Strengthening the foundation for growth

CODAN

Codan Limited
Annual Report
2005

ABN 77 007 590 605

Contents

Asset and technology acquisitions to extend product range for digital microwave radio and TV broadcast products

CODAN

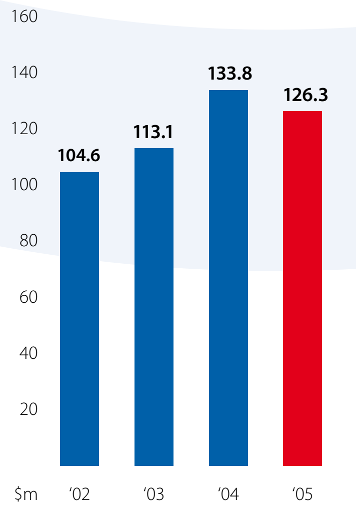
Financial Highlights

"Importantly, to strengthen its platform for future growth the company conducted during the year a capital expenditure program totalling $20.5m"

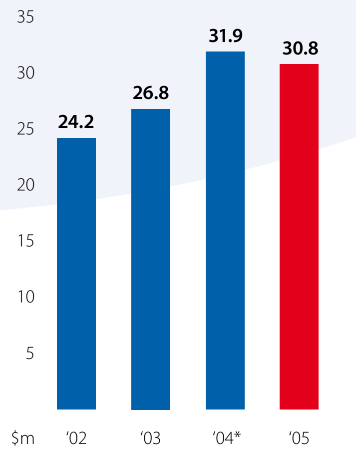
FINANCIAL PERFORMANCE

	Audited 2005	Year ended 30 June Audited 2004	Audited 2003
Revenue			
Operating Revenue	$126.3m	$133.8m	$113.1m
Property Revenue	–	$3.7m	–
Total Revenue	$126.3m	$137.5m	$113.1m
EBITDA	$30.8m	$32.6m	$26.8m
NPAT	$16.2m	$16.7m	$11.1m
Earnings per Share	10.0c	10.3c	N/A
Dividend	6.0c	5.5c	N/A

OPERATING REVENUE

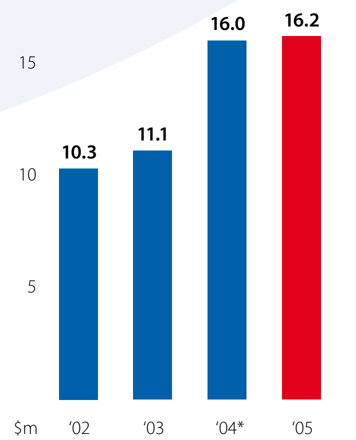


EBITDA



* excludes impact of property sale

NPAT



* excludes impact of property sale

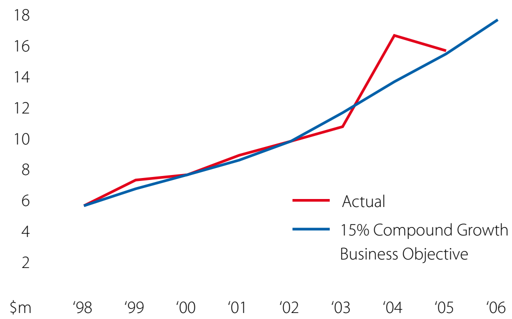
HIGHLIGHTS

- **Maintained Profit After Tax (excluding property sale FY04) in a difficult environment**

- **Operating Margins**

	Audited 2005	Audited 2004	Audited 2003
Revenue	100.0%	100.0%	100.0%
EBITDA	24.4%	23.7%	23.7%
EBIT	17.8%	17.8%	16.6%
NPAT	12.8%	12.1%	9.8%

