# CODAN LIMITED

ABN 77 007 590 605


# ANNUAL REPORT 2004

CODAN

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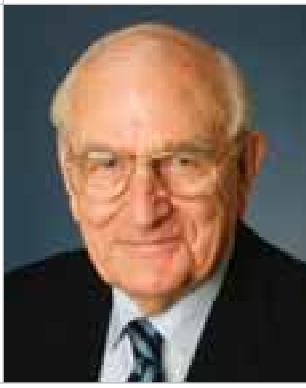
# Chairman's report



In the year of its successful public listing Codan Limited again achieved record sales and profit. Revenue increased by 18% and Net Profit After Tax (NPAT) by 50% over the previous year. The forecasts given in the prospectus for the initial public offering were substantially exceeded. The dividend payment for the full year was 5.5 cents per share compared to the prospectus forecast of 5 cents.

Codan's stock has been well received in the marketplace and is being followed by a number of brokers and analysts. In addition to delivering financial value, the company is setting out to communicate and engage with its shareholders in appropriate ways.

High standards of corporate governance and performance have long been established within Codan. This year the Board, management and our financial team developed those standards and successfully applied them to meeting the reporting and governance requirements of a publicly listed company. This work will continue.

Collectively, the Board of Directors brings to the company the experience to ensure Codan's success as a listed company operating globally. It regularly addresses succession so that its composition going forward is appropriate. In accordance with governance principles new and where appropriate independent directors with the right experience and qualifications will be introduced over time.

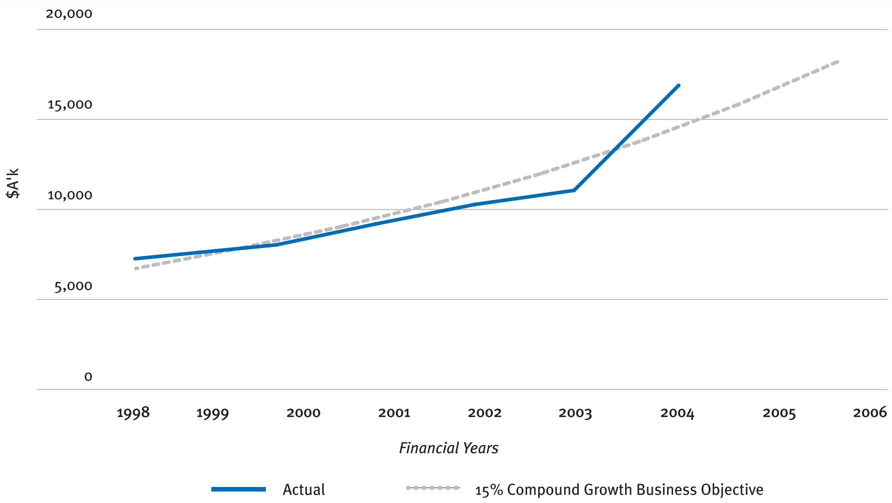
Codan was strengthened during the year by the addition of highly skilled and appropriately qualified engineers and managers. The composition of this team and matters of succession are regularly addressed. This team is well positioned to lead Codan to future success.

The company's strong cash position will be applied towards significant capital programs for new factory floor space in Adelaide and a new enterprise resource planning business system to facilitate future growth. Since the end of financial year 2004 Codan has secured rights which will facilitate rapid extension and enhancement of its range of digital microwave radio products for terrestrial microwave communications. Other acquisition opportunities to expand existing product offerings and diversify into new offerings for global niche markets remain under careful consideration.

The outlook is generally positive. Demand for communications products for private networks is likely to continue in an environment of world security concerns. Codan's new satellite communications and digital microwave radio products will be attractive to customers as demand increases for establishment of new public telecommunications infrastructure globally. New distribution channels for TV broadcast products will promote export sales.

Whilst the exceptional profit growth of 50% in financial year 2004 is unlikely to be repeated this year, the Company does expect to grow again in financial year 2005. Codan's corporate objective is to grow profit by 15% per annum cumulatively over the medium to long term. This has been achieved for over ten years and we expect to continue to achieve it in the future.

NPAT Trend




I thank Codan's dedicated and professional management and staff for a year of exceptional achievements.

John Uhrig, AC

**Chairman**

# CEO's report

**Revenue growth and improved margins together with tight working capital control delivered strong operating cash flow.**

In financial year 2004 Codan achieved strong growth in revenue, profit and cash flow and positioned itself well for the future.

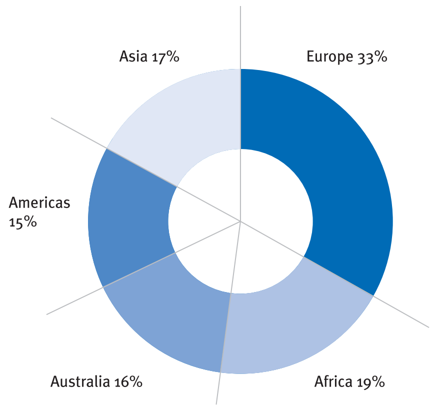
Revenue growth was driven globally by demand for HF radio and satellite communications products. Governments, businesses and humanitarian agencies used these products for the rapid deployment of private networks for primary and back-up communications in an environment of world security concerns.

Margins were improved as a result of changes in the product mix, product cost reduction programs and careful management of overheads. Revenue growth and improved margins together with tight working capital control delivered strong operating cash flow. This plus the sale of a property in Brisbane and the proceeds of the IPO were used to retire all debt.

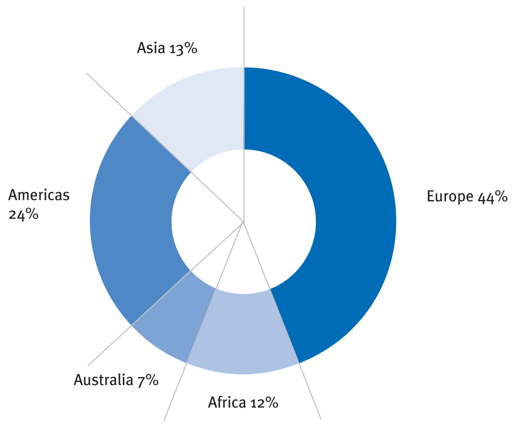
Codan seeks to delight its customers. The company routinely achieved exceptionally low delivery lead times from placement of orders in response to the urgency of our customers' requirements. Exports grew to 94% of total revenue. Representative offices were opened in China and India and distribution channels for TV broadcast products were established throughout Asia, and in South Africa and the Middle East.

Innovation is the key to Codan's future. 6.4% of revenue was invested in research and product development. Development of important new HF radio, satellite communications and TV broadcast products was advanced during the year. Rights have been secured to extend and enhance the digital microwave radio product range. Market launch of all these products will occur during 2005.

## Communications Products Regional Markets

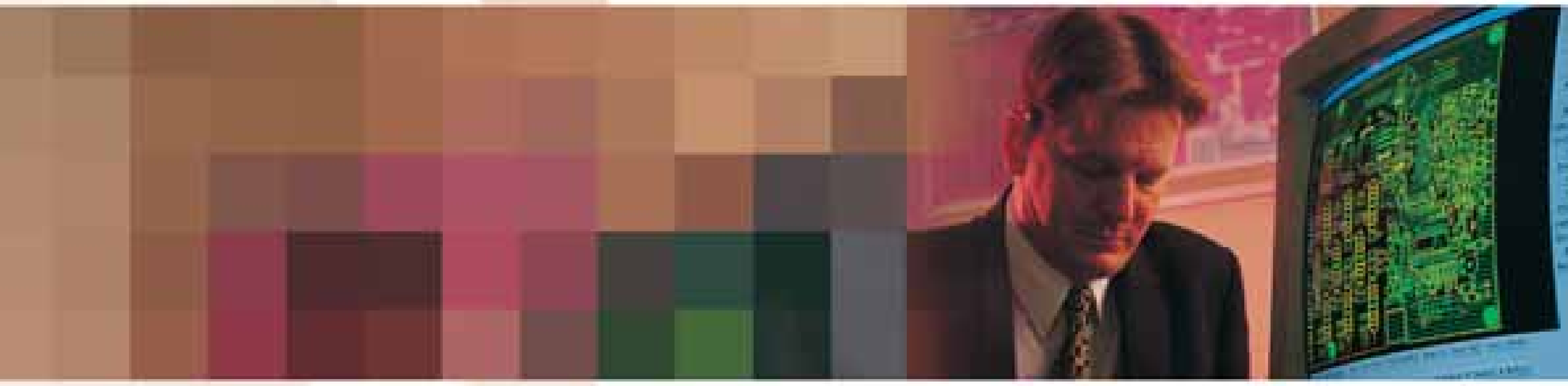



*Year ended 30 June 2003*



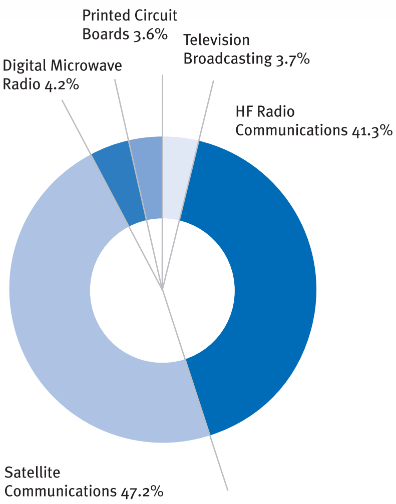

*Year ended 30 June 2004*

# CEO's report continued

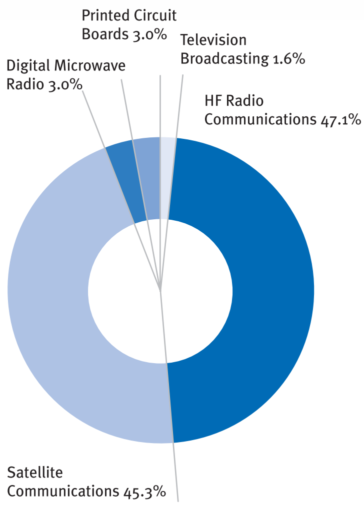


Sales of communications products to purchasers in North America and Europe grew strongly. Whilst much of this equipment would have been deployed outside first world regions, sales growth to first world buyers indicates increasing acceptance by them of the value offered by Codan products. This is encouraging with respect to future opportunities for sale and use of Codan products within first world countries, particularly the USA.

## Codan Revenue by Product Group




Total Operating Revenue $113.1m
*Year ended 30 June 2003*




Total Operating Revenue $133.8m
*Year ended 30 June 2004*

HF radio sales grew more quickly than sales of other products. This product best meets customers' needs for rapidly deployable communications networks in response to international security and humanitarian problems. This need is likely to continue and Codan has developed new and improved products to meet it.

Sales of satellite communications products also grew, again principally for private communications networks. Codan will substantially complete during 2005 the release of a new range of satellite communications products. These and the enhanced range of digital microwave radios will be applicable to private networks and will position Codan well for growth as the international demand for improved public telecommunications infrastructure gathers pace.



The company will manage two principal challenges in 2005.

First we will attend to the impact of a stronger Australian dollar. Approximately 50% of sales are made in US dollars, but offsetting this a substantial percentage of electronics components are purchased in US dollars and significant US dollar expense arises from operations, particularly from Codan's US sales office. Codan generally maintains a hedge against the resultant net exposure to the US dollar for approximately six to eighteen months. We currently have hedge in place until the end of June 2005 at an average rate of 62 US cents to the Australian dollar. Whilst this is favourable compared to recent spot rates, it compares to 54 US cents to the Australian dollar in 2004.

This exchange rate effect will be managed by further product cost reduction programs and by strictly controlling expenses to grow at a much lower rate than revenue. The business will benefit from effective investment in product and market development during 2003 and 2004 when the exchange rate was favourable. This investment will deliver new products, distribution channels and markets in 2005 and beyond.

Secondly, Codan is a capital equipment business. Many customers order irregularly but in substantial quantities as they deploy complete new communications networks. Sales can vary from period to period even in a trend of medium term growth and periods of strong revenue and profit may be offset by weaker ones. Careful identification and management of future demand and of the resultant orders pipeline, and diversification of products, markets and business segments globally, mitigate this challenge.

Codan has successfully managed these challenges in the past and we expect to continue to grow using the formula that has delivered 15% compound growth over the long term. It is always our intention to delight our customers with high value products and service; product reliability and rapid response times are paramount. To this end we will continue to invest in our people, and in research and product and market development. Targeted acquisitions of businesses and technologies will enhance existing market positions and diversify the company into new global market niches. In this way Codan can increase global market share in niche communications and broadcast products markets that are themselves growing, and enter new markets as well. In all endeavours we will uphold Codan's core ideology.

