

# Lemarne Corporation Limited

Annual Report 2000

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#### **BOOKS CLOSING**

Transfers received by the Company's Share Registrar before 5.00 p.m. on Friday 20 October 2000 will be registered to determine those shareholders entitled to participate in the final dividend.

#### **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 AIM, 181 Fitzroy Street, St Kilda, on 27 October 2000 at 12.00 noon.

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

#### **DATE OF DIVIDEND PAYMENT**

The final fully franked dividend for the year ended 30 June 2000 will be paid on 27 October 2000.

- Sales increased to a record \$159 million of which 55% were overseas and exports.
- Operating profit before abnormals and tax increased by 30% to \$12 million.
- Profit after tax attributable to shareholders was up 23% to \$5.9 million.
- EPS was 36 cents per share compared to 29 cents per share last year.
- The dividend increased for the 16th consecutive year to 15 cents per share fully franked.
- Our 59% owned subsidiary, Lemvest Limited, achieved record sales of \$117 million and a record operating profit after tax of \$4.7 million
- Pacific Composites performed strongly with sales up 11% to \$29 million of which 60% were overseas and exports. The operating profit was \$2.3 million compared to a loss last year of \$1.4 million. Both the Australian and U.K. operations showed much improved results.
- URM had another excellent year with sales up 65% of which 42% were exports and a record operating profit of \$3.2 million (up 84%).

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

Our directors are major shareholders, and many senior staff also have significant shareholdings. This investment in Lemarne generally represents their main equity investment.

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 engineering 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. Each year we put aside 1 per cent of our profit after tax for contributions to worthy causes.

We are candid in our reporting, telling shareholders business facts that we believe they would want to know. We are nevertheless careful in reporting certain activities such as technical breakthroughs or potential acquisitions, where

public knowledge of such might disadvantage the entity to the detriment of our shareholders.

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

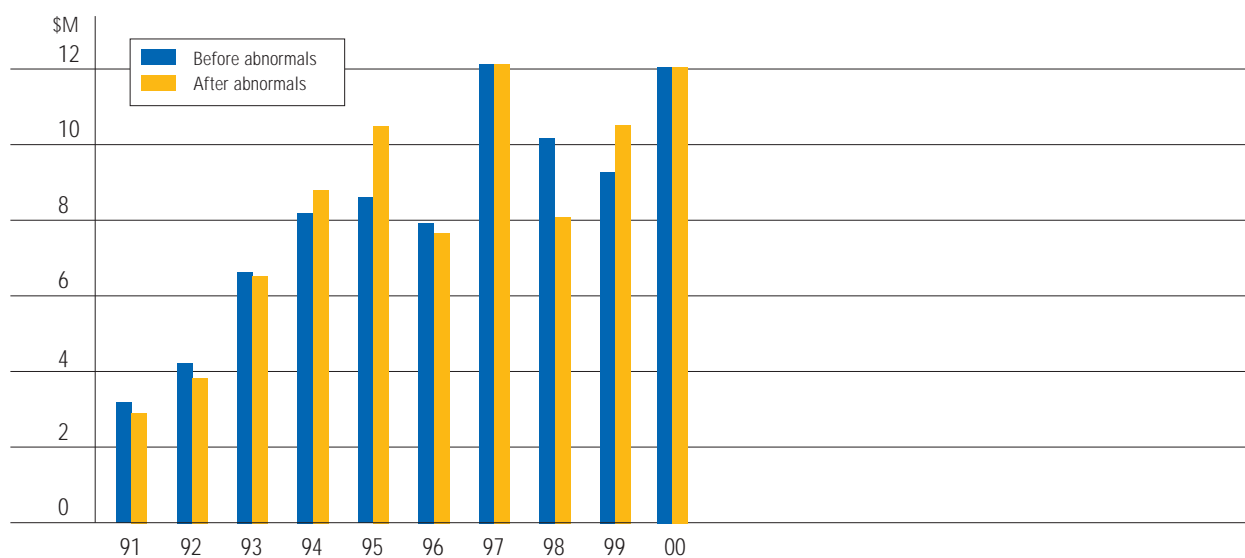
# Group Financial Performance

## KEY FINANCIALS

		2000	1999	CHANGE
Operating profit before abnormal items before tax	\$000s	<b>12,043</b>	9,271	+30%
Abnormal items before tax	\$000s	–	1,253	
Operating profit after income tax and minority interests	\$000s	<b>5,882</b>	4,799	+23%
Earnings per ordinary share	cents	<b>36</b>	29	+24%
Net tangible asset backing per ordinary share	cents	<b>200</b>	173	+16%
Dividend per ordinary share	cents	<b>15.0</b>	14.0	+7%
Ordinary shareholders' equity	\$000s	<b>37,067</b>	32,942	+13%
Operating profit after income tax/shareholders' funds	%	<b>15.9</b>	14.6	
Net borrowings/shareholders' equity	%	<b>50</b>	45	
Share price (at 30 June)	cents	<b>260</b>	225	+16%

These figures are based on the consolidated accounts.

## TEN YEAR OPERATING PROFIT





**Mr Brian Noxon**  
Chairman



**Mr Steve Milner**  
Managing Director

## KEY RESULTS

*The results for the 1999/2000 year represent an acceleration of the solid improvement achieved in the previous year.*

*Pacific Composites achieved a strong turnaround on performance while both U.R. Machinery and our 59% owned subsidiary, Lemvest Ltd., achieved record sales and profits.*

*Group sales increased by 1% to \$159 million with overseas sales and exports up a pleasing 17% to \$87 million.*

*The operating profit before tax and abnormals was \$12.0 million compared to \$9.3 million last year, an increase of 30%.*

*Income tax increased by 5% to \$4.3 million, while minority interests increased slightly to \$1.9 million. This left the profit after tax attributable to shareholders at \$5.9 million, up 23% on last year.*

*The return on shareholders' equity was 16% compared to 15% last year.*

*Earnings per share increased to 36 cents and the NTA per share to \$2.00.*

*Lemarne's balance sheet remains strong with a gearing ratio of 50% and shareholders' funds increasing to \$37.1 million.*

## DIVIDEND

*A fully franked interim dividend of 7.5 cents per share was paid on 24 March 2000 and Directors have declared a final fully franked dividend of 7.5 cents per share payable on 27 October 2000 to those shareholders on the register at 5 p.m. on 20 October 2000. This is our sixteenth consecutive annual dividend increase. The payout ratio is 42 per cent.*