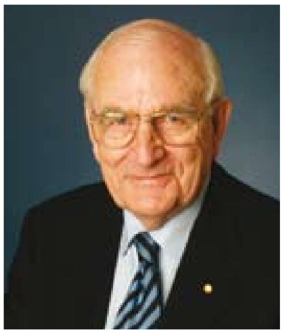
- **NPAT Trend**



- **Total Capital Program $20.5m**
  - Infrastructure
    - Expanded and Upgraded Factory
    - Enterprise Wide Business System
  - Acquisitions
    - New DMR Technology and Product Range
    - Operations and Technology of Talia Sound & Vision
  - Internal Product Development
    - New Manpack HF Radio
    - New Satellite Communications Product Family

Chairman's Report

John Uhrig, AC
Chairman



After record sales and profit and 50% NPAT growth in financial year 2004, the company maintained this level of profit from normal operations in financial year 2005, and held cumulative business performance above Codan's objective of 15% compound growth over the medium to long term. The final dividend declared of 3.5 cents increases the full year's dividend by 9% to 6.0 cents per share fully franked. This performance was achieved despite the significant negative impact of the strengthening Australian dollar. The company demonstrated its ability to manage adverse environmental factors by reductions in product costs and strict control of expenses.

The environment of the company's global market was mixed. Record high frequency radio sales were achieved as a result of continuing world security concerns and international humanitarian activity. Demand for satellite communications for government and business networks fell after strong demand the previous year, principally as a result of the timing of orders.

Importantly, to strengthen its platform for future growth the company conducted during the year a capital expenditure program totalling $20.5m. This program was directed to internal development of new products, new factory floor space, a whole of company enterprise resource planning business system and the acquisition of operations, new products and technology. Notwithstanding this expenditure, year-end borrowings were held to $2 million.

Arising from this capital expenditure program, significant new high frequency radio, satellite communications, digital microwave radio and TV broadcast products were released to the market in the second half. These products have been well received.

The Company has continued to maintain and adopt through its disclosures in this Annual Report the ASX Corporate Governance Council Best Practice Recommendations and the required disclosures related to the introduction of the International Financial Reporting Standards.

Codan's Board of Directors regularly addresses succession so that its composition going forward is appropriate. During the year Mr Leon Davis retired from the Board. We thank Leon for his highly valued contribution to the company's success over the last four and a half years.

Mr Wood and Mr Bettison, two of the company's founders, have advised their intention to retire from the Board at the conclusion of the 2005 Annual General Meeting. Both became directors at the company's inception in 1959. Their contributions to Codan have been unique and invaluable.

"Significant new high frequency radio, satellite communications, digital microwave radio and TV broadcast products were released to the market and have been well received"

Mr Bettison was Chief Executive until 1985. He is a former Senior Deputy Chancellor of the University of Adelaide, member of the Commonwealth Government's Australian Space Board, member of the Divisional Advisory Committee, CSIRO Division of Radiophysics and board member of the Technology Development Corporation (South Australia).

Mr Wood has been involved in many aspects of the Company's operations but principally in product development engineering where his skills have been fundamental to the company's success. He will continue to be a consultant to the Company on engineering matters.

The company owes Mr Bettison and Mr Wood a great debt of gratitude and on behalf of directors and staff I offer them our very best wishes for their retirement.

Dr. David Klingner joined the Board in December 2004. Dr Klingner is a Geologist, recently retired from Rio Tinto Limited where he was engaged in a number of senior roles involving business leadership, project development and worldwide exploration activities where he gained a great deal of experience in the establishment and management of overseas operations. He is a former Chairman of Coal & Allied Industries, Bougainville Copper Limited and the World Coal Institute. He is presently Chairman of Energy Resources of Australia.

In July 2005 the company announced the appointment to the Board of Mr. David Klingberg AM, an engineer with extensive national and international experience having been Managing Director of the consulting engineering company, Kinhill Limited from 1986 to 1998. He is currently the Chancellor of the University of South Australia, a position he has held since 1998. Mr Klingberg has a number of private sector and government appointments including Chairman of Barossa Infrastructure Limited, and as a director of Snowy Hydro Limited and Workcover Corporation of South Australia.