Codan's success is delivered by its' people. We are most grateful for their skills and commitment and we seek to retain, protect and challenge them. Particular attention is paid to the safety and welfare of all staff, and in a dangerous world we have taken special measures to protect our business travellers.

Mike Heard

**Chief Executive Officer**

# Directors' Report

Codan Limited and its Controlled Entities

(Back row from left) Peter Griffiths, Brian Burns, Leon Davis, Mike Head, (front row from left) Ian Wall, Alastair Wood, John Uhrig (Chairman) and Jim Bettison.

The directors present their report together with the financial report of Codan Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

## Directors

The directors of the Company at any time during or since the end of the financial year are:

| *Name and qualifications* | *Age* | *Experience and special responsibilities* |
|---|---|---|
| John Uhrig AC, BSc, DUniv, Hon. DEcon, FAIM<br>Chairman<br>Non-Executive Director | 75 | Mr Uhrig was appointed to the board as Chairman in 1986. He has broad industry and manufacturing experience and has participated in and contributed to a variety of government and community bodies. He was formerly chairman of Westpac Banking Corporation, Santos Limited, Rio Tinto Limited and the Australian Manufacturing Council, deputy chairman of Rio Tinto plc, managing director of Simpson Holdings Limited and Brinsmead Electrical Industries Pty Ltd, a foundation member of the National Companies and Securities Commission and a director of B Seppelt & Sons Limited and the Export Finance and Insurance Commission.<br><br>Mr Uhrig has agreed to remain as Chairman for a sufficient period of time to allow the establishment of Codan as a successfully listed company. It is envisaged that he will not retire before the Company's annual general meeting in 2005. |

## Directors (continued)

| *Name and qualifications* | *Age* | *Experience and special responsibilities* |
|---|---|---|
| Michael Heard BE (Hons), MBA, FIE Aust, CPEng<br>ManagingManaging Director and<br>Chief Executive Officer | 56 | Mr Heard was appointed to the board as Director in 1991. He was formerly general manager and a director of Ribloc Group Ltd (civil engineering technology industry) and chief executive of Cheviot Manufacturing Pty Ltd (automotive components industry). Before that, Mr Heard held various engineering, marketing and management positions with CIG Ltd (now BOC Ltd) in Brisbane, the United Kingdom, Sydney and Adelaide. He is a former member of the Australian Space Council and the Australian National Telescope Steering Committee. Mr Heard was the founding president of South Australia's Electronics Industry Association and is today chairman of that Association's Industry Leaders Forum. He is a former director of Amdel Limited. |
| Jim Bettison BA (Hons), DUniv, FAICD<br>Non-Executive Director | 72 | Mr Bettison, one of the founders of the company, was appointed to the board in 1959. Mr Bettison was Chief Executive until 1985. He is a former Senior Deputy Chancellor of the University of Adelaide, member of the Commonwealth Government's Australian Space Board, member of the Divisional Advisory Committee, CSIRO Division of Radiophysics and board member of the Technology Development Corporation (South Australia). |
| Brian Burns AM, FCPA, FCIS, FAICD<br>Non-Executive Director | 65 | Mr Burns was appointed to the board in 1996 (alternate director from 1990). Mr Burns is a former managing director of B Seppelt & Sons Ltd and a former chairman of the South Australian Government owned Institute of Medical and Veterinary Science and of Luminis Pty Ltd, the intellectual property commercialisation company of The University of Adelaide. He is a former director of National Foods Limited, Select Harvests Limited, Cascade Brewery Co. Limited and C-C Bottlers Limited. He has served the accountancy profession as the South Australian president of CPA Australia and as a member of the Auditing Standards Board of the Australian Accounting Research Foundation. |
| Leon Davis AO, ASAIT, DSc(h.c.), FRACI, FAustIMM<br>Independent Non-Executive Director | 65 | Mr Davis was appointed to the board in 2000. He has had a long career in mining, both in Australia and overseas, and has considerable understanding of the requirements for managing a global business. Mr Davis was formerly chief executive of Rio Tinto and became deputy chairman of that company on retirement in April 2000. Rio Tinto has worldwide mining activities principally in Australia, New Zealand, Indonesia, Papua New Guinea, North and South America, Southern Africa and Europe. He joined the board of Westpac Banking Corporation in 1999 and became chairman in December 2000. |

## Directors (continued)

**Peter Griffiths** B.Ec (Hons), CPA, FAICD
Independent Non-Executive Director

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Mr Griffiths was appointed to the board in July 2001, following his retirement as a senior executive of Coca-Cola Amatil Limited. Mr Griffiths has extensive global experience having worked in Central / Eastern Europe and South East Asia for Coca-Cola Amatil Limited. At various times he was company secretary, chief financial officer and managing director of C-C Bottlers Limited and held board positions in Australia, New Zealand and the USA. He is a Certified Practising Accountant and has been president of the South Australian branch of the Financial Executives Institute as well as federal president of the Australian Soft Drink Industry.

**Ian Wall** BE, FSASM, MIE Aust, CPEng
Non-Executive Director

73

Mr Wall, one of the founders of the Company, was appointed to the board in 1959. He has been involved in many of the Company's operations but particularly in product related systems engineering.

**Alastair Wood** BE
Non-Executive Director

73

Mr Wood, one of the founders of the Company, was appointed to the board in 1959. He has been involved in many of the Company's operations but principally in product development engineering. Mr Wood, in addition to his duties as a Director, has been retained by the Company as a consultant on engineering matters.

## Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

| Director | Board Meetings | | Board Audit, Risk and Compliance Committee Meetings | | Remuneration Committee Meetings | | Initial Public Offering Due Diligence Committee Meetings | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| John Uhrig | 14 | 14 | | | 3 | 3 | | |
| Michael Heard | 14 | 14 | | | | | 9 | 9 |
| Jim Bettison | 13 | 14 | | | 3 | 3 | | |
| Brian Burns | 13 | 14 | 4 | 4 | 3 | 3 | 8 | 9 |
| Leon Davis | 12 | 14 | | | | | | |
| Peter Griffiths | 14 | 14 | 4 | 4 | | | 8 | 9 |
| Ian Wall | 13 | 14 | 4 | 4 | | | | |
| Alastair Wood | 13 | 14 | | | | | | |

**A** – Number of meetings attended
**B** – Number of meetings held during the time the director held office during the year

## Corporate governance statement

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

### Board of Directors

*Role of the Board*

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting senior executive and director remuneration, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. The board is currently in the process of developing a formal charter and it is expected that this will be completed by 30 June 2005.

The board has delegated responsibility for operation and administration of the Company to the Managing Director.

*Board processes*

To assist in the execution of its responsibilities, the board has established a number of board committees including a Remuneration Committee, and a Board Audit, Risk and Compliance Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds ten scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director's report, occupational, health and safety report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

*Director education*

The consolidated entity has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

*Independent professional advice and access to Company information*

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field. A copy of the advice received by the director is made available to all other members of the board. The Access, Indemnity and Insurance Deed for each director sets out their rights on these matters.

*Composition of the Board*

The composition of the board is determined using the following principles:

- a broad range of expertise both nationally and internationally;
- a majority of non-executive directors;
- a majority of directors having extensive knowledge of the Company's industries, and those who do not, have extensive expertise in significant aspects of financial management and general management of large companies;
- a non-executive director as Chairman;
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities; and
- subject to re-election every three years (except for the Managing Director).

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than five percent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five percent of the voting shares of the Company;

## Corporate governance statement (continued)

- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another group member;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the Company or another group member other than as a director of the Company; and
- is free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" states that a majority of the board should be independent directors and the chairperson should be an independent director. The company has not complied with these two recommendations. Given the company's transition from a very successful privately owned company to a publicly listed company in November 2003 the board believe the current composition of directors is still appropriate for the company.

The board is regularly addressing succession in order to ensure that its composition going forward is appropriate. Messrs Wall, Wood and Bettison intend to retire at separate times over the oncoming 24 months. Mr Uhrig, who has been Chairman since 1986, has agreed to remain as Chairman until the Company's annual general meeting in 2005. In accordance with governance principles, new and appropriately qualified and independent board members will be introduced over time to enable Codan to achieve its future corporate objectives.

### Board Performance Evaluation

The ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the establishment of a nomination committee. Due to the proposed retirement of a number of directors over oncoming years the role of nomination of proposed directors will be conducted by the full board.

The board is currently reviewing its evaluation processes and reviews as necessary have been conducted by the Chairman.

### Remuneration report

*Remuneration Committee*

The Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. It is also responsible for share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The members of the Remuneration Committee during the year were:

Brian Burns (Chairman) – Non-Executive Director

John Uhrig – Non-Executive Director

Jim Bettison – Non-Executive Director

The Managing Director is invited to Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages.

*Remuneration policies*

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages can include a mix of fixed remuneration and performance-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to effect the broader outcome of increasing the consolidated entity's net profit. The remuneration structures take into account:

- the overall level of remuneration for each director and executive;
- the executives' ability to control the relevant segment/s' performance; and
- the amount of incentives within each executive's remuneration.

Senior executives may receive bonuses based on the achievement of specific performance hurdles. There is no separate profit-share plan. Non-executive directors do not receive any performance related remuneration.

The board considers that the above performance-linked remuneration structure is generating the desired outcome.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2003 AGM, is not to exceed $750,000 per annum. Non-executive directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees.

## Corporate governance statement (continued)

*Directors' and senior executives' remuneration*

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest remuneration are:

| Directors | Base emolument $ | Bonuses $ | Non-cash benefits $ | Super contributions $ | Retirement benefits $ | Total $ |
|---|---|---|---|---|---|---|
| *Non-executive* | | | | | | |
| John Uhrig | 87,200 | | | | | 87,200 |
| Irvine James Bettison | 43,600 | | | | | 43,600 |
| Brian Burns | 50,000 | | | 4,500 | | 54,500 |
| Leon Davis | 40,000 | | | 3,600 | | 43,600 |
| Peter Griffiths | 50,000 | | | 4,500 | | 54,500 |
| Ian Wall | 43,600 | | | | | 43,600 |
| Alastair Wood | 86,771 | | | 2,696 | | 89,467 |
| *Executive* | | | | | | |
| Michael Heard | 471,292 | 296,250 | | 62,654 | | 830,196 |

The director fees for Brian Burns and Peter Griffiths includes an additional amount of $10,000 (plus superannuation) in relation to their participation on the Initial Public Offering Due Diligence Committee.

| Executive officers | Base emolument $ | Bonuses $ | Non-cash benefits $ | Super contributions $ | Retirement benefits $ | Total $ |
|---|---|---|---|---|---|---|
| Alan Gobolos | 195,602 | 114,950 | | 27,323 | | 337,175 |
| Lloyd Groves | 202,237 | | | 17,651 | | 219,888 |
| David Hughes | 187,408 | 143,273 | | 21,912 | | 352,593 |
| Peter Charlesworth | 170,184 | 95,095 | | 15,346 | | 280,625 |
| Donald McGurk | 168,349 | 126,000 | | 16,555 | | 310,904 |

No share options have been issued by the Company.

**Board Audit, Risk and Compliance Committee**

The Board Audit, Risk and Compliance Committee has a documented charter, approved by the board. All members must be non-executive directors. The Chairman may not be the Chairman of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

With the proposed retirement of a number of directors and the resultant appointment of independent non-executive directors new members to the Board Audit, Risk and Compliance Committee will be appointed to ensure the committee consists of a majority of independent non-executive directors.

The members of the Board Audit, Risk and Compliance Committee during the year were:

Peter Griffiths (Chairman) – Independent Non-Executive Director

Brian Burns –Non-Executive Director

Ian Wall – Non-Executive Director

The external auditors, the Managing Director and Chief Finance and Information Officer, are invited to Board Audit, Risk and Compliance Committee meetings at the discretion of the committee.

The responsibilities of the Board Audit, Risk and Compliance Committee, as detailed in its formal charter, include reporting to the board on:

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;

## Corporate governance statement (continued)

- assessing corporate risk assessment processes;
- reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- assessing the need for an internal audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies;
- reviewing the nomination and performance of the external auditor. The external audit engagement partner was last rotated in 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Board Audit, Risk and Compliance Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit plan, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results;
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

### Risk management

Major risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on the price of raw materials and sales, difficulties in sourcing raw materials, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

*Oversight of the risk management system*

The board has in place a number of arrangements and internal controls intended to identify and manage areas of significant business risk. These include the establishment of committees, regular budget, financial and management reporting, established organisational structures, procedures, manuals and policies, external financial and safety audits, insurance programmes and the retention of specialised staff and external advisors.

The Board Audit, Risk and Compliance Committee consider risk in order to ensure risks are identified, assessed and appropriately managed. The committee reports to the board on these matters on an ongoing basis.