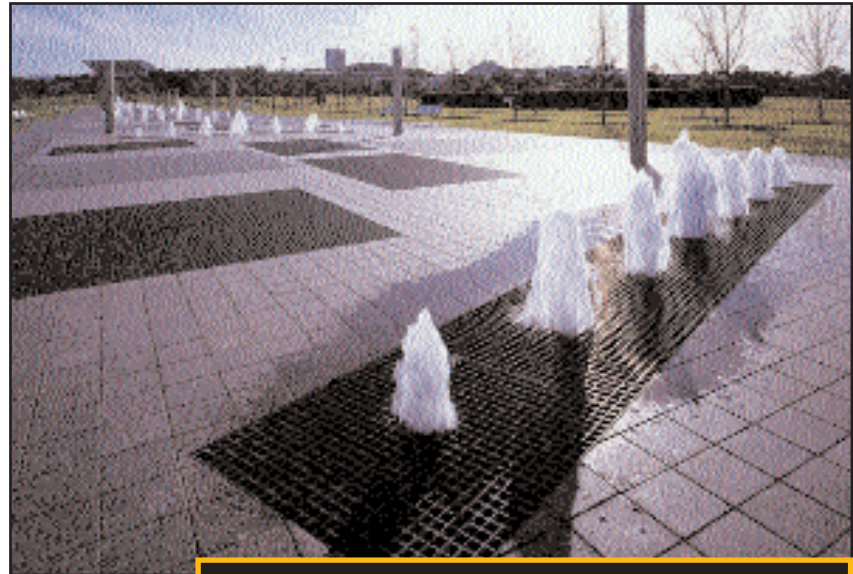
## OPERATIONAL REVIEW

The year was characterised by significant changes in the business environment. Australian operations were affected by preparations for the introduction of the GST and overseas operations by larger than expected movements in various currencies. In addition our electronics businesses were affected by the global shortage of certain components.

Pacific Composites' Australian operations had an excellent year with sales increasing by 25% to \$16.3 million and operating profits growing by 87% to \$2.8 million over the previous period.

In the United Kingdom, Fibreforce managed to reduce its losses from \$1.6 million to \$0.6 million. Included in this result was a further \$0.28 million of one-off costs relating to the restructuring of the Runcorn division. The Clacton division and Pultrex both achieved improved profits.

U.R. Machinery once again performed strongly with sales increasing by 65% to \$12 million and operating profits growing by 84% to \$3.2 million. It should be noted that this result was boosted by the sale of product earmarked for the USA market in the prior year but held over because of the ill health and subsequent death of our agent in this region.



*Pacific Composites' moulded grating was chosen for its corrosion resistance in the fountains at the Bicentennial Park, Homebush Bay, Sydney.*

Lemvest's sales were up 9% to \$117 million while the operating profit before tax was up 5% to \$6.7 million. Lemvest's three subsidiaries had variable results.

Richardson Pacific's sales were up slightly to \$31.3 million but the operating profit declined marginally to \$3.5 million. The New Zealand operation, Metal Systems and Screenex all performed creditably but were offset by lower results from the perforated metal operations in Australia and Asia which experienced weaker demand.

Lemtronics completed a successful year with operating profit more than doubling to \$1.9 million on slightly increased sales of \$46.3 million. This pleasing result reflected the significant operational improvements made over the past two years and was achieved despite output being

restricted by shortages of critical components.

The strategy to increase Com 10's Power System's exports was successful and resulted in export sales rising from 29% to 38% of total sales. However the profit for the year was down on last year principally because of delays and cost overruns in launching a new product and unpredictable customer orders thought to be due to the introduction of the GST.

Com 10 Communications also planned for a year of great change with the sales of traditional telephone accessories trending down as market demands changed. Although the planned sales levels in the Communications business were not reached, it was pleasing that the profit budget was achieved, albeit significantly down on the previous year.

Overall Com 10's sales were up 10% to \$39.8 million and its operating profit down by 47% to \$1.2 million.

### INVESTOR RETURNS

Lemarne's share price at 30 June 2000 was \$2.60 compared to \$2.25 a year earlier.

### GST

Internally the introduction of the GST progressed with negligible impact on subsidiary businesses. Externally though it is thought that the lead up to the introduction of the GST did have an impact on the ordering pattern of some major customers.

### RISK MANAGEMENT

A comprehensive risk management programme has been established. The programme requires each business to systematically identify sources of risk, to qualify the impact of those risks and adopt strategies to manage the Company's exposure in a cost effective manner. External consultants are used to facilitate disciplined progress.

### DONATIONS

Lemarne maintained its commitment to distribute 1 per cent of after tax profits to worthy causes and this resulted in a

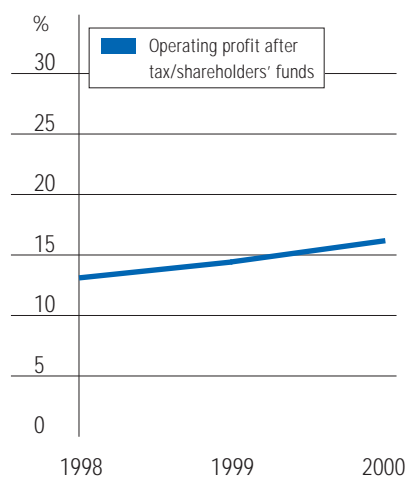
range of community services, medical research, educational and arts organisations receiving support. No donations were made to political parties.

### OUTLOOK

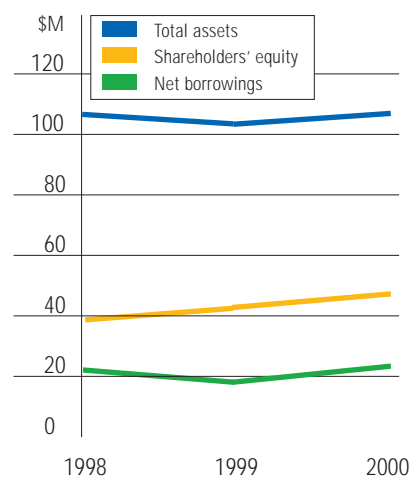
Our overall aim is to build the intrinsic value per ordinary share and we believe good progress has been made over the past two years although this has not yet been fully reflected in the share price.

