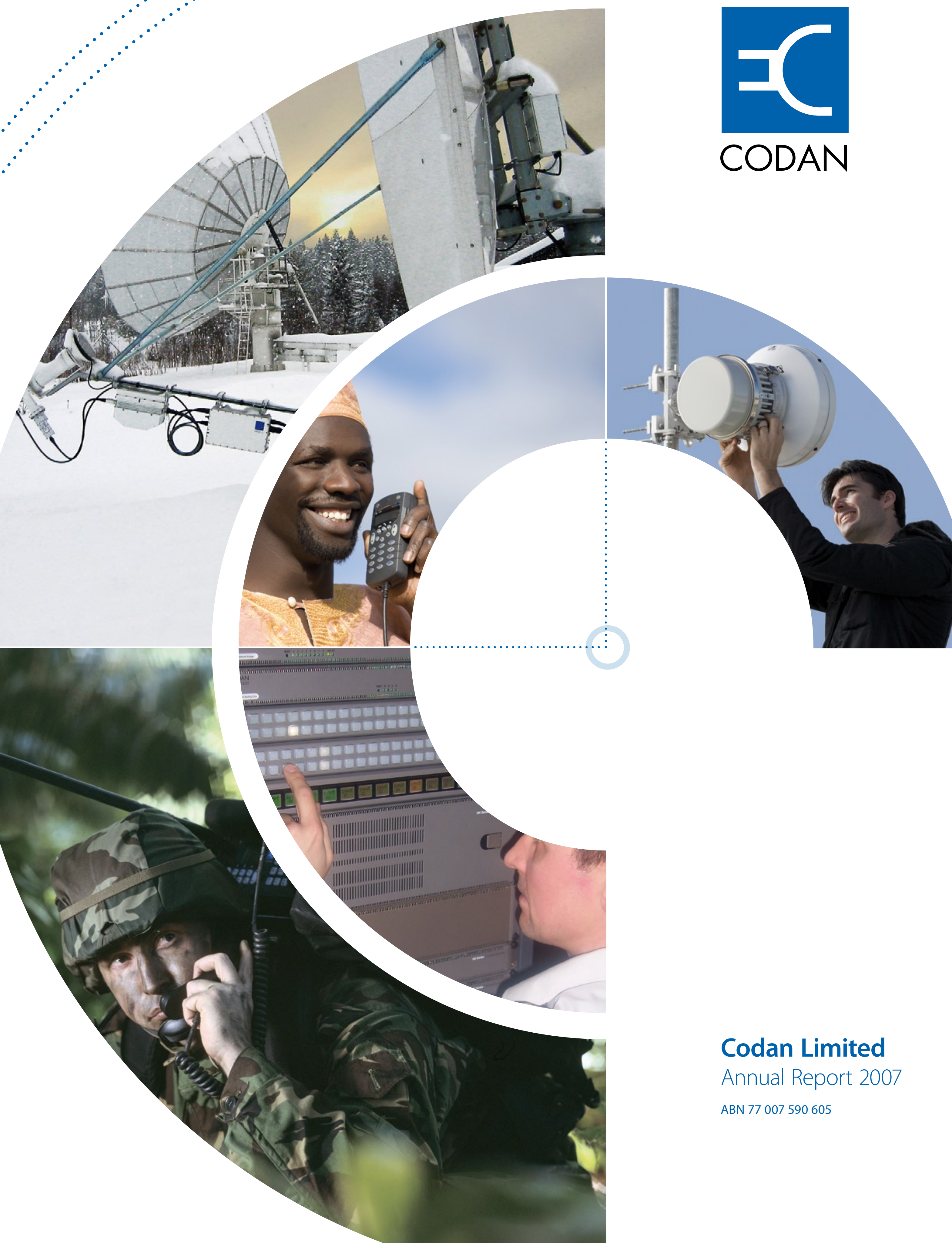
CODAN



Codan Limited
Annual Report 2007

ABN 77 007 590 605

Alastair Wood
Co-founder of Codan Limited
7-11-1930 to 2-7-2007

Codan was founded on 1 July 1959 by Alastair and his partners Ian Wall and Jim Bettison. Alastair graduated from Adelaide University as a mechanical engineer, but soon revealed great talent in electronics and particularly radio frequency engineering. His hallmark was rigorous design leading to products of the utmost reliability and performance, and he went on to become one of the foremost exponents in the world of radio frequency engineering applied to HF radio. This was of course to become Codan's core technology and remains today nearly half of the business. Alastair, Ian and Jim built Codan steadily, with many important milestones. Perhaps the most significant of these was the contract to upgrade the nationwide HF radio communications network of the Australian Royal Flying Doctor Service, completed in 1973. The project was a great success and the genesis of Codan's HF radio business. Significant design innovation was applied to the project by Alastair, and part of his legacy will be the lives saved and help delivered in outback Australia as a result of the excellent communications available to RFDS.

Alastair retired from full time work at Codan in September 2003, and as a director in 2005. However he continued in a consulting capacity, and worked in his RF laboratory at Codan almost every day until just before he died. He was much admired and respected by his fellow directors, and by Codan staff past and present.

He will be greatly missed.

Since 1959, Codan has been providing customers in rugged and remote areas with reliable communications equipment. Today, Codan designs and builds High Frequency (HF) Radio, Satellite, and Microwave Links products and supplies them to over 150 countries worldwide.

CODAN

Contents

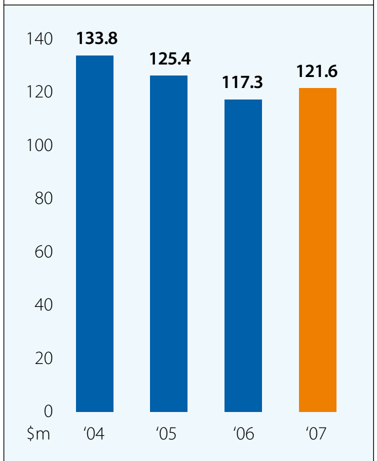
Performance Summary

FINANCIAL PERFORMANCE	Year ended 30 June			
	Audited 2007	%	Audited 2006	%
Revenue				
Communications products	$111.0m		$106.7m	
Other	$10.6m		$10.6m	
Total revenue	$121.6m	100.0%	$117.3m	100.0%
EBITDA	$24.2m	19.9%	$20.0m	17.1%
Depreciation	($3.1)m		($3.2)m	
Amortisation of product development	($4.7)m		($4.5)m	
EBIT	$16.4m	13.5%	$12.3m	10.5%
Interest	($0.6)m		($0.7)m	
Net profit before tax	$15.8m	13.0%	$11.6m	9.9%
Tax	($4.6)m		($3.1)m	
Net profit after tax	$11.2m	9.2%	$8.5m	7.2%
Earnings per share	6.9c		5.2c	
Dividend	6.5c		6.0c	

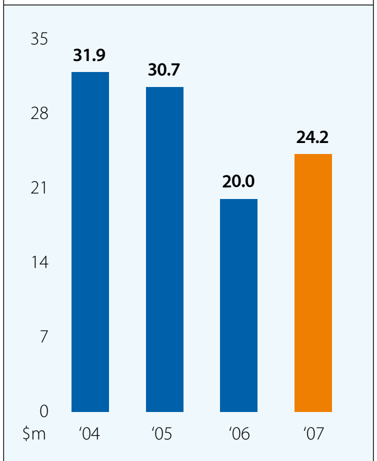
HALF YEAR COMPARISONS	Half year ended			
	June 2007	%	Dec 2006	%
Revenue				
Communications products	$54.3m		$56.7m	
Other	$5.1m		$5.5m	
Total revenue	$59.4m	100.0%	$62.2m	100.0%
EBITDA	$10.7m	18.0%	$13.5m	21.7%
Depreciation	($1.5)m		($1.6)m	
Amortisation of product development	($2.3)m		($2.4)m	
EBIT	$6.9m	11.6%	$9.5m	15.3%
Interest	($0.2)m		($0.4)m	
Net profit before tax	$6.7m	11.3%	$9.1m	14.6%
Tax	($2.0)m		($2.6)m	
Net profit after tax	$4.7m	7.9%	$6.5m	10.5%

Compared to the first half, EBIT for the second half was reduced by $0.7 million as a result of a stronger Australian dollar and $0.5 million of expenses associated with the evaluation of potential acquisitions.

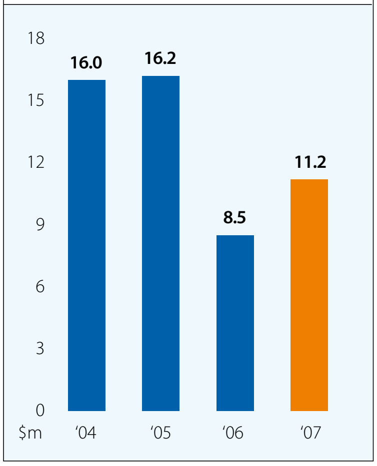
OPERATING REVENUE



EBITDA



NPAT



Highlights - FY07

- Strong growth in satellite communications sales
- Substantial improvement in profit margins
- NPAT up 32%
- Generated $25.7 million cash
- Dividend up 8.3% to 6.5 cents per share
- Retired $9.2 million debt
- Net cash surplus after dividends and debt retirement $3.5 million
- Reviewed 10 year strategic plan

Key initiatives - FY08

- Productivity and efficiency improvements to deliver an additional $2 million profit before tax
- Major market launches in the first half
  - HF radio into a global military market segment
  - Digital microwave radio in Africa, Middle East, Eastern Europe and CIS
  - TV broadcast products in North America and Europe
- Continued activity aimed at potential acquisitions

Chairman's Report

Dr David Klingner
Chairman

The year has been one of sadness, change and significant achievements.

I'm sad to report that Alastair Wood, one of Codan's founders, passed away on 2nd July 2007.

Alastair, together with his partners Ian Wall and Jim Bettison founded the company on 1st July 1959. Although a mechanical engineer, Alastair was one of the foremost exponents in the world of radio frequency engineering applied to HF radio. This became our core technology as Codan developed, and remains nearly half of our business today. Although Alastair retired from full-time work in September 2003 and as a director in 2005, he remained active in a consulting capacity at Codan until the end. Much admired and respected, Alastair's unique and invaluable contribution to Codan will continue to influence the company well into the future.

Turning now to Codan's achievements in FY07.

In financial terms the very significant improvement in profit, and the excellent cash generation, were highlights. Whilst the continued appreciation of the Australian dollar eroded revenue and profit growth, the company's response in improving productivity and efficiency was very pleasing. Profit margins improved markedly. The board and management have demonstrated an ability and a determination to respond to adverse environmental factors affecting the business. We note however that the improvements were from a low point in FY06, and that we have more to do.

The year held challenges other than the strengthening Australian dollar. Codan's current HF radio market suffered some contraction which particularly affected fourth quarter sales. On the other hand, satellite communications sales were strong.

Arising from the improved profitability and excellent cash generation, the board declared a final dividend of 3.5 cents per share resulting in an annual dividend of 6.5 cents per share fully franked, an increase of 8.3% over last year.

Your company remains ambitious in terms of growing the business. In the first half directors and executive management spent four full days spread over three sessions conducting a detailed review of the company's ten-year strategic plan. The exercise confirmed the opportunity for significant growth in the medium to long term via a combination of organic growth and acquisition in selected global communications products market segments. The plan requires continuing investment in new product and market development, supplemented by investment in acquisitions. Management were very active implementing the plan during FY07.

Prior to the recent extreme volatility on global financial markets, the Australian dollar strengthened significantly again and the board decided to protect the company's budget and development plans for FY08 by hedging its net exposure to the US dollar. An average hedged rate of 83.8 US cents to the Australian dollar was achieved for 100% of the estimated exposure. Whilst the FY08 business settings are now secure, the company faces a strong currency headwind.

These matters lead us to a consideration of the outlook.

The company's key initiatives in FY08 will be continued improvements in productivity and efficiency, major market launches in three product groups to stimulate growth, and a specific focus on potential acquisitions.

Notwithstanding the benefits expected from these initiatives, given the currency headwind and the contraction in Codan's current HF market the board has advised that maintenance of net profit at current levels is not guaranteed in FY08 and that profits could even decline depending on circumstances as they unfold. It is just not possible to make an accurate forecast at this time as so many variables, including the entirely unpredictable impact of actions to secure acquisitions, will affect performance during the year. However given the current orders and cash position, the maintenance of an interim dividend of 3.0 cents per share fully franked is expected.