Codan is fortunate to have secured the services of two such experienced and highly qualified directors. They will stand for election at the coming Annual General Meeting.

In accordance with corporate governance principles the company will continue to introduce, over time, new and where appropriate, independent directors with the right experience and qualifications.

On behalf of the Board I would like to thank Codan's people for another year of exceptional contribution.

John Uhrig, AC
Chairman

Chief Executive Officer's Report

Mike Heard
Chief Executive Officer

In financial year 2005 Codan maintained the record profit level from normal operations achieved the previous year, increased profit margins, and invested strongly to strengthen its platform for future growth.

The strong FY05 profit was achieved despite a substantial increase in Codan's average hedged exchange rate for its net exposure to the US dollar. The effect of this increase (from 54 to 62 US cents to the Australian dollar) in FY05 compared to FY04 was to reduce revenue by $9m and NPAT by $2.7m.

Operating revenue was lower at $126.3 million, partly arising from the exchange rate impact but also as a result of lower demand for satellite communications products offsetting record sales of high frequency radio. Exports were 95% of total sales.

The company continued to optimise product designs and increase production efficiency to reduce product costs. Overhead expenses and working capital were again strictly controlled. These measures partly offset the negative effect of the stronger Australian dollar and EBITDA, EBITA and EBIT margins have all grown since FY03.

During the period Codan continued to delight its customers with reliable delivery, quality and exceptional service.

Communications Products

In an environment of world security concerns there was continued strong global demand from governments, businesses and humanitarian organisations for high frequency radio for rapidly deployable and back up communications networks.

In addition to the substantial exchange rate impact on revenue from satellite communications sales, demand for these products for private communications in government networks fell after strong demand the previous year. The company does not believe that market share was lost in this sector with the effect being the result of timing of the placement of orders.

The global market for cellular telephone infrastructure and therefore digital microwave radio (DMR) is growing strongly. To improve the way this market is addressed, the company acquired technology enabling the manufacture and ongoing development of a complete new cost effective DMR product range. Initial market response has been very positive following successful market launch in March.

TV Broadcast Products

The acquisition of the operations and technology of Talia Sound & Vision, completed in March, added complementary products to the existing product range. The business was launched globally under the Codan Broadcast brand and a worldwide export distribution agreement was entered into with Ross Video of Canada. Further progress was made in the establishment of the Asian distribution network. In Australia, uncertainties in relation to the rollout of digital TV are still not resolved and this retarded growth in this market.

Printed Circuit Boards

The business performed to expectations and grew market share during the year.

Investment

The company's substantial capital expenditure program, totalling $20.5 million for the year, was a particularly important initiative to strengthen Codan's platform for future growth:

- The project to upgrade the main Adelaide factory and increase floor space by 92% (1,660 square metres) will be completed by October 2005 at a total cost of $4.8m. The improved facility will support further production efficiencies and therefore product cost reductions, and will have capacity for very substantial growth
- The whole of company enterprise resource planning business system costing $4.6m will "go live" in November 2005. The system will facilitate operational efficiencies and substantial growth, and will greatly improve Codan's access to business information

"The improved facility will support further production efficiencies and therefore product cost reductions, and will have capacity for very substantial growth"

- Technology enabling the manufacture and ongoing development of a complete new cost effective digital microwave radio (DMR) product range was acquired and commissioned
- The acquisition of the operations and technology of Talia Sound & Vision, completed in March, added important complementary products to the existing product range for the TV broadcast market
- The company's internal research and new product development program resulted in the launch to market during the second half of significant new products:
  - A manpack high frequency radio for the global emergency services, law enforcement, security and aid markets. This is a totally new and complementary product for Codan
  - A new satellite communications product family which will initially address new markets for Codan and eventually supersede in part the existing product family

The new HF radio, satellite communications, digital microwave radio (DMR) and TV broadcast products resulting from these development and acquisition programs were all released to the market during the second half and have been well received.

Outlook

The outlook in all of the company's markets is enhanced by the important new products launched during financial year 2005, and by the strengthened platform for growth provided by the new factory and business system.

