordinary share	cents	**362**	377	(4) %
Dividend paid per ordinary share[2]	cents	**0**	86.0	
Shareholders' equity	$000s	**31,455**	32,785	(4) %
Operating profit after income tax /shareholders' equity	%	**11.8**	11.8	–
Net borrowings/shareholders' equity	%	**(62.9)**	(58.4)	–
Share price (at 30 June)	cents	**385**	423	(9) %

These figures are based on the consolidated accounts.

1 EBIT reported is based on earnings before interest expense and taxation.

2 2010 includes the final dividend of 20 cents per share which was declared and paid after 30 June 2010 and hence was not included in the financial statements.

FIVE YEAR GROUP RECORD

		2011 $'000s	2010[1] $'000s	2009[2] $'000s	2008[3] $'000s	2007[4] $'000s
OPERATING RESULTS						
Group sales		**54,827**	48,698	56,238	65,610	71,013
EBITDA[6] before non-recurring items		**6,104**	6,075	9,579	8,971	6,628
EBIT[5] before non-recurring items		**5,150**	5,148	8,524	7,839	5,032
Non-recurring/significant items before tax		**–**	14	1,479	(3,062)	1,658
Borrowing costs		**–**	(35)	(54)	(60)	(158)
Profit/(loss) before tax		**5,150**	5,127	9,949	4,717	6,532
Income tax expense/(benefit)		**1,435**	1,265	1,565	1,540	391
Profit for the year		**3,715**	3,862	8,384	3,177	6,141
Profit after tax attributable to shareholders		**3,715**	3,862	8,384	3,177	6,141
Dividends – ordinary		**1,722**	9,984	3,898	1,201	1,777
Payout ratio	%	**46**	258	46	38	29
FINANCIAL POSITION						
Share capital		**3,672**	3,672	3,672	4,178	3,677
Total equity		**31,455**	32,785	38,185	36,809	36,361
Net borrowings(cash less borrowings)		**(19,797)**	(19,141)	(27,163)	(23,800)	(13,585)
Current assets		**33,853**	35,660	39,633	40,351	35,237
Total assets		**37,364**	39,952	44,177	44,838	47,301
Current liabilities		**5,735**	6,925	5,396	7,451	10,438
Non-current liabilities		**174**	242	596	578	502
PER ORDINARY SHARE						
Earnings	cents	**43.2**	44.9	88.2	33.1	52.7
Net tangible asset backing	cents	**362**	377	440	373	315
Asset backing	cents	**365**	381	444	376	379
Dividend	cents	**0**	86.0[1]	79.0[2]	25.0[3]	18.5[4]
ANALYTIC INFORMATION						
EBIT[5]/total assets	%	**14**	13	23	11	14
EBIT[5]/trading capital employed	%	**16**	16	26	13	17
Operating profit after tax/members' equity	%	**12**	12	22	9	17
Net borrowings/total equity	%	**(63)**	(58)	(71)	(65)	(37)
Total debt/total assets	%	**–**	1	2	1	7
Current assets/current liabilities		**5.9**	5.1	7.3	5.4	3.4
Net interest cover		**36,013.6**	148.0	186.1	79.5	42.4
Shares on issue	millions	**8.6**	8.6	8.6	9.8	9.6

1 2010 includes the final dividend of 20 cents per share which was declared and paid after 30 June 2010 and hence was not included in the financial statements.

2 2009 includes the final dividend of 50 cents per share which was declard and paid after 30 June 2009.

3 2008 includes the final dividend of 12.5 cents per share which was declared and paid after 30 June 2008.

4 2007 includes the final dividend of 10 cents per share which was declared and paid after 30 June 2007.

5 EBIT reported is based on earnings before interest expense and taxation.

6 EBITDA reported is based on earnings before interest expense, taxation, depreciation and amortisation.

DEAR SHAREHOLDER

In 2010/11 Lemarne's sole operating unit, the Malaysian based electronic manufacturing services company, Lemtronics Sdn Bhd, achieved solid revenue growth and maintained its consistent profit growth. This was despite large unpredictable movements in its trading currencies, increased material costs and upward pressure on labour costs.

(all figures are in MYR 000s)

	2010/2011	2009/2010	2008/2009
Revenue	167	145	127
Profit before Tax	19.0	18.5	17.1

Lemtronics continued to enhance its manufacturing capacity and capabilities and invested some MYR 2.4 million in new plant and equipment during 2010/11. It also maintained a positive cash flow by closely managing receivables and inventories.

Lemtronics' management has focused on maintaining a reputation for superior quality and on time delivery and on fully servicing its long standing multinational and other customers.

Lemarne's financial results reflect Lemtronics' performance although these results were adversely impacted by the Australian dollar weakening against the Malaysian Ringgit.

Lemarne's profit before tax was $5.15 million while the profit after tax was $3.71 million. Shareholders' funds totaled $31.5 million at 30 June 2011 with cash on deposit of $19.8 million. Earnings per share were 43.2 cents and the net tangible asset backing was $3.62 per share.

Throughout the year Lemarne's management has actively pursued a number of strategic opportunities with companies in Europe, United States of America and Australia. We will comment on Lemarne's strategic opportunities and dividends at the Annual General Meeting.

Directors expect trading conditions in the year ahead to remain challenging and unpredictable but feel Lemtronics is well positioned to maintain its solid ongoing performance.

BRIAN NOXON
CHAIRMAN

PETER MURPHY
MANAGING DIRECTOR

LEMARNE'S 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, and ensuring compliance with relevant market authorities. 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.

		2011[2]	2010[1]	2009	2008	2007
Total sales	$000s	**54,827**	48,698	48,452	48,745	49,491
EBIT before non-recurring items	$000s	**6,218**	6,153	6,607	5,837	3,439
EBIT[1]	$000s	**6,218**	6,153	6,607	5,837	3,979
Total assets	$000s	**26,461**	27,838	22,371	20,031	19,007
Employees		**609**	585	511	701	688

[1] EBIT reported is based on earnings before interest expense and taxation.

[2] 2011 A$/MYR exchange rate was 3.0473 for the profit and loss account (2010: 2.9862) and 3.2421 for the balance sheet (2010: 2.7747)

MAIN PRODUCTS

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

Lemtronics continued to increase its revenue base in 2010/2011 with sales to a number of key multinational companies showing significant growth overall. 2010/2011 sales revenue in Malaysian Ringgit was nearly 15% higher than that achieved in the previous financial year.

However throughout the year challenges were faced in electronic component shortages and cost increases for critical, high value materials and components. The economic environment was characterised by extremely volatile exchange rates with increasing pressures on labour costs, both direct and indirect.