*Risk management and compliance and control*

The consolidated entity strives to ensure that its products are of the highest standard. Towards this aim it has certification to AS/NZS ISO 9001 accreditation.

The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities.

Comprehensive practices, have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval;
- financial exposures are controlled, including the use of derivatives.
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel;
- financial reporting accuracy and compliance with the financial reporting regulatory framework; and
- environmental regulation compliance.

## Corporate governance statement (continued)

*Quality and integrity of personnel*
Formal appraisals are conducted at least annually for all senior employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management.

*Financial reporting*
The Managing Director and the Chief Finance and Information Officer have declared, in writing to the board that the Company's financial reports are founded on a sound system of internal compliance and control and risk management practices which implement the policies adopted by the board. This declaration includes stating that the financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

*Environmental regulation*
The consolidated entity's operations are not subject to significant environmental regulation under either Commonwealth or State legislation. However the board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

*Internal audit*
The Board Audit, Risk and Compliance Committee is responsible for determining the need for an internal audit function for the consolidated entity. The committee has at this point determined that an internal audit function is not required. The committee will continue to assess the need for a formal internal audit function in future years.

*Effectiveness of risk management*
The Managing Director and the Chief Finance and Information Officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

### Ethical standards

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.

*Conflict of interest*
Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

*Code of conduct*
The consolidated entity has advised each director, manager and employee that they must comply with the entity's code of conduct. The code of conduct covers the following:

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core Company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- usefulness of financial information by maintaining appropriate accounting policies and practices and disclosure;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of product quality, service standards, commitments to fair value, and safety of goods produced;
- employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- responsibilities to the community, such as environmental protection policies, supporting the community activities and sponsorships and donations;
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- compliance with legislation including policies on legal compliance in countries where the legal systems and protocols are significantly lower than Australia's;
- conflicts of interest;

## Corporate governance statement (continued)

- corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain;
- confidentiality of corporate information;
- fair dealing;
- protection and proper use of the Company's assets;
- compliance with laws; and
- reporting of unethical behaviour.

***Trading in general company securities by directors and employees***
The key elements of the Trading in General Company Securities by Directors and Employees Policy are:

- identification of those restricted from trading – directors and senior executives (all employees from manager upwards) may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
  - except between twenty four hours and four weeks after either the release of the Company's half-year and annual results to the Australian Stock Exchange ("ASX") or the annual general meeting;
  - whilst in possession of price sensitive information not yet released to the market;
- raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares;
- requiring details to be provided of the subsequent confirmation of the trade; and
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

### Communication with shareholders

The board provides shareholders with information in accordance with Continuous Disclosure requirements, which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases.

In summary, the Continuous Disclosure policy operates as follows:

- the Managing Director and the Chief Finance and Information Officer are responsible for interpreting the Company's policy and where necessary informing the board. The Chief Finance and Information Officer is responsible for all communications with the ASX. Such matters are promptly advised to the ASX.
- the annual report is distributed to all shareholders including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. This review was sent to all shareholders. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), is placed on the Company's website after they are released to the ASX.
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website.

All of the above information, including that of the previous three years, is made available on the consolidated entity's website within one day of public release, and is emailed to all shareholders who lodge their email contact details with the Company.

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. The external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

## Principal activities

The principal activities of the consolidated entity during the course of the financial year were the design, development, manufacture and sale of communications equipment, printed circuit boards and electronic equipment for the broadcast industry.

There has not been any significant changes in the nature of the activities of the consolidated entity during the year.

## Review and results of operations

The consolidated financial statements show a consolidated net profit attributable to members of $16.7 million compared with $11.1 million in 2003 and an IPO forecast for the 2004 financial year of $14.1 million.

The consolidated entity's net assets increased by $28.3 million (86%) to $61.3 million over the year partly due to the successful equity raising.

## State of affairs

During the year the consolidated entity listed on the Australian Stock Exchange. There were no other significant changes in the state of affairs of the consolidated entity other than those referred to in the financial statements and notes thereto.

## Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

| Type | Cents per share | Total amount $'000 | Franked | Date of payment |
|---|---|---|---|---|
| • Declared and paid during the year: | | | | |
| – Final 2003 ordinary | 2.9 | 3,981 | 100% | 1 October 2003 |
| – Interim 2004 ordinary | 2.5 | 3,905 | 100% | 1 April 2004 |
| • Declared after the end of the year: | | | | |
| – Final 2004 ordinary | 3.0 | 4,861 | 100% | 1 October 2004 |

All the franked dividends paid or declared by the Company since the end of the previous financial year were franked at 30%.

## Events subsequent to reporting date

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At the date of this report it is not possible to quantify the effect of the convergence to IFRS.

Other than the matters discussed above, 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.

## Likely developments

The consolidated entity will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year.

At the date of this report, there are two developments in the operations of the consolidated entity that are likely to be finalised in the next year. These include:

- The redevelopment and expansion of the Newton manufacturing facility. The factory floor space will increase by 92% and will result in increased manufacturing efficiency, reduced expenses and create manufacturing capacity for future growth.
- A project has commenced for Codan to replace its existing financial information systems. This project will remove duplication in existing systems, streamline processes, increase productivity, reduce risks and provide a suitable IT platform for future growth.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

## Directors' interests

The relevant interest of each director in the shares issued by the Company as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

| | Ordinary shares |
|---|---|
| John Uhrig | 11,389,016 |
| Michael Heard | 4,399,522 |
| Jim Bettison | 20,859,439 |
| Brian Burns | 11,389,016 |
| Leon Davis | 200,000 |
| Peter Griffiths | 110,000 |
| Ian Wall | 34,792,943 |
| Alastair Wood | 46,030,713 |

## Indemnification and insurance of officers and auditors

Indemnification The Company has agreed to indemnify the current directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Access, Indemnity and Insurance Deed agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

## Indemnification and insurance of officers and auditors (continued)

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

### Insurance premiums

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

## Rounding off

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.

This report is made with a resolution of the directors:

J A Uhrig, *Director*

M K Heard, *Director*

Dated at Newton this 20th day of August 2004.

# Statements of financial performance

for the year ended 30 June 2004

CODAN

| | Note | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|---|
| Revenue from sale of goods | 2 | **132,954** | 111,404 | **124,838** | 99,107 |
| Other revenues from ordinary activities | 2 | **4,553** | 1,667 | **825** | 1,591 |
| Total revenue | | **137,507** | 113,071 | **125,663** | 100,698 |
| Cost of goods sold | | **69,440** | 57,144 | **64,713** | 49,916 |
| Administrative expenses | | **8,851** | 9,803 | **9,072** | 10,126 |
| Sales and marketing expenses | | **23,060** | 18,918 | **22,240** | 18,758 |
| Research and engineering expenses | | **6,657** | 6,242 | **6,098** | 5,632 |
| Borrowing costs | 3 | **895** | 1,767 | **860** | 1,713 |
| Share of net loss of associate accounted for using the equity method | 13 | **48** | 12 | **–** | – |
| Other expenses from ordinary activities | | **4,930** | 2,209 | **33** | 118 |
| **Profit from ordinary activities before related income tax expense** | | **23,626** | 16,976 | **22,647** | 14,435 |
| Income tax expense relating to ordinary activities | 8 | **6,948** | 5,914 | **6,283** | 4,439 |
| **Net profit attributable to members of the parent entity** | 25 | **16,678** | 11,062 | **16,364** | 9,996 |
| **Non owner transaction changes in equity** | | | | | |
| Increase in asset revaluation reserve | 24 | **–** | – | **–** | 1,336 |
| Net exchange difference on translation of financial statements of self-sustaining foreign operations | 24 | **(40)** | (56) | **–** | – |
| Total revenues, expenses and valuation adjustments attributable to members of the parent entity recognised directly in equity | | **(40)** | (56) | **–** | 1,336 |
| **Total changes in equity from non-owner related transactions attributable to the members of the parent entity** | | **16,638** | 11,006 | **16,364** | 11,332 |
| Basic earnings per share based on the weighted average number of shares: | 5 | 11.09 cents | | | |
| Basic earnings per share based on the closing number of shares: | | 10.29 cents | | | |
| Net tangible assets per share based on the closing number of shares: | | 18.28 cents | | | |

The statements of financial performance are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 47.

# Statements of financial position

as at 30 June 2004

| | | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | Note | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |
| **CURRENT ASSETS** | | | | | |
| Cash | 9 | **11,140** | 5,772 | **10,121** | 4,287 |
| Receivables | 10 | **14,391** | 14,734 | **14,034** | 14,646 |
| Inventories | 11 | **12,231** | 10,868 | **11,360** | 9,831 |
| Current tax assets | 8 | **6** | 20 | **–** | – |
| Other | 12 | **4,858** | 10,308 | **4,559** | 10,067 |
| **Total current assets** | | **42,626** | 41,702 | **40,074** | 38,831 |
| **NON-CURRENT ASSETS** | | | | | |
| Receivables | 10 | **72** | 74 | **72** | 33 |
| Investments accounted for using the equity method | 13 | **–** | 48 | **–** | – |
| Other financial assets | 14 | **50** | 50 | **33,649** | 33,649 |
| Property, plant and equipment | 15 | **16,589** | 17,349 | **13,611** | 11,466 |
| Research and development | 16 | **12,906** | 10,523 | **12,906** | 10,407 |
| Intangible assets | 17 | **19,457** | 21,339 | **–** | – |
| Deferred tax assets | 8 | **3,406** | 2,963 | **3,316** | 2,623 |
| **Total non-current assets** | | **52,480** | 52,346 | **63,554** | 58,178 |
| **Total assets** | | **95,106** | 94,048 | **103,628** | 97,009 |
| **CURRENT LIABILITIES** | | | | | |
| Payables | 18 | **15,090** | 15,105 | **12,960** | 13,379 |
| Other liabilities | 19 | **3,740** | 9,190 | **3,740** | 9,190 |
| Interest bearing liabilities | 20 | **343** | 5,409 | **9,941** | 9,303 |
| Current tax liabilities | 8 | **3,942** | 2,858 | **3,915** | 2,561 |
| Provisions | 22 | **4,214** | 3,295 | **3,868** | 2,968 |
| **Total current liabilities** | | **27,329** | 35,857 | **34,424** | 37,401 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Interest bearing liabilities | 20 | **309** | 19,096 | **138** | 18,724 |
| Deferred tax liabilities | 8 | **4,108** | 4,081 | **4,108** | 4,014 |
| Provisions | 22 | **2,074** | 2,058 | **1,912** | 1,880 |
| **Total non-current liabilities** | | **6,491** | 25,235 | **6,158** | 24,618 |
| **Total liabilities** | | **33,820** | 61,092 | **40,582** | 62,019 |
| **Net assets** | | **61,286** | 32,956 | **63,046** | 34,990 |
| **EQUITY** | | | | | |
| Contributed equity | 23 | **23,046** | 3,469 | **23,046** | 3,469 |
| Reserves | 24 | **17** | 57 | **1,370** | 1,370 |
| Retained profits | 25 | **38,223** | 29,430 | **38,630** | 30,151 |
| **Total equity** | | **61,286** | 32,956 | **63,046** | 34,990 |

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 47.

# Statements of cash flows

for the year ended 30 June 2004

| | Note | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash receipts in the course of operations | | **134,110** | 119,171 | **126,080** | 103,559 |
| Cash payments in the course of operations | | **(102,066)** | (92,533) | **(88,136)** | (72,800) |
| Interest received | | **269** | 164 | **236** | 129 |
| Interest paid | | **(895)** | (1,767) | **(860)** | (1,713) |
| Income taxes paid | | **(6,298)** | (3,799) | **(6,015)** | (2,279) |
| **Net cash provided by operating activities** | 29(ii) | **25,120** | 21,236 | **31,305** | 26,896 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Payments for controlled entities | | **–** | (4,234) | **–** | (5,337) |
| Payments for investments | | **–** | (50) | **–** | – |
| Proceeds from sale of non-current assets | | **3,825** | 296 | **72** | 267 |
| Payments for capitalised research and development | | **(6,288)** | (3,714) | **(6,288)** | (3,714) |
| Payments for property, plant and equipment | | **(4,885)** | (3,226) | **(4,192)** | (2,748) |
| **Net cash provided by / (used in) investing activities** | | **(7,348)** | (10,928) | **(10,408)** | (11,532) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from borrowings | | **–** | 100 | **–** | – |
| Repayment of borrowings | | **(23,477)** | (3,352) | **(23,275)** | (3,049) |
| Proceeds / (Loans) to / from related companies | | **2** | (59) | **(2,860)** | (6,909) |
| Proceeds from issue of shares | | **18,957** | – | **18,957** | – |
| Share buy-back | | **–** | – | **–** | – |
| Dividends paid | | **(7,885)** | (6,690) | **(7,885)** | (6,690) |
| Dividends paid to outside interests | | **–** | (967) | **–** | – |
| **Net cash provided by / ( used in ) financing activities** | | **(12,403)** | (10,968) | **(15,063)** | (16,648) |
| **Net increase / (decrease) in cash held** | | **5,369** | (660) | **5,834** | (1,284) |
| **Cash at the beginning of the financial year** | | **5,772** | 6,444 | **4,287** | 5,571 |
| Effects of exchange rate changes on the balances of cash held in foreign currencies | | **(1)** | (12) | **–** | – |
| **Cash at the end of the financial year** | 29(i) | **11,140** | 5,772 | **10,121** | 4,287 |

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 47.