What then of the longer term? Despite good underlying growth, and significant improvements in productivity and efficiency, continued substantial strengthening of the Australian dollar in FY06 and FY07 retarded Codan's profit growth. The same factor is in play in FY08, and again profit improvement measures are in place to counteract it. It is clear however that for Codan to grow

"Several important organic growth and acquisition initiatives are planned for FY08…"

at an appropriate rate, ongoing organic growth will need to be supplemented by acquisitions. Several important organic growth and acquisition initiatives are planned for FY08 and it is expected that this year will be a new base for significant medium to long-term growth.

Mr John Uhrig AC retired as chairman and from Codan's board on the 25th May 2007 after more than twenty years of exceptional service in this capacity. Over that period Codan's sales have grown by an order of magnitude, and profitability by significantly more than that. He was a distinguished chairman of Rio Tinto, Westpac and other organisations at the same time as he chaired Codan. This did not prevent him from giving Codan his full and professional attention. He provided wise and experienced guidance to the board and senior management until the day of his retirement. It was Mr Uhrig who led the review of Codan's strategic plan last year. He leaves Codan strong and well prepared for profitable growth. The company owes Mr Uhrig a great debt of gratitude for his extraordinary contribution, and on behalf of shareholders, directors and staff I thank him most sincerely.

Other than for Mr Uhrig's retirement the board has remained unchanged since October 2005. Directors have a diverse and appropriate range of skills, and all now have substantial experience at Codan. Fifty percent of directors including myself are independent in the terms of the ASX Corporate Governance Council Best Practice Requirements. In accordance with corporate governance principles, the board will continue to introduce over time new and where appropriate independent directors with the right experience and qualifications.

Codan's people have demonstrated their skill and commitment in delivering substantially improved performance in FY07. The board thanks Codan's management and staff for their loyalty and hard work, and the good business outcome. We encourage them to continue with us as we implement Codan's exciting plans.

John Uhrig
Retired 25 May 2007

Dr David Klingner
Chairman

Chief Executive Officer's Report

"Continuous improvement is enshrined at Codan"

Mike Heard
Chief Executive Officer

Business Performance

Growth of 32% in profit after tax and the generation of $25.7 million cash were significant achievements, especially given the $2.9 million negative impact on EBIT of the stronger Australian dollar. The cost of activity to identify and evaluate potential acquisitions reduced EBIT by a further $0.5 million.

Underlying sales growth was less strong, but satisfactory. After adding back the negative currency impact FY07 revenue was approximately 6.3% greater than the previous year. Profit margins improved markedly. For example, EBITDA margins were 19.9% in FY07 compared to 17.1% in FY06.

A pleasing outcome was the achievement of comfortably more than $4 million dollars of benefit to profit before tax (against a target of $5 million) from the restructuring and other profit improvement programs completed by the end of FY06 and highlighted in last year's annual report. Major capital investment projects during FY05 and FY06 facilitated this outcome. The company's $5 million upgrade and expansion of it's Adelaide factory allowed four communications and broadcast operating sites to be consolidated into two. The $5 million investment in a new company wide IT business system facilitated other productivity and efficiency improvements. These investments are delivering measurable and substantial benefit.

The expanded factory provides ample production capacity. Thus capital expenditure in FY07 on plant and equipment was very low. Working capital management was also facilitated by the new IT business system. World leading product delivery times were maintained from the factory at the same time as achieving improved inventory turns. Debtor management remained very good. These factors contributed to the excellent cash generation allowing the retirement of $9.2 million of debt, dividend payments of $10.5 million and the creation of a cash surplus over borrowings of $3.5 million at year end.

Second half revenue was lower than the first half due to an unexpectedly weak quarter of HF radio orders which is commented on in more detail below. Profit margins were also lower principally as a result of the different mix of HF radio and satellite communications sales, a negative $0.7 million EBIT impact arising from a stronger Australian dollar, and costs of $0.5 million associated with the evaluation of potential acquisitions.

Strategic Planning and Investment

The intense review of Codan's ten year strategic plan has lead to new clarity and purpose for Codan's future direction.

The company's new product development programs continued at normal investment levels during the year. After the major new product family releases in FY05 and FY06, the focus was on important new accessories for the HF radio product range, the development of military specification versions of the HF range, and the progressive release of additions to the newer family of satellite communications products. These developments will support marketing initiatives in FY08.

The strategic review, in particular, gave focus to the identification and evaluation of potential acquisitions.

Communications Products

HF Radio

Revenue from HF radio sales fell somewhat from FY06, and as previously reported, the near term outlook for Codan's current HF radio market is uncertain. Whilst the weakness in the fourth quarter of FY07 was probably due in part to the timing of customer's projects, and whilst orders in July and August 2007 were appreciably stronger, there are signs of an overall contraction in this market. The security situations in Afghanistan and Iraq have resulted in deferral of reconstruction activity. Radio communications upgrades for homeland security in the first world have not yet eventuated. Demand from aid and humanitarian agencies is relatively flat.

Nevertheless the company continued to achieve good sales in parts of the market including from its HF manpack product and from the full HF product range in China. Codan expects to retain its market share in its current HF radio market segment.

In response to the uncertain outlook in its current market, Codan will conduct a major launch in September this year of its excellent HF radio products into a global military market segment. This follows focused work tailoring these products for this military market. This new segment for Codan is equivalent in size to the segment currently served and the company expects significant growth in sales from this initiative. However penetration of a segment that is new to Codan may take some time so the benefits of the initiative in FY08 will be limited.

Satellite Communications

This market remains quite strong and Codan has cemented its leadership position. Revenue from satellite communications products grew significantly in FY07 as the company continued to grow its market share via demand for its newer product family. More products are being added to this family progressively. Continued growth in US dollar revenue from sales of satellite communications products is expected. However, in FY08 this will be largely offset by the stronger Australian dollar.

Digital Microwave Radio

Sales of this product group were disappointing in FY07. Customers using the product are very satisfied, but to date the number of customers has not grown sufficiently. The company focuses its marketing of this product in non first world countries where the Codan brand is already strong as a result of HF radio and satellite communications success, and where the company has established service and support capability. For example, much of the company's DMR success to date has come from sales in Africa. A major new marketing initiative focusing on specific new markets in Africa, Middle East, Eastern Europe and CIS will be conducted in the first half of FY08. The company expects some benefit from this initiative this financial year.

Other Business Activities

TV Broadcast Products

Sales of this product group in FY07 were still quite low, but improved operational efficiency resulted in contribution to Codan's consolidated profit that was positive and significantly improved. Sales in Australia were relatively strong and good work was done to expand and improve the company's broadcast sales and marketing capability in North America.

During FY08 the company will continue to strengthen Codan Broadcast's platform for growth. A major market launch of our world leading distributed router product range will be conducted in September this year focussed on North America and Europe. Sales and distribution capability will be expanded in Europe. It is expected that these investments in the business will deliver significant profit growth in FY09 and beyond.

Printed Circuit Boards

IMP Printed Circuits continues to consolidate its position as the leading Australian manufacturer of printed circuit boards for supply to Codan and other electronics manufacturers in Australia and New Zealand. IMP also imports printed circuits from Asia so as to offer a full service to its customers. However, market growth is limited as electronics manufacturing, especially for consumer products, goes off shore to low cost economies in Asia.

The business continued to perform well and delivered positive contribution to Codan's consolidated profit in a tough marketplace.

Outlook

Demand is sound in all of Codan's market segments with the exception of some contraction in the current HF radio market. Order intake in July and August was good and performance in the first quarter of FY08 will be markedly better than in the poor last quarter of FY07. We expect to maintain or grow market share in FY08. However the company faces another strong currency headwind.

Major market launches in the first half of FY08 will stimulate growth, but the majority of the benefit will be realised in FY09 and beyond. Continuing improvements in productivity and efficiency will deliver an additional $2 million benefit to profit before tax in FY08. Continuous improvement is enshrined at Codan. Capital expenditure on plant and equipment will remain low throughout FY08.

Management is very active on several communications products acquisition opportunities aimed at delivering medium to long term growth. This endeavour takes time and requires caution; only the right acquisitions at the right price will be acceptable. These activities could increase or reduce profitability in FY08 depending on success, timing, implementation expenses and the early performance of acquisitions.

We recently advised that Mr Rick Moody, most recently Chief Financial Officer of Elders Australia Limited, will join Codan as Chief Financial Officer and Company Secretary on 3 October 2007. Mr Moody is a highly qualified, motivated and experienced finance executive and we are very pleased that he is joining Codan.

Codan's people face new and greater challenges each year. FY07 was no exception. Continued development of our staff, by training and encouraging them to apply their skills to a wider variety of tasks, and by offering them new roles, fits them for these challenges. It is also imperative that we keep them safe, and we have a proud record of doing so. Without our dedicated people the significant improvements of FY07 would not have been possible, and we thank them most sincerely.

Mike Heard
Chief Executive Officer

About Codan

Business Overview

Codan designs, manufactures and markets a diversified product range for the international high frequency radio, satellite and digital microwave radio communications markets, and for TV broadcasting. Codan also supplies printed circuit boards for customers in Australia and New Zealand. The company is one of the leading providers of value-added products in its market niches for communications and broadcasting.

Founded in 1959, Codan has grown to become a globally active company with exports representing approximately 90% of revenues. Its products are sold into more than 150 countries. Codan's worldwide customer base comprises multinational corporations, United Nations and international aid agencies, government organisations, telecommunications carriers and system integrators and television broadcast networks. Codan excels in customer service and support which is provided throughout the world through a network of dealers, distributors and agents.

Codan has three business segments:

- *Communications Products* – Codan's oldest and largest business activity.

  Codan's communications products business targets selected global market niches for voice and data applications in the following areas:

  – high frequency (HF) radio communications;
  – satellite communications; and
  – digital microwave radio communications.
- **Broadcast Products** – a developing business activity designing and manufacturing routing switches and interface and monitoring products for use by TV broadcasters, video pre- and post-production houses, and other users of professional audio/visual facilities.
- **Printed Circuit Boards** – IMP Printed Circuits Pty Ltd, a wholly owned subsidiary of Codan, manufactures and imports printed circuit boards.

Business Strategy

Codan seeks to be a group of "clever products" businesses addressing global markets. The Company will continue to design and manufacture its own core products. Codan defines "clever products" to have the following characteristics:

- elaborately transformed hardware products (as opposed to pure software or services);
- high intellectual property content, and therefore requiring a high value-add component by the designer and manufacturer; and
- targeted at niche low to medium volume business, professional and government markets globally.

Codan operates under long established high standards of corporate governance, performance and financial control.

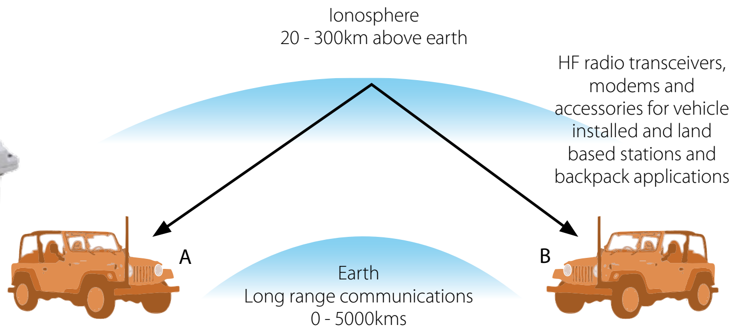
Codan's staff and management team, customer base, product range, technical skills, global distribution and customer support networks provide a platform for continued growth both organically and by further acquisition.

Disciplined Niche Market Strategy

Codan seeks leadership in narrowly defined international market segments where it is able to establish a competitive advantage and where there is a reasonable prospect that Codan will become the brand of choice. Such market segments are likely to have some or all of the following characteristics:

- the segment does not attract aggressive competition from large multi-national equipment suppliers;
- by utilising its technical expertise and global presence, Codan is able to differentiate its products in terms of quality, design features and exceptional service;
- customers and end users place significant importance on product reliability and customer support; and
- end user applications are in geographically dispersed or remote locations, or in the developing world.

"Codan" is a recognised and respected brand in most of the markets in which it operates. The Codan name has been used for more than 30 years domestically and some 20 years internationally. Codan has well established



global positions in selected HF radio and satellite communications markets, and is building a platform in digital microwave radio communications and TV broadcast markets.

Codan has sales representation and customer service offices in Australia, the United States, the United Kingdom, Germany, China and India. These local offices allow Codan to better understand its customers' requirements particularly the specific geographic, infrastructure and regulatory issues. In addition, Codan has extensive sales and distribution networks globally. Codan staff travel regularly to all parts of the globe to service customer needs.

Innovation and continual development of leading, quality products

Codan's proven ability to maintain technological competitiveness, bring new products to market, and to enhance its current products in order to meet its customers' requirements is fundamental to its success. Accordingly, Codan is committed to research, design and product development and maintains a substantial team of research, engineering and technical staff for this purpose.