Profit after tax was similar to that achieved in 2010, totalling MYR 14.8 million and EBITDA was in the order of MYR 21.8 million, slightly above that achieved in 2010, (MYR 21.4 million)

Operating Results

MYR-millions

	2009	2010	**2011**
Revenue	126.6	145.4	**167.1**
Profit after tax	14.4	14.8	**14.8**
Add:			
Interest expense	0.1	0.1	**0**
Income tax	2.7	3.7	**4.2**
Depreciation and amortisation	2.7	2.8	**2.8**
	5.5	6.6	**7.0**
EBITDA	19.9	21.4	**21.8**
Net Assets	49.0	58.5	**70.1**

Lemtronics has retained its close, careful control of receivables and inventories and the business operates with a positive cash flow and no debt. This consistent, strong, financial performance has allowed Lemtronics to continue its investment in plant and equipment as well as the retention and training of its skilled human resources. Some MYR 2.4 million was spent in 2010/2011 in additional testing and production equipment as well as completing various infrastructure projects including an upgrading of the power substation, new offices and a warehouse extension.

This long term investment programme has allowed Lemtronics to continuously enhance its manufacturing capacity and capability. Lemtronics is focussed on offering its customers more complex and value added services with a strong emphasis on the quality and reliability of its products.

In 2011/2012, Lemtronics will invest in a new Surface Mount Technology Line as well as X-ray and Ball Gate Array (BGA) rework stations to complement the existing services provided to its customer base.

Lemtronics expects the 2011/2012 trading year will again be a challenging period with the prevailing global, economic uncertainties and volatile exchange rates. However, the company expects to maintain its solid performance in 2011/2012.

The company is focussed on its core customer base, target market segment and niche in being a high mix/low to high volume global EMS provider.

Kong Hoe Mun FCPA
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 including the Revised Principles effective from 1 July 2008 unless otherwise stated.

The recent amendments, "Corporate Governance Principles and Recommendations with 2010 Amendments" are effective 1 January 2011 and so are to be applied in the company's next annual financial report.

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. Each board of directors establishes the functions to be delegated to the senior executives.

The board considers the mix of skills and the diversity of board members when assessing the composition of the board. The board assesses existing directors' skills to ensure they have appropriate industry experience in the Group's main operating segment.

In relation to gender diversity, the company does not comply with best practice recommendation 3.2, 3.5 due to the relatively small board of four directors. Whilst there is no formal policy in relation to gender diversity, in practice, there is a reasonable gender mix at both the head office and subsidiary.

Lemarne has a relatively small board of four directors in keeping with its size, three 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, the Company does not comply with best practice recommendations 2.1, 2.2 and 4.2. 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. A self evaluation process is used to assess the performance of the board and the evaluation for 2009/2010 was undertaken in August 2010, whilst the 2010/2011 evaluation is to be carried out in September 2011.

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 including their skills and experience 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.
- reviewing and making recommendations to the board on remuneration packages and policies applicable to executive officers and directors of the Group;
- maintaining incentive performance packages, superannuation, retirement and termination entitlements, and directors' liability insurance policies.

In conjunction with the Remuneration Committee, the Managing Director is responsible for evaluating the performance of the senior executives within the Group and such evaluations have occurred during the financial year in accordance with the policies as set out in the Remuneration Report.

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). 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 identified 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.

CORPORATE GOVERNANCE STATEMENT CONT.

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 management within 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 which reports on the effectiveness of the Company's management of business risk.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, and provided declarations in accordance with S295A of the Corporations Act, 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.

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) 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 half yearly 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 Lemarne 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.

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Statements of comprehensive income for the Financial Year ended 30 June 2011 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

		2011 $000	2010 $000
Continuing operations	*Note*	*Consolidated*	
Revenue	5	54,827	48,698
Cost of sales		(44,859)	(37,125)
Gross profit		9,968	11,573
Other income	5	411	70
Distribution expenses		(2,093)	(1,897)
Administrative expenses		(3,770)	(4,005)
Impairment of property, plant and equipment		(16)	(6)
Other expenses		–	(1,357)
Results from operating activities		**4,500**	**4,378**
Finance income	9	650	770
Finance expenses	9	–	(35)
Net finance income		**650**	**735**
Profit from ordinary activities before income tax expense		**5,150**	**5,113**
Income tax expense	7(a)	(1,435)	(1,265)
Profit after tax from continuing operations		**3,715**	**3,848**
Discontinued operations			
Profit/(loss) from discontinued operation net of tax	10	–	14
Profit/(loss) for the year		**3,715**	**3,862**
Other comprehensive income:			
Foreign currency translation differences for foreign operations		(3,323)	722
Other comprehensive income for the period, net of income tax		**(3,323)**	**722**
Total comprehensive income for the period		**392**	**4,584**
Profit attributable to:			
- Equity holders of the parent		3,715	3,862
Total comprehensive income attributable to:			
- Equity holders of the parent		392	4,584
Earnings per share:			
Basic earnings per share from all operations (cents)	12	43.2	44.9
Diluted earnings per share from all operations (cents)	12	43.2	44.9
Continuing operations:			
Basic earnings per share (cents)	12	43.2	44.7
Diluted earnings per share (cents)	12	43.2	44.7

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

STATEMENTS OF CHANGES IN EQUITY

Statements of changes in equity for the Financial Year Ended 30 June 2011 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

	Share capital $000	Translation reserve $000	Options granted reserve $000	Retained earnings $000	Total $000
			Consolidated		
Balance at 1 July 2010	3,672	(59)	325	28,847	32,785
Profit for the period	–	–	–	3,715	3,715
Foreign currency translation differences	–	(3,323)	–	–	(3,323)
Total comprehensive income	**–**	**(3,323)**	**–**	**3,715**	**392**
Transactions with owners, recorded directly in equity					
Dividends to shareholders	–	–	–	(1,722)	(1,722)
Total transactions with owners	**–**	**–**	**–**	**(1,722)**	**(1,722)**
Balance at 30 June 2011	3,672	(3,382)	325	30,840	31,455
Balance at 1 July 2009	3,672	(781)	325	34,969	38,185
Total comprehensive income for the period					
Profit for the period	–	–	–	3,862	3,862
Foreign currency translation differences	–	722	–	–	722
Total comprehensive income	**–**	**722**	**–**	**3,862**	**4,584**
Transactions with owners, recorded directly in equity					
Dividends to shareholders	–	–	–	(9,984)	(9,984)
Total transactions with owners	**–**	**–**	**–**	**(9,984)**	**(9,984)**
Balance at 30 June 2010	3,672	(59)	325	28,847	32,785

The statements of changes in equity is to be read in conjunction with notes 1 to 33 to the financial statements.