Our business plans for 2000/2001 include the return to profitability of Pacific Composites' U.K. operations, the continued strong growth of Lemtronics and a

### RETURN ON EQUITY



### ASSETS, BORROWINGS, EQUITY



significant improvement in the profitability of Com 10 Power. Our other operating subsidiaries are positioned to deliver solid ongoing performances although the results of URM and Pacific Composites Australia could be down on last year because of one-off items.

The chief executives of our operating subsidiaries have commented on their operations and the outlook for each on the following pages.

### BOARD CHANGES

Steve Milner joined the group in February 2000 and was appointed Managing Director on 3 April 2000. Brian Noxon retired on 15 July 2000 to become non-executive Chairman.

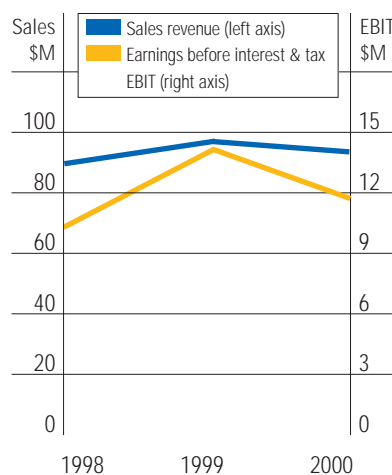
### PEOPLE

During the year our employee numbers decreased from 1,352 to 1,318.