Management and Staff

Many of Codan's directors and senior managers have extensive periods of service with the Company. The team has delivered strong business performance over many years.

The Codan management team has extensive global experience in its products and markets. Codan's management and staff have proven abilities in designing, manufacturing and marketing sophisticated communications and TV broadcast equipment.

Codan employs approximately 350 staff worldwide. The provision of safe, secure, challenging and rewarding employment for all staff is one of Codan's key objectives.

Codan's people focussed objectives are:

- to ensure all staff know what is expected of them and how they contribute to the achievement of Codan's strategic and operational goals; and
- to be passionate in the constant development of Codan's people and their talents.

Business Segments

Communications Products – HF Radio

HF radio (also known as short wave radio) is a universal and extensively used technology for communications in remote areas and over very long distances, extending to intercontinental coverage. By reflection of the HF radio wave off the ionosphere, an ionized region of the atmosphere, signals may be transmitted over many thousands of kilometres without need for man-made transmission infrastructure.

HF radio is typically used by organisations for first line and back-up operational communications of voice, fax or data, over long distances in any combination of mobile and fixed station configurations. HF radio will be chosen where long range communication without infrastructure, low capital and operating cost, rapid deployment and the ability to communicate operational information simultaneously to many stations are paramount.

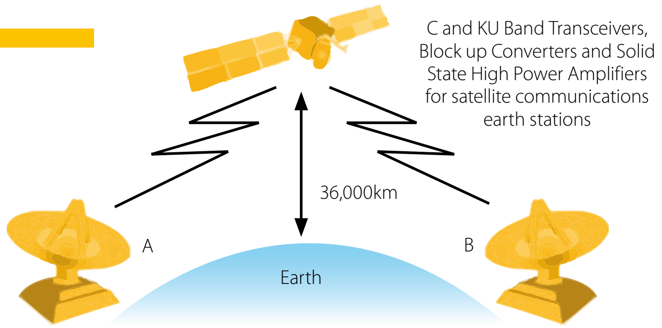
Codan supplies radio transceivers, modems and accessories for vehicle installed and land based stations and backpack applications. Codan HF radios are known for their very high reliability, excellence of performance and ease of operation. "Codan" has become the icon for commercial HF radio in many markets around the world.

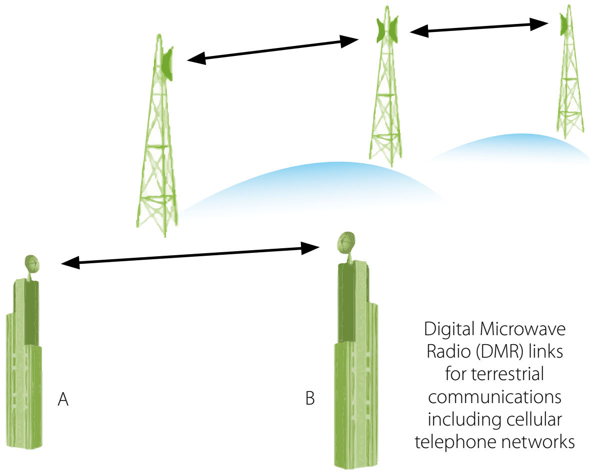
Codan's principal markets are where robust and reliable HF radios are required by aid and humanitarian organisations, security and military organisations, government departments and commercial users. The majority of Codan's HF radio sales are for use in developing world countries and remote regions of developed world countries.

Codan supplies HF radios to the majority of UN and major international non-government organisation (NGO) aid agencies, and to many smaller NGO and government humanitarian organisations.

Military and security organisation users include national armed forces and organisations dealing with law enforcement such as police, customs, border patrol, coast guard, national guard, drug enforcement agencies and private security firms.

About Codan Continued





Government users include emergency services, embassies and departments of post and telecommunications, health, forestry, agriculture, fisheries and roads.

Commercial and business users include the construction, agriculture, forestry, mining, energy, road transport, power utility, coastal shipping and fishing industries.

Communications Products – Satellite

In a satellite communications system, information is relayed between earth stations via satellites using microwave radio technology. The advantages of a satellite communications system are that it can transmit and receive information over very long distances irrespective of terrain and it can be deployed rapidly and cost effectively compared to wire-line and optical fibre, particularly in remote areas. Satellites can be used for broadcast services as well as for two way point-to-point or network communications.

Satellite networks offer a global communications capability and can support data rates for both direct customer access and network backbone requirements across a broad range of applications.

Codan offers a range of medium power transmitter/receiver equipment (transceivers) and block-up converters (BUCs) for integration into satellite earth station systems. These products are sold to system integrators and service providers who deploy satellite earth stations to deliver fixed, transportable (rapid-deploy) and mobile (on-the-move) communications infrastructure. Typical users include GSM network providers offering mobile telephone services to remote areas, resource companies needing to communicate with their offshore exploration and drilling platforms, shipping companies providing broadband data services to their ocean going vessels, government cross-border embassy communications networks and organisations providing infrastructure to support emergency, business continuity and mission critical communications.

Codan supplies satellite communications products to many of the world's leading satellite infrastructure suppliers, telecommunications carriers and government organisations through its sales presence in the United States, Europe and Asia.

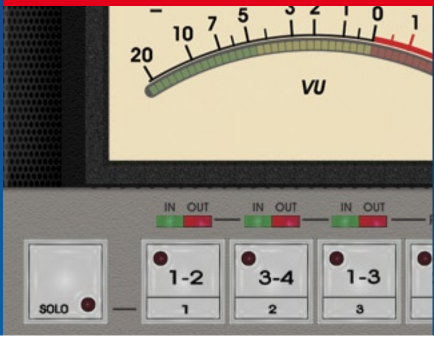
Codan satellite communications products are known for their high reliability which is key to Codan's customers providing reliable communications services to remote parts of the world. For its newest products, Codan has placed substantial focus on achieving excellent transmit power to weight ratio. Minimising the size and weight of the products is highly valued by customers who integrate transportable rapid-deploy terminals, and stabilised earth stations that are used on offshore platforms and on board ships. These are both rapidly growing market segments for Codan satellite products.

Communications Products – Digital Microwave Radio

Digital microwave radio (DMR) is a terrestrial microwave communications technology. Signals travel directly from one radio to another using highly directional antennas by line-of-sight, thus constituting a link. The antennas are mounted on a combination of towers, buildings and hilltops. The distance of communications for any one link is limited by a number of factors including antenna heights. The range of a link is from less than 1km to approximately 100km. However a series of links can be concatenated to achieve communications over long distances. Information traffic is typically voice, fax, data and video.

The major customers for DMR links are:

- general telecommunications carriers for rapid deployment and extension of competing telecommunications services;
- cellular operators for the interconnection of cellular towers, particularly in countries in which mobile phone services have been deregulated. DMR links are used because they can be commissioned quickly and are cheaper than leasing cable or optical fibre services from an incumbent carrier;
- providers of alternate services for direct connection to users or to interconnect network nodes. These include Wireless Internet Service Providers, point-to-multipoint network providers, WiMax Service Providers and emergency services networks such as TETRA; and
- private network operators. These customers include business, government, utilities, providers of emergency services, as well as health and education institutions. They use DMR links to connect not only voice services but also data networks such as Ethernet.



Codan manufactures narrowband DMR links for voice, facsimile and data services in either PDH form (pleisiochronous digital hierarchy) or LAN (Local Area Network – Ethernet) form. These types of links offer capacity up to 45Mbps.

Codan DMR links are known for their high reliability, ease of installation and Codan's advanced network management system. Unlike many competitors, Codan offers a product family based on a common hardware platform. It offers high flexibility of available configurations and excellent capability for progressive capacity expansion as traffic demand increases. The network management system allows remote control, performance monitoring and capacity expansion from a remote operations centre. This is valued by customers operating in remote regions of the world.

Broadcast Products

Television broadcasters manage a large number of video and audio signals, both analogue and digital, that ultimately provide the content to fill the many channels provided to viewers through numerous delivery methods including free-to-air, cable, satellite and Internet. In program preparation, these signals are combined, converted, monitored, distributed and switched throughout the broadcaster's studio facility.

Codan Broadcast designs and manufactures equipment used by TV broadcasters, video pre and post-production houses, and other users of professional audio/visual facilities.

The product range includes:

- routing switches, ranging from small compact routers up to large, full-feature routers that can provide the backbone for the signal management in a large broadcast facility;
- interface products that convert, combine and distribute both analogue and digital audio and video signals; and
- monitoring products used extensively through broadcast facilities.

Codan Broadcast's NK Series routers are particularly unique, with features highly desirable to customers in the industry. This product range forms a platform for business growth in broadcast, post-production and professional audio/visual markets.

Codan Broadcast is a principal supplier to the Australian market and is increasing its presence in international markets. Its Australian bases are in Adelaide and Melbourne supporting customers in Australia and Asia with sales staff located in the US and Europe servicing markets in those regions.

Printed Circuit Boards

Codan owns the Adelaide based printed circuit board manufacturing business, IMP Printed Circuits Pty Ltd. IMP manufactures single sided, double sided and multilayer printed circuit boards for over 400 electronics manufacturers in Australia and New Zealand. IMP specialises in the supply of high quality product for short to medium runs, rapid turnaround and prototyping applications. Over recent years, IMP has established relationships with a number of overseas volume manufacturers of printed circuit boards and is also now able to meet the needs of its customers for long production runs at internationally competitive prices. On-time delivery and excellent service are critical components of IMP's key competitive advantage.

Operations

The Company operates manufacturing facilities in Adelaide and Melbourne. The main Adelaide facility in Newton produces all of Codan's communications products and is Codan's head office.

Manufacturing operations for Codan's communications and broadcast products consist of assembly, test and tune, and quality assurance. These products have a significant engineering content and require skilled technical labour for assembly and testing. Codan guards its reputation for reliability of products by adopting stringent testing and quality control procedures. Codan maintains quality assurance systems approved to International Standard ISO 9001.

Back row from left to right: Michael Heard, Peter Griffiths, David Klingberg and Brian Burns. **Front row from left to right:** Ian Wall and Dr David Klingner.

The directors present their report together with the financial report of Codan Limited ("the Company") and of the group, being the Company and its controlled entities, for the year ended 30 June 2007 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:

Dr David Klingner B.Sc (Hons), PhD, FAusIMM
Chairman, Independent Non-Executive Director
Age 63

Dr Klingner was appointed by the board as Chairman in May 2007. Dr Klingner has been a director with Codan since December 2004. Dr Klingner, a geologist, was previously employed by Rio Tinto where he was engaged in a number of senior roles involving business leadership, project development and worldwide exploration activities, and where he gained extensive experience in the establishment and management of overseas operations.

He is a former chairman of Coal & Allied Industries Ltd, Bougainville Copper Limited and the World Coal Institute. He was appointed as a director of Energy Resources of Australia Limited in July 2004 and is presently chairman.

John Uhrig AC, BSc, DUniv, Hon. DEcon, FAIM
Non-Executive Director
Age 78

Mr Uhrig retired as Chairman and from the Board in May 2007. 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 a director of ASX listed companies Westpac Banking Corporation (1989 to 2000 and chairman 1992 to 2000), Santos Limited (1991 to 2001 and chairman 1994 to 2001) and Rio Tinto Limited (1983 to 2001 and chairman 1987 to 2001).

He was formerly chairman of 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.

Michael Heard BE (Hons), MBA, FIE Aust, CPEng
Managing Director and Chief Executive Officer
Age 59

Mr Heard was appointed to the board as Managing 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.

Brian Burns AM, FCPA, FCIS, FAICD
Non-Executive Director
Age 68

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 ASX listed companies National Foods Limited (1991 to 2003) and Select Harvests Limited (1999 to 2004). He is a former director of 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.

Peter Griffiths B.Ec (Hons), CPA, FAICD
Independent Non-Executive Director
Age 65

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.

David Klingberg AM, FTSE, BTech (Civil), FIEAust, FAusIMM, FAICD
Independent Non-Executive Director
Age 63

Mr Klingberg was appointed to the board in July 2005. He is an engineer with extensive national and international experience having been managing director of Kinhill Limited from 1986 to 1998. He was based in Singapore during 1991 and 1992 responsible for the international activities of Kinhill. Mr Klingberg is currently Chancellor of the University of South Australia a position he has held since 1998. He has a number of private sector and government appointments including chairman of Barossa Infrastructure Limited, and directorships of Snowy Hydro Limited, Centrex Metals Limited and the WorkCover Corporation of South Australia.

Ian Wall BE, FSASM, MIE Aust, CPEng
Non-Executive Director
Age 76

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.