Statements of Financial Position as at 30 June 2011 – Lemarne Corporation Limited ABN 72 004 834 584 and Controlled Entities

	Note	**2011 $000**	2010 $000
		Consolidated	
Assets			
Cash and cash equivalents	29(i)	19,797	19,588
Trade and other receivables	13	6,713	8,051
Inventories	14	7,220	7,637
Current tax assets	7(c)	–	95
Prepayments and deposits for current assets	15	123	289
TOTAL CURRENT ASSETS		33,853	35,660
Property, plant and equipment	16	3,089	3,796
Deferred tax assets	7(e)	125	199
Intangible assets	17	297	297
TOTAL NON-CURRENT ASSETS		3,511	4,292
TOTAL ASSETS		**37,364**	**39,952**
Liabilities			
Trade and other payables	18	5,170	5,893
Loans and borrowings	19	–	378
Employee benefits	20	415	387
Current tax payable	7(c)	95	–
Deferred income	21	55	267
TOTAL CURRENT LIABILITIES		5,735	6,925
Loans and borrowings	*19*	–	70
Deferred tax liabilities	*7(d)*	92	113
Employee benefits	*20*	82	59
TOTAL NON-CURRENT LIABILITIES		174	242
TOTAL LIABILITIES		**5,909**	**7,167**
NET ASSETS		**31,455**	**32,785**
Equity			
Issued capital	*22*	3,672	3,672
Reserves	*22*	(3,057)	266
Retained earnings	*22*	30,840	28,847
TOTAL EQUITY		**31,455**	**32,785**

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

	Note	2011 $000	2010 $000
		Consolidated	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		56,137	46,292
Cash paid to suppliers and employees		(51,286)	(43,574)
Cash generated from operations		4,851	2,718
Interest received		674	782
Interest paid		–	(35)
Income taxes paid (net of refunds)	7	(1,181)	(1,886)
Net cash from/(to) operating activities	*29(ii)*	**4,344**	**1,579**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments/disposal of subsidiary (net of cash disposed)		–	856
Proceeds from sale of property, plant and equipment		–	10
Acquisition of property, plant and equipment	16	(793)	(665)
Payments for disposal of business/controlled entity		–	(48)
Net cash from/(to) investing activities		**(793)**	**153**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(447)	(381)
Dividends paid	11	(1,722)	(9,984)
Net cash from/(to) financing activities		**(2,169)**	**(10,365)**
Net increase/(decrease) in cash and cash equivalents		**1,382**	**(8,633)**
Cash at the beginning of the financial year	*29(i)*	19,588	27,992
Effect of exchange rate fluctuations on cash held		(1,173)	229
Cash at the end of the financial year	*29(i)*	**19,797**	**19,588**

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

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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 2011 comprise the Company and the companies it controlled at any time during the financial year (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 consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on 24 August 2011.

(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

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(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 recognised 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 recognised in the financial statements are described in the following notes:

- note 16 – measurement of the recoverable amounts of property, plant and equipment
- note 7 – utilisation of tax losses
- note 24 – contingencies
- note 30 – 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 has not elected to early adopt any accounting standards or amendments that are available for early adoption.
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) 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.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(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) in equity. 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.

(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, 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 profit or loss.

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 profit or loss.

(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 profit or loss 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 recognised net within "other income" in profit or loss.

Change in accounting policy

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 July 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

(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 profit or loss 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 recognised 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 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 four 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 derecognised when:

- the rights to receive cash flows from the assets have expired
- the Group 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 Group 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 derecognised 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 recognised in profit or 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 recognised 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.

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 (q)), 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) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets or disposal group, are measured at the lower of their carrying amount and fair vlue less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss Is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

(k) 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.

(l) 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
When 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 issue 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.

(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 recognised 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 recognised 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.

(m) Deferred income

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

(n) 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.

(o) 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.

(p) 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 comprising 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.

(q) 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.

(r) Segment reporting

The Group determines and presents operating segments based on the information that is internally provided to the CEO, who is the Group's chief operating decision maker.

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.

(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 2011, but have not been applied in preparing this financial report.

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments : Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.

4 FINANCIAL RISK MANAGEMENT

Overview

The consolidated entity has exposure to the following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the consolidated entity's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantative 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 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 consolidated entity's activities.

The Audit Committee oversees how management monitors compliance with the 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 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 consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity's receivables from customers and investment funds on deposit.

Trade and other receivables

The 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 consolidated entity has 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 consolidated entity minimises 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 19.

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 and 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 2011 was 16.4% (2010: 15.6%). The Board of Directors also considers dividends in the context of the company's capital management strategy.

The Group's net debt to adjusted equity ratio at the end of the reporting date was as follows:

in thousand of dollars	**2011**	2010
Total liabilities	–	447
Less: cash and cash equivalents	(19,797)	(19,588)
Net debt	(19,797)	(19,141)
Total adjusted equity	31,455	32,785
Net debt to adjusted equity ratio at 30 June	(62.9)%	(58.4)%

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.

	Note	2011 $000	2010 $000
		Consolidated	
5 REVENUE			
Revenue from continuing operations			
Sale of goods revenue		54,827	48,698
Other income			
Foreign exchange gains		370	–
Other		41	70
Total other income		411	70
Total revenues and other income from continuing operations		**55,238**	**48,768**
Revenues from discontinued operations			
Net gain on sale of business/controlled entity	*6(a)*	–	14
Total revenues and other income from discontinued operations		**–**	**14**
Total revenues and other income		**55,238**	**48,782**

	Note	**2011 $000**	2010 $000
		Consolidated	
6 PROFIT/(LOSS) FROM OPERATIONS			
(a) Items included in profit/(loss) from discontinued operations before income tax expense.			
Consideration received from sale of controlled entity/business		–	–
Cost of disposal	*10*	–	14
Net profit/(loss) on disposal		–	14
(b) Profit from continuing operations before income tax has been arrived at after charging/(crediting) the following specific expenses:			
Impairment losses			
Property, plant and equipment		16	6
Other expenses:			
Personnel expenses			
Wages and salaries		6,365	5,439
Contributions to defined contribution superannuation funds		544	551
Other associated personnel expenses		697	688
Increase in liability for annual leave		36	77
Increase in liability for long service leave		19	11
		7,661	6,766
Depreciation of non–current assets:			
Plant and equipment		887	876
Amortisation of non–current assets:			
Leasehold property		67	51
Total depreciation and amortisation		**954**	**927**
Other expense items			
Movement in stock obsolescence provision		136	(483)
Net foreign exchange loss/(gain)		(370)	1,346
Operating lease rentals		101	100
Net profit/(loss) on disposal of property, plant and equipment		–	(21)

	Note	**2011 $000**	2010 $000
		Consolidated	
7 INCOME TAX			
(a) Recognised in the income statement			
Current tax expense			
Current year		1,370	1,251
Adjustments for prior years		–	(8)
		1,370	1,243
Deferred tax expense			
Origination and reversal of temporary differences		65	22
Total income tax expense in income statement		**1,435**	**1,265**
Attributable to:			
Continuing operations		1,435	1,265
(b) Reconciliation between tax expense and pre–tax net profit			
Profit/(loss) before tax continuing operations		5,150	5,113
Profit before tax discontinued operations		–	14
Profit/(loss) before tax		5,150	5,127
Income tax using the domestic corporation tax rates of 30%		1,545	1,538
Increase in income tax expense due to:			
Tax losses not brought to account		266	260
Sundry items		203	98
Decrease in income tax expense due to:			
Non–assessable capital profits		–	(4)
Effect of lower rates of tax on overseas income		(311)	(306)
Export and other allowances		(268)	(286)
Sundry items		–	(27)
		1,435	1,273
Income tax under/(over) provided in prior year		–	(8)
Income tax expense reported in the income statement		**1,435**	**1,265**