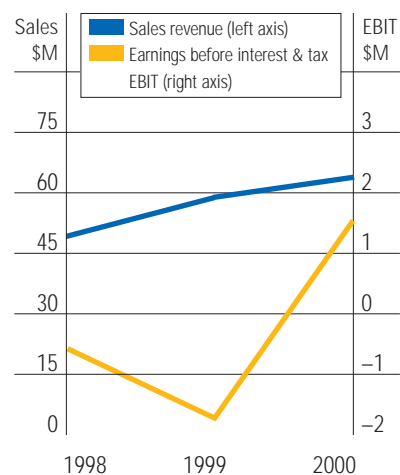
Brian Noxon  
Chairman

Steve Milner  
Managing Director

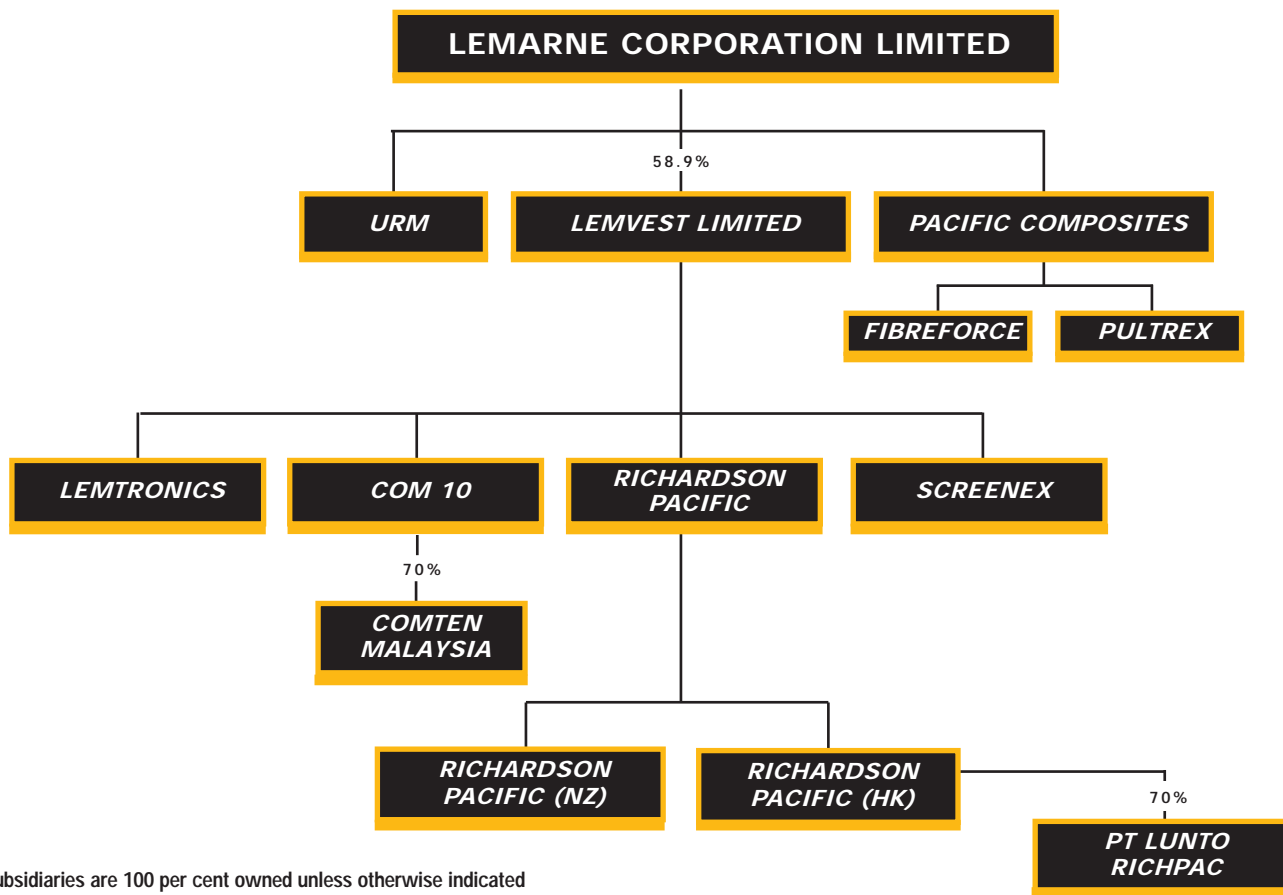
### AUSTRALIAN OPERATIONS



### OFFSHORE OPERATIONS

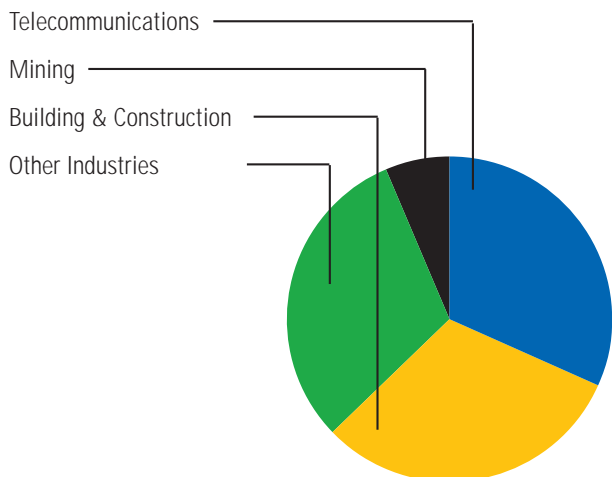


# Company Structure

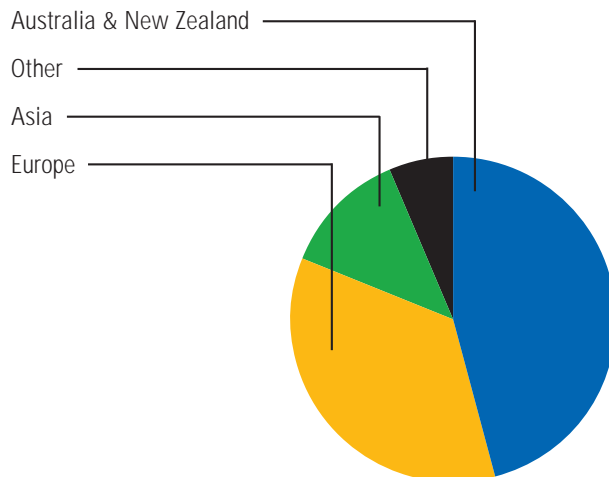


All subsidiaries are 100 per cent owned unless otherwise indicated

## SALES BY END MARKETS, INDUSTRY



## SALES BY END MARKETS, REGIONAL



# Five-year Group Financial Record

	2000 (\$'000s)	1999 (\$'000s)	1998 (\$'000s)	1997 (\$'000s)	1996 (\$'000s)
<b>OPERATING RESULTS</b>					
Group sales	<b>158,572</b>	156,369	138,795	131,977	95,348
Profit before abnormals, tax and interest	<b>13,425</b>	11,240	11,944	13,892	9,066
Abnormal items before tax	–	1,253	(2,098)	–	(255)
Profit before tax	<b>12,043</b>	10,524	8,100	12,141	8,152
Income tax expense	<b>4,267</b>	4,078	2,892	4,105	2,211
Operating profit after tax	<b>7,776</b>	6,446	5,208	8,036	5,941
Minority interests	<b>1,894</b>	1,647	1,202	1,890	1,741
Operating profit attributable to shareholders	<b>5,882</b>	4,799	4,006	6,146	4,200
Extraordinary items after tax	–	–	–	–	–
Dividends – ordinary	<b>2,482</b>	2,311	2,109	2,018	1,849
Dividends – preference	–	–	69	120	150
Payout ratio	% <b>42</b>	48	53	33	44
<b>FINANCIAL POSITION</b>					
Issued and paid-up capital	<b>4,574</b>	4,542 <sup>6</sup>	3,302	3,802	3,801
Total shareholders' equity	<b>48,007</b>	42,955	39,889	42,472	35,572 <sup>3</sup>
Net borrowings	<b>23,968</b>	19,299	21,715	12,686	22,407 <sup>3</sup>
Current assets	<b>72,338</b>	65,069 <sup>7</sup>	66,128	61,126	55,562
Total assets	<b>108,629</b>	103,318 <sup>7</sup>	107,089	96,094	88,288
Current liabilities	<b>45,682</b>	44,101 <sup>7</sup>	51,481	33,189	35,369
Deferred liabilities	<b>14,940</b>	16,262 <sup>7</sup>	15,719	20,433	17,347 <sup>3</sup>
<b>PER ORDINARY SHARE</b>					
Earnings <sup>2</sup>	cents <b>36</b>	29	24	37	25
Net tangible asset backing	cents <b>200</b>	173	150	169	135
Dividend	cents <b>15.0</b>	14.0	13.0	12.0	9.5 <sup>1</sup>
<b>ANALYTIC INFORMATION</b>					
EBIT/total assets	% <b>12</b>	12	9	14	9
EBIT/trading capital employed	% <b>17</b>	17	16	20	14
Operating profit after tax/shareholders' funds	% <b>16</b>	15	13	20	16
Net borrowings/total shareholders' equity	% <b>50</b>	45	54	30	63 <sup>3</sup>
Total debt/total assets	% <b>28</b>	29	30	27	32 <sup>3</sup>
Current assets/current liabilities	times <b>1.6</b>	1.5	1.3 <sup>5</sup>	1.8	1.6
Net interest cover	times <b>8.7</b>	5.3	4.6	9.4	11.2 <sup>4</sup>
Shares on issue	millions <b>16.5</b>	16.5	16.5	16.5	16.5

<sup>1</sup>Excludes special 25th Anniversary dividend of 2.0 cents per share

<sup>2</sup>Adjusted for bonus issue of 1 for 10 in April 1996

<sup>3</sup>Redeemable preference share capital of \$6.6 million reclassified as borrowings for comparative purposes

<sup>4</sup>Dividends on preference shares in subsidiary restated as interest expense for comparative purposes

<sup>5</sup>Partly due to redeemable preference shares being classified as a current liability (refer Note 15)

<sup>6</sup>After transferring \$1,240,000 from the share premium reserve on 1 July 1998

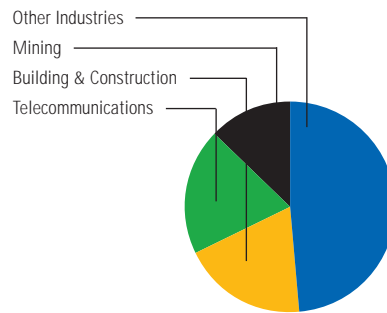
<sup>7</sup>After sale of Spectra International Pty Ltd on 30 June 1999

# Pacific Composites Performance Summary

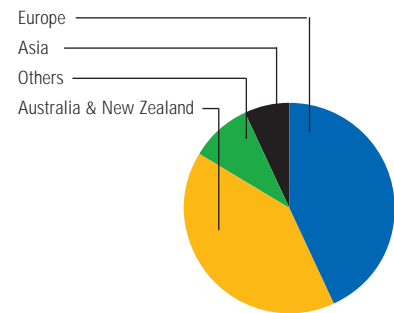
## MAIN PRODUCTS

Pultruded products including – ladder side rails, custom profiles, tension members, mine bolts, grating, cable support systems, handrail, flat sheet, angles, channels, beams, rods and bars. Resin transfer and compression moulded components. Pre-preg tapered and parallel tubing. Pultrusion, pulwinding and filament winding machinery.