World security concerns and some global recovery in telecommunications will continue to support demand for Codan's new and existing communications products for private and public infrastructure. This is expected to include an improvement in sales of satellite communications products for government private networks. The global market for cellular telephone infrastructure and therefore digital microwave radio is growing strongly and the Board expects the new DMR product range to be very successful in targeted international markets.

In financial year 2006 Codan again faces the prospect of a strengthening Australian dollar. Approximately 50% of sales are made in US dollars, but offsetting this a substantial percentage of electronics components are purchased in US dollars and significant US dollar expense arises from operations, particularly from Codan's US sales office. The Company's average hedged exchange rate for its estimated net exposure to the US dollar for the first half of the 2006 financial year is 76 US cents to the Australian dollar compared to 62 US cents last year. At the date of this report exposure is unhedged for the second half.

Codan will continue with further product cost reduction programs, strict control of expense and the application of resources to market penetration and increased share. The new products launched in financial year 2005 will be very important to the achievement of revenue growth.

Our strategy will remain a focus on global niche markets in which Codan can strive to be supplier of choice.

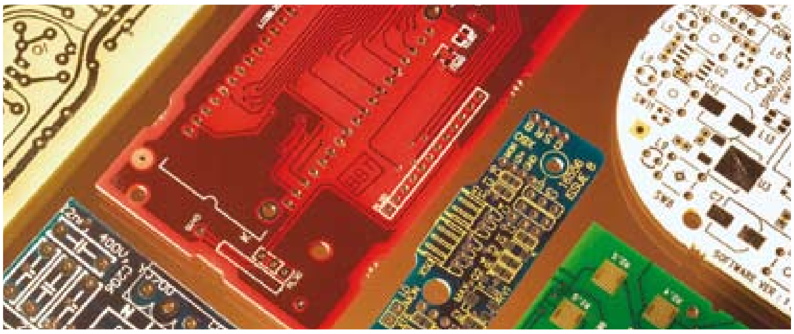
The company expects to continue to achieve its corporate objective of 15% per annum cumulative profit growth over the medium to long term. Profit growth in FY06 nonetheless may be limited by a continuing strong Australian dollar.

Success is delivered by our people. During financial year 2005 Codan's core ideology was reconfirmed and reinforced and new initiatives to broaden and develop staff were implemented. Codan retains a strong team of management and professional staff. Selected opportunities to reallocate management portfolios and for internal promotion were used to continue staff development and succession planning.

The safety and wellbeing of staff remains Codan's highest priority. Continued stringent attention is paid to the safety of our travelling staff in a dangerous world.

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 manufactures 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 95% 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. Customer service and support is provided throughout the world by Codan 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 new business activity resulting from Codan's acquisition of Adelaide based Provideo Systems Pty Ltd effective July 2002 and the assets of Melbourne based Talia Sound and Vision effective March 2005; and
- **Printed Circuit Boards** – IMP Printed Circuits Pty Ltd, a wholly owned subsidiary of Codan, manufactures printed circuit boards

Business Strategy

Core 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 has a track record of profitable growth which it describes as "growth with a measured tread". In the early 1990s the Codan Board established a corporate objective for long term average growth in revenues and profits after tax of 15 percent per annum. During the last ten years this objective has been met and the strategy directs all growth initiatives, including diversification by acquisition.

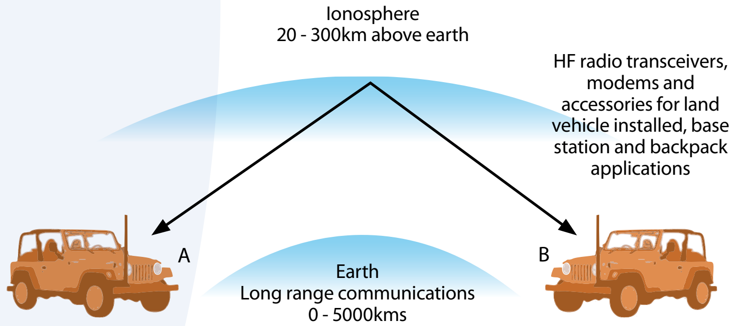
Codan operates under long established high standards of corporate governance, performance and financial control.