	2011 **$000**	2010 $000
	Consolidated	
(c) Current tax liabilities		
Movements during the year:		
Balance at beginning of year	(95)	600
Income tax (paid)	(1,181)	(1,886)
Current year's income tax	1,370	1,251
Exchange rate movement	1	(17)
Under/(over) provision in prior year	–	(43)
	95	(95)
(d) Deferred tax liabilities		
Accelerated depreciation for tax purposes	78	91
Expenditure currently deductible for tax but deferred and amortised for accounting purposes	14	22
	92	113
(e) Deferred tax assets		
Employee benefit	50	45
Provisions	75	113
Tax losses carried forward	–	41
	125	199
(f) Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Capital losses carried forward	1,881	1,881
Revenue losses carried forward	526	260
	2,407	2,141

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. The Group's ability to utilise unrecognised tax losses is contingent on satisfying the relevant criteria per the tax legislation at the time the losses are to be recouped.

	2011	2010
	$	$
	Consolidated	
8 AUDITORS' REMUNERATION		
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	85,000	84,000
Overseas KPMG Firms:		
Audit and review of financial reports	13,657	11,873
	98,657	95,873
Other services		
Auditors of the Company		
KPMG Australia:		
Taxation services	12,550	44,598
Overseas KPMG Firms:		
Taxation services	5,148	9,202
	17,698	53,800

	$000	$000
9 NET FINANCE INCOME		
Interest income	650	770
Interest expense	–	(35)
Net financing income	650	735

	2011 **$000**	2010 $000
	Discontinued Operations	

10 DISCONTINUED OPERATIONS

There were no discontinued operations in the current period.

On 30 April 2009, the consolidated entity's subsidiary Lemvest Pty Ltd sold its shares in C10 Communications Pty Ltd, the telecommunications business segment.

The profit on sale reported in the year ended 30 June 2010 relates to the reversal of excess accrued disposal costs on sale.

The results of the discontinued operations for the period until disposal are presented below:

	2011 $000	2010 $000
(i) Financial performance information		
Profit/(loss) on sale of the controlled entity/business before income tax	–	14
Tax on profit/(loss) on sale	–	–
Profit/(loss) from discontinued operations	–	14
(ii) Cash flow information		
Net cash inflow/(outflow) from operating activities	–	–
Net cash inflow/(outflow) from investing activities	–	808
Net cash inflow/(outflow) from financing activities	–	–
Net cash(outflow)/inflow	–	808
(iii) Carrying amounts of assets and liabilities		
Net identifiable assets and liabilities	–	–
Consideration received, satisfied in cash	–	856
Cash disposed of	–	–
Net cash (inflow)	–	856
Consideration received in cash	–	856
Consideration receivable at 30 June 2009	–	(856)
(Less)/plus: Disposal costs paid and accrued	–	14
(Less)/plus: Net book value of assets disposed	–	–
Profit/(loss) on sale of discontinued operation	–	14

	2011 $000	2010 $000
	Consolidated	
11 DIVIDENDS PROVIDED FOR OR PAID		
The amounts paid, declared or provided for by way of dividend by the parent entity are:		
(i) No interim unfranked ordinary dividend was declared or paid (2010: 66 cents unfranked was paid 17 March 2010)	–	5,681
(ii) 2011: Nil final dividend (2010: a final partially franked dividend of 20 cents per share (8 cents franked) was paid on 18 October 2010)	1,722	4,303
Total dividends in accounts	1,722	9,984
After Year End		
(iii) 2011: Nil (2010: a final partially franked dividend of 20 cents per share (8 cents franked) was paid on 18 October 2010)	–	1,722
This dividend was declared after 30 June 2010 and hence not provided for in the accounts.		
Dividend franking account		
Franking credits available to shareholders of Lemarne Corporation Ltd for subsequent financial years	9	304

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

(a) franking credits that will arise from the payment of the current tax liability;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the year end;

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon the company’s ability to pay dividends as set out in the Corporations Act.

	2011	2010
	Consolidated	
12 EARNINGS PER SHARE		
Earnings per share for continuing and discontinued operations		
Basic earnings per share (cents)		
From continuing operations	43.2	44.7
From discontinued operations	–	0.2
	43.2	44.9
Diluted earnings per share (cents)		
From continuing operations	43.2	44.7
From discontinued operations	–	0.2
	43.2	44.9

The calculation of basic earnings per share for the financial year ended 30 June 2011 has been based on the profit attributable to shareholders of $3,715K (continuing $3,715K, discontinued Nil) (2010: profit attributable to shareholders $3,862K, being $3,848K continuing and $14K discontinued) and a weighted average number of ordinary shares outstanding of 8,606,814 (2010: 8,606,814) calculated as follows:

	$000	$000
Earnings reconciliation		
Net profit/(loss)	3,715	3,862
Basic and diluted earnings	3,715	3,862

	Number of Shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	8,606,814	8,606,814
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	8,606,814	8,606,814

	2011 $000	2010 $000
	Consolidated	
13 TRADE & OTHER RECEIVABLES		
Current		
Trade debtors	6,648	7,958
Other debtors	65	93
	6,713	8,051

The consolidated entity's currency risk and impairment losses related to trade and other receivables, are disclosed in note 30.

14 INVENTORIES		
Current		
Finished goods		
At cost	1,727	896
Less: provision for obsolescence	(2)	(4)
Net realisable value	1,725	892
Raw materials		
At cost	4,851	6,027
Less: provision for obsolescence	(482)	(417)
Net realisable value	4,369	5,610
Work in progress		
At cost	1,126	1,135
Carrying amount of inventories stated at cost or net realisable value	7,220	7,637
15 PREPAYMENTS & DEPOSITS		
Prepayments	119	285
Deposits	4	4
	123	289

	CONSOLIDATED			
	Leasehold land & buildings	*Leasehold improvements*	*Plant & equipment*	*TOTAL*
	$000	*$000*	*$000*	*$000*
16 PROPERTY, PLANT & EQUIPMENT				
Year ended 30 June 2011				
Balance at 1 July 2010 net of depreciation and impairment	562	357	2,877	3,796
Additions	–	282	511	793
Impairment	–	(12)	(4)	(16)
Depreciation charge for the year	(21)	(46)	(887)	(954)
Exchange rate adjustments	(80)	(65)	(385)	(530)
Net carrying amount at 30 June 2011	**461**	**516**	**2,112**	**3,089**
At 30 June 2011				
Cost	561	675	7,077	8,313
Accumulated depreciation and impairment	(100)	(159)	(4,965)	(5,224)
Net carrying amount	**461**	**516**	**2,112**	**3,089**
Year ended 30 June 2010				
Balance at 1 July 2009 net of depreciation and impairment	569	296	3,123	3,988
Additions	–	81	584	665
Disposals	–	–	(31)	(31)
Impairment	–	(2)	(4)	(6)
Depreciation charge for the year	(22)	(29)	(876)	(927)
Exchange rate adjustments	15	11	81	107
Net carrying amount at 30 June 2010	**562**	**357**	**2,877**	**3,796**
At 30 June 2010				
Cost	656	497	8,061	9,214
Accumulated depreciation and impairment	(94)	(140)	(5,184)	(5,418)
Net carrying amount	**562**	**357**	**2,877**	**3,796**