## 1. Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

During the year the company listed on the Australian Stock Exchange and as a result some prior year comparatives are not required to be disclosed.

### (b) Principles of consolidation

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates, including those related to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest.

Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

### (c) Revenue recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without cash consideration are not recognised as revenues.

*Sale of goods*
Revenue from the sale of communications equipment is recognised (net of rebates, returns, discounts and other allowances) when control of the goods passes to the customer. Control usually passes when the goods are shipped to the customer.

*Rendering of services*
Revenue from rendering services is recognised in the period in which the service is provided.

*Interest income*
Interest income is recognised as it accrues.

*Sales of non-current assets*
The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs). Any related balance in the asset revaluation reserve is transferred to retained earnings on disposal.

*Research and development grants*
Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been capitalised, the grant is deducted from the carrying amount of the research and development costs capitalised.

*Dividends*
Revenue from dividends and distributions from controlled entities are recognised by the parent entity when they are declared by the controlled entities. Dividends received from pre-acquisition reserves are eliminated against the carrying amount of the investment and are not recognised as revenue.

### (d) Foreign Currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- hedging specific anticipated transactions or net investments in self-sustaining operations.
- relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense / revenue, is transferred to the foreign currency translation reserve on consolidation.
- relating to acquisition of qualifying assets.

### (d) Foreign Currency (continued)

The assets and liabilities of foreign operations that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the foreign operations.

### (e) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedge amounts on borrowings.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the borrowing costs on the specific borrowing are capitalised. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

### (f) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, are carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt or if relating to tax losses when realisation is virtually certain.

*Tax consolidation*

The Company is the head entity in the tax consolidated group comprising all the Australian wholly owned subsidiaries. During the year the Company determined that the implementation date for the tax consolidated group was as of 1 July 2002. The head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group.

The tax consolidated group has determined that subsidiaries will make contributions to the head entity for the current tax liabilities and deferred tax balances of the subsidiary as if the subsidiary prepared its tax calculation on a stand alone basis.

### (g) Goods and services tax

Revenues, 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 Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or is expensed.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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 recovered from, or payable to, the ATO are classified as operating cash flows.

### (h) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

### (i) Receivables

Trade Debtors are to be settled within agreed trading terms, typically less than 60 days, are carried at amounts due. The collectibility of debts is assessed at reporting date and a provision is made for any doubtful accounts.

### (j) Inventories

Raw materials and stores, work in progress and finished goods are carried at the lower of cost and net realisable value. In the case of manufactured inventories and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventories to their present location and condition.

### (k) Investments

*Controlled Entities*

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the statements of financial performance when they are proposed by the controlled entities.

### (k) Investments (continued)

*Associates*

An associate is an entity, other than a partnership, over which the consolidated entity exercises significant influence and where the investment in that entity has not been acquired with a view to disposal in the near future. In the Company's financial statements investments in associates are carried at the lower of cost and recoverable amount. In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount.

### (l) Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred and amortised on a straight line basis over the period (not exceeding five years) in which the benefits are expected to be realised.

### (m) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Goodwill is amortised over the period of time during which benefits are expected to arise, not exceeding 20 years.

The unamortised balance of goodwill is reviewed at least each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.

### (n) Acquisitions of assets

All assets acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amount payable is recorded at its present value, discounted at the incremental borrowing rate of the consolidated entity.

The costs of assets constructed by the consolidated entity include the cost of materials, direct labour and directly attributable overheads. Expenditure is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably.

### (o) Recoverable amount of non-current assets valued on a cost basis

The carrying amounts of all non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash flows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts of non-current assets the relevant cash flows have been discounted to their present value.

### (p) Revaluations of non-current assets

The consolidated entity has continued to adopt the cost basis for all classes of assets, except for land and buildings which are valued at the fair value basis. Land and buildings are revalued with sufficient regularity to ensure the carrying amount of each asset does not differ materially from fair value at reporting date. Revaluation increments, on a class of asset basis, are recognised in the asset revaluation reserve except that amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

The potential capital gains tax is only taken into account if the asset is held ready for sale.

### (q) Depreciation

Depreciation is provided on property, plant and equipment using both the straight line and diminishing value methods based on the estimated useful life of the assets. Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except to the extent that it is included in the carrying amount of another asset as an allocation of factory overheads.

The depreciation rates used for each class of asset are as follows:

| | |
|---|---|
| Buildings | 4% Straight line |
| Leasehold improvements | 4% Straight line |
| Plant and equipment | 13% to 40% Straight line |

### (r) Leased Assets

Leases of plant and equipment under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised leased assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed.

Payments made under operating leases are expensed in equal instalments over the accounting periods covered by the lease term.

### (s) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

### (t) Interest bearing liabilities

Bank Loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Other creditors and accruals".

### (u) Employee benefits

*Wages, salaries and annual leave*
Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration rates that the consolidated entity expects to pay as at the 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.

*Long service leave*
The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows resulting from the employees' services provided to reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

*Superannuation*
The consolidated entity contributes to defined contribution superannuation plans, contributions are expensed as incurred.

### (v) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amounts of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision, is presented net of the recovery. In the statement of financial position, the provision is recognised net of the recovery receivable only when the entity:

- has a legally recognised right to set off the recovery receivable and the provision, and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously

*Dividends*
A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

*Restructuring and employee termination benefits*
A provision for restructuring, including employee termination benefits, related to an acquired entity or operation is recognised at the date of acquisition where:

- the main features of the restructuring were announced, implementation of the restructuring commenced, or contracts were entered into by the date of acquisition; or
- a detailed formal plan is developed by the earlier of three months after the date of acquisition and the completion of this financial report.

**(v) Provisions (continued)**
The provision only relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired.

Other provisions for restructuring costs (including termination benefits) are only recognised when a detailed plan has been approved and the restructuring has either commenced, been publicly announced, or firm contracts related to the restructuring have been entered into. Costs related to ongoing activities are not provided for. The liabilities for termination benefits that will be paid as a result of restructuring will be included in the provision for employee benefits.

*Warranty*
Provision is made for the consolidated entity's estimated liability on all products still under warranty and includes claims already received. The estimate is based on the consolidated entity's warranty cost experience over previous years.

**(w) Foreign exchange hedges**

*Anticipated transactions*
Transactions are designated as a hedge of the anticipated specific purchase or sale of goods only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward exchange contracts and the associated deferred gains and losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised the net receivables or payables are revalued using the foreign currency current at reporting date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains and losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge are included in the statement of financial performance for the period.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the statement of financial performance.

*Other hedges*
All other hedge transactions are initially recorded at the relevant rate at the date of the transaction. Hedges outstanding at reporting date are valued at the rates ruling on that date and any gains or losses are brought to account in the statement of financial performance. Costs or gains at the time of entering into the hedge are deferred and amortised over the life of the hedge.

**(x) Use and revision of accounting estimates**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period the estimate is revised.

CODAN

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |

## 2. REVENUE FROM ORDINARY ACTIVITIES

| | | | | |
|---|---|---|---|---|
| **Revenue from sale of goods** | | | | |
| Sales of goods revenue from operating activities | **132,954** | 111,404 | **124,838** | 99,107 |
| **Other revenues** | | | | |
| *From operating activities:* | | | | |
| Interest received | **269** | 164 | **236** | 129 |
| Other items | **58** | 272 | **42** | 239 |
| Net foreign exchange gain | **375** | 856 | **375** | 856 |
| Rental income | **26** | 79 | **100** | 100 |
| Dividends received from controlled entity | **–** | – | **–** | – |
| *From outside operating activities:* | | | | |
| Proceeds from sale of non-current assets | **3,825** | 296 | **72** | 267 |
| Total other revenues | **4,553** | 1,667 | **825** | 1,591 |
| Total revenue from ordinary activities | **137,507** | 113,071 | **125,663** | 100,698 |

## 3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

| | | | | |
|---|---|---|---|---|
| **(a) Individually significant expenses/(revenues) included in profit from ordinary activities before income tax expense** | | | | |
| Proceeds on sale of surplus property in Brisbane | **(3,750)** | – | **–** | – |
| Selling expenses | **98** | – | **–** | – |
| Carrying value of property and related assets | **3,002** | – | **–** | – |
| Net gain on disposal | **(650)** | – | **–** | – |
| **(b) Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:** | | | | |
| *Depreciation of:* | | | | |
| Buildings | **162** | 260 | **162** | 161 |
| Leasehold property | **19** | 13 | **10** | 5 |
| Plant and equipment | **2,409** | 2,838 | **1,846** | 1,894 |
| | **2,590** | 3,111 | **2,018** | 2,060 |
| *Amortisation of:* | | | | |
| Research and development costs | **3,905** | 3,620 | **3,788** | 3,341 |
| Goodwill | **1,617** | 1,352 | **–** | – |
| | **5,522** | 4,972 | **3,788** | 3,341 |
| Total depreciation and amortisation | **8,112** | 8,083 | **5,806** | 5,401 |
| *Borrowing costs:* | | | | |
| Related parties | **57** | 256 | **57** | 256 |
| Loans and overdrafts | **838** | 1,511 | **803** | 1,457 |
| Total borrowing costs | **895** | 1,767 | **860** | 1,713 |
| Bad debts written off / (recovered) | **(17)** | 295 | **(33)** | 293 |
| Provided for doubtful debts | **375** | 55 | **311** | 50 |
| Provided for long service leave | **430** | 370 | **398** | 325 |
| Provided for annual leave | **1,562** | 1,232 | **1,414** | 1,084 |
| Devaluation of asset class | **–** | 714 | **–** | – |
| Write down of goodwill | **265** | – | **–** | – |
| Operating lease rental expense | **580** | 522 | **170** | 110 |
| (Profit) or loss on sale of property, plant and equipment | **(792)** | (147) | **(42)** | (147) |

| | Notes | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|---|
| **4. AUDITORS' REMUNERATION** | | | | | |
| **Audit services:** | | | | | |
| KPMG Australia – audit and review of financial reports | | **99** | 89 | **99** | 89 |
| Overseas KPMG firms – audit of financial reports | | **12** | 16 | **–** | – |
| **Other services:** | | | | | |
| KPMG Australia – taxation services | | **109** | 80 | **109** | 80 |
| Overseas KPMG firms – taxation services | | **44** | 49 | **–** | 32 |
| KPMG related practices – due diligence services | | **100** | – | **100** | – |
| | | **364** | 234 | **308** | 201 |

## 5. EARNINGS PER SHARE

| | |
|---|---|
| Net profit used for the purpose of calculating basic earnings per share | **16,678** |

The weighted average number of shares used as the denominator number for basic earnings per share was 150,383,517.

There are no dilutive potential ordinary shares, therefore diluted EPS has not been calculated or disclosed.

## 6. DIVIDENDS

| | Notes | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|---|
| (i) an ordinary interim dividend of 2.5 cents per share, franked to 100% with 30% franking credits, was paid on 30 September 2002 | 23 | **–** | 3,472 | **–** | 3,472 |
| (ii) an ordinary interim dividend of 2.3 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2003 | 23 | **–** | 3,218 | **–** | 3,218 |
| (iii) an ordinary final dividend of 2.9 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2003 | 23 | **3,981** | – | **3,981** | – |
| (iv) an ordinary interim dividend of 2.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2004 | | **3,904** | – | **3,904** | – |
| | | **7,885** | 6,690 | **7,885** | 6,690 |

**Subsequent Events**

| | | | | |
|---|---|---|---|---|
| Since the end of the financial year, the directors declared an ordinary final dividend of 3.0 cents per share, franked to 100% with 30% franking credits to be paid on 1 October 2004 | **4,861** | – | **4,861** | – |

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2004 and will be recognised in subsequent financial reports.

| | Notes | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|---|

## 6. DIVIDENDS (continued)

### Dividend Franking Account

| | | | | | |
|---|---|---|---|---|---|
| Franking credits available to shareholders for subsequent financial years (30%) | | | | **7,963** | 2,389 |

The franking credits available are based on the balance of the dividend franking account at year end adjusted for the franking credits that will arise from the payment of the current tax liability. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

During the year Codan Limited and its wholly owned subsidiaries adopted the Tax Consolidation legislation as of 1 July 2002 which requires a tax consolidated group to keep a single franking account. The amount of franking credits available to shareholders disclosed at 30 June 2004 has been measured under the new legislation. The comparative information has not been restated, had the comparative been calculated on the tax consolidation basis the franking credits balance as at 30 June 2003 would have been $4,135,256.