COMPANY SECRETARY

James Mattsson B Ec (Acc), CA, Grad Dip App Fin (Corp Fin), M Comm

Mr Mattsson was appointed to the position of Company Secretary in June 2007. Mr Mattsson has responsibility for the areas of Corporate Finance, Business Systems and Information Technology across the Codan group. Prior to joining Codan he held senior management positions at Southcorp Limited including General Manager Business Applications and Manager Project Accounting. Prior to that he was employed by KPMG Chartered Accountants as a Senior Manager.

The directors were pleased to announce on 7 August 2007 the appointment of Mr Rick Moody to fulfil the roles of Chief Financial Officer and Company Secretary commencing 3 October 2007. Mr Moody's most recent positions include Chief Financial Officer with Elders Australia Limited and Corporate Financial Controller and Group General Manager Finance and Administration with Adelaide Brighton Limited.

David Hughes BA(Acc), CPA, AIMM, CPMgr

Mr Hughes was appointed to the position of Company Secretary in September 2000 and resigned from the Codan group in June 2007. Mr Hughes had responsibility for the financial control, reporting and information technology across the Codan group. Prior to joining Codan he was Executive General Manager, Information Services with Normandy Mining, Commercial Manager at Southcorp and Divisional Financial Controller at James Hardie.

DIRECTORS' MEETINGS

The number of directors' meetings (of the Company), and of meetings of board committees held, and the number of those meetings attended by each of the member directors during the financial year are:

Director	Board Meetings		Board Audit, Risk and Compliance Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Dr David Klingner	10	11			5	5
John Uhrig	10	11				
Michael Heard	11	11				
Brian Burns	11	11	3	4	5	5
Peter Griffiths	11	11	4	4		
David Klingberg	10	11	3	4		
Ian Wall	11	11			5	5

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

In addition to the meetings disclosed above, the full Board of Directors have attended a number of full day strategy sessions which were held during the course of the financial year with the Executive team.

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 group 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 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 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 group 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 group'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;
- directors having extensive knowledge of the Company's industries and / or extensive expertise in significant aspects of financial management or general management;
- 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;
- 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. During the course of the financial year, the company has not complied with these two recommendations. As a result of the appointment of Dr Klingner as Chairman in May 2007, the Chairman is now an independent director. 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. 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. The role of nomination of proposed directors is being conducted by the full board.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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
Dr David Klingner – Independent Non-Executive Director
Ian Wall – 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 executive's ability to control the relevant segments performance; and
- the amount of incentives within each executive's remuneration.

Certain senior executives may receive bonuses based on the achievement of two specific performance hurdles.

Firstly, where the ratio of earnings before interest and taxes ("EBIT"), which is adjusted for the capitalisation of product development expenditure, to sales exceeds a predetermined threshold for the financial year a bonus is calculated based on a percentage of the executives normal salary package. This percentage is capped at a maximum of 35% of the salary package. For the year ended 30 June 2007 the bonus achieved under this performance condition was 16.47% of the executive's salary package.

Secondly, where growth of the group exceeds a predetermined threshold for the financial year a bonus is calculated based on a percentage of the executives normal salary package. This percentage is capped at a maximum of 35% of the salary package. Payments under this performance condition are dependent upon the achievement of the minimum threshold for the EBIT to sales ratio referred to above. For the year ended 30 June 2007 the growth performance measure was not achieved and as a result no payments under this performance condition will be made.

Where these calculations result in a bonus being available the payment of one half of the bonus would be dependent upon the appraisal rating of the specific executive. These performance conditions have been established to encourage the profitable growth of the consolidated entity. All bonus amounts that accrue to the relevant executives are paid in cash. There is no separate profit-share plan and no share options have been issued by the Company.

The board considers that the above performance-linked remuneration structure is appropriate.

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 any performance related remuneration nor are they issued options on securities. Directors' fees cover all main board activities and membership of committees.

Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration paid or payable to each director of the Company and each of the five named officers of the Company and the group receiving the highest remuneration are:

Directors	Base emolument $	Bonuses $	Non-cash benefits $	Super contributions $	Retirement benefits $	Total $
Non-executive						
Dr David Klingner	81,250			7,312		88,562
John Uhrig	149,875					149,875
Brian Burns	75,000			6,750		81,750
Peter Griffiths	75,000			6,750		81,750
David Klingberg	75,000			6,750		81,750
Ian Wall	81,750					81,750
Executive						
Michael Heard	505,957	94,731		45,886		646,574

Executive Officers	Base emolument $	Bonuses $	Non-cash benefits $	Super contributions $	Retirement benefits $	Total $
Allan Gobolos	227,430	40,363		20,838		288,632
David Hughes	207,549			16,767		224,316
Peter Charlesworth	214,593	37,069		17,867		269,529
Donald McGurk	203,895	37,069		15,522		256,487
Gary Shmith	147,513	25,207		12,391		185,112

The remuneration amounts disclosed above have been calculated based on the expense to the company for the financial year, therefore items such as annual leave and long service leave, taken and provided for, have been considered. As a result the remuneration disclosed may not equal the salary package as agreed with the executive in any one year.

Corporate Performance

As required by the Corporations Act 2001 the following information is presented:

	2007	2006	2005	2004
Net profit after tax	11,239,000	8,487,870	16,204,132	16,677,771
Dividends paid	10,532,955	9,722,728	8,840,031	7,885,120
Change in share price	$0.02	($0.48)	($0.40)	$0.70

Codan Limited listed on the Australian Stock Exchange on 27 November 2003 and therefore details of the company's performance for prior financial years have not been included. The net profit after tax for the 2004 and 2005 years have not been adjusted for the impact of International Financial Reporting Standards.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 group.

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
David Klingberg – Independent 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;
- assessing corporate risk assessment processes;
- 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 independence declaration in relation to the audit;
- providing advice to the board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act;
- reviewing the nomination and performance of the external auditor. The external audit engagement partner was rotated in 2007;
- 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 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, product quality, interruptions to production, changes in international quality standards, 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. The committee is in the process of formalising an improved structured approach to business risk identification and management that will use Australian / New Zealand Standard Risk Management AS/NZS 4360 as a guide. The committee expect this revised approach to be implemented during the coming months.

Risk management and compliance and control

The group 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.

Quality and integrity of personnel

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 (up to the date of his resignation on 13 June 2007) 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.

For the period from 14 June 2007 to the date of this report, the management that have been responsible for the financial matters of the company have made these declarations. 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 group 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 group. 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 (up to the date of his resignation on 13 June 2007) 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. For the period from 14 June 2007 to the date of this report, the management that have been responsible for the financial matters of the company have made these declarations. Operational and other compliance risk management processes 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 group.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. During the year the company reviewed and confirmed its processes for seeking to ensure that it does not trade with parties proscribed for illegal or undesirable activities.

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 different from Australia's;
- conflicts of interest;
- 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:
  - 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, or any other period as determined by the board, and reported to the market, as being a period during which the market is believed to be fully informed of all matters relevant to the company's share price;
  - 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, Company Secretary and the Chief Finance and Information Officer are responsible for interpreting the Company's policy and where necessary informing the board. The Company Secretary is responsible for all communications with the ASX. Reportable matters are promptly advised to the ASX.
- the annual report is distributed to all shareholders including relevant information about the operations of the group 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 group during the period. This review is 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 years, is made available on the group's website.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the group'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 group 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 change in the nature of the activities of the group during the year.

OPERATING AND FINANCIAL REVIEW

The board of Codan Limited has announced a net profit after tax of $11.2m for FY07, 32% higher than the previous year. The improvement on the forecast of $10.9m announced on 6 June 2007 resulted from better than expected orders received and shipped in June 2007. The profit arose from full year revenue of $121.6m, 3.7% greater than the previous year. Profit margins were significantly stronger in FY07 as a result of the restructuring and other profit improvement programs completed at the end of FY06.

Working capital management for FY07 was good. Following significant investment in previous years in expanding the Adelaide factory and implementation of a new IT business system, the level of capital expenditure for property, plant and equipment was very low. Excellent net cash generation of $25.7m was achieved from operating and investing activities, allowing the company to retire $9.2m of debt, pay dividends of $10.5m and finish the year with a surplus of cash over borrowings of $3.5m.

The board declared a final dividend of 3.5 cents per share bringing the dividend for the year to 6.5 cents per share fully franked, an increase of half a cent (8.3%) over the previous year. The final dividend has a record date of 17 September and will be paid on 2 October.

As advised in the market announcement on 6 June 2007, revenue for the quarter ended June 2007 was affected by some contraction in the company's HF radio market. The security situations in Iraq and Afghanistan have resulted in deferral of reconstruction activity, communications upgrades for homeland security in the first world have not yet eventuated, and demand from aid and humanitarian organisations is flat. Thus revenue from HF radio sales in FY07 fell somewhat compared to the previous year. On the other hand revenue from satellite communications sales grew significantly year on year.

Profit margins in the second half were lower than in the first half principally as a result of the different mix of HF radio and satellite communications sales, a negative $0.7m EBIT impact arising from a stronger Australian dollar, and costs associated with the evaluation of potential acquisitions of $0.5m.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The key initiatives for Codan in FY08 will be:

- continuing improvements in efficiency and productivity;
- major market launches in HF radio, digital microwave radio and TV broadcast products to stimulate growth for which the company has ample manufacturing capacity; and
- continued activity with respect to potential acquisitions.

Communications Products

HF Radio

Codan expects to retain its market share in the contracting market described above. Order levels in July and August to date are good. Thus sales in the quarter to the end of September 2007 will be a marked improvement over those in the quarter ended June 2007. However the near term outlook for HF radio sales in our current market segment still remains uncertain.

In September this year the company will conduct a major launch of its excellent range of HF radio products into a global military market segment. This new segment for Codan is equivalent in size to the segment currently served and the company expects significant growth in sales from this initiative. Successful market entry will take some time so the benefits of the initiative in FY08 will be limited.

Satellite Communications

This market remains quite strong and Codan continues to improve market share via demand for its newer product family. More products are being added to this family progressively. Continued growth in US dollar revenue from sales of satellite communications products is expected. However, in FY08 this will be largely offset by the stronger Australian dollar noting that Codan's exposure is hedged at 83.8 US cents to the Australian dollar.

Digital Microwave Radio

Sales of this product group were disappointing in FY07. Customers using the product are very satisfied, but to date the company has not grown the number of customers sufficiently. A major new marketing initiative focusing on specific markets in Africa, Middle East, Eastern Europe and CIS will be conducted in the first half of FY08. The company expects some benefit from this initiative this financial year.

Broadcast Products

Sales of this product group were still quite low, but improved operational efficiency resulted in contribution to Codan's consolidated profit that was positive and significantly improved in FY07. Sales in Australia were relatively strong and good work was done to expand and improve the company's sales and distribution capability in North America.

During FY08 the company will continue to strengthen Codan Broadcast's platform for growth. A major market launch of the company's world leading router product range will be conducted in September this year focused on North America and Europe. Sales and distribution capability will be expanded in Europe.

It is expected that these investments in the business will deliver significant profit growth in FY09 and beyond.

Printed Circuit Boards

This business continues to perform well and delivered positive contribution to Codan's consolidated profit in a tough marketplace.

OUTLOOK

Once again the company faces a strong currency headwind. The company has recently completed several hedge transactions, resulting in 100% of its expected net exposure to the US dollar for FY08, being hedged at an average exchange rate of 83.8 US cents to the Australian dollar.

Further improvements in productivity and efficiency have been implemented; continuous improvement is enshrined in Codan. The major marketing initiatives outlined above should deliver some sales growth in FY08 but the majority of the benefit will not be realised until FY09.

The company continues to be very active on several acquisition opportunities aimed at delivering medium to long term benefit to the group. This endeavour, by necessity, takes time. Caution is required to ensure that the company makes only the right acquisitions at the right price. In the short term such activities could increase or reduce profitability depending on success, timing, implementation expenses and the early performance of acquisitions.

Order intake in July and August to date is good, however, many variables will affect performance in FY08. Guidance from the board remains that NPAT for the full year ending 30 June 2008 could decline but at this time it is not possible to make an accurate forecast. However, noting the current orders and the company's cash position the maintenance of an interim dividend of 3.0 cents per share fully franked is expected.

The board will of course advise the market immediately the outlook becomes clearer and will continue to comment from time to time about developments affecting performance in FY08.

In accordance with the company's recently revised ten year plan, the board and management are focused on investment in new product and market development, and acquisitions in selected global communications products market segments, to deliver significant growth in the medium to long term.

STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the group that occurred during the financial year under review.

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 2006 ordinary	3.5	5,672	100%	3 October 2006
– Interim 2007 ordinary	3.0	4,861	100%	2 April 2007
Declared after the end of the year:				
– Final 2007 ordinary	3.5	5,672	100%	2 October 2007

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

EVENTS SUBSEQUENT TO REPORTING DATE

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

LIKELY DEVELOPMENTS

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

Further information about likely developments in the operations of the group 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 group.