	Goodwill
	$000
	Consolidated
17 INTANGIBLE ASSETS	
Year ended 30 June 2011	
Balance at 30 June 2010 and 30 June 2011	297
At 30 June 2010 and 30 June 2011	
Cost (gross carrying amount)	575
Accumulated amortisation and impairment	(278)
Net carrying amount	297

Impairment tests for cash generating units containing goodwill

	Consolidated	
	2011 $000	2010 $000
Goodwill	297	297
	297	297

Goodwill is attributable to the Group's investment in its subsidiary Lemtronics Sdn Bhd. The recoverable amount of the goodwill has been assessed on a value in use basis, based on cash flow projections for the next five years. The cash flow projections are based on budgeted and forecast performance based on management's experience and applying the current customer base. A discount rate of 12% has been applied to this analysis.

18 TRADE & OTHER PAYABLES

	2011 $000	2010 $000
Current		
Trade creditors	3,780	4,613
Other creditors and accruals	1,390	1,280
	5,170	5,893

The consolidated entity's currency and liquidity risks to trade and other payables are disclosed in note 30.

	Consolidated	
	2011 **$000**	2010 $000
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 30.		
Current		
Hire purchase liabilities	–	378
	–	378
Non–current		
Hire purchase liabilities	–	70
	–	70

Hire purchase liabilities

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

In thousands of AUD	*Future minimum lease payments* **2011**	*Interest* **2011**	*Present value of minimum lease payments* **2011**	*Future minimum lease payments* *2010*	*Interest* *2010*	*Present value of minimum lease payments* *2010*
Less than one year	–	–	–	392	14	378
Between one and five years	–	–	–	71	1	70
	–	–	–	463	15	448

	Consolidated	
	2011 **$000**	2010 $000
Facilities used at balance date:		
Hire purchase leases	–	448
Indemnity/guarantees	84	89
	84	537
Facilities not used at balance date:		
Bank overdrafts	617	1,225
Bank loans and commercial bills	532	2,883
Indemnity/guarantees	62	–
	1,211	4,108

The bank overdrafts are secured by fixed and floating charges over the assets and undertakings of the consolidated entity and by guarantees from Lemarne Corporation Limited.

	2011 $000	2010 $000
	Consolidated	
20 EMPLOYEE BENEFITS		
Current		
Salaries and wages	198	184
Long service leave	37	33
Annual leave	180	170
	415	387
Non–current		
Annual leave	37	29
Long service leave	45	30
	82	59
Contributions to superannuation funds		
The consolidated entity makes contributions to employee superannuation funds which are accumulation type funds. The amount recognised as an expense was $544,432 for the financial year ended 30 June 2011 (2010: $551,200) for continuing and discontinued operations		
	No.	No.
Number of employees at end of financial year	612	588
21 DEFERRED INCOME		
Current		
Deferred income	55	267

22 CAPITAL AND RESERVES

Share capital

The consolidated entity recorded the following amount within shareholders' equity.

For the year ended 30 June 2011

	Share capital Ordinary Shares	
	30 June 2011	30 June 2010
	No.	No.
On issue at 1 July	8,606,814	8,606,814
On issue at 30 June fully paid	8,606,814	8,606,814

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

<u>Share Options</u>

The Company has share based payment option schemes under which options to subscribe for the Company's shares are granted to executives and other employees from time to time (refer note 23).

<u>Nature and purpose of reserves</u>

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 a self-sustaining foreign controlled entity are brought to account by entries made directly to the foreign currency translation reserve, as described in note 3(b).

Options granted reserve

The options granted reserve represents the value of entitlements 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.

23 SHARE BASED PAYMENTS

There are no outstanding options on issue as at 30 June 2011 (30 June 2010: nil).

	2011 $000	2010 $000
	Consolidated	
24 COMMITMENTS AND CONTINGENCIES		
The estimated maximum amount of commitments and contingent liabilities not provided for in the financial statements of the group as at 30 June 2011 are set out below:		
Operating leases		
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.		
Operating lease rental commitments		
Future operating lease rentals of property:		
Due:		
within one year	43	50
after one year but not more than five years	4	–
	47	50
Capital expenditure commitments		
Property, plant and equipment:		
Due:		
within one year	1,331	920
Employee compensation commitments		
Key management personnel commitments under non-cancellable employment contracts not provided for in the financial statements:		
Due:		
within one year	372	363

Contingent liabilities

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 controlled entities:

An overseas subsidiary has received 3 claims for unfair dismissal which it has denied and is challenging

	Country of incorporation	Ownership interest 2011 %	2010 %
25 INVESTMENTS			
Investments in controlled entities			
Name of entity			
Parent entity			
Lemarne Corporation Limited	Australia		
Controlled entities			
Lemvest Pty Ltd (deregistered 22 August 2010)	Australia	**–**	**100**
Fine Pearl Sdn.Bhd	Malaysia #	**100**	**100**
- Lemtronics Sdn.Bhd	Malaysia #	**100**	**100**

Controlled entities audited by KPMG firms in local countries.

26 RELATED PARTIES

(a) Details of key management personnel

(i) Directors:

E B Noxon	Chairman (non-executive)
P A Murphy	Chief Executive Officer
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

The key management personnel compensation included in 'personnel expenses' are as follows:

	2011 $	2010 $
	Consolidated	
Short-term employee benefits	1,335,920	1,565,509
Other long term benefits	14,800	9,600
Post-employment benefits	109,620	99,306
	1,460,340	1,674,415

The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the group in relation to their services rendered.

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 53 to 56.

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 (2010: nil).

Equity instruments

There were no options outstanding as at 30 June 2011, (2010: nil).

Options and rights over equity instruments granted as remuneration

During the reporting period no options over ordinary shares were granted or exercised under the Key Executive Share Option Plan No.6, nor the Subsidiary Executive Option Plan No.5.

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:

	Held at 1 July 2010	*Purchases*	*Sales*	*Resignation of director*	*Held at 30 June 2011*
Current Year					
E B Noxon	1,116,442	–	–		1,116,442
P G Davenport	373,670	–	–		373,670
J C Larking	579,601	–	–		579,601
S L Mason (resigned 29/09/10)	381,463	–	(128,205)	(253,258)	–
P A Murphy	32,000	–	–		32,000
A Kotsiopoulos	5,000	–	–		5,000
TOTAL	**2,488,176**	**–**	**(128,205)**	**(253,258)**	**2,106,713**

	Held at 1 July 2009	*Purchases*	*Sales*	*Held at 30 June 2010*
Previous Year				
E B Noxon	1,116,442	–	–	1,116,442
P G Davenport	373,670	–	–	373,670
J C Larking	579,601	–	–	579,601
S L Mason	382,845	–	(1,382)	381,463
P A Murphy	32,000	–	–	32,000
A Kotsiopoulos	5,000	–	–	5,000
TOTAL	**2,489,558**	**–**	**(1,382)**	**2,488,176**

27 SEGMENT REPORTING

The Group determines and presents operating segments based on the information that is internally provided to the CEO, who is the Group's chief operating decision maker.