Codan's staff and management team, customer base, product range, technical skills and 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 brand in most of the markets in which it operates. The Codan name has been used for more than 30 years domestically and approximately 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, China and India. These local offices allow Codan to better understand its customer's 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. It designs its own core products and at 30 June 2005 employed 62 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 sustained growth in revenues and profits after tax for more than a decade.

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.

As at 30 June 2005 Codan employed 463 full time equivalent permanent, casual and contract staff. 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

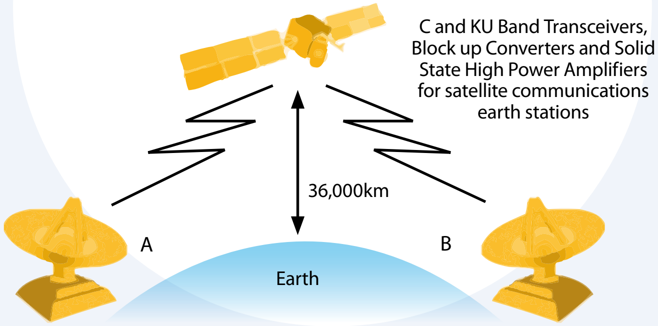
Communication Products – HF Radio

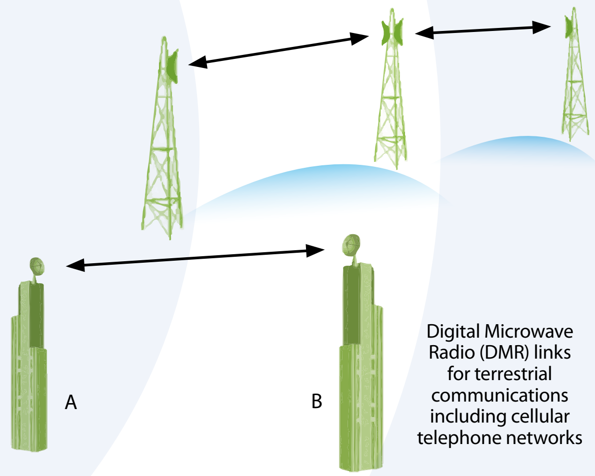
HF radio (also known as short wave radio) is a universal and extensively used technology for communications in remote areas and over very long distances, extending to intercontinental coverage. By reflection of the HF radio wave off the ionosphere, an ionized region of the atmosphere, signals may be 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 low capital and operating cost, rapid deployment and the ability to communicate operational information simultaneously to many stations are paramount.

Codan's principal markets are where robust and reliable HF radios are required by government departments, the UN, other aid and humanitarian organisations, businesses and other organisations. The majority of Codan's HF radio sales are for use in developing world countries.

About Codan Continued





Codan supplies radio transceivers, modems and accessories for vehicle installed and land based stations and back pack applications.

Government users include police forces, customs services, emergency services, border patrols, coast guards, security 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.

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

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 global communications. The capacity is high with data rates typically up to 8 Mbps for a fixed station. Signals are of a quality and reliability similar to that provided by equivalent terrestrial systems. However, capital and operating costs are relatively high.

Codan offers products in the following portions of the global satellite communications market:

- a range of low, medium and high power transmitter/receiver equipment (transceivers) and block up-converters (BUCs) for use in voice and data communications services; and
- a range of solid state high power amplifiers for use in major satellite communications earth stations and for satellite up-link facilities in the TV broadcast industry.

These products are for use in fixed and transportable satellite communications earth stations for single and multi-carrier voice, fax and data services and for TV broadcast satellite up-links. Typical users include service providers offering telephone services to remote areas and organizations requiring private voice and data networks where signal quality and reliability, and high capacity communications are required.