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
Michael Heard	3,666,268
Brian Burns	11,580,737
Peter Griffiths	10,000
Dr David Klingner	100,000
David Klingberg	58,700
Ian Wall	34,792,943

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

The Company has agreed to indemnify the current and former 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.

The Company has also agreed to indemnify the current and former 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.

NON-AUDIT SERVICES

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

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

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board Audit, Risk and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor;
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Refer page 25 for a copy of the auditors independence declaration as required under Section 307C of the Corporations Act.

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

	Consolidated	
	2007	2006
	$	$
Statutory audit:		
– audit and review of financial reports (KPMG Australia)	110,000	114,000
– audit of financial reports (overseas KPMG firms)	14,581	18,957
	124,581	132,957
Services other than statutory audit:		
Other assurance services		
– pre-implementation internal control systems review	–	62,515
– transition to International Accounting Standards	–	3,200
Other services		
– taxation compliance services (KPMG Australia)	52,111	54,664
– taxation compliance services (overseas KPMG firms)	22,688	27,046
	74,799	147,425

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:

Dr D Klingner
Director

M K Heard
Director

Dated at Newton this 17th day of August 2007.

KPMG

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the directors of Codan Limited.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Gary Savage
Partner

Adelaide

17 August 2007

Income Statements

for the year ended 30 June 2007

		Consolidated		The Company	
		2007	2006	2007	2006
	Note	$000	$000	$000	$000
Revenue		**121,591**	117,301	**110,626**	106,437
Cost of sales		**(68,291)**	(66,095)	**(61,057)**	(59,299)
Gross profit		**53,300**	51,206	**49,569**	47,138
Other income	5	**426**	179	**386**	207
Administrative expenses		**(8,426)**	(8,380)	**(8,279)**	(7,320)
Sales and marketing expenses		**(20,016)**	(22,620)	**(18,421)**	(21,352)
Engineering expenses		**(7,980)**	(7,490)	**(7,517)**	(6,647)
Net financing costs	6	**(1,353)**	(524)	**(1,248)**	(571)
Share of net loss of associate	13	**–**	–	**–**	–
Other expenses		**(80)**	(798)	**11**	(112)
Profit before tax		**15,871**	11,573	**14,501**	11,343
Income tax expense	8	**(4,632)**	(3,085)	**(4,237)**	(2,994)
Profit for the year		**11,239**	8,488	**10,264**	8,349
Earnings per share for profit attributable to the ordinary equity holders of the company:					
Basic earnings per share	3	**6.9 cents**	5.2 cents		
Net tangible assets per share		**20.3 cents**	17.6 cents		

The income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 55.

Statements of Recognised Income and Expense

for the year ended 30 June 2007

	Note	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Exchange differences on translation of foreign operations	23	**121**	(112)	**128**	(189)
Gains / (Losses) on cash flow hedges taken to / from hedging reserve	23	**462**	(127)	**462**	(127)
Net income recognised directly in equity		**583**	(239)	**590**	(316)
Profit for the period		**11,239**	8,488	**10,264**	8,349
Total recognised income and expense for the period		**11,822**	8,249	**10,854**	8,033

Other movements in equity arising from transactions with owners are set out in the notes to the financial statements.

The statements of recognised income and expense are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 55.

Balance Sheets

as at 30 June 2007

	Note	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
CURRENT ASSETS					
Cash and cash equivalents	9	**5,862**	1,336	**4,820**	732
Trade and other receivables	10	**15,724**	22,045	**16,321**	23,270
Inventories	11	**14,122**	17,273	**12,546**	15,726
Current tax assets	8	**–**	613	**–**	542
Other assets	12	**1,866**	1,318	**1,567**	947
Total current assets		**37,574**	42,585	**35,254**	41,217
NON-CURRENT ASSETS					
Investments in equity accounted investees	13	**–**	–	**–**	–
Investments	14	**50**	50	**33,649**	33,649
Property, plant and equipment	15	**17,777**	19,594	**15,843**	17,293
Product development	16	**14,438**	16,437	**14,438**	16,437
Intangible assets	17	**25,039**	25,888	**4,126**	4,975
Deferred tax assets	8	**28**	26	**–**	–
Total non-current assets		**57,332**	61,995	**68,056**	72,354
Total assets		**94,906**	104,580	**103,310**	113,571
CURRENT LIABILITIES					
Trade and other payables	18	**12,750**	15,087	**10,438**	13,058
Other liabilities	19	**–**	–	**11,499**	10,803
Loans and borrowings	20	**2,363**	12,927	**2,357**	12,900
Current tax payable	8	**1,769**	109	**1,611**	–
Provisions	21	**3,527**	3,290	**3,198**	2,943
Total current liabilities		**20,409**	31,413	**29,103**	39,704
NON-CURRENT LIABILITIES					
Loans and borrowings	20	**26**	53	**–**	–
Deferred tax liabilities	8	**1,850**	1,689	**2,129**	2,046
Provisions	21	**2,098**	2,191	**1,873**	1,937
Total non-current liabilities		**3,974**	3,933	**4,002**	3,983
Total liabilities		**24,383**	35,346	**33,105**	43,687
Net assets		**70,523**	69,234	**70,205**	69,884
EQUITY					
Share capital	22	**23,685**	23,685	**23,685**	23,685
Reserves	23	**399**	(184)	**462**	(128)
Retained earnings	24	**46,439**	45,733	**46,058**	46,327
Total equity		**70,523**	69,234	**70,205**	69,884

The balance sheets are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 55.

Statements of Cash Flows

for the year ended 30 June 2007

	Note	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		**129,242**	118,720	**117,718**	107,764
Cash payments to suppliers and employees		**(97,690)**	(105,700)	**(79,746)**	(86,340)
Interest received		**118**	69	**125**	83
Interest paid		**(596)**	(828)	**(591)**	(821)
Income taxes paid		**(2,191)**	(5,023)	**(2,178)**	(4,722)
Net cash from operating activities	28(ii)	**28,883**	7,238	**35,328**	15,964
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for goodwill		**–**	–	**–**	–
Proceeds from sale of property, plant and equipment		**80**	59	**15**	57
Dividends received		**44**	41	**–**	–
Payments for capitalised product development		**(2,729)**	(3,207)	**(2,729)**	(3,207)
Acquisition of property, plant and equipment		**(596)**	(2,319)	**(379)**	(2,578)
Acquisition of intangibles (computer software)		**(18)**	(1,853)	**(18)**	(1,853)
Net cash used in investing activities		**(3,219)**	(7,279)	**(3,111)**	(7,581)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**–**	9,500	**–**	9,500
Repayments of borrowings		**(9,191)**	(230)	**(9,143)**	(138)
Proceeds / (Loans) to / from related companies		**–**	–	**(7,053)**	(8,066)
Dividends paid		**(10,533)**	(9,723)	**(10,533)**	(9,723)
Net cash used in financing activities		**(19,724)**	(453)	**(26,729)**	(8,427)
Net increase / (decrease) in cash held		**5,940**	(494)	**5,488**	(44)
Cash and cash equivalents at the beginning of the financial year		**(64)**	409	**(668)**	(624)
Effects of exchange rate fluctuations on cash held		**(14)**	21	**–**	–
Cash and cash equivalents at the end of the financial year	28(i)	**5,862**	(64)	**4,820**	(668)

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 30 to 55.

1. SIGNIFICANT ACCOUNTING POLICIES

Codan Limited (the "company") is a company domiciled in Australia. The consolidated financial report of the company for the year ended 30 June 2007 comprises the company and its subsidiaries (together referred to as the "Group"). The financial report was authorised for issue by the directors on 17 August 2007.

(a) Statement of compliance

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

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS").

(b) Basis of preparation

The financial report is prepared in Australian dollars on the historical costs basis except that derivative financial instruments are stated at their fair value. The following standards and amendments were available for early adoption but have not been applied by the group in these financial statements:

AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and may require extensive additional disclosures with respect to the Group's financial instruments and share capital.

AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 117 *Leases,* AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards,* AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosures contained within the consolidated financial report.

AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.

AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 102 *Inventories,* AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits,* AASB 127 *Consolidated and Separate Financial Statements,* AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment of Assets* and AASB 1023 *General Insurance Contracts.* AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments.* This standard is only expected to impact disclosures contained within the financial report.

Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e. 1 July 2004 and 1 July 2005, respectively).

The Group plans to adopt these standards in line with the standards application date. The adoption of these standards is not expected to have a material impact on the financial results of the Group.

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

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These 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 the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

(c) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries 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 subsidiaries are eliminated in full on consolidation.

Associates

An associate is an entity, other than a partnership, over which the Group 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.

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 Group'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.

(d) Revenue recognition

Revenues are recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax (GST) payable to taxation authorities.

Sale of goods

Revenue from the sale of 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.

Dividends

Revenue from dividends and distributions from controlled entities are recognised by the parent entity when they are declared.

(e) Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs include interest relating to borrowings, interest received on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement 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. Interest income and borrowing costs are recognised in the income statement as it accrues, using the effective interest method.

(f) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of foreign operations are translated to Australian dollars at the foreign exchange rates ruling at the reporting date.

Equity items are translated at historical rates. The income and expenses of foreign operations are translated to Australian dollars at the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are taken directly to the foreign currency translation reserve (FCTR) until the disposal, or partial disposal, of the foreign operations.

Exchange differences arising from the translation of the net investment in foreign operations are taken to the foreign currency translation reserve on consolidation. They are released into the income statement upon disposal.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivative financial instruments

The Group has used derivative financial instruments to hedge its exposure to foreign exchange. In accordance with its policy, the Group does not hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement unless the derivative qualifies for hedge accounting. Attributable costs are recognised in the income statement when incurred.

Hedging

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a financial asset or liability, then the associated gains and losses that were recognised directly in equity are reclassified into the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(h) Taxation

Income tax expense on the income statement comprises a current and deferred tax expense. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date and adjusted for any prior year under or over provision. The movement in deferred tax assets and liabilities results in the deferred tax expense, unless the movement results from a business combination in which case the tax entry is recognised in goodwill, or a transaction has impacted equity in which case the tax entry is also reflected in equity.

Deferred tax assets and liabilities arise from temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Tax consolidation

The Company is the head entity in the tax consolidated group comprising all the Australian wholly owned subsidiaries. The tax consolidated group has determined that subsidiaries will account for deferred tax balances and will make contributions to the head entity for the current tax liabilities as if the subsidiary prepared its tax calculation on a stand alone basis.

(i) 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 balance sheet.

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

(j) Cash and cash equivalents

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

(k) Trade and other receivables

Trade Debtors are to be settled within agreed trading terms, typically less than 60 days and are carried at the net present value of the amount due.

Impairment of receivables is not recognised until objective evidence is available that a loss event may occur. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed, instead impairment testing is performed by considering the risk profile of that group of receivables.

(l) Inventories

Raw materials and stores, work in progress and finished goods are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. 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.

(m) Investments

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

(n) Intangible assets

Product development costs

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products, is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Group has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation and accumulated impairment losses. Other development expenditure is recognised in profit or loss when incurred.

Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Negative goodwill is recognised directly in the income statement.

Goodwill in relation to acquisitions prior to the transition to AIFRS, being 1 July 2004, is recognised on the basis of deemed cost, which represents the amount recorded under previous GAAP.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as incurred.

Amortisation

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

Product development costs	2 – 5 years
Computer Software	3 – 7 years

(o) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Land and buildings that had been revalued to fair value prior to the transition to AIFRS, being 1 July 2004, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Property, plant and equipment (continued)

Depreciation

Depreciation is charged to the income statement on property, plant and equipment on a straight line basis over the estimated useful life of the assets. Capitalised leased assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the Group will obtain ownership of the asset, the life of the asset. The main depreciation rates used for each class of asset are as follows:

Buildings	4%
Leasehold property	33%
Plant and equipment	13% to 40%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(p) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such impairment exists, the asset's recoverable amount is estimated.

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other asset and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill and then to reduce the carrying amount of the other assets in the cash generating unit on a pro rata basis.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

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

(q) 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.

(r) Interest bearing borrowings

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

(s) 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 Group expects to pay as at the reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

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 Commonwealth Government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

Defined contribution superannuation funds

The Group contributes to defined contribution superannuation plans, contributions are expensed in the income statement as incurred.

(t) Provisions

A provision is recognised when there is a present legal 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, that can be estimated reliably. Provisions are 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.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

Restructuring and employee termination benefits

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

Warranty

A provision is made for the Group's estimated liability on all products sold and still under warranty and includes claims already received. The estimate is based on the Group's warranty cost experience over previous years.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(v) Accounting estimates and judgments

The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year relate to impairment assessments of non-current assets, including product development and goodwill.