## 7. SEGMENT ACTIVITIES

The consolidated entity operates predominantly in Australia, and more than 90% of revenue, operating profit and segment assets related to operations in Australia. However, over 85% of the consolidated entity's sales are exported.

Segment results, assets and liabilities include items directly attributed to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of interest bearing loans, borrowing and expenses and corporate assets and expenses.

### Business Segments

The consolidated entity comprises of two business segments based on the management reporting system. The Communications Equipment segment includes the design, development, manufacture and marketing of communications equipment. The other business segment includes the design, manufacture and marketing of printed circuit boards and the manufacture of electronic equipment for the broadcast industry.

### Geographical segments

In presenting information on the basis of geographical segments, segment revenue has been based on the geographic location of the customers, however the final location of the products use is often unknown. Segment assets are based on the geographic location of the assets. The consolidated entity has its manufacturing and corporate offices in Australia with overseas representation offices in the United States of America and England.

## 7. SEGMENT REPORTING (continued)

| Business segments | Communications 2004 $000 | Communications 2003 $000 | Other 2004 $000 | Other 2003 $000 | Eliminations 2004 $000 | Eliminations 2003 $000 | Consolidated 2004 $000 | Consolidated 2003 $000 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| External segment revenue | **126,878** | 103,206 | **6,261** | 8,323 | **–** | – | **133,139** | 111,529 |
| Inter segment revenue | **–** | – | **2,140** | 1,681 | **(2,140)** | (1,681) | **–** | – |
| Total segment revenue | **126,878** | 103,206 | **8,401** | 10,004 | **(2,140)** | (1,681) | **133,139** | 111,529 |
| Other unallocated revenue | | | | | | | **4,368** | 1,542 |
| Total revenue | | | | | | | **137,507** | 113,071 |
| **Result** | | | | | | | | |
| Segment result | **30,512** | 22,940 | **(254)** | 1,674 | **(61)** | (641) | **30,197** | 23,973 |
| Share of associates net loss | | | | | | | **(48)** | (12) |
| Unallocated corporate expenses | | | | | | | **(6,523)** | (6,985) |
| Profit from ordinary activities | | | | | | | **23,626** | 16,976 |
| Income tax expense | | | | | | | **(6,948)** | (5,914) |
| Net Profit | | | | | | | **16,678** | 11,062 |
| **Non Cash Items** | | | | | | | | |
| Depreciation and amortisation | **7,313** | 7,517 | **799** | 566 | **–** | – | **8,112** | 8,083 |
| Write down of goodwill | **–** | – | **265** | – | **–** | – | **265** | – |
| **Assets** | | | | | | | | |
| Segment assets | **67,747** | 66,388 | **7,897** | 8,562 | **–** | – | **75,644** | 74,950 |
| Investments | | | | | | | **50** | 98 |
| Unallocated corporate assets | | | | | | | **19,412** | 19,000 |
| Consolidated total assets | | | | | | | **95,106** | 94,048 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | **20,362** | 19,356 | **1,014** | 1,148 | **–** | – | **21,376** | 20,504 |
| Unallocated corporate liabilities | | | | | | | **12,444** | 40,588 |
| Consolidated total liabilities | | | | | | | **33,820** | 61,092 |

| Geographical segments | Europe 2004 $000 | Europe 2003 $000 | North America 2004 $000 | North America 2003 $000 | Asia 2004 $000 | Asia 2003 $000 | Australia / Oceania 2004 $000 | Australia / Oceania 2003 $000 | Africa 2004 $000 | Africa 2003 $000 | Other 2004 $000 | Other 2003 $000 | Consolidated 2004 $000 | Consolidated 2003 $000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| External segment revenue by location of customers | **57,339** | 45,233 | **30,180** | 16,343 | **13,012** | 15,771 | **17,890** | 20,315 | **14,832** | 13,994 | **4,254** | 1,415 | **137,507** | 113,071 |
| Segment assets by location of assets | **1,733** | 1,257 | **974** | 807 | **–** | – | **92,399** | 91,984 | **–** | – | **–** | – | **95,106** | 94,048 |
| Acquisitions of non current assets | **130** | 43 | **106** | 23 | **–** | – | **10,937** | 6,874 | **–** | – | **–** | – | **11,173** | 6,940 |

CODAN

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 8. INCOME TAX

### (a) Income tax expense

| | | | | |
|---|---|---|---|---|
| The prima facie income tax expense calculated at 30% on the profit from ordinary activities | **7,087** | 5,093 | **6,794** | 4,330 |
| Less: Tax effect of permanent differences | | | | |
| Additional deduction for research and development expenditure | **583** | 349 | **583** | 349 |
| Over provision for Australian taxation in previous years | **37** | 220 | **37** | 217 |
| Devaluation of land and buildings | **–** | (214) | **–** | – |
| Share of associates profit | **(14)** | (4) | **–** | – |
| Profit on sale of property not assessable | **225** | – | **–** | – |
| Sundry Items | **93** | 38 | **128** | 38 |
| | **6,163** | 4,704 | **6,046** | 3,726 |
| Add: Tax effect of permanent differences | | | | |
| Amortisation of goodwill | **485** | 406 | **–** | – |
| Write down of goodwill | **80** | – | **–** | – |
| Non-deductible expenses | **81** | 22 | **76** | 21 |
| Depreciation | **48** | 50 | **48** | 50 |
| Under provision for foreign taxation in previous years | **–** | 642 | **–** | 642 |
| Sundry Items | **91** | 90 | **113** | – |
| Income tax expense | **6,948** | 5,914 | **6,283** | 4,439 |

**Income tax expense is made up of:**

| | | | | |
|---|---|---|---|---|
| Current income tax payable | **7,371** | 5,475 | **6,685** | 4,268 |
| Deferred income tax provision | **(3)** | 421 | **15** | 526 |
| Future income tax benefit | **(420)** | 18 | **(417)** | (355) |
| | **6,948** | 5,914 | **6,283** | 4,439 |

### (b) Current tax liabilities / asset

| | | | | |
|---|---|---|---|---|
| Balance at the beginning of the year | **(2,838)** | (828) | **(2,561)** | (572) |
| Net foreign currency differences on translation of foreign entities | **(25)** | – | **–** | – |
| Tax payable transferred by entities in the tax consolidated group | **–** | – | **(162)** | – |
| Income tax paid / (received) | **6,298** | 3,799 | **6,015** | 2,279 |
| Income tax expense of entities in the tax consolidated group | **–** | – | **(522)** | – |
| Current years income tax expense on operating profit | **(7,371)** | (5,809) | **(6,685)** | (4,268) |
| | **(3,936)** | (2,838) | **(3,915)** | (2,561) |

**Disclosed in statement of financial position as:**

| | | | | |
|---|---|---|---|---|
| Income tax receivable | **6** | 20 | **–** | – |
| Income tax payable | **(3,942)** | (2,858) | **(3,915)** | (2,561) |
| | **(3,936)** | (2,838) | **(3,915)** | (2,561) |

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| **8. INCOME TAX (continued)** | | | | |
| **(c) Deferred tax liabilities** | | | | |
| Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items: | | | | |
| Difference in depreciation of property, plant and equipment | **7** | 19 | **7** | 20 |
| Expenditure currently tax deductible but deferred and amortised for accounting | **3,912** | 3,221 | **3,912** | 3,153 |
| Sundry items | **189** | 841 | **189** | 841 |
| | **4,108** | 4,081 | **4,108** | 4,014 |
| **(d) Deferred tax assets** | | | | |
| Future income tax benefit comprises the estimated benefit at the applicable rate of 30% on the following items: | | | | |
| Difference in depreciation of property, plant and equipment | **28** | 59 | **28** | – |
| Provisions for employee benefits not currently deductible | **1,190** | 1,161 | **1,158** | 1,017 |
| Provisions and accruals not currently deductible | **2,083** | 1,347 | **2,083** | 1,250 |
| Sundry items | **105** | 396 | **47** | 356 |
| | **3,406** | 2,963 | **3,316** | 2,623 |

**(e) Tax consolidation**

As a consequence of the enactment of the Tax Consolidation legislation the Company, as the head entity in a tax consolidated group, implementing tax consolidation from 1 July 2002, the head entity has applied UIG 52 Income Tax Accounting under the Tax Consolidation System.

No assets of the consolidated assets have had their tax value reset under tax consolidation.

In the Company, the effect of implementing tax consolidation and of applying UIG 52 was an increase in deferred tax assets of $301,292, an increase in deferred tax liabilities of $66,653, an increase in current tax payable of $162,455 and a corresponding increase in intercompany payables of $72,184.

There has been no impact on the consolidated entity as a result of the Tax Consolidation legislation.

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| **9. CASH** | | | | |
| Petty cash | **5** | 6 | **4** | 4 |
| Cash at bank | **6,135** | 3,766 | **5,117** | 2,283 |
| Short term deposit | **5,000** | 2,000 | **5,000** | 2,000 |
| | **11,140** | 5,772 | **10,121** | 4,287 |
| **10. RECEIVABLES** | | | | |
| **Current** | | | | |
| Trade debtors | **14,468** | 15,068 | **13,262** | 13,962 |
| Less: | | | | |
| Provision for doubtful trade debtors | **(743)** | (368) | **(640)** | (329) |
| | **13,725** | 14,700 | **12,622** | 13,633 |
| Other debtors | **666** | 34 | **622** | 5 |
| Loans to controlled entities | **–** | – | **790** | 1,008 |
| | **14,391** | 14,734 | **14,034** | 14,646 |
| **Non-Current** | | | | |
| Loans to associated companies | **72** | 74 | **72** | 33 |

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |
| **11. INVENTORIES** | | | | |
| **Current** | | | | |
| Raw materials | **8,308** | 8,175 | **7,739** | 7,389 |
| Work in progress | **1,672** | 1,484 | **1,370** | 1,233 |
| Finished goods | **2,251** | 1,209 | **2,251** | 1,209 |
| | **12,231** | 10,868 | **11,360** | 9,831 |
| **12. OTHER ASSETS** | | | | |
| Prepayments | **740** | 706 | **545** | 551 |
| Deferred foreign currency hedge exchange difference and costs | **3,740** | 9,190 | **3,740** | 9,190 |
| Other | **378** | 412 | **274** | 326 |
| | **4,858** | 10,308 | **4,559** | 10,067 |
| **13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD** | | | | |
| Shares in Associates | **–** | 48 | **–** | – |
| Codan Limited holds a 50% interest in PCB Contracting Services Pty Ltd. This business ceased operations during the year ended 30 June 2004. | | | | |
| **Results of Associates** | | | | |
| Share of associates operating loss before income tax | **(48)** | (18) | | |
| Share of associates income tax benefit | **–** | (6) | | |
| Share of associates net loss – equity accounted | **(48)** | (12) | | |
| **Movements in carrying amount of investments** | | | | |
| Carrying amount of investment in associate at the beginning of the financial year | **48** | 60 | | |
| Share of associates net loss | **(48)** | (12) | | |
| Carrying amount of investment in associate at the end of the financial year | **–** | 48 | | |
| **14. OTHER FINANCIAL ASSETS** | | | | |
| Shares in controlled entities at cost | **–** | – | **33,649** | 33,649 |
| Unlisted shares at cost | **50** | 50 | **–** | – |
| | **50** | 50 | **33,649** | 33,649 |