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:

Continuing operations

Electronics	Electronic sub–assemblies used mainly in the power tool, telecommunications, automotive and security industries.

Discontinued operation

Telecommunication products	ISDN, ADSL access products, filters and telephone accessories. The telecommunication business was sold on 30 April 2009 and is reported as a discontinued operation and discontinued segment in the financial report (refer note 10).

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 agent for electronic equipment. Customers of electronic equipment.
Asia	Manufacturing facilities for electronic equipment products and sub-assemblies. Customers of electronic equipment.
Europe	Sales agents for electronic equipment. Customers for electronic equipment.
North America	Customers for electronic equipment.

27 SEGMENT REPORTING (Cont.)

Primary reporting
Business segments

	Continuing Operations								Discontinued Operations*		TOTAL OPERATIONS	
	Electronics		*Unallocated*		*Eliminations*		*Subtotal Continuing*		*Telecommunications Products*			
	2011 $000	2010 $000	**2011 $000**	2010 $000	**2011 $000**	2010 $000	**2011 $000**	2010 $000	**2011 $000**	2010 $000	**2011 $000**	2010 $000
External sales revenue	54,827	48,698	–	–	–	–	54,827	48,698	–	–	54,827	48,698
Inter–segment revenue	–	–	–	–	–	–	–	–	–	–	–	–
Other revenue	411	68	2,013	4,351	(2,013)	(4,349)	411	70	–	–	411	70
Total segment revenue	**55,238**	**48,766**	**2,013**	**4,351**	**(2,013)**	**(4,349)**	**55,238**	**48,768**	**–**	**–**	**55,238**	**48,768**
Segment result												
Results from operating activities	6,112	6,085	(1,612)	(1,707)	–	–	4,500	4,378	–	–	4,500	4,378
Net financing costs							650	735	–	–	650	735
Profit before tax and before disposal of businesses							**5,150**	**5,113**	**–**	**–**	**5,150**	**5,113**
Income tax expense							(1,435)	(1,265)	–	–	(1,435)	(1,265)
Gain/(loss) on sale of discontinued operation	–	–	–	–	–	–	–	–	–	14	–	14
Income tax expense on sale	–	–	–	–	–	–	–	–	–	–	–	–
Net gain on sale									–	14	–	14
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**3,715**	**3,848**	**–**	**–**	**3,715**	**3,862**
Depreciation and amortisation	948	921	6	6	–	–	954	927	–	–	954	927
Non–cash expenses other than depreciation and amortisation	952	277	20	40	–	–	972	317	–	–	972	317
Individually significant items	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14**	**–**	**14**
Inventory write–down	136	(483)	–	–	–	–	136	(483)	–	–	136	(483)

* See discontinued operations note 10.

27 SEGMENT REPORTING (Cont.)

Primary reporting
Business segments

	Continuing Operations								Discontinued Operations*		TOTAL OPERATIONS	
	Electronics		*Unallocated*		*Eliminations*		*Subtotal Continuing*		*Telecommunications Products*			
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000
Assets												
Segment assets	26,461	27,838	13,669	14,890	(2,766)	(2,776)	37,364	39,952	–	–	37,364	39,952
Liabilities												
Segment liabilities	5,229	6,312	680	855	–	–	5,909	7,167	–	–	5,909	7,167
Capital expenditure	790	662	3	3	–	–	793	665	–	–	793	665

* See discontinued operations note 10.

Secondary reporting
Geographical segments

	Australasia		*Asia*		*Europe*		*North America*		*Unallocated*		*Consolidated*	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	$000	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000	**$000**	$000
External segment revenue by location of customers	15,613	13,211	5,195	7,017	28,903	24,430	5,116	4,040	–	–	54,827	48,698
Segment assets by location of assets	–	–	26,461	27,838	–	–	–	–	10,903	12,114	37,364	39,952
Capital expenditure	–	–	790	662	–	–	–	–	3	3	793	665

Major customers

Revenues from the three major customers of the Group's Electronics segment represents approximately $30,391K being $15,613K, $8,745K and $6,033K respectively (2010: three major customers $26,917K being $13,169K, $8,328K and $5,420K respecitvely) of the Group's total revenues.

	2011 $000	2010 $000
	Consolidated	

28 NON-DIRECTOR RELATED PARTIES

The consolidated entity has a related party relationship with its subsidiaries (note 25) and with its key management personnel (note 26):

Transactions

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.

Percentage of equity interest

Details of equity interests held in classes of related parties are set out as follows:
- Controlled entities – note 25.

Other related party disclosures are contained in note 26.

29 NOTES TO THE STATEMENTS OF CASH FLOWS

[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:

	2011 $000	2010 $000
Cash	3,629	3,203
Short term deposits	16,168	16,385
	19,797	19,588

The consolidated entity's exposure to interest rate risk is disclosed in note 30.

	2011 $000	2010 $000
	Consolidated	
[ii] Reconciliation of operating profit after income tax to net cash provided by operating activities		
Operating profit after income tax	3,715	3,862
Add/(less) items classified as investing/financing activities		
(Profit)/loss on sale of non–current assets	–	21
(Profit)/loss on sale of subsidiary/business	–	(14)
Add/(less) non–cash items		
Amortisation	67	51
Depreciation	887	876
Amounts set aside to provisions	972	296
Fixed assets scrapped/written down	16	6
Discount on acquisition	(10)	(10)
Unrealised foreign exchange gain/(loss) on translation of foreign operating cashflows	(1,678)	352
Net cash provided by operating activities before change in assets and liabilities	3,969	5,440
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities		
(Increase)/decrease in inventories	350	(2,223)
(Increase)/decrease in prepayments/deposits	166	(65)
(Increase)/decrease in trade and other debtors	1,338	(2,377)
(Decrease)/increase in trade and other creditors	(723)	2,415
Payments from provisions	(787)	(688)
(Decrease)/increase in income received in advance	(212)	(286)
(Decrease)/increase in current tax payable	190	(696)
(Decrease)/increase in deferred taxes payable	53	59
Net cash provided by operating activities	**4,344**	**1,579**

30 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 consolidated entity's interest-bearing financial instruments was:

In thousands of AUD	**2011** Consolidated *Carrying amount*	2010
Fixed rate instruments		
Financial assets	16,168	16,385
Financial liabilities	–	448
All fixed rate financial instruments are accounted for at amortised cost.		
The consolidated entity manages 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	3,629	3,203

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 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:

In thousands of AUD	USD	EURO **30 June 2011**	GBP	SGD	USD	EURO 30 June 2010	GBP	SGD
Trade receivables	4,466	1,817	359	–	6,020	1,739	194	–
Trade payables	(2,037)	(246)	–	(54)	(2,769)	(236)	–	(75)
Gross balance sheet exposure	2,429	1,571	359	(54)	3,251	1,503	194	(75)

The following exchange rates applied during the year:

	2011 *Average rate*	2010	**2011** *Reporting date spot rate*	2010
Euro	0.7420	0.6732	0.7628	0.7164
MYR	3.0473	2.9862	3.2421	2.7747
USD	1.0073	0.8957	1.0898	0.9383
GBP	0.6631	0.5103	0.6833	0.6200
SGD	1.3148	1.2713	1.3541	1.3047

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 2010.