	Consolidated		The Company	
	2007	2006	2007	2006
	$000	$000	$000	$000

2. DIVIDENDS

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
(i) an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 3 October 2005	–	5,672	–	5,672
(ii) an ordinary interim dividend of 2.5 cents per share, franked to 100% with 30% franking credits, was paid on 3 April 2006	–	4,051	–	4,051
(iii) an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 3 October 2006	**5,672**	–	**5,672**	–
(iv) an ordinary interim dividend of 3 cents per share, franked to 100% with 30% franking credits, was paid on 2 April 2007	**4,861**	–	**4,861**	–
	10,533	9,723	**10,533**	9,723

Subsequent events

Since the end of the financial year, the directors declared an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, the dividend of $5,671,591 will be paid on 2 October 2007. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognised in subsequent financial reports.

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Dividend franking account				
Franking credits available to shareholders for subsequent financial years (30%)			**7,583**	7,750

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. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $2,430,681 (2006: $2,430,681).

3. EARNINGS PER SHARE

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Net profit used for the purpose of calculating basic earnings per share	**11,239**	8,488		

The weighted average number of shares used as the denominator number for basic earnings per share was 162,045,454 (2006: 162,045,454).

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

4. SEGMENT ACTIVITIES

The Group operates predominantly in Australia, and more than 90% of revenue, operating profit and segment assets related to operations in Australia. However, approximately 90% 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, borrowings and related expenses, corporate assets and related expenses.

Business segments

The Group comprises 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 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 Group has its manufacturing and corporate offices in Australia with overseas representation offices in the United States of America, England, India and China.

Business segments	Communications		Other		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	$000	$000	$000	$000	$000	$000	$000	$000
Revenue								
External segment revenue	**110,966**	106,639	**10,625**	10,662	**–**	–	**121,591**	117,301
Inter segment revenue	**–**	–	**1,421**	1,587	**(1,421)**	(1,587)	**–**	–
Total segment revenue	**110,966**	106,639	**12,046**	12,249	**(1,421)**	(1,587)	**121,591**	117,301
Other unallocated revenue							**–**	–
Total revenue							**121,591**	117,301
Result								
Segment result	**21,805**	18,377	**1,118**	(231)	**(13)**	72	**22,910**	18,218
Share of associates net loss							**–**	–
Unallocated corporate expenses							**(7,039)**	(6,645)
Profit from operating activities							**15,871**	11,573
Income tax expense							**(4,632)**	(3,085)
Net Profit							**11,239**	8,488
Non Cash Items								
Depreciation and amortisation	**7,508**	7,422	**307**	315	**–**	–	**7,815**	7,737
Assets								
Segment assets	**76,260**	90,492	**10,867**	10,744	**–**	–	**87,127**	101,236
Investments							**50**	50
Unallocated corporate assets							**7,729**	3,294
Consolidated total assets							**94,906**	104,580
Liabilities								
Segment liabilities	**16,772**	18,929	**1,630**	1,642	**–**	–	**18,402**	20,571
Unallocated corporate liabilities							**5,981**	14,775
Consolidated total liabilities							**24,383**	35,346

Geographical segments	Europe		Americas		Asia		Australia/Oceania		Africa		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
External segment revenue by location of customers	**31,992**	36,642	**47,599**	31,892	**16,295**	13,488	**12,520**	13,520	**13,185**	21,759	**121,591**	117,301
Segment assets by location of assets	**2,130**	2,038	**1,412**	969	**–**	–	**91,364**	101,573	**–**	–	**94,906**	104,580
Acquisitions of non current assets	**–**	76	**55**	95	**–**	–	**3,288**	7,208	**–**	–	**3,343**	7,379

	Consolidated		The Company	
	2007	2006	2007	2006
	$000	$000	$000	$000
5. OTHER INCOME				
Dividend income	**44**	41	**–**	–
Other items	**382**	138	**286**	107
Rental income	**–**	–	**100**	100
	426	179	**386**	207
6. EXPENSES				
Net financing costs:				
Interest income	**(162)**	(110)	**(125)**	(83)
Net foreign exchange (gain) / loss	**919**	(194)	**782**	(167)
Interest expense	**596**	828	**591**	821
	1,353	524	**1,248**	571
Depreciation of:				
Buildings	**352**	349	**352**	349
Leasehold property	**35**	99	**22**	83
Plant and equipment	**1,833**	2,180	**1,450**	1,772
	2,220	2,628	**1,824**	2,204
Amortisation of:				
Product development costs	**4,728**	4,549	**4,728**	4,549
Computer software	**867**	560	**867**	560
	5,595	5,109	**5,595**	5,109
Personnel expenses:				
Wages and salaries	**22,246**	21,906	**16,371**	15,873
Other associated personnel expenses	**1,878**	2,043	**1,261**	1,481
Contributions to defined contribution superannuation plans	**1,873**	2,150	**1,450**	1,692
Increase in liability for long service leave	**267**	131	**254**	112
Increase in liability for annual leave	**1,371**	1,534	**1,194**	1,331
	27,635	27,764	**20,530**	20,489
Impairment of trade receivables	**249**	63	**216**	58
Operating lease rental expense	**466**	680	**50**	157
(Profit) or loss on sale of property, plant and equipment	**80**	125	**(11)**	112
Restructuring costs expensed as incurred	**–**	1,778	**–**	1,204

	Consolidated 2007 $	Consolidated 2006 $	The Company 2007 $	The Company 2006 $

7. AUDITORS' REMUNERATION

	Consolidated 2007 $	Consolidated 2006 $	The Company 2007 $	The Company 2006 $
Audit services:				
KPMG Australia – audit and review of financial reports	**110,000**	114,000	**110,000**	114,000
Overseas KPMG firms – audit of financial reports	**14,581**	18,957	**–**	–
Other services:				
KPMG Australia – taxation services	**57,397**	54,664	**57,397**	54,664
KPMG Australia – other assurance services	**–**	65,715	**–**	65,715
Overseas KPMG firms – taxation services	**17,402**	27,046	**–**	12,089
KPMG related practices – due diligence services	**–**	–	**–**	–
	199,380	280,382	**167,397**	246,468

8. INCOME TAX

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
(a) Income tax expense				
Current tax expense:				
Current tax payable for the financial year	**4,988**	3,534	**4,658**	3,308
Adjustments for prior years	**(151)**	(383)	**(129)**	(381)
	4,837	3,151	**4,529**	2,927
Deferred tax expense:				
Origination and reversal of temporary differences	**(205)**	(66)	**(292)**	67
Total income tax expense in income statement	**4,632**	3,085	**4,237**	2,994
Reconciliation between tax expense and pre tax net profit:				
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	**4,762**	3,472	**4,350**	3,403
Decrease in income tax expense due to:				
Additional deduction for research and development expenditure	**137**	151	**137**	151
Over provision for taxation in previous years	**151**	383	**129**	381
Share of associates profit	**–**	–	**–**	–
Sundry items	**18**	12	**–**	–
	4,456	2,926	**4,084**	2,871
Increase in income tax expense due to:				
Non-deductible expenses	**136**	41	**127**	38
Depreciation	**26**	85	**26**	85
Sundry items	**14**	33	**–**	–
Income tax expense	**4,632**	3,085	**4,237**	2,994

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
8. INCOME TAX (CONTINUED)				
(b) Current tax liabilities/asset				
Balance at the beginning of the year	**504**	(1,237)	**542**	(1,090)
Net foreign currency differences on translation of foreign entities	**10**	(12)	**–**	–
Tax payable transferred by entities in the tax consolidated group	**–**	–	**(178)**	(44)
Income tax paid / (received)	**2,191**	5,024	**2,178**	4,722
Adjustments from prior year	**514**	263	**505**	262
Current years income tax expense on operating profit	**(4,988)**	(3,534)	**(4,658)**	(3,308)
	(1,769)	504	**(1,611)**	542
Disclosed in balance sheet as:				
Current tax asset	**–**	613	**–**	542
Income tax payable	**(1,769)**	(109)	**(1,611)**	–
	(1,769)	504	**(1,611)**	542
(c) Deferred tax liabilities				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:				
Expenditure currently tax deductible but deferred and amortised for accounting	**4,331**	4,931	**4,331**	4,931
Sundry items	**21**	140	**8**	86
Set off of tax in relation to deferred tax assets:				
Difference in depreciation of property, plant and equipment	**660**	(32)	**661**	(32)
Provisions for employee benefits not currently deductible	**(1,150)**	(1,155)	**(990)**	(978)
Provisions and accruals not currently deductible	**(2,006)**	(2,191)	**(1,881)**	(1,961)
Sundry items	**(6)**	(4)	**–**	–
	1,850	1,689	**2,129**	2,046
(d) Deferred tax assets				
Future income tax benefit comprises the estimated benefit at the applicable rate of 30% on the following items:				
Sundry items	**28**	26	**–**	–
	28	26	**–**	–
9. CASH AND CASH EQUIVALENTS				
Petty cash	**4**	4	**2**	2
Cash at bank	**4,358**	1,332	**3,318**	730
Short term deposit	**1,500**	–	**1,500**	–
	5,862	1,336	**4,820**	732

	Note	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
10. TRADE AND OTHER RECEIVABLES					
Current					
Trade receivables		**16,204**	22,310	**14,233**	20,693
Less: Impairment losses recognised		**(758)**	(693)	**(694)**	(641)
		15,446	21,617	**13,539**	20,052
Other debtors		**278**	428	**257**	396
Loans to controlled entities		**–**	–	**2,525**	2,822
		15,724	22,045	**16,321**	23,270
11. INVENTORIES					
Current					
Raw materials		**10,932**	13,689	**9,706**	12,261
Work in progress		**821**	1,210	**471**	1,091
Finished goods		**2,369**	2,374	**2,369**	2,374
		14,122	17,273	**12,546**	15,726
12. OTHER ASSETS					
Prepayments		**730**	834	**529**	606
Deferred foreign currency hedge exchange difference	23	**462**	–	**462**	–
Other		**674**	484	**576**	341
		1,866	1,318	**1,567**	947
13. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES					
Shares in associates		**–**	–	**–**	–

Codan Limited holds a 50% interest in PCB Contracting Services Pty Ltd. This business ceased operations during the year ended 30 June 2004.

	Note	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
14. INVESTMENTS					
Shares in controlled entities at cost		**–**	–	**33,649**	33,649
Unlisted shares at cost		**50**	50	**–**	–
		50	50	**33,649**	33,649

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
15. PROPERTY, PLANT AND EQUIPMENT				
Freehold land and buildings at cost	**9,200**	9,326	**9,200**	9,326
Accumulated depreciation	**(863)**	(511)	**(863)**	(511)
	8,337	8,815	**8,337**	8,815
Leasehold property at cost	**338**	350	**147**	147
Accumulated amortisation	**(163)**	(140)	**(147)**	(125)
	175	210	**–**	22
Plant and equipment at cost	**26,623**	27,329	**20,325**	20,293
Accumulated depreciation	**(17,453)**	(16,762)	**(12,911)**	(11,839)
	9,170	10,567	**7,414**	8,454
Capital work in progress at cost	**95**	2	**92**	2
Total property, plant and equipment	**17,777**	19,594	**15,843**	17,293

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Freehold land and buildings				
Carrying amount at beginning of year	**8,815**	4,282	**8,815**	4,282
Additions	**3**	13	**3**	13
Transfers	**(129)**	4,869	**(129)**	4,869
Disposals	**–**	–	**–**	–
Depreciation	**(352)**	(349)	**(352)**	(349)
Carrying amount at end of year	**8,337**	8,815	**8,337**	8,815
Leasehold property improvements				
Carrying amount at beginning of year	**210**	328	**22**	146
Additions	**–**	28	**–**	–
Disposals	**–**	(47)	**–**	(41)
Depreciation	**(35)**	(99)	**(22)**	(83)
Carrying amount at end of year	**175**	210	**–**	22
Plant and equipment				
Carrying amount at beginning of year	**10,567**	11,286	**8,454**	8,493
Additions	**499**	1,128	**284**	1,415
Transfers	**130**	600	**130**	591
Disposals	**(160)**	(281)	**(4)**	(273)
Depreciation	**(1,833)**	(2,180)	**(1,450)**	(1,772)
Net foreign currency differences on translation of foreign entities	**(33)**	14	**–**	–
Impairment charge	**–**	–	**–**	–
Carrying amount at end of year	**9,170**	10,567	**7,414**	8,454