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |
| **15. PROPERTY, PLANT AND EQUIPMENT** | | | | |
| Freehold land and buildings at cost | **–** | – | **–** | – |
| Freehold land and buildings at fair value | **4,454** | 7,517 | **4,454** | 4,616 |
| | **4,454** | 7,517 | **4,454** | 4,616 |
| Leasehold property at cost | **523** | 351 | **259** | 147 |
| Accumulated amortisation | **(108)** | (89) | **(36)** | (26) |
| | **415** | 262 | **223** | 121 |
| Plant and equipment at cost | **33,273** | 32,306 | **21,404** | 18,949 |
| Accumulated depreciation | **(22,290)** | (23,426) | **(13,187)** | (12,774) |
| | **10,983** | 8,880 | **8,217** | 6,175 |
| Capital work in progress at cost | **737** | 690 | **717** | 554 |
| Total property, plant and equipment | **16,589** | 17,349 | **13,611** | 11,466 |
| **(i) Reconciliations** | | | | |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: | | | | |
| *Freehold land and buildings* | | | | |
| Carrying amount at beginning of year | **7,517** | 8,467 | **4,616** | 3,417 |
| Additions | **–** | 24 | **–** | 24 |
| Revaluations | **–** | (714) | **–** | 1,336 |
| Transfer from capital work in progress | **–** | – | **–** | – |
| Disposals | **(2,901)** | – | **–** | – |
| Depreciation | **(162)** | (260) | **(162)** | (161) |
| Carrying amount at end of year | **4,454** | 7,517 | **4,454** | 4,616 |
| *Leasehold property improvements* | | | | |
| Carrying amount at beginning of year | **262** | 241 | **121** | 95 |
| Additions | **172** | 38 | **112** | 35 |
| Disposals | **–** | (4) | **–** | (4) |
| Depreciation | **(19)** | (13) | **(10)** | (5) |
| Carrying amount at end of year | **415** | 262 | **223** | 121 |
| *Plant and equipment* | | | | |
| Carrying amount at beginning of year | **8,880** | 9,310 | **6,175** | 5,858 |
| Additions | **3,452** | 2,133 | **2,847** | 1,955 |
| Acquisitions through entity acquired | **–** | 43 | **–** | – |
| Transfer from capital work in progress | **1,214** | 431 | **1,070** | 371 |
| Disposals | **(126)** | (145) | **(29)** | (115) |
| Depreciation and amortisation | **(2,409)** | (2,838) | **(1,846)** | (1,894) |
| Net foreign currency differences on translation of foreign entities | **(28)** | (54) | **–** | – |
| Provision for asset write off | **–** | – | **–** | – |
| Carrying amount at end of year | **10,983** | 8,880 | **8,217** | 6,175 |

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

### (i) Reconciliations (continued)

| | | | | |
|---|---|---|---|---|
| *Capital work in progress at cost* | | | | |
| Carrying amount at beginning of year | **690** | 90 | **554** | 86 |
| Additions | **1,261** | 1,031 | **1,233** | 839 |
| Disposals | **–** | – | **–** | – |
| Transfers to property, plant and equipment | **(1,214)** | (431) | **(1,070)** | (371) |
| Carrying amount at end of year | **737** | 690 | **717** | 554 |
| Total carrying amount at end of year | **16,589** | 17,349 | **13,611** | 11,466 |

### (ii) Valuation of land and buildings

Freehold land and buildings are measured on a fair value basis, being the amount of which the assets could be exchanged between knowledgeable and willing parties in an arm's-length transaction having regard to the best use of the asset.

The directors have considered the fair value of land and buildings based on an independent valuation conducted in June 2004.

## 16. RESEARCH AND DEVELOPMENT

| | | | | |
|---|---|---|---|---|
| Expenditure brought forward – at cost | **17,610** | 13,896 | **16,217** | 12,503 |
| Deferred in current period – at cost | **6,288** | 3,714 | **6,288** | 3,714 |
| | **23,898** | 17,610 | **22,505** | 16,217 |
| Accumulated amortisation | **(10,992)** | (7,087) | **(9,599)** | (5,810) |
| | **12,906** | 10,523 | **12,906** | 10,407 |

## 17. INTANGIBLES

| | | | | |
|---|---|---|---|---|
| Goodwill – at cost | **27,043** | 27,043 | **–** | – |
| Accumulated amortisation | **(7,321)** | (5,704) | **–** | – |
| Write down to recoverable amount | **(265)** | – | **–** | – |
| | **19,457** | 21,339 | **–** | – |

## 18. PAYABLES

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Trade creditors | **7,001** | 8,027 | **6,444** | 7,464 |
| Other creditors and accruals | **8,089** | 7,078 | **6,516** | 5,915 |
| | **15,090** | 15,105 | **12,960** | 13,379 |

## 19. OTHER LIABILITIES

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Net foreign currency hedge payable | **3,740** | 9,190 | **3,740** | 9,190 |
| | **3,740** | 9,190 | **3,740** | 9,190 |

## 20. INTEREST BEARING LIABILITIES

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Bank overdrafts | **–** | – | **–** | – |
| Secured loans | **343** | 409 | **143** | 205 |
| Commercial bills | **–** | 1,000 | **–** | 1,000 |
| Unsecured loans | **–** | 4,000 | **–** | 4,000 |
| Loans from controlled entities | **–** | – | **9,798** | 4,098 |
| | **343** | 5,409 | **9,941** | 9,303 |

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| **20. INTEREST BEARING LIABILITIES (continued)** | | | | |
| **Non-Current** | | | | |
| Secured loans | **299** | 643 | **138** | 281 |
| Commercial bills | **–** | 18,443 | **–** | 18,443 |
| Unsecured loans | **10** | 10 | **–** | – |
| Loans from controlled entities | **–** | – | **–** | – |
| | **309** | 19,096 | **138** | 18,724 |
| **21. FINANCING ARRANGEMENTS** | | | | |
| The consolidated entity has access to the following lines of credit: | | | | |
| Total facilities available at balance date: | | | | |
| Bank overdraft | **2,622** | 2,622 | **2,622** | 2,622 |
| Commercial bill and Cash Advance | **34,000** | 24,000 | **34,000** | 24,000 |
| Foreign currency commercial bill | **–** | 4,443 | **–** | 4,443 |
| Documentary letters of credit | **562** | 562 | **562** | 562 |
| Equipment finance facility | **1,200** | 3,177 | **1,200** | 1,200 |
| Forward exchange dealing limits | **13,000** | 13,000 | **13,000** | 13,000 |
| Guarantee facility | **1,230** | 1,230 | **1,230** | 1,230 |
| Commercial credit card | **115** | 135 | **115** | 115 |
| | **52,729** | 49,169 | **52,729** | 47,172 |
| **Facilities utilised at balance date:** | | | | |
| Bank overdraft | **–** | – | **–** | – |
| Commercial bill | **–** | 15,000 | **–** | 15,000 |
| Foreign currency commercial bill | **–** | 4,443 | **–** | 4,443 |
| Documentary letters of credit | **187** | 263 | **187** | 263 |
| Equipment finance facility | **642** | 1,052 | **642** | 486 |
| Forward exchange dealing limits | **3,960** | 4,702 | **3,960** | 4,702 |
| Guarantee facility | **743** | 735 | **743** | 735 |
| Commercial credit card | **–** | – | **–** | – |
| | **5,532** | 26,195 | **5,532** | 25,629 |
| **Facilities not utilised at balance date:** | | | | |
| Bank overdraft | **2,622** | 2,622 | **2,622** | 2,622 |
| Commercial bill | **34,000** | 9,000 | **34,000** | 9,000 |
| Foreign currency commercial bill | **–** | – | **–** | – |
| Documentary letters of credit | **375** | 299 | **375** | 299 |
| Equipment finance facility | **558** | 2,125 | **558** | 714 |
| Forward exchange dealing limits | **9,040** | 8,298 | **9,040** | 8,298 |
| Guarantee facility | **487** | 495 | **487** | 495 |
| Commercial credit card | **115** | 135 | **115** | 115 |
| | **47,197** | 22,974 | **47,197** | 21,543 |

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **$'000** | $'000 | **$'000** | $'000 |

## 21. FINANCING ARRANGEMENTS (continued)

### Bank Facilities

The equipment finance facility is secured by an unregistered charge over the plant and equipment acquired through that facility. The guarantee facility, equipment finance facility and all other lines of credit, are secured by a registered equitable mortgage over the whole of the Company's assets and undertakings including uncalled capital.

The borrowings are supported by interlocking guarantees between Codan Limited and its subsidiaries. All facilities are offered subject to certain financial covenants and an annual review.

| **Weighted Average Interest rates** | | | | |
|---|---|---|---|---|
| Cash at bank | **4.25%** | 3.75% | **4.25%** | 3.75% |
| Short term deposits | **5.10%** | 3.33% | **5.10%** | 3.33% |
| Bank overdraft | **8.50%** | 8.50% | **8.50%** | 8.50% |
| Commercial bill | **5.30%** | 4.99% | **5.30%** | 4.99% |
| Equipment finance facility | **7.39%** | 7.39% | **7.39%** | 7.38% |
| Commercial credit card | **15.90%** | 15.90% | **15.90%** | 15.90% |

## 22. PROVISIONS

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Employee benefits | **1,859** | 1,721 | **1,613** | 1,494 |
| Warranty repairs | **2,355** | 1,574 | **2,255** | 1,474 |
| | **4,214** | 3,295 | **3,868** | 2,968 |
| **Non-Current** | | | | |
| Employee benefits | **2,074** | 2,058 | **1,912** | 1,880 |

| **Reconciliation of warranty provision** | | | | |
|---|---|---|---|---|
| Carrying amount at beginning of year | **1,574** | 1,367 | **1,474** | 650 |
| Provisions made during the year | **2,193** | 1,526 | **2,193** | 2,143 |
| Payments made during the year | **(1,412)** | (1,319) | **(1,412)** | (1,319) |
| | **2,355** | 1,574 | **2,255** | 1,474 |

## 23. CONTRIBUTED EQUITY

| **Share capital** | | | | |
|---|---|---|---|---|
| 162,045,454 (2003: 137,997,607) ordinary shares fully paid | **23,046** | 3,468 | **23,046** | 3,468 |
| Nil (2003: 5,866,029) partly paid ordinary shares | **–** | 1 | **–** | 1 |
| | **23,046** | 3,469 | **23,046** | 3,469 |

| **Movements in ordinary share capital during the year** | | | | |
|---|---|---|---|---|
| Balance at the beginning of the financial year | **3,469** | 3,469 | **3,469** | 3,469 |
| Shares issued for cash pursuant to a prospectus | **19,415** | – | **19,415** | – |
| Shares issued under the Codan Employee Share Plan | **565** | – | **565** | – |
| Transaction costs incurred on shares issued under the prospectus | **(2,130)** | – | **(2,130)** | – |
| Call on partly paid shares under the Codan Executive Share Plan | **1,727** | – | **1,727** | – |
| | **23,046** | 3,469 | **23,046** | 3,469 |

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|

## 23. CONTRIBUTED EQUITY (continued)

Effective 27 November 2003 all issued shares of Codan Limited were subdivided into 48.88 shares rounded to the nearest whole number. All comparative share numbers and other information impacted by the number of issued shares have been restated for this subdivision to ensure comparability.

On 27 November 2003 Codan Limited made a cash issue of 17,650,518 ordinary shares at a price of $1.10 per share. Under the Codan Employee Share Plan 354,300 shares were issued at a cash price of $1.045 per share and 177,000 shares were issued at a price of $1.10 with interest free loan terms (refer to Note 31 for further information).

On 16 March 2004 Codan Limited made a call on 5,866,029 partly paid shares that were issued to the Codan Executive Share Plan. The shares are now fully paid.

### Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds on liquidation.

## 24. RESERVES

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| Asset revaluation | **34** | 34 | **1,370** | 1,370 |
| Foreign currency translation | **(17)** | 23 | **–** | – |
| | **17** | 57 | **1,370** | 1,370 |

### Asset revaluation reserve

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets measured at fair value in accordance with AASB 1041.

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| Balance at beginning of year | **34** | 58 | **1,370** | 58 |
| Revaluation of land and buildings | **–** | – | **–** | 1,336 |
| Transfer to retained profits | **–** | (24) | **–** | (24) |
| Balance at end of year | **34** | 34 | **1,370** | 1,370 |

### Foreign currency translation

The foreign currency translation reserve records the foreign currency differences arising from the translation of self sustaining foreign operations.

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| Balance at beginning of year | **23** | 79 | **–** | – |
| Net translation adjustment | **(40)** | (56) | **–** | – |
| Balance at end of year | **(17)** | 23 | **–** | – |

## 25. RETAINED PROFITS

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| Retained profits at beginning of year | **29,430** | 25,034 | **30,151** | 26,821 |
| Transfers from reserves | **–** | 24 | **–** | 24 |
| Net profit attributable to members of the parent entity | **16,678** | 11,062 | **16,364** | 9,996 |
| Dividends recognised during the year | **(7,885)** | (6,690) | **(7,885)** | (6,690) |
| Retained profits at end of year | **38,223** | 29,430 | **38,630** | 30,151 |

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |

## 26. COMMITMENTS

### (i) Capital expenditure commitments

| | | | | |
|---|---|---|---|---|
| The aggregate amount of contracts for capital expenditure on plant and equipment | **342** | 556 | **329** | 489 |

### (ii) Non-cancellable operating lease expense commitments

| | | | | |
|---|---|---|---|---|
| Future operating lease commitments not provided for in the financial statements which are payable: | | | | |
| Within one year | **572** | 522 | **144** | 110 |
| One year or later and no later than five years | **1,131** | 229 | **16** | 66 |
| Later than five years | **–** | – | **–** | – |
| | **1,703** | 751 | **160** | 176 |

The consolidated entity leases property under non-cancellable operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount and an adjustment for the consumer price index.