SALES BY INDUSTRY



SALES BY END MARKETS



		2000	1999	1998	1997	1996
Total sales	\$000s	29,015	26,238	29,951	30,453	26,636
Overseas sales & exports	%	59	58	61	54	50
Profit before abnormals interest & tax	\$000s	2,445	111	2,043	5,165	4,180
Total assets	\$000s	19,723	18,151	21,039	18,460	17,436
Employees		146	157	179	167	161



## PACIFIC COMPOSITES

**Graham Capper** B Sc (Hons), B Ec  
Managing Director

**Trevor Dawson** B Sc,  
Director

**Eileen Foran** ACA  
Financial Controller and Company Secretary

**Hank van Herk** BEng (Mech)  
Business Development Engineer

**Harry Roevens**  
Technical Manager

**Ken Smith** B Bus  
General Manager Pre Preg Division

**Vince Sakavicius**  
Manager – General Moulding

## FIBREFORCE COMPOSITES

**Grant Pearce** MBA  
Managing Director

**John McKay** ACMA  
Financial Controller & Company Secretary

## PULTREX

**Colin Leek** HN Dip Mech Eng,  
Managing Director

In 1999/2000 Pacific Composites' group sales increased by 10.5% to \$29 million whilst the EBIT after abnormals showed a significant turnaround from a loss of \$1.2 million last year to a profit of \$2.4 million.

Included in this result was a 'one off' profit of \$545K resulting from the sale and export of specialist pultrusion machinery and technology. The result was also affected by 'one-off' costs of \$280K for the Fibreforce restructure.

Overseas sales and exports represented 59% of total group sales compared to 58% the previous year.

## AUSTRALIAN OPERATIONS

The Australian operations had an excellent year with sales increasing by 25% to \$16.1 million. EBIT for Australian operations also showed an encouraging 53% growth over the previous year. The Pultrusion division was the main contributor with EBIT being 137% up on the previous year. The highlights of the year were the supply of a large export contract to Africa and the supply of cable ladder for Orica's chlor-alkali plant at Laverton. Most pultrusion product groups achieved pleasing sales

increases including cable ladder, rock bolts, rods, profiles, conduit rods, moulded grating and fabrication.

Although the fibreoptic tension member division experienced a fall in sales of 7%, operating profit from normal trading was maintained at last year's level in spite of lower worldwide pricing. A highlight was the successful introduction of a more technically advanced process developed by our Research and Development team, which has resulted in encouraging new export sales.

Pre preg Moulding Division's sales grew by a modest 5% whilst the smaller General Moulding Division had a disappointing year with sales only 73% of the previous year.

Our Research and Development team has continued to make progress on developing innovative new processes and products and we will continue to give this function high priority.

## UNITED KINGDOM OPERATIONS

*Fibreforce Composites Ltd.*  
Fibreforce's operating losses before interest, abnormals and tax reduced in 1999/2000 to \$0.4 million from \$1.4 million in the previous year.

The new management team at Fibreforce has made significant improvements at the Runcorn plant and the operating loss before interest, abnormals and tax at Runcorn was down by 41% during 1999/2000. It was particularly encouraging that the second half of the financial year showed a 64% improvement over the first half and a 76% improvement over the same period last financial year.

Despite increasing competition from European and U.S. pultruders, fuelled by the relatively strong U.K. currency, the new management team has secured and, in many cases, grown our traditional customer base. Of particular note, is the recent success in partnership with a long-standing customer in winning an 18 months contract in the mining industry. Emphasis on these types of strategic alliances will remain a priority.

A further highlight was the success of our representative in France who has won business in the construction and manufacturing sectors leading to ongoing export business for Fibreforce.

The Clacton division of Fibreforce had a greatly improved performance with sales up 15% and an operating profit before interest, abnormals and tax up 75% over the previous year. This was largely achieved by an increase in sales to the buoyant transport and construction sectors. In addition, a significant R & D project has now become commercialised and offers excellent prospects for the future.

Fibreforce's relatively new management team has come through a challenging year and consolidated Fibreforce's position as the largest pultruder in the United Kingdom. With the European Pultrusion Industry forecasting growth in excess of 12% p.a., management is confident of the continued turnaround and believe



*From left: Pultruded FRP profiles and Pacific Composites' FRP cable ladder being installed in the corrosive environment at the SCM titanium dioxide plant in Western Australia.*

Fibreforce is in an excellent position to capitalise on future growth opportunities.

#### *Pultrex*

Pultrex sales in 1999/2000 were 94% of the previous year, and although EBIT was marginally higher the result was significantly below expectations.

The highlight of the year was the design and manufacture of a filament winding machine for Fiat Avio in Italy. This machine is a sophisticated tape placement machine used in the production of parts for the Ariane and Vega space programs. This project highlights the growing importance of filament winding to Pultrex. During the year Pultrex manufactured and supplied machines to Italy, South Africa, Tunisia, United Arab Emirates and United Kingdom. Pultrex have several larger prospects and a major effort will be made to convert these and also improve its representation worldwide and reduce some of the characteristic 'volatility' of this business.

#### **FUTURE PROSPECTS**

The short-term result for Pacific Composites will continue to be impacted by the timing of major projects. The larger contracts tend to flow through in an unpredictable manner which impacts on sales and profits from one year to the next.

Nevertheless Pacific Composites is the clear market leader in pultrusion in both Australia and the United Kingdom and supplies a diverse range of products to a wide range of industries which puts Pacific Composites in a strong position to win contracts when the opportunity occurs.

Pacific Composites' profitability in the future should also receive a positive boost from the continuing turn around at Fibreforce although management recognises there is still a major challenge to achieve suitable returns from the Runcorn plant.

In summary, management remains confident that Pacific Composites is in a sound position to achieve solid, long term growth in the future.

Graham Capper

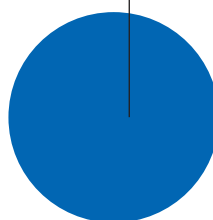
# U R Machinery Performance Summary

## MAIN PRODUCTS

Design, manufacture and marketing of mechanical grape harvesters, specialised vineyard equipment and distributors for selected vineyard equipment. Markets include Australia, New Zealand, California and Washington (USA), South Africa and Spain.