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Capital work in progress at cost				
Carrying amount at beginning of year	**2**	4,321	**2**	4,313
Additions	**94**	1,150	**91**	1,150
Disposals	**–**	–	**–**	–
Transfers	**(1)**	(5,469)	**(1)**	(5,461)
Carrying amount at end of year	**95**	2	**92**	2
Total carrying amount at end of year	**17,777**	19,594	**15,843**	17,293

16. PRODUCT DEVELOPMENT

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Product development – at cost	**38,364**	35,635	**38,364**	35,635
Accumulated amortisation	**(23,926)**	(19,198)	**(23,926)**	(19,198)
	14,438	16,437	**14,438**	16,437
Reconciliation				
Carrying amount at beginning of year	**16,437**	17,779	**16,437**	17,779
Capitalised in current period	**2,729**	3,207	**2,729**	3,207
Amortisation	**(4,728)**	(4,549)	**(4,728)**	(4,549)
	14,438	16,437	**14,438**	16,437

17. INTANGIBLES ASSETS

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Goodwill – at cost	**20,913**	20,913	**–**	–
Computer software – at cost	**8,488**	8,470	**8,488**	8,470
Accumulated amortisation	**(4,362)**	(3,495)	**(4,362)**	(3,495)
	4,126	4,975	**4,126**	4,975
Total intangible assets	**25,039**	25,888	**4,126**	4,975
Reconciliations				
Goodwill				
Carrying amount at beginning of year	**20,913**	20,891	**–**	–
Acquisitions	**–**	22	**–**	–
Impairment charge	**–**	–	**–**	–
	20,913	20,913	**–**	–
Computer Software				
Carrying amount at beginning of year	**4,975**	3,683	**4,975**	3,683
Acquisitions	**18**	1,853	**18**	1,853
Amortisation	**(867)**	(560)	**(867)**	(560)
Disposals	**–**	(1)	**–**	(1)
Impairment charge	**–**	–	**–**	–
	4,126	4,975	**4,126**	4,975

	Consolidated		The Company	
	2007	2006	2007	2006
	$000	$000	$000	$000

17. INTANGIBLES ASSETS (CONTINUED)

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

Satellite communications products	**15,214**	15,214	**–**	–
Broadcast products	**5,699**	5,699	**–**	–
	20,913	20,913	**–**	–

The recoverable amount of the cash generating units are based on value in use calculations. Those calculations use cash flow projections based on a five year business plan. A terminal value has been determined at the conclusion of this five year period assuming a growth rate of 2.5%. A pre-tax discount rate of 16.7% has been used in discounting the projected cash flows. No impairment write down was deemed necessary.

	Consolidated		The Company	
	2007	2006	2007	2006
	$000	$000	$000	$000

18. TRADE AND OTHER PAYABLES

Current

Trade payables	**7,428**	9,508	**6,354**	8,461
Other trade payables and accruals	**5,322**	5,579	**4,084**	4,597
	12,750	15,087	**10,438**	13,058

19. OTHER LIABILITIES

Current

Loans from controlled entities	**–**	–	**11,499**	10,803
Net foreign currency hedge payable	**–**	–	**–**	–
	–	–	**11,499**	10,803

20. LOANS AND BORROWINGS

Current

Bank overdrafts – secured	**–**	1,400	**–**	1,400
Secured loans	**6**	27	**–**	–
Commercial bills – secured	**2,357**	11,500	**2,357**	11,500
Unsecured loans	**–**	–	**–**	–
	2,363	12,927	**2,357**	12,900

Non-Current

Secured loans	**16**	43	**–**	–
Commercial bills – secured	**–**	–	**–**	–
Unsecured loans	**10**	10	**–**	–
	26	53	**–**	–

	Consolidated		The Company	
	2007	2006	2007	2006
	$000	$000	$000	$000
The group has access to the following lines of credit:				
Total facilities available at balance date:				
Bank overdraft	**3,034**	2,622	**3,034**	2,622
Multi option facility	**17,000**	17,000	**17,000**	17,000
Documentary letters of credit	**682**	682	**682**	682
Equipment finance facility	**478**	1,080	**200**	200
Guarantee facility	**1,350**	1,350	**1,230**	1,230
Commercial credit card	**135**	135	**115**	115
	22,679	22,869	**22,261**	21,849
Facilities utilised at balance date:				
Bank overdraft	**–**	1,400	**–**	1,400
Multi option facility	**2,357**	11,500	**2,357**	11,500
Documentary letters of credit	**156**	156	**156**	156
Equipment finance facility	**–**	602	**–**	–
Guarantee facility	**835**	835	**735**	735
Commercial credit card	**99**	85	**83**	80
	3,447	14,578	**3,331**	13,871
Facilities not utilised at balance date:				
Bank overdraft	**3,034**	1,222	**3,034**	1,222
Multi option facility	**14,643**	5,500	**14,643**	5,500
Documentary letters of credit	**526**	526	**526**	526
Equipment finance facility	**478**	478	**200**	200
Guarantee facility	**515**	515	**495**	495
Commercial credit card	**36**	50	**32**	35
	19,232	8,291	**18,930**	7,978

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.

The borrowings are supported by interlocking guarantees between Codan Limited and its subsidiaries. The multi option facility is subject to certain financial covenants and expires on 30 June 2008.

	Consolidated		The Company	
	2007	2006	2007	2006
Weighted Average Interest rates				
Cash at bank	**5.25%**	4.54%	**5.25%**	4.54%
Short term deposits	**6.15%**	–	**6.15%**	–
Bank overdraft	**9.25%**	8.80%	**9.25%**	8.80%
Commercial bill	**6.15%**	5.81%	**6.15%**	5.81%

	Consolidated		The Company	
	2007 $000	2006 $000	2007 $000	2006 $000
21. PROVISIONS				
Current				
Employee benefits	**1,750**	1,672	**1,421**	1,325
Warranty repairs	**1,777**	1,618	**1,777**	1,618
	3,527	3,290	**3,198**	2,943
Non-Current				
Employee benefits	**2,098**	2,191	**1,873**	1,937
Reconciliation of warranty provision				
Carrying amount at beginning of year	**1,618**	2,010	**1,618**	2,010
Provisions made during the year	**1,687**	926	**1,687**	926
Payments made during the year	**(1,528)**	(1,318)	**(1,528)**	(1,318)
	1,777	1,618	**1,777**	1,618

22. SHARE CAPITAL

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Share capital				
162,045,454 (2006: 162,045,454) ordinary shares fully paid	**23,685**	23,685	**23,685**	23,685

There has been no movement in share capital during the year.

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.

23. RESERVES

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Foreign currency translation	**(63)**	(184)	**–**	(128)
Hedging reserve	**462**	–	**462**	–
	399	(184)	**462**	(128)

Foreign currency translation

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

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Balance at beginning of year	**(184)**	(72)	**(128)**	61
Net translation adjustment	**121**	(112)	**128**	(189)
Balance at end of year	**(63)**	(184)	**–**	(128)

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Balance at beginning of year	**–**	–	**–**	–
Adjustment on change in accounting policy	**–**	127	**–**	127
Gains / (losses) on cash flow hedges taken to / from hedging reserve	**462**	(127)	**462**	(127)
Balance at end of year	**462**	–	**462**	–

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
24. RETAINED EARNINGS				
Retained earnings at beginning of year	**45,733**	46,968	**46,327**	47,701
Transfers from reserves	**–**	–	**–**	–
Net profit attributable to members of the parent entity	**11,239**	8,488	**10,264**	8,349
Dividends recognised during the year	**(10,533)**	(9,723)	**(10,533)**	(9,723)
Retained earnings at end of year	**46,439**	45,733	**46,058**	46,327
25. COMMITMENTS				
(i) Capital expenditure commitments				
Aggregate amount of contracts for capital expenditure on plant and equipment:				
Within one year	**–**	32	**–**	32
(ii) Non-cancellable operating lease expense and other commitments				
Future operating lease commitments not provided for in the financial statements which are payable:				
Within one year	**967**	997	**551**	566
One year or later and no later than five years	**302**	1,130	**130**	664
Later than five years	**–**	–	**–**	–
	1,269	2,127	**681**	1,230

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.

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
(iii) Finance lease and hire purchase payment commitments				
Within one year	**7**	31	**–**	–
One year or later and no later than five years	**17**	48	**–**	–
Later than five years	**–**	–	**–**	–
	24	79	**–**	–
Less: future finance charges	**2**	9	**–**	–
	22	70	**–**	–
Lease and hire purchase liabilities provided for in the financial statements:				
Current	**6**	27	**–**	–
Non-current	**16**	43	**–**	–
	22	70	**–**	–

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.

26. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest Rate Risk

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

2007	Floating $000	Fixed interest maturing in One year or less $000	Fixed interest maturing in One to five years $000	No interest $000	Total $000
Financial assets					
Cash assets	**5,862**	**–**	**–**	**–**	**5,862**
Receivables	**–**	**–**	**–**	**15,724**	**15,724**
Other assets	**–**	**–**	**–**	**1,866**	**1,866**
Other financial assets	**–**	**–**	**–**	**50**	**50**
	5,862	**–**	**–**	**17,640**	**23,502**
Financial liabilities					
Payables	**–**	**–**	**–**	**12,750**	**12,750**
Other liabilities	**–**	**–**	**–**	**–**	**–**
Bank overdraft	**–**	**–**	**–**	**–**	**–**
Secured loans	**–**	**6**	**16**	**10**	**32**
Commercial bills	**2,357**	**–**	**–**	**–**	**2,357**
Employee benefits	**–**	**–**	**–**	**4,986**	**4,986**
	2,357	**6**	**16**	**17,746**	**20,125**

2006	Floating $000	Fixed interest maturing in One year or less $000	Fixed interest maturing in One to five years $000	No interest $000	Total $000
Financial assets					
Cash assets	1,336	–	–	–	1,336
Receivables	–	–	–	22,045	22,045
Other assets	–	–	–	1,318	1,318
Other financial assets	–	–	–	50	50
	1,336	–	–	23,413	24,749
Financial liabilities					
Payables	–	–	–	15,087	15,087
Other liabilities	–	–	–	–	–
Bank overdraft	1,400	–	–	–	1,400
Secured loans	–	27	43	10	80
Commercial bills	11,500	–	–	–	11,500
Employee benefits	–	–	–	3,863	3,863
	12,900	27	43	18,960	31,930

(b) Foreign exchange risk

The group entered into forward foreign exchange contracts to hedge certain anticipated sale commitments denominated in foreign currencies (principally US dollars). The terms of these commitments were less than twelve months.

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

	Consolidated		Consolidated	
	2007 Weighted average rate	2006 Weighted average rate	2007 $000	2006 $000
Sell US Dollars				
Not later than one year	**0.83**	–	**21,082**	–

The group classifies its forward exchange contracts, hedging forecasted transactions, as cash flow hedges and states them at fair value. Where the underlying transaction has occurred, the effect of the hedge has been recognised in the financial statements.

(c) Credit risk

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 impairment losses recognised. The group minimises concentration of credit risk by undertaking transactions with a large number of customers in various countries and by credit insuring a portion of trade receivable balances. The group 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.

27. GROUP ENTITIES

Name/Country of incorporation	Class of Share	Interest Held 2007 %	Interest Held 2006 %
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
Codan Broadcast Products Pty Ltd, Australia	Ordinary	**100**	100

28. 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 balance sheet as follows:

	Consolidated		The Company	
	2007	2006	2007	2006
	$000	$000	$000	$000
Petty cash	**4**	4	**2**	2
Cash at bank	**4,358**	1,332	**3,318**	730
Short term deposits	**1,500**	–	**1,500**	–
Bank overdraft	**–**	(1,400)	**–**	(1,400)
	5,862	(64)	**4,820**	(668)

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

	Consolidated 2007 $000	Consolidated 2006 $000	The Company 2007 $000	The Company 2006 $000
Profit from ordinary activities after income tax	**11,239**	8,488	**10,264**	8,349
Add/(less) items classified as investing or financing activities:				
(Profit) / loss on sale of non-current assets	**80**	125	**(11)**	112
Dividend income	**(44)**	(41)	**–**	–
Add/(less) non-cash items:				
Depreciation of:				
– Buildings	**352**	349	**352**	349
– Leasehold property	**35**	99	**22**	83
– Plant and equipment	**1,833**	2,180	**1,450**	1,772
Amortisation	**5,595**	5,109	**5,595**	5,109
(Decrease)/increase in income taxes	**2,441**	(1,928)	**2,059**	(1,726)
Share of associates net profit	**–**	–	**–**	–
Non cash intercompany transactions	**–**	–	**8,351**	8,628
Increase/(decrease) on net assets affected by translation	**168**	(146)	**–**	–
Net cash from operating activities before changes in assets and liabilities	**21,699**	14,235	**28,082**	22,676
Change in assets and liabilities during the financial year:				
Reduction/(increase) in receivables	**6,171**	698	**6,514**	755
Reduction/(increase) in inventories	**3,151**	(1,716)	**3,179**	(2,213)
Reduction/(increase) in other assets	**64**	440	**(20)**	518
Increase/(reduction) in payables	**(2,337)**	(5,260)	**(2,618)**	(4,729)
Increase/(reduction) in provisions	**135**	(1,159)	**191**	(1,043)
Net cash from operating activities	**28,883**	7,238	**35,328**	15,964

	Consolidated		The Company	
	2007	2006	2007	2006
	$000	$000	$000	$000

29. EMPLOYEE BENEFITS

Aggregate liability for employee benefits, including on costs:				
Current – other creditors and accruals	**1,138**	537	**572**	248
Current – employee entitlements	**1,750**	1,672	**1,421**	1,325
Non-current – employee entitlements	**2,098**	2,191	**1,873**	1,937
	4,986	4,400	**3,866**	3,510

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:

	Consolidated		The Company	
	2007	2006	2007	2006
Assumed rate of increase in wage and salary rates	**4.00%**	4.00%	**4.00%**	4.00%
Discount rate	**6.30%**	5.76%	**6.30%**	5.76%
Settlement term (years)	**20 years**	20 years	**20 years**	20 years

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 Company has not issued any shares under this plan during the year and the Company will not be issuing any further shares under this plan.