### (iii) Finance lease and hire purchase payment commitments

| | | | | |
|---|---|---|---|---|
| Within one year | **379** | 472 | **159** | 234 |
| One year or later and no later than five years | **311** | 691 | **143** | 302 |
| Later than five years | **–** | – | **–** | – |
| | **690** | 1,163 | **302** | 536 |
| Less: future finance charges | **48** | 111 | **21** | 50 |
| | **642** | 1,052 | **281** | 486 |
| **Lease and hire purchase liabilities provided for in the financial statements:** | | | | |
| Current | **343** | 409 | **143** | 205 |
| Non-current | **299** | 643 | **138** | 281 |
| | **642** | 1,052 | **281** | 486 |

Finance leases and hire purchase agreements are entered into as a means of funding the acquisition of plant and equipment. Repayments are generally fixed and no leases have escalation clauses other than in the event of payment default. No lease arrangements create restrictions on other financing transactions

## 27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The consolidated entity enters into performance bonds in support of its obligations as a supplier of electronic equipment.

## 28. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

### (a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk for classes of financial assets and financial liabilities is set out below:

| | | Fixed interest maturing in | | | |
|---|---|---|---|---|---|
| | Floating $000 | One year or less $000 | One to five years $000 | No interest $000 | Total $000 |
| **2004** | | | | | |
| **Financial assets** | | | | | |
| Cash assets | 11,140 | | | | 11,140 |
| Receivables | | | | 14,463 | 14,463 |
| Other assets | | | | 4,858 | 4,858 |
| Other financial assets | | | | 50 | 50 |
| | 11,140 | – | – | 19,371 | 30,511 |
| **Financial liabilities** | | | | | |
| Payables | | | | 15,090 | 15,090 |
| Other liabilities | | | | 3,740 | 3,740 |
| Bank overdraft | | | | | – |
| Secured loans | | 343 | 299 | 10 | 652 |
| Commercial bills | | | | | – |
| Employee benefits | | | | 3,933 | 3,933 |
| | – | 343 | 299 | 22,773 | 23,415 |
| **2003** | | | | | |
| **Financial assets** | | | | | |
| Cash assets | 4,665 | | | 1,107 | 5,772 |
| Receivables | | 4 | 71 | 14,733 | 14,808 |
| Other assets | | | | 10,308 | 10,308 |
| Other financial assets | | | | 50 | 50 |
| | 4,665 | 4 | 71 | 26,198 | 30,938 |
| **Financial liabilities** | | | | | |
| Payables | | | | 15,105 | 15,105 |
| Other liabilities | | | | 9,190 | 9,190 |
| Bank overdraft and loans | | 4,409 | 643 | 10 | 5,062 |
| Commercial bills | | 1,000 | 18,443 | | 19,443 |
| Employee benefits | | | | 3,780 | 3,780 |
| | – | 5,409 | 19,086 | 28,085 | 52,580 |

## 28. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### (b) Foreign exchange risk

The consolidated entity enters into forward foreign exchange contracts to hedge certain anticipated sale commitments denominated in foreign currencies (principally US dollars). The terms of these commitments are rarely more than two years. The consolidated entity's policy is to enter into forward foreign exchange contracts to hedge a proportion of foreign currency sales expected in each month within the following two years, within Board instructions and limits. The amount of anticipated future sales are forecast in light of current conditions in foreign markets, commitments from customers and experience.

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contacts for the consolidated entity.

| | Consolidated | | Consolidated | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **Weighted average rate** | | **$'000** | $'000 |
| Sell US Dollars | | | | |
| Not later than one year | **0.6203** | 0.5404 | **36,890** | 34,236 |
| Later than one year but not later than two years | **–** | 0.5739 | **–** | 15,683 |

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales recognised in other assets and other liabilities and the timing of their anticipated recognition as part of sales or purchases are:

| | Consolidated | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2004** | 2003 | 2003 |
| | **$'000** | **$'000** | $'000 | $'000 |
| | **Gains** | **Losses** | Gains | Losses |
| Not later than one year | **3,740** | **–** | 6,836 | – |
| Later than one but no later than two years | **–** | **–** | 2,354 | – |
| | **3,740** | **–** | 9,190 | – |

Where the underlying transaction has occurred, the effect of the hedge has been recognised in the financial statements.

### (c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on the financial assets of the consolidated entity is the carrying amount of the asset, net of any provision for doubtful debts. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers in various countries and by credit insuring the majority of trade debtor balances. The consolidated entity is not materially exposed to any individual overseas country or individual customer.

### (d) Net fair values of financial assets and liabilities

The net fair values of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. The carrying amounts of financial assets and financial liabilities approximate their net fair values.

## 29. NOTES TO THE STATEMENTS OF CASH FLOWS

### (i) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| Petty cash | **5** | 6 | **4** | 4 |
| Cash at bank | **6,135** | 3,766 | **5,117** | 2,283 |
| Short term deposits | **5,000** | 2,000 | **5,000** | 2,000 |
| Bank overdraft | **–** | – | **–** | – |
| | **11,140** | 5,772 | **10,121** | 4,287 |

### (ii) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

| | Consolidated 2004 $'000 | Consolidated 2003 $'000 | The Company 2004 $'000 | The Company 2003 $'000 |
|---|---|---|---|---|
| **Profit from ordinary activities after income tax** | **16,678** | 11,062 | **16,364** | 9,996 |
| Add/(less) items classified as investing or financing activities: | | | | |
| (Profit) / loss on sale of non-current assets | **(792)** | (147) | **(42)** | (147) |
| **Add /(less) non-cash items:** | | | | |
| Foreign currency loss / (gain) on borrowings | **(375)** | (856) | **(375)** | (856) |
| Depreciation of: | | | | |
| Buildings | **162** | 260 | **162** | 161 |
| Leasehold property | **19** | 13 | **10** | 5 |
| Plant and equipment | **2,409** | 2,838 | **1,846** | 1,894 |
| Amortisation | **5,522** | 4,972 | **3,788** | 3,341 |
| Revaluation of land and buildings | **–** | 714 | **–** | – |
| Write down of goodwill | **265** | – | **–** | – |
| (Decrease)/increase in income taxes | **682** | 2,118 | **268** | 2,160 |
| Share of associates net profit | **48** | 12 | **–** | – |
| Non cash intercompany transactions | **–** | – | **9,227** | 9,361 |
| Increase/(decrease) on net assets affected by translation | **(13)** | (2) | **–** | – |
| **Net cash provided by operating activities before changes in assets and liabilities** | **24,605** | 20,984 | **31,248** | 25,915 |
| **Change in assets and liabilities during the financial year:** | | | | |
| Reduction/(increase) in receivables | **975** | 813 | **1,012** | 478 |
| Reduction/(increase) in inventories | **(1,363)** | (380) | **(1,529)** | (799) |
| Reduction/(increase) in other assets | **5,433** | 79 | **5,514** | (72) |
| Increase/(reduction) in payables | **(5,465)** | 2 | **(5,871)** | 651 |
| Increase/(reduction) in provisions | **935** | (262) | **931** | 723 |
| **Net cash inflow provided by operating activities** | **25,120** | 21,236 | **31,305** | 26,896 |

### 30. CONTROLLED ENTITIES

**(a) Particulars in relation to controlled entities**

| Name/Country of incorporation | Class of Share | Interest Held 2004 % | Interest Held 2003 % |
|---|---|---|---|
| **Parent Entity** | | | |
| Codan Limited | | | |
| Australia | Ordinary | | |
| **Controlled Entities** | | | |
| IMP Printed Circuits Pty Ltd | | | |
| Australia | Ordinary | **100** | 100 |
| Codan (UK) Ltd | | | |
| England | Ordinary | **100** | 100 |
| Codan (Qld) Pty Ltd | | | |
| Australia | Ordinary | **100** | 100 |
| Codan (US) Inc | | | |
| United States of America | Ordinary | **100** | 100 |
| Codan Telecommunications Pty Ltd | | | |
| Australia | Ordinary | **100** | 100 |
| Provideo Systems Pty Ltd | | | |
| Australia | Ordinary | **100** | 100 |

**(b) Acquisition/disposal of controlled entities**

During the 2003 financial year the consolidated entity purchased 100% of the voting shares of Provideo Systems Pty Ltd. Details are as follows:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |
| Consideration | | 5,337 | | 5,337 |
| Cash acquired | | (1,103) | | – |
| Outflow of cash | – | 4,234 | – | 5,337 |
| Fair value of net assets of entity acquired | | | | |
| Property, plant and equipment | | 42 | | 42 |
| Deferred tax asset | | 203 | | 203 |
| Cash assets | | 1,103 | | 1,103 |
| Inventories | | 688 | | 688 |
| Receivables | | 662 | | 662 |
| Payables | | (693) | | (693) |
| Current tax liability | | (329) | | (329) |
| Other provisions | | (1,642) | | (1,642) |
| | – | 34 | – | 34 |
| Goodwill on acquisition | | 5,303 | | 5,303 |
| Consideration (cash) | – | 5,337 | – | 5,337 |

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |

## 31. EMPLOYEE BENEFITS

| | | | | |
|---|---|---|---|---|
| Aggregate liability for employee benefits, including on costs | | | | |
| Current – other creditors and accruals | 1,777 | 1,019 | 1,180 | 992 |
| Current – employee entitlements | 1,859 | 1,721 | 1,613 | 1,494 |
| Non-current – employee entitlements | 2,074 | 2,058 | 1,912 | 1,880 |
| | 3,933 | 3,779 | 3,525 | 3,374 |

The present values of employee entitlements not expected to be settled within 12 months of reporting date have been calculated using the following weighted averages:

| | | | | |
|---|---|---|---|---|
| Assumed rate of increase in wage and salary rates | 4.00% | 3.50% | 4.00% | 3.50% |
| Discount rate | 5.50% | 4.87% | 5.50% | 4.87% |
| Settlement term (years) | 20 years | 20 years | 20 years | 20 years |
| Number of Employees at year end | 447 | 397 | 361 | 314 |

### Codan Executive Share Plan

The Company established the Codan Executive Share Plan (CESP) to assist in the retention and motivation of certain executives. Under the plan partly paid shares were issued to the Codan Executive Share Plan Pty Ltd (the trustee) which administers the trust. The trustee holds the shares as bare trustee for the benefit of the relevant executive.

Summary of the shares issued under the plan:

| Share issue date | Number issued | Paid up on issue $ | Total paid up value $ |
|---|---|---|---|
| 24 May 1999 | 3,666,268 | 750 | 1,023,750 |
| 29 October 1999 | 1,466,507 | 300 | 469,500 |
| 25 February 2000 | 733,254 | 150 | 234,750 |
| | 5,866,029 | 1,200 | 1,728,000 |

The shares issued under the plan vest in the executive upon issue. The shares participate in dividends and carry voting rights.

In March 2004 all partly paid shares issued under the CESP were fully paid up with the Company receiving $1,726,800. The Company will not be issuing any further shares under this plan.

### Codan Employee Share Plan

The Codan Employee Share Plan has been approved by a resolution of the Company's shareholders and was established to provide certain employees with incentive rewards by giving them the opportunity to acquire shares. Shares are issued under the plan in the name of the participating employee to the plan and vest immediately in the plan.

Under the plan eligible employees were able to acquire shares by way of two methods. Shares could be acquired at market value, in which case the employee could apply for an interest free loan to fund the acquisition. Eligible employees could also acquire shares at a discount as determined by the Board, in which case no loan was available to acquire the shares.

## 31. EMPLOYEE BENEFITS (continued)

### Codan Employee Share Plan (continued)

In relation to the interest free loan the employee makes equal periodic instalments with full repayment within three years or by the date of termination of employment. The shares vest in the plan immediately and vest to the employee upon full repayment of the loan. As at reporting date $150,553 is recognised as a receivable by the Company from employees under this plan.

Shares acquired by eligible employees at a discount to the market value vest in the employee immediately. The discount approved by the Board for the shares issued as at 27 November 2003 was 5% to the market value of the shares. As the issue of the shares was contingent on the Company listing on the Australian Stock Exchange the market value of the shares has been assessed as the offer price under the Company's prospectus dated 21 October 2003.

Shares issued under the plan carry full dividend and voting rights. A summary of the shares issued under the plan is as follows:

| | 2004 |
|---|---|
| Number of shares at the beginning of the year | – |
| Number of shares issued to the plan | **531,300** |
| Number of shares distributed to employees | **(531,300)** |
| Number of shares forfeited | – |
| Number of shares at end of the year | – |

## 32. DIRECTOR AND EXECUTIVE DISCLOSURES

### Remuneration of directors and specified executives by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced senior executives. The Remuneration Committee considers comparative companies, economic conditions and independent advice in assessing the remuneration packages of directors and senior executives. Remuneration packages include a mix of fixed remuneration and performance based remuneration. The consolidated entity does not have any profit share plans or share option plans in place.