Effect in thousands of AUD	***Consolidated Profit or loss***
30 June 2011	
USD	(221)
Euro	(143)
GBP	(33)
SGD	5
30 June 2010	
USD	(296)
Euro	(137)
GBP	(18)
SGD	7

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:

In thousands of AUD	*Note*	**2011**	2010
		Carrying amount	
Trade and other receivables	*13*	6,713	8,051
Cash and cash equivalents	*29(i)*	19,797	19,588
Other forward exchange contracts		–	–
The consolidated entity's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:			
Australasia		*1,422*	*2,751*
Europe		*3,750*	*3,422*
USA		*522*	*1,069*
Asia		*954*	*716*
		6,648	*7,958*
The consolidated entity's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:			
Electronics		6,648	7,958
		6,648	7,958

Impairment losses

The aging of the consolidated entity's trade receivables at the report date was:

In thousands of AUD	***Gross* 2011**	*Gross* 2010
Not past due	6,445	7,930
Past due 0 – 30 days	301	16
Past due 31 – 120 days	(98)	12
There was no allowance for impairment in respect of trade receivables	6,648	7,958
Balance at 1 July 2010 and 30 June 2011	–	–

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 Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidy to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

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

Consolidated *In thousands of AUD*	***Carrying Amount***	***Contractual cash flow***	***6 mths or less***	***6-12 mths***	***1-2 years***	***2-5 years***
30 June 2011						
Non-derivative financial liabilities						
Trade and other payables	5,170	5,170	5,170	–	–	–
Derivative financial liabilities						
Other forward exchange contracts inflow	–	404	404	–	–	–
30 June 2010						
Non-derivative financial liabilities						
Hire purchase lease liabilities	448	463	223	170	70	–
Trade and other payables	5,893	5,893	5,893	–	–	–
Derivative financial liabilities						
Nil						

31 ACQUISITION/DISPOSAL OF CONTROLLED ENTITIES

2011 Acquisitions

Nil

2010 Acquisitions

Nil

	Consolidated profit/(loss) on disposal $000	The consolidated entity's interest %
2011 Disposals		
Nil	–	–
2010 Disposals		
Nil. Following the disposal of C10 Communication Pty Ltd on 30 April 2009, a further profit on disposal was incurred due to excess accruals for disposal costs reversed to the profit and loss account	14	–

See notes 6 and 10 for further details.

32 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2011 the parent company of the Group was Lemarne Corporation Limited.

	2011 $000	2010 $000
	Company	
Result of the parent entity		
Profit for the period	406	1,664
Total comprehensive income for the period	406	1,664
Financial position of parent entity at year end		
Current assets	10,495	11,641
Total assets	13,669	14,890
Current liabilities	410	331
Total liabilities	506	412
Total equity of the parent entity comprising of:		
Share capital	3,672	3,672
Options granted reserve	325	325
Retained earnings	9,166	10,481
Total equity	**13,163**	**14,478**

33 EVENTS SUBSEQUENT TO BALANCE DATE

There were no events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2011.

1 In the opinion of the directors of Lemarne Corporation Limited (the Company):

(a) the consolidated financial statements and notes and the Remuneration report in the Directors' report, set out on pages 53 to 56, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(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 chief financial officer for the financial year ended 30 June 2011.

3 The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Melbourne 24 day of August 2011.

E B NOXON
Director

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

Report on the financial report

We have audited the accompanying financial report of Lemarne Corporation Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration report included in pages 53 to 56 of the Directors' report for the year ended 30 June 2011. 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 2011, complies with Section 300A of the Corporations Act 2001.

KPMG

Adrian V King
Partner

Melbourne
24 August 2011

The directors have pleasure in presenting the Annual Financial Report of the consolidated entity for the year ended 30 June 2011, 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 73.

Peter Geoffrey Davenport, M.A., M.I.E.E.
Director since 1981 Previously electrical/electronics engineer and management consultant
Age 73.

John Campbell Larking, M.B. Ch.B., M.R.C.O.G., F.R.A.C.O.G.
Director since 1986
Age 72.

Stephen Leslie Mason, B.Comm., LL.B., F.C.P.A., F.C.I.S.
Director since 1997 Resigned 29 September 2010
Age 59.

Peter Anthony Murphy, B.Sc(Hon)
Managing Director since March 2006.
Age 66.

Directors are given access to continuing education opportunities to update and enhance their skills and knowledge. Directors periodically visit Group facilities and regularly interact with management to gain a better understanding of business operations.

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.

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	7	11
Mr J C Larking	7	11
Mr S L Mason (resigned 29/09/2010)	3	3
Mr P A Murphy	10	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

5. Review of operations

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

6. Dividends

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

	2011 $000	2010 $000
(a) 2011: Nil final dividend (2010: a partially franked dividend of 20 cents per share (8 cents franked) was paid on 18 October 2010)	1,722	4,303
(b) No interim unfranked ordinary dividend was declared or paid (2010: 66 cents unfranked was paid on 17 March 2010)	–	5,681
Total dividends paid or provided for in accounts	1,722	9,984
After year end		
(c) A final partially franked dividend of 20 cents per share (8 cents franked) was paid on 18 October 2010	–	1,722

This dividend was declared after 30 June 2010 and hence was not provided for in the accounts.

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 2011 are referred to in the Chairman'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 Group 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 Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group 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	970,336	Beneficial interest in shares registered in the name of EBN Superannuation Fund
	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	373,670	Beneficial interest in shares registered in the name of Maintop Superannuation Pty Ltd <Davenport Super Fund A/c>
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. There were two Remuneration and Succession Planning Committee meetings held during the year and all members attended.

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 $180,000 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 has a 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 comprises the directors of the Company and executives for the Company and the Group including the five most highly remunerated Company and Group executives.

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.
- 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.

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. In particular, in relation to reviewing and rewarding share options to executives, performance over the past five years is analysed in conjunction with the impact on shareholder value which takes into account the level of dividends and other capital returns to shareholders as well as the share price. Directors believe that the current performance linked remuneration structure will play an important role in supporting the Company's profitable growth.

In considering the Group's performance, the remuneration committee has regard to the individual goals and targets of the key management personnel and the various financial and non-financial performance indicators. Profit is considered as one of the financial performance measures when determining "at risk" remuneration. The overall level of key management personnel compensation takes into account the performance of the Group over a number of years. Over the past few years, the Group's results have varied across its different business units which has been reflected in management's compensation.