Codan supplies satellite communications products to a number of major Australian and international business organisations and to government organisations in a number of countries including the United States of America.

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. A series of links can be concatenated to achieve communications over long distances. Information traffic is typically voice, fax, data and video.

Typical users are cellular (mobile phone) and standard telephone service providers and organisations operating private communications networks. Applications include the interconnection of mobile phone towers and of buildings and sites in a private network. The rapid deployment capability compared to in-ground cable is particularly attractive for the rapid deployment and expansion of mobile phone networks. It is also a key feature in the establishment of video links from mobile TV broadcast facilities to central studios.

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;
- private networks. These customers include business, government and health and education institutions. They use DMR links to connect data networks such as Ethernet; and
- video links. DMR links are used to pass video signals at rates up to 45Mbps.

Codan manufactures narrowband (PDH – pleisiochronous digital hierarchy) DMR links for voice, facsimile and data services. This type of link offers capacity up to 45Mbps.

PDH narrowband DMR links are:

- typically found throughout smaller cellular networks;
- used as lower capacity spurs connected to the backbone of a high capacity network;
- used as point-to-point links or strings of links to interconnect two or more sites or buildings in public and private communications networks; and
- used for "last mile" connections in a fibre optic network, including connections to individual buildings.

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 government and news facilities. The product range includes:

- Routing switchers, 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 condition, convert, combine and distribute both analogue and digital audio and video signals, and
- Monitoring products used extensively through broadcast facilities.

Codan Broadcast is a principle supplier to the Australian market and is increasing its presence in international markets through a dealer network in Asia and with its global distribution relationship with a major Canadian broadcast supplier, Ross Video.

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 (PCBs) for over 400 electronics manufacturers in Australia and New Zealand. Approximately 30% of IMP's output is supplied to Codan.

IMP specialises in the supply of high quality product for short to medium runs, rapid turnaround and prototyping applications. Excellent service is a critical component of IMP's competitive advantage.

Operations

The Company operates manufacturing facilities in Adelaide, Brisbane and Melbourne. The main Adelaide facility in Newton produces Codan's HF radio, satellite communications and solid state high power amplifier products and systems 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.

Directors' Report

Codan Limited and its Controlled Entities

Back row from left to right: **Michael Heard, David Klingner, David Klingberg, Peter Griffiths and Brian Burns**
Front row from left to right: **Alastair Wood, John Uhrig, Ian Wall and Jim Bettison**

The directors present their report together with the financial report of Codan Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2005 and the auditor's report thereon.

DIRECTORS

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

Name and qualifications	Age	Experience and special responsibilities
John Uhrig, AC, BSc, DUniv, Hon. DEcon, FAIM *Chairman* *Non-Executive Director*	76	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. Mr Uhrig has agreed to remain as Chairman for a sufficient period of time to allow the establishment of Codan as a successfully listed company. It is envisaged that he will not retire before the Company's annual general meeting in 2006.
Michael Heard BE (Hons), MBA, FIE Aust, CPEng *Managing Director and* *Chief Executive Officer*	57	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.
Jim Bettison BA (Hons), DUniv, FAICD *Non-Executive Director*	73	Mr Bettison, one of the founders of the company, was appointed to the board in 1959. Mr Bettison was Chief Executive until 1985. He is a former Senior Deputy Chancellor of the University of Adelaide, member of the Commonwealth Government's Australian Space Board, member of the Divisional Advisory Committee, CSIRO Division of Radiophysics and board member of the Technology Development Corporation (South Australia).