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles. These performance hurdles are set each year as part of the consolidated entity's staff performance management process. The performance hurdles may be related to the consolidated entity's or a business segments financial performance or other non financial measures. Non-executive directors do not receive any performance related remuneration.

Total remuneration for all non-executive directors, as approved by shareholders at the 2003 annual general meeting, is not to exceed $750,000 per annum. Director's fees are determined based on the position held by the director and the additional company committees that the director is a member of.

No executive directors or senior executives have entered into employment contracts greater than one year and there is no pre-determined compensation payable to executive directors or senior executives on their voluntary or involuntary retirement.

## 32. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### Remuneration of directors and specified executives by the consolidated entity

The following table provides the nature and amount of all remuneration received by all directors of the Company and the five or more specified executives of the consolidated entity with the greatest authority for the year ended 30 June 2004.

| | Primary | | | | Post-employment | | Other compensation | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary & fees $ | Bonus $ | Long term incentive bonus $ | Non-monetary benefits $ | Super-annuation $ | Other post employment benefits $ | Termination benefits $ | Insurance premiums $ | Total $ |
| **Non-executive directors** | | | | | | | | | |
| Mr J A Uhrig (Chairperson) | 87,200 | | | | | | | | 87,200 |
| Mr I J Bettison | 43,600 | | | | | | | | 43,600 |
| Mr I B Wall | 43,600 | | | | | | | | 43,600 |
| Mr A E R Wood | 86,771 | | | | 2,696 | | | | 89,467 |
| Mr B P Burns | 50,000 | | | | 4,500 | | | | 54,500 |
| Mr L A Davis | 40,000 | | | | 3,600 | | | | 43,600 |
| Mr P R Griffiths | 50,000 | | | | 4,500 | | | | 54,500 |
| **Executive directors** | | | | | | | | | |
| Mr M K Heard (Managing Director) | 471,292 | 296,250 | | | 62,654 | | | | 830,196 |
| Total, all directors | 872,463 | 296,250 | – | – | 77,950 | – | – | – | 1,246,663 |
| **Specified executives** | | | | | | | | | |
| Mr D McGurk (General Manager – Operations) | 168,349 | 126,000 | | | 16,555 | | | | 310,904 |
| Mr D Hughes (Chief Finance and Information Officer) | 187,408 | 143,273 | | | 21,912 | | | | 352,593 |
| Mr P Charlesworth (General Manager Engineering) | 170,184 | 95,095 | | | 15,346 | | | | 280,625 |
| Mr A Gobolos (General Manager Business Development) | 195,602 | 114,950 | | | 27,323 | | | | 337,875 |
| Mr Lloyd Groves (General Manager Sales and Marketing) | 202,237 | | | | 17,651 | | | | 219,888 |
| Mr E Franco (General Manager IMP Printed Circuits Pty Ltd) | 109,930 | 6,625 | | | 8,388 | | | | 124,943 |
| Mr S Lukacs (General Manager Provideo Systems Pty Ltd) | 90,310 | 24,507 | | | 17,258 | | | | 132,075 |
| Total, all specified executives | 1,124,020 | 510,450 | – | – | 124,433 | – | – | – | 1,758,903 |

## 32. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

### Equity holdings and transactions

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

| | Opening balance | Issued | Sales | Closing balance |
|---|---|---|---|---|
| **Directors** | | | | |
| Mr J A Uhrig | 12,220,894 | – | (831,878) | 11,389,016 |
| Mr I J Bettison | 22,383,057 | – | (1,523,618) | 20,859,439 |
| Mr I B Wall | 37,334,295 | – | (2,541,352) | 34,792,943 |
| Mr A E R Wood | 49,392,896 | – | (3,362,183) | 46,030,713 |
| Mr B P Burns | 12,220,894 | – | (831,878) | 11,389,016 |
| Mr L A Davis | – | 200,000 | – | 200,000 |
| Mr P R Griffiths | – | 110,000 | – | 110,000 |
| Mr M K Heard | 4,399,522 | – | – | 4,399,522 |
| **Specified executives** | | | | |
| Mr D McGurk | – | 1,000 | – | 1,000 |
| Mr D Hughes | – | 11,000 | – | 11,000 |
| Mr P Charlesworth | – | 10,000 | – | 10,000 |
| Mr A Gobolos | 1,466,507 | – | (288,100) | 1,178,407 |
| Mr Lloyd Groves | – | 10,000 | – | 10,000 |
| Mr E Franco | – | 6,000 | – | 6,000 |
| Mr S Lukacs | – | 10,000 | – | 10,000 |

The shares sold by the directors were all sold at the time of the initial public offering. As detailed in the prospectus these directors have entered into a voluntary escrow for their remaining shares until 27 November 2004.

The issue of shares to D McGurk, D Hughes and E Franco during the year was under the Codan Employee Share Plan. Refer Note 31 for the details of the shares issued under this plan.

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

A number of directors and specified executives, or their personally related entities, hold positions in other entities that result in them having control or significance influence over the financial or operating policies of those entities. Any transactions with these entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Mr A E R Wood provided consulting services of $75,000 to the company during the year, this amount is unpaid as at 30 June 2004. The consulting terms are based on market rates for these types of services. Mr A E R Wood provided loans to the Company with interest of $57,050 being paid, the interest rate was based on comparable commercial bill interest rates. All loans payable to Mr A E R Wood were repaid in full in October, 2003.

From time to time, directors and specified executives, or their personally related entities, may purchase goods from the consolidated entity. These purchases occur within a normal employee relationship and are considered to be trivial in nature.

## 33. NON-DIRECTOR RELATED PARTIES

All transactions with non-director related parties are on normal terms and conditions.

The Company and Provideo Systems Pty Ltd purchase materials from IMP Printed Circuits Pty Ltd. The Company also pays marketing fees to Codan (UK) Ltd and Codan (US) Inc and paid rent to Codan (Qld) Pty Ltd for premises and plant and equipment. The Company charges rent to IMP Printed Circuits Pty Ltd for their premises.

Loans between entities in the wholly owned group are repayable at call and no interest is charged.

The aggregate amounts receivable from, and payable to, wholly-owned controlled entities and associated companies at reporting date is as follows.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004 $'000** | 2003 $'000 | **2004 $'000** | 2003 $'000 |
| **Receivables** | | | | |
| Current | **–** | – | **790** | 1,008 |
| Non Current | **72** | 74 | **72** | 33 |
| **Payables** | | | | |
| Current | **–** | – | **9,798** | 4,098 |
| **Dividends** | | | | |
| Dividends received by the company from wholly-owned controlled entities | **–** | – | **–** | – |

## 34. EVENTS SUBSEQUENT TO BALANCE DATE

**International Financial Reporting Standards**

For reporting period commencing 1 July 2005 the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

The board has established a project to achieve transition to IFRS reporting, beginning with the half year ending 31 December 2005. The Company's implementation project will consist of assessing the high level impact of IFRS, designing accounting policies and disclosures to comply with IFRS, determining the impact as at transition date of IFRS and implementing the required changes to processes, policies and systems to ensure compliance with IFRS.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if they were prepared in accordance with IFRS.

## 34. EVENTS SUBSEQUENT TO BALANCE DATE (continued)

**International Financial Reporting Standards**

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- financial instruments must be recognised in the statement of financial position and all derivatives carried at fair value.
- income tax will be calculated based on the "balance sheet" approach.
- revaluation increments and decrements relating to revalued land and buildings will be recognised on an individual asset basis, not a class of asset basis.
- internally generated intangible assets (except developmental phase expenditure in certain circumstances) will not be recognised.
- intangible assets can only be revalued if there is an active market.
- goodwill and intangible assets with indefinite lives will be tested for impairment annually and will not be amortised.
- impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash generating operations have been impaired.
- equity based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

# Directors' declaration

## Codan Limited and its Controlled Entities

In the opinion of the directors of Codan Limited ("the Company"):

(a) the financial statements and notes, set out on 17 to 47, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia 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.

Dated at Newton this 20th day of August 2004.

Signed in accordance with a resolution of the directors:

**J A Uhrig**
Director

**M K Heard**
Director

# Independent audit report

to the members of Codan Limited

### Scope

*The financial report and directors' responsibility*
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 17 to 48 for both Codan Limited ("the Company") and Codan Limited and its Controlled Entities ("the Consolidated Entity"), for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Audit approach*
We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

– examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

– assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### Audit opinion

In our opinion, the financial report of Codan Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

KPMG

**P D Robertson**
Partner

Adelaide, 20 August 2004

# ASX Additional information

Codan Limited and its Controlled Entities

Additional information required by the Australian Stock Exchange Limited Listing Rules not disclosed elsewhere in this report is set out below.

**Cash raised from initial public offering of shares in Codan Limited**

In the prospectus dated 21 October 2003 it was stated that the cash generated from the initial public offering would be used to reduce gearing to better place Codan to fund continued expansion of the business, both organically and through further acquisitions.

From the date of admission to the ASX, being 27 November 2003, to 30 June 2004 the company has used the cash generated in a manner consistent with this objective.

**Shareholdings as at 20 August 2004**

*Substantial shareholders*

The number of shares held by substantial shareholders and their associates are set out below:

| Shareholder | Number of ordinary shares |
|---|---|
| Starform Pty Limited | 11,389,016 |
| Interests associated with Kynola Pty Limited and Warren Glen Pty Limited | 11,389,016 |
| MacKinnon Investments Pty Limited | 20,859,439 |
| Pamian Pty Limited | 34,792,943 |
| Edal Pty Limited | 46,030,713 |

**Distribution of equity security holders**

| Category | Number of Equity Security Holders Ordinary Shares |
|---|---|
| 1 – 1,000 | 260 |
| 1,001 – 5,000 | 760 |
| 5,001 – 10,000 | 388 |
| 10,001 – 100,000 | 188 |
| 100,001 and over | 31 |
| Total | 1,627 |

The number of shareholders holding less than a marketable parcel of ordinary shares is nil.

*On market buy back*

There is no current on market buy back.

*Twenty largest shareholders*

| Name | Number of ordinary shares held | Percentage of capital held |
|---|---|---|
| Edal Pty Limited | 46,030,713 | 28.4% |
| Pamian Pty Limited (No. 2 account) | 33,680,691 | 20.8% |
| MacKinnon Investments Pty Limited | 20,859,439 | 12.9% |
| Starform Pty Limited | 11,389,016 | 7.0% |
| Kynola Pty Limited | 9,111,213 | 5.6% |
| JP Morgan Nominees Australia Limited | 4,409,272 | 2.7% |
| MK and MC Heard | 3,666,268 | 2.3% |
| Lawrence Francis Choate | 3,211,260 | 2.0% |
| Equity Trustees Limited | 3,054,900 | 1.9% |
| Warren Glen Pty Limited | 2,277,803 | 1.4% |
| National Nominees Limited | 2,165,845 | 1.3% |
| Citicorp Nominees Pty Limited | 2,119,600 | 1.3% |
| YA and EJ Gobolos | 1,178,407 | 0.7% |
| Cogent Nominees Pty Limited | 1,121,815 | 0.7% |
| Pamian Pty Limited (No. 1 account) | 1,112,252 | 0.7% |
| Argo Investments Limited | 800,000 | 0.5% |
| Maureen Patricia McDonough | 745,475 | 0.5% |
| MC Heard | 733,254 | 0.5% |
| RBC Global Services Australia Nominees Pty Limited BKCUST A/C | 692,371 | 0.4% |
| Walter Kingsley Hannaford and Elizabeth Kay Hannaford | 488,836 | 0.3% |
| Total | 148,848,430 | 91.9% |

## Offices and Officers

**Company Secretary**
Mr David Hughes BA(Acc), CPA, AIMM

**Principal Registered Office**

81 Graves Street
Newton South Australia 5074
Telephone: (08) 8305 0311
Facsimile: (08) 8305 0411

Internet address: www.codan.com.au

**Share Registry**

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide South Australia 5001

**Stock Exchange**

The company is listed on the Australian Stock Exchange. The home exchange is Adelaide.

**Other Information**

Codan Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

# Directory

**Directors**
John Uhrig (Chairman)
Michael Heard (Managing Director and Chief Executive Officer)
Irvine James (Jim) Bettison
Brian Burns
Leon Davis
Peter Griffiths
Ian Wall
Alastair Wood

**Company Secretary**
David Hughes

**Registered Office**
81 Graves Street
Newton SA 5074

**Auditor**
KPMG
115 Grenfell Street
Adelaide SA 5000

**Registry**
Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001

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