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 2011.

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

			Short term		*Post employment*	*Share based payment*	*Long term benefits*	*Termination benefits*		
		Base remuneration	*Incentive schemes*	*Non-monetary benefits*	*Super contributions*	*Options issued**	*Long service leave*	*Termination*	*TOTAL*	*Proportion of remuneration performance related*
		$	$	$	$	$	$	$	$	%
Director										
S L Mason	2011	9,174	–	–	826	–	–	–	10,000	–
	2010	36,697	–	–	3,303	–	–	–	40,000	–
E B Noxon	2011	90,000	–	–	–	–	–	–	90,000	–
	2010	90,000	–	–	–	–	–	–	90,000	–
P G Davenport	2011	–	–	–	50,000	–	–	–	50,000	–
	2010	–	–	–	50,000	–	–	–	50,000	–
J C Larking	2011	36,697	–	–	3,303	–	–	–	40,000	–
	2010	36,697	–	–	3,303	–	–	–	40,000	–
Subtotal non-Executive	2011	**135,871**	**–**	**–**	**54,129**	**–**	**–**	**–**	**190,000**	**–**
directors remuneration	2010	163,394	–	–	56,606	–	–	–	220,000	–
Executive director										
P A Murphy	2011	482,528	197,700	26,340	–	–	8,000	–	714,568	28
	2010	481,228	372,435	24,562	–	–	5,400	–	883,625	42
Total directors'	2011	**618,399**	**197,700**	**26,340**	**54,129**	**–**	**8,000**	**–**	**904,568**	**22**
remuneration	2010	644,622	372,435	24,562	56,606	–	5,400	–	1,103,625	34
Executives										
K H Mun	2011	181,242	159,394	5,710	47,587	–	–	–	393,933	40
	2010	175,809	193,431	5,827	33,412	–	–	–	408,479	47
A Kotsiopoulos	2011	87,825	59,310	–	7,904	–	6,800	–	161,839	37
	2010	103,211	45,612	–	9,288	–	4,200	–	162,311	28
Total executives	2011	**269,067**	**218,704**	**5,710**	**55,491**	**–**	**6,800**	**–**	**555,772**	**39**
remuneration	2010	279,020	239,043	5,827	42,700	–	4,200	–	570,790	42
Total directors and executives	2011	**887,466**	**416,404**	**32,050**	**109,620**	**–**	**14,800**	**–**	**1,460,340**	
remuneration	2010	923,642	611,478	30,389	99,306	–	9,600	–	1,674,415	
Consolidated Totals	2011	**887,466**	**416,404**	**32,050**	**109,620**	**–**	**14,800**	**–**	**1,460,340**	
	2010	923,642	611,478	30,389	99,306	–	9,600	–	1,674,415	

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:

	Short term incentive bonus		
	Included as remuneration $(A)	***% vest in the year***	***% forfeited in the year (B)***
Executives			
P A Murphy	197,700	100	Nil
A Kotsiopoulos	59,310	100	Nil
K H Mun	159,394	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 2011 financial year.

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

12. Equity instruments

Options and rights over equity instruments granted as compensation
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.

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 Messrs E B Noxon and P G Davenport attended all whilst Mr J C Larking attended only 1.

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.

The operating entity has an active Risk Management Committee which monitors 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 service

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.

	Consolidated 2011 $	2010 $
Statutory audit		
Auditors of the Company		
-audit and review of financial reports (KPMG Australia)	85,000	84,000
-audit and review of financial reports (Overseas KPMG firms)	13,657	11,873
Total	98,657	95,873
Services other than statutory audit		
Other services		
-taxation compliance services (KPMG Australia)	12,550	44,598
-taxation compliance services (Overseas KPMG firms)	5,148	9,202
Total	17,698	53,800

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 58 and forms part of the Directors' report for the year ended 30 June 2011.

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 24 day of August 2011.

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

E B NOXON
Director

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 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations 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 King

Partner

Melbourne

24 August 2011

1. Share Capital at 15 August 2011

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

Shares	***Shareholders***
1 – 1,000	367
1,001 – 5,000	395
5,001 – 10,000	97
10,001 – 100,000	137
100,001 – (Max)	13
Total	1,009

(ii) Holding less than a marketable parcel 33

(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 2011 by or on behalf of the twenty largest shareholders was 41.73%.

(d) Substantial shareholders

The number of shares held by the substantial shareholders as at 15 August 2011 were:

	No.	*%*
Edward Brian Noxon & Ann Elspeth Noxon <EBN Superannuation Fund A/c> C/- E.L.& C.Baillieu, PO Box 48, Collins St West, Vic	970,336	11.27

(e) Twenty largest shareholders as at 15 August 2011

	Fully paid ***Number***	***%***
Edward Brian Noxon & Ann Elspeth Noxon <EBN Superannuation Fund A/c>	970,336	11.27
Maintop Superannuation Pty Ltd <Davenport Super Fund A/c>	373,670	4.34
John Larking <Superannuation Fund A/c>	324,426	3.77
John Larking <Larking Family Fund A/c>	193,175	2.24
Citicorp Nominees Pty Limited	169,135	1.97
Buduva Pty Ltd	160,000	1.86
HSBC Custody Nominees (Australia) Limited-GSCO ECA	154,095	1.79
FDF Commercial Services Pty Ltd	145,000	1.68
Avanteos Investments Limited <McCartney SMSF A/c>	143,205	1.66
Rosherville Pty Ltd	130,000	1.51
Helen Ruth Milner <Thurso Rental Prop Unit A/c>	110,000	1.28
Sandhurst Trustees Ltd <JM MPS A/c>	109,249	1.27
Stephen Leslie Mason <Superannuation Fund A/c>	105,568	1.23
Ross George Yannis	88,744	1.03
Australian Executor Trustees Ltd <Lanyon Aust Value Fund>	82,710	0.96
Estate late Margaret Patricia Young	72,993	0.85
E J Diver Manufacturing Pty Ltd	68,514	0.80
Edward Brian Noxon	68,500	0.80
Kevin Edgar Day <Est Barbara E Day A/c>	62,663	0.73
Aberford Pty Ltd	60,000	0.70
	3,591,983	**41.73**

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.

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

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

Group Management
Peter Murphy, Group Chief Executive
Kathy Kotsiopoulos, Group Company Secretary
Kong Hoe Mun, Managing Director,
Lemtronics Sdn Bhd
Kathy Kotsiopoulos, Group Financial Controller

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
Level 5
437 St Kilda Road
MELBOURNE VIC 3004
Telephone (03) 9820 2400
Facsimile (03) 9820 2038
Email: mastewart@lemarne.com.au
www.lemarne.com.au

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LEMARNE CORPORATION LIMITED

ABN 72 004 834 584

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AUSTRALIA

www.lemarne.com.au
(Subsidiary link appears
on the company's web site)

www.lemtronics.net