SALES BY INDUSTRY

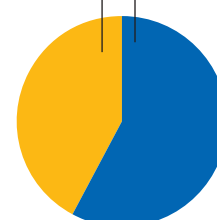
Agriculture Equipment



SALES BY END MARKETS

Australia & New Zealand

Others



		2000	1999	1998*	1997	1996
Total sales	\$000s	<b>12,085</b>	7,317	6,178	n/a	n/a
Overseas sales & exports	%	<b>42</b>	37	39	n/a	n/a
Profit before abnormals interest & tax	\$000s	<b>3,167</b>	1,775	1,513	n/a	n/a
Total assets	\$000s	<b>11,390</b>	11,290	7,832	n/a	n/a
Employees		<b>41</b>	36	33	n/a	n/a

\* Business acquired 12 December 1997.



U R MACHINERY

**Desmond Burke**

Managing Director

**Peter Thomson**

General Manager

**Roger Williams**

Finance Manager

**Neville Ash**

Factory Manager

**Owen Zibell**

Purchasing Manager

U.R. Machinery Pty. Ltd. had another excellent year with sales for the year to 30 June 2000 up by 65% to \$12.1 million and EBIT up 78% to \$3.2 million. It should be noted the results were boosted by the carry over of product earmarked for sale in the U.S. market in the prior year but not invoiced until this year. These sales totalled \$2.9 million. In addition the results were boosted by a 'one-off' profit of \$336,000 resulting from the sale of the Company's wind machine business.

The demand for grape harvesting equipment remained strong in the Australian and Californian markets with a record number of machines being sold. Future sales prospects remain positive as increased vineyard acreage comes into production and technological advances fuel the demand for new machines.

Sales continued to be restricted by limited manufacturing capacity despite last year's expansion. However plans are in place to implement the next phase of expansion and additional product is expected to be available for sale during the coming harvest season.

Following the death of our dealer principal in the U.S.A., a URM marketing office was established in Fresno, California. This initiative has resulted in a rapid rebound in sales and additional dealership appointments in regional vineyard areas.

With in-house marketing representation now established in both the Southern and Northern hemispheres, URM is positioning itself to expand into other 'new world' wine markets in Canada, Mexico, South America and South Africa.

Demonstrations and promotional programs conducted in South Africa have culminated in the appointment of a prominent agricultural company as a distributor for URM equipment. Forecasts indicate equipment sales for the coming season will see URM in the field by January 2001.

Markets in South America will be researched more fully during the coming financial year and will hopefully result in the appointment of a dealer network to service these markets.



*From left: URM Vinestar picking grapes during the 2000 harvest on Walters Family Farm, Malmesbury, South Africa and URM Vinestar self propelled grape harvester.*

During the year URM successfully divested its wind machine business. This decision was made to enable URM to concentrate on the manufacturing and marketing of harvesting machines and associated equipment.

Directors remain confident that URM will continue to achieve further sound growth during the coming financial year.

Des Burke

## SUMMARY OPERATIONS REVIEW

Brian Noxon, Chairman

Steve Milner, Managing Director

### KEY RESULT

The year ending 30 June 2000 saw Lemvest achieve improved results despite significant changes in the business environment.

Group sales increased by 9% to a record \$117 million with overseas sales and exports up by an encouraging 14% to \$64 million. Operating profit before tax was up 5% to \$6.7 million following last year's increase of 47%, and the operating profit after tax and outside equity interests was up 14% to a record \$4.7 million.

Earnings per share increased to 47 cents and the net tangible assets backing per share increased to \$2.50.

Shareholders' funds were \$25 million and the gearing was higher at 105% mainly due to a conscious decision to hold larger stocks of electronic components because of longer lead times. The return on shareholders' funds increased marginally to 18.9%.

### DIVIDENDS

An interim fully franked dividend of 15 cents per share was paid on 24 March 2000 and a final fully franked dividend of 15 cents per share has been declared.

### OPERATIONAL REVIEW

1999/2000 was a year of consolidation and repositioning as Lemvest's subsidiaries responded to the challenges of globalisation and the slower recovery in Asian markets.

Lemtronics, now in its third year of recovery, performed strongly with profits up 121% to \$1.9 million and sales up 10%.

Richardson Pacific's sales were steady and profits marginally lower at \$3.6 million. The New Zealand operation, Screenex, and the Metal System division all performed strongly but were offset by some parts of the Australian and Asian operations which experienced difficult trading conditions.

Com 10's results were disappointing with profits down 46% to \$1.2 million although good progress was made in developing new markets and products. Changes in product mix, development costs and slower demand ahead of the GST, account for this result.

### OUTLOOK

The outlook for the year ahead is promising. Lemtronics should increase its sales and its profits again providing the shortages of certain components doesn't become critical. Richardson Pacific is expecting another challenging year.

Domestic demand is expected to be subdued but some improvement in certain Asian markets could offset this. Effective 1 July 2000 the Screenex business was spun off from Richardson Pacific to enhance growth opportunities.

Com 10 Power should benefit from export initiatives, cost control and a major new product. Com 10 Communications is being repositioned to take advantage of the emerging digital technologies.

### BOARD CHANGES

It was with deep regret that the Directors announced the death of Malcolm Inglis in February 2000. He made a major contribution to many aspects of the company's operations. In April 2000 our new group chief executive Steve Milner, was appointed Managing Director. In December 1999 we welcomed Darryl Rainsbury to the Board.

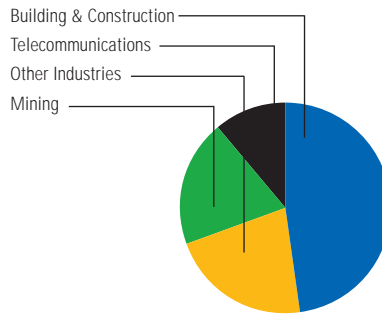
## PERFORMANCE IN BRIEF

		2000	1999	CHANGE
Sales revenue	\$000s	<b>117,472</b>	107,602	+9%
Operating profit before abnormal items	\$000s	<b>6,651</b>	6,971	-5%
Abnormal items	\$000s	-	(643)	-
Income tax	\$000s	<b>1,988</b>	2,335	-15%
Operating profit after income tax and outside equity interests	\$000s	<b>4,701</b>	4,117	+14%
Earnings per share	cents	<b>47</b>	41	+14%
Net tangible asset backing per share	cents	<b>250</b>	225	+11%
Dividend per share	cents	<b>30</b>	27	+11%
Share price at 30 June	cents	<b>420</b>	431	-3%
Shareholders' equity (ordinary)	\$000s	<b>24,816</b>	22,292	+11%
Net borrowings/shareholders' funds	%	<b>105</b>	79	