Performance Rights Plan

The shareholders approved a Performance Rights Plan at the 2004 annual general meeting, this plan has not been implemented.

Codan Employee Share Plan

The Codan Employee Share Plan was 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 were 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.

In relation to the interest free loan the employee made 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 $nil (2006: $18,839) 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. No shares have been issued under the plan in the 2006 or 2007 financial years.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

Remuneration of key management personnel 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 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 executive's ability to control the relevant segments performance, and the amount of incentives within each executives remuneration.

Certain senior executives may receive bonuses based on the achievement of two specific performance hurdles.

Firstly, where the ratio of earnings before interest and taxes ("EBIT"), which is adjusted for the capitalisation of product development expenditure, to sales exceeds a predetermined threshold for the financial year a bonus is calculated based on a percentage of the executives normal salary package. This percentage is capped at a maximum of 35% for the salary package. For the year ended 30 June 2007 the bonus achieved under this performance condition was 16.47% of the executive's salary package.

Secondly, where sales growth of the consolidated entity exceeds a predetermined threshold for the financial year a bonus is calculated based on a percentage of the executives normal salary package. This percentage is capped at a maximum of 35% of the salary package. Payments under this performance condition are dependent upon the achievement of the minimum threshold for the EBIT to sales ratio referred to above. For the year ended 30 June 2007 the growth performance measure was not achieved and as a result no payments under this performance condition will be made.

Where these calculations result in a bonus being available the payment of one half of the bonus would be dependent upon the appraisal rating of the specific executive.

These performance conditions have been established to encourage the profitable growth of the consolidated entity. All bonus amounts that accrue to the relevant executives are paid in cash. There is no separate profit-share plan. Non-executive directors do not receive any performance related remuneration.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2003 AGM, 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.

Amounts disclosed for remuneration of directors and specified executives exclude insurance premiums paid by the company in respect of directors' and officers' liability insurance contracts which cover current and former directors and officers. The premiums have not been allocated to the individuals covered by the insurance policy as, based on all available information, there is no reasonable basis for such an allocation.

The remuneration amounts disclosed have been calculated based on the expense to the company for the financial year, therefore items such as annual leave and long service leave, taken and provided for, have been considered. As a result the remuneration disclosed may not equal the salary package as agreed with the executive in any one year.

The following table provides the nature and amount of all remuneration received by all directors of the Company for the year ended 30 June 2007.

		Primary				Post-employment		Other compensation		
		Salary and fees $	Bonus $	Long term incentive bonus $	Non–monetary benefits $	Super–annuation $	Other post employment benefits $	Termination benefits $	Insurance premiums $	Total $
Non-executive directors										
Dr D Klingner	**2007**	**81,250**	**–**	**–**	**–**	**7,312**	**–**	**–**	**–**	**88,562**
(Chairman)	2006	75,000	–	–	–	6,750	–	–	–	81,750
Mr J A Uhrig	**2007**	**149,875**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**149,875**
(retired Chairman)	2006	163,500	–	–	–	–	–	–	–	163,500
Mr I J Bettison	2006	27,250	–	–	–	–	–	–	–	27,250
Mr B P Burns	**2007**	**75,000**	**–**	**–**	**–**	**6,750**	**–**	**–**	**–**	**81,750**
	2006	75,000	–	–	–	6,750	–	–	–	81,750
Mr P R Griffiths	**2007**	**75,000**	**–**	**–**	**–**	**6,750**	**–**	**–**	**–**	**81,750**
	2006	75,000	–	–	–	6,750	–	–	–	81,750
Mr D Klingberg	**2007**	**75,000**	**–**	**–**	**–**	**6,750**	**–**	**–**	**–**	**81,750**
	2006	68,750	–	–	–	6,188	–	–	–	74,938
Mr I B Wall	**2007**	**81,750**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**81,750**
	2006	81,750	–	–	–	–	–	–	–	81,750
Mr A E R Wood	2006	27,250	–	–	–	–	–	–	–	27,250
Executive directors										
Mr M K Heard	**2007**	**505,957**	**94,731**	**–**	**–**	**45,886**	**–**	**–**	**–**	**646,574**
(Managing Director)	2006	445,050	–	–	–	44,530	–	–	–	489,580
Total, all directors	**2007**	**1,043,832**	**94,731**	**–**	**–**	**73,448**	**–**	**–**	**–**	**1,212,011**
	2006	1,038,550	–	–	–	70,968	–	–	–	1,109,518

Mr A E R Wood and Mr I J Bettison retired as directors in October 2005.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

The following table provides the nature and amount of all remuneration received by the key management personnel, other than directors, of the consolidated entity for the year ended 30 June 2007.

		Primary				Post-employment		Other compensation		
		Salary and fees $	Bonus $	Long term incentive bonus $	Non–monetary benefits $	Super–annuation $	Other post employment benefits $	Termination benefits $	Insurance premiums $	Total $
Executives										
Mr P Charlesworth *Divisional General Manager – New Business*										
	2007	**214,593**	**37,069**	**–**	**–**	**17,867**	**–**	**–**	**–**	**269,529**
	2006	184,568	–	–	–	16,545	–	–	–	201,113
Mr A Gobolos *General Manager – Microwave Radio Business Development*										
	2007	**227,431**	**40,363**	**–**	**–**	**20,838**	**–**	**–**	**–**	**288,632**
	2006	207,450	–	–	–	18,933	–	–	–	226,383
Mr D Hughes *Chief Finance and Information Officer*										
	2007	**207,549**	**–**	**–**	**–**	**16,767**	**–**	**–**	**–**	**224,316**
	2006	206,252	–	–	–	16,843	–	–	–	223,095
Mr D McGurk *Divisional General Manager – Communications Products*										
	2007	**203,896**	**37,069**	**–**	**–**	**15,522**	**–**	**–**	**–**	**256,487**
	2006	204,293	–	–	–	15,361	–	–	–	219,654
Mr C Nesbitt *General Manager – Operations Codan Broadcast Products*										
	2007	**144,814**	**25,536**	**–**	**–**	**12,438**	**–**	**–**	**–**	**182,788**
	2006	131,258	18,750	–	–	11,089	–	–	–	161,097
Mr G Shmith *General Manager – Satcom Business Development*										
	2007	**147,514**	**25,207**	**–**	**–**	**12,391**	**–**	**–**	**–**	**185,112**
Total, all specified executives	**2007**	**1,145,797**	**165,244**	**–**	**–**	**95,823**	**–**	**–**	**–**	**1,406,864**
	2006	933,821	18,750	–	–	78,771	–	–	–	1,031,342

As all key management personnel are employed by Codan Limited the remuneration information disclosed is relevant for both the consolidated entity and company required disclosures.

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 key management personnel, including their personally related entities is as follows:

	Opening balance	Purchases	Sales	Closing Balance
Directors				
Dr D Klingner	100,000	–	–	100,000
Mr J A Uhrig	12,169,336	–	–	12,169,336
Mr B P Burns	11,580,737	–	–	11,580,737
Mr P R Griffiths	110,000	–	–	110,000
Mr M K Heard	4,399,522	–	–	4,399,522
Mr D Klingberg	35,200	23,500	–	58,700
Mr I B Wall	34,792,943	–	–	34,792,943
Specified executives				
Mr P Charlesworth	14,000	5,500	(13,600)	5,900
Mr A Gobolos	778,407	–	–	778,407
Mr D Hughes	15,000	–	–	15,000
Mr D McGurk	1,000	–	–	1,000
Mr C Nesbitt	5,000	–	–	5,000
Mr G Shmith	14,000	–	–	14,000

Mr J A Uhrig retired as a director on 25 May 2007 and Mr D Hughes left the employment of Codan Limited on 13 June 2007. The information disclosed above is up to those dates.

Other transactions with the Company or its controlled entities

There have been no loans to key management personnel during the financial year.

A number of key management personnel, or their personally related entities, hold positions in other entities that result in them having control or significant 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 up to 31 March 2007 of $75,000 (2006: $100,000) to the company. The consulting terms were based on market rates for these types of services.

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

31. OTHER RELATED PARTIES

All transactions with non-key management personnel related parties are on normal terms and conditions.

The Company and Codan Broadcast Products Pty Ltd purchase materials from IMP Printed Circuits Pty Ltd. The Company also pays marketing fees to Codan (UK) Ltd and Codan (US) Inc. 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.

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 pages 26 to 55, 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 2007 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) the directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the chief executive officer for the year ended 30 June 2007. The chief financial officer has provided the same declaration up to the date of his resignation on 13 June 2007. From 14 June 2007, management that have been responsible for the financial matters of the company have made these declarations.

Dated at Newton this 17th day of August 2007.

Signed in accordance with a resolution of the directors:

Dr D Klingner
Director

M K Heard
Director

KPMG

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Codan Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense, and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration set out on pages 26 to 56 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independent Audit Report

to the Members of Codan Limited

KPMG

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 the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

KPMG

KPMG

Gary Savage

Partner

Adelaide

17 August 2007

ASX Additional Information

for the year ended 30 June 2007

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

SHAREHOLDINGS AS AT 17 AUGUST 2007

Substantial shareholders

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

Shareholder	Number of Ordinary shares
Interests associated with Kynola Pty Limited and Warren Glen Pty Limited	11,580,737
Interests associated with Starform Pty Limited, Pinara Pty Limited and Dareel Pty Ltd	16,280,591
MacKinnon Investments Pty Limited	20,859,439
IB Wall and PM Wall	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	263
1,001 – 5,000	662
5,001 – 10,000	325
10,001 – 100,000	257
100,001 and over	34
Total	**1,541**

The number of shareholders holding less than a marketable parcel of ordinary shares is 52.

On market buy back

There is no current on market buy back.

ASX Additional Information

for the year ended 30 June 2007

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Edal Pty Limited	46,030,713	28.4%
IB Wall and PM Wall	34,792,943	21.5%
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%
MK and MC Heard	3,666,268	2.3%
Pinara Pty Ltd	3,642,608	2.2%
JP Morgan Nominees Australia Limited	2,850,031	1.8%
Warren Glen Pty Limited	2,469,524	1.5%
Citicorp Nominees Pty Ltd	1,972,325	1.2%
LF Choate	1,610,760	1.0%
Mitranikitan Pty Ltd	1,600,500	1.0%
National Nominees Limited	1,738,712	1.1%
Dareel Pty Ltd	1,225,307	0.8%
ANZ Nominees Limited	1,056,982	0.7%
Argo Investments Limited	800,000	0.5%
YA and EJ Gobolos	778,407	0.5%
MP McDonough	745,475	0.5%
MC Heard	733,254	0.5%
RBC Dexia Investor Services Australia Nominees Pty Limited (BKCUST account)	524,968	0.3%
Total	**147,598,445**	**91.1%**

OFFICES AND OFFICERS

Company Secretary

Mr James Mattsson B Ec (Acc), CA, Grad Dip App Fin (Corp Fin), M Comm

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.

Corporate Directory

Directors

Dr David Klingner (Chairman)
Michael Heard (Managing Director and Chief Executive Officer)
Brian Burns
Peter Griffiths
David Klingberg
Ian Wall

Company Secretary

James Mattsson

Registered Office

81 Graves Street
Newton SA 5074

Auditor

KPMG
151 Pirie Street
Adelaide SA 5000

Registry

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001

Designed and produced by FCR COD108

Codan Limited Annual Report 2007

www.codan.com.au