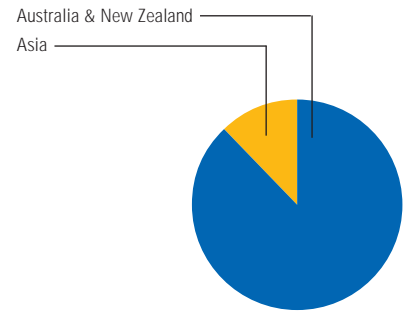
## MAIN PRODUCTS

Perforated metal, 'Safe-T-Perf' flooring, 'Pic Perf' architectural panels, Polyurethane screening systems, Data communication cabinets

SALES BY INDUSTRY



SALES BY END MARKETS



		2000	1999	1998	1997	1996
Total sales	\$000s	<b>32,187</b>	29,457	29,501	28,214	28,015
Overseas sales & exports	%	<b>12</b>	13	19	18	27
Profit before abnormals interest & tax	\$000s	<b>3,640</b>	3,687	3,750	3,469	2,580
Total assets	\$000s	<b>26,101</b>	27,424	27,748	27,248	24,531
Employees		<b>174</b>	183	175	176	172



### SCREENEX

**Darryl Rainsbury** BBus, MBA,  
FCPA, FCIS Managing Director (Managing  
Director of Richardson Pacific - part year)



### RICHARDSON PACIFIC

**Martin Budworth**  
Managing Director

In 1999/2000 the Richardson Pacific group recorded steady sales of \$32.2 million while the EBIT declined slightly to \$3.5 million.

In Australia, sales and profit were maintained at last year's levels, despite some market segments softening. Further reductions in costs helped to underpin the performance. Sales of new products significantly increased over the previous year, especially "PicPerf" used in several high-profile building projects.

In Asia, Richardson Pacific (Asia) Ltd and PT Lunto Richpac, recorded a 48% improvement in profit over last year's small loss on steady sales. However, trading conditions remain difficult with a slower than expected recovery. The Indonesian Joint Venture secured an increase in local orders but still had a difficult year and incurred a small loss. Richardson Pacific (NZ) Ltd. recorded a 115%

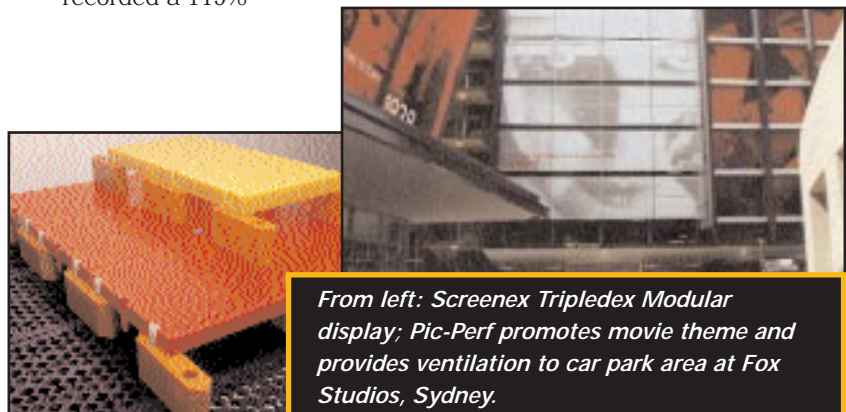
increase in operating profit on a sales increase of 25%.

Our Metal Systems division performed solidly with a welcome return to profitability.

The outlook for the 2000/2001 year is positive. We expect further improvements in sales and profitability from recovery in Asia, cost control and aggressive marketing of the product range.

### SCREENEX

The division produces plastic moulded screens and was established as a separate legal entity effective 1 July 2000, so that it can continue to specialise. A subdued mining sector and increased costs associated with new markets impacted the first half's results; the full year, however, saw sales revenue increase by 20% and profits by 12%.

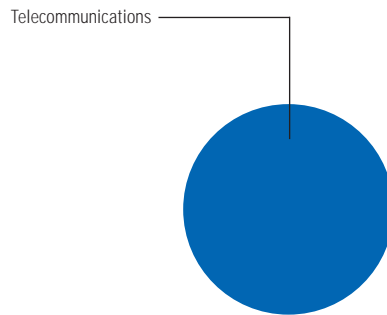


*From left: Screenex Tripledex Modular display; Pic-Perf promotes movie theme and provides ventilation to car park area at Fox Studios, Sydney.*

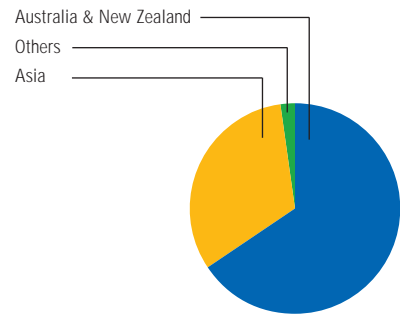
## MAIN PRODUCTS

Power systems and distribution modules, telephone accessories, pair gain and modems

SALES BY INDUSTRY



SALES BY END MARKETS



		2000	1999	1998	1997	1996*
Total sales	\$000s	<b>39,824</b>	36,141	32,680	32,896	4,811
Overseas sales & exports	%	<b>35</b>	28	32	39	34
Profit before abnormals interest & tax	\$000s	<b>1,931</b>	3,385	2,939	3,052	510
Total assets	\$000s	<b>25,539</b>	20,215	18,121	19,586	13,661
Employees		<b>178</b>	176	168	176	163

\*10 weeks of operation, business acquired in April 1996.



COM 10 POWER

**Larry Weiner** BSEE  
Managing Director



COM 10 COMMUNICATIONS

**Dilip Khatri** BE Hons, M Eng Sc,  
SMIREE, MIEEE (USA) MIE Aust  
Managing Director

## COM 10 POWER

Sales increased by 18% to \$34.0 million while EBIT was down 21%. In Asia a slower than expected recovery rate kept Comten Malaysia's results flat. We have now managed to secure several new projects and the outlook for 2001 is much improved. Major gains were achieved in China with sales almost doubling; a new and significant partner and a dedicated local manager have helped increase our presence.

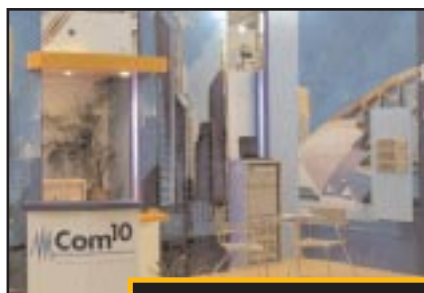
We have also moved strongly into two new export markets: South Africa and South America through a local branch and a strategic partner, respectively. New products have been advanced which will strengthen Com 10's position as a power systems provider.

## COM 10 COMMUNICATIONS

Sales decreased by 23% to \$5.8 million and EBIT by 66% to \$0.6 million. In part, this reflects a continued move away from traditional phone accessories to new products that can take advantage of growth in digital communications.

These products include high-speed modems, software to separate voice and data signals on a single line, and Digital Pair Gain Systems which allow multiple telephone subscribers to be connected using existing cabling to an exchange. These products address rising demand for Internet access.

Throughout the year we continued to build stronger relations with key players in the telecommunications field.

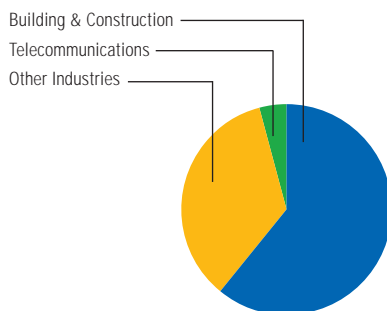


*From left: Power product on display at the CommunicAsia Trade Show in Singapore June 2000. Communications Network Termination Product.*

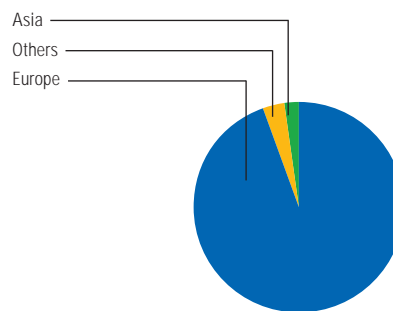
## MAIN PRODUCTS

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

SALES BY INDUSTRY



SALES BY END MARKETS



		2000	1999	1998	1997	1996
Total sales	\$000s	<b>46,337</b>	41,987	23,978	27,296	25,156
Overseas sales & exports	%	<b>99</b>	100	100	100	100
Profit before abnormals interest & tax	\$000s	<b>2,159</b>	1,342	865	712	1,792
Total assets	\$000s	<b>23,723</b>	17,936	21,728	18,242	24,351
Employees		<b>770</b>	798	1,158	532	627



LEMTRONICS SDN BHD

**Alain Badoux** M Eng, MIE Aust, A Ir Br  
Managing Director

Lemtronics' sales increased by 10.4% to \$46.3 million. Efforts in 1999/2000 were focussed on consolidating our ties with existing customers following the large sales growth recorded the previous year.

We added three important new customers and will be continuing this expansion in the year ahead.

The international market for electronics assemblies remained very competitive, offering limited opportunity to increase margins. We have therefore continued our actions to control and reduce costs. Improvements have occurred in all areas of activity.

The rules imposed in 1997 by the Malaysian Government to control capital movements have been lifted but the Ringgit continues to be pegged to the US Dollar. This has reduced exchange risks.

A sharp rise in global demand for certain electronics components created supply

issues requiring careful management of inventory and lead times. Our response to this supply pressure has been effective, however the situation is forecast to persist until mid-2001.

We continued to revise and upgrade our production capacity. This has included replacement equipment and renewing business systems. We are converting computer systems to improve the use of electronic data for most technical specification, and we are in the process of upgrading accounting systems. These improvements will assist with our achieving sales and profits in line with the potential of the sub-contract electronics industry.



*From left: Quality assurance and a selection of electronic sub assemblies and finished product embodying Lemtronics contract electronics.*

The Board of Directors is committed to principles of corporate governance consistent with the prudent management of shareholders funds. The Board supports the principles of self regulation.

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

Lemarne had a relatively small Board of six directors in keeping with its size. Details of directors are set out in the Directors' Report. John Larking and Peter Davenport are non executive directors. The Chairman, who was also the Chief Executive until 3 April 2000, became non executive effective 15 July 2000. The full Board deals with matters such as audit, remuneration, succession, risk management and community grants etc. and as such no Board committees exist, apart from an audit committee. Since year end, two further Board Committees have been established, a Remuneration Committee and a Corporate Governance Committee.

The Board reviews the performance of the external auditors on an annual basis and meets with them during the year as appropriate.

The Board recognises the need for change as the Company grows in size and complexity and is planning accordingly.

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

The Constitution permits directors to acquire shares in the Company and all 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, the Annual General Meeting, or when the Board deems the market to be fully informed following an announcement.

#### **INDEPENDENT PROFESSIONAL ADVICE**

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

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

- The Board reviews the proforma half year and proforma 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; and
- 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.

#### **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 five 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 economic 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 economic 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 all employees.
- 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 economic 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 economic entity has clearly defined guidelines for capital expenditure. 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 Finance Director and for the scope of the work to be performed at each location.

#### **AUSTRALIAN AND INTERNATIONAL QUALITY STANDARDS**

The economic entity strives to ensure that its products are of the highest standard. Towards this aim it has undertaken a program to achieve AS 3902/ISO 9002 accreditation for each of its business segments.

#### **ETHICAL STANDARDS**

Each subsidiary has an employee manual which sets out the ethical standards an employee of the economic 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 economic entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

#### **RISK MANAGEMENT**

A comprehensive risk management programme has been established. The programme requires each business to systematically identify sources of risk, to qualify the impact of those risks and adopt strategies to manage the Company's exposure in a cost effective manner. External consultants are used as appropriate.

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

**THE ROLE OF SHAREHOLDERS**

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

- the annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the economic entity during the year, changes in the state of affairs of the economic entity and details of future developments, in addition to the other disclosures required by the Corporations Law;
- the half yearly report contains summarised financial information and a review of the operations of the economic entity during the period. Half year audited financial statements prepared in accordance with the requirements of Accounting Standards and the Corporations Law are lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange. The financial statements are sent to any shareholder who requests them and a summary of the results and a brief review of trading for the half year is distributed to all shareholders;
- proposed major changes in the economic entity which may impact on share ownership rights are submitted to a vote of shareholders.

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