Name and qualifications	Age	Experience and special responsibilities
Brian Burns, AM, FCPA, FCIS, FAICD *Non-Executive Director*	66	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.
Leon Davis, AO, ASAIT, DSc (h.c.), FRACI, FAustIMM *Independent Non-Executive Director*	66	Mr Davis was appointed to the board in 2000 and retired in December 2004. He has had a long career in mining, both in Australia and overseas, and has considerable understanding of the requirements for managing a global business. Mr Davis was formerly chief executive of Rio Tinto and became deputy chairman of that company on retirement in April 2000. Rio Tinto has worldwide mining activities principally in Australia, New Zealand, Indonesia, Papua New Guinea, North and South America, Southern Africa and Europe. He joined the board of Westpac Banking Corporation in 1999 and became chairman in December 2000.
Peter Griffiths B.Ec (Hons), CPA, FAICD *Independent Non-Executive Director*	63	Mr Griffiths was appointed to the board in July 2001, following his retirement as a senior executive of Coca-Cola Amatil Limited. Mr Griffiths has extensive global experience having worked in Central / Eastern Europe and South East Asia for Coca-Cola Amatil Limited. At various times he was company secretary, chief financial officer and managing director of C-C Bottlers Limited and held board positions in Australia, New Zealand and the USA. He is a Certified Practising Accountant and has been president of the South Australian branch of the Financial Executives Institute as well as federal president of the Australian Soft Drink Industry.
Ian Wall BE, FSASM, MIE Aust, CPEng *Non-Executive Director*	74	Mr Wall, one of the founders of the Company, was appointed to the board in 1959. He has been involved in many of the Company's operations but particularly in product related systems engineering.
Alastair Wood BE *Non-Executive Director*	74	Mr Wood, one of the founders of the Company, was appointed to the board in 1959. He has been involved in many of the Company's operations but principally in product development engineering. Mr Wood, in addition to his duties as a Director, has been retained by the Company as a consultant on engineering matters.
Dr David Klingner B.Sc (Hons), PhD, FAusIMM *Independent Non-Executive Director*	61	Dr Klingner was appointed to the board in 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 a great deal of 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.

Name and qualifications	Age	Experience and special responsibilities
David Klingberg, AM, BTech (Civil), FTSE, FIEAust, FAusIMM *Independent Non-Executive Director*	61	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 and the WorkCover Corporation of South Australia.

COMPANY SECRETARY

Mr David Hughes BA(Acc), CPA, AIMM was appointed to the position of company secretary in September 2000. Mr Hughes has 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 (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings		Board Audit, Risk and Compliance Meetings		Remuneration Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**
John Uhrig	12	12			4	4
Michael Heard	11	12				
Jim Bettison	10	12			4	4
Brian Burns	10	12	5	5	4	4
Leon Davis	7	7				
Peter Griffiths	12	12	5	5		
Ian Wall	11	12	5	5		
Alastair Wood	12	12				
Dr David Klingner	5	6				

A – Number of meetings attended

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

CORPORATE GOVERNANCE STATEMENT

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

Board of Directors

Role of the Board

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

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting senior executive and director remuneration, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. The board is currently in the process of developing a formal charter and it is expected that this will be completed by 31 December 2005.

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

Board processes

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

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

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

Director education

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

Independent professional advice and access to Company information

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

Composition of the Board

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the Company or another group member other than as a director of the Company; and
- is free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

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

The board is regularly addressing succession in order to ensure that its composition going forward is appropriate. Messrs Wall, Wood and Bettison intend to retire at separate times over the oncoming year. Mr Uhrig, who has been Chairman since 1986, has agreed to remain as Chairman until the Company's annual general meeting in 2006. In accordance with governance principles, new and appropriately qualified and independent board members are being introduced over time to enable Codan to achieve its future corporate objectives.

Board Performance Evaluation

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

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

Remuneration report

Remuneration Committee

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

The members of the Remuneration Committee during the year were:

Brian Burns (Chairman) – Non-Executive Director
John Uhrig – Non-Executive Director
Jim Bettison – Non-Executive Director

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

Remuneration policies

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

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

- the overall level of remuneration for each director and executive;
- the executives' ability to control the relevant 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 2005 the maximum bonus under this performance condition was achieved.

Secondly, where 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 2005 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 is dependent upon the appraisal rating of the specific executive. For the year ended 30 June 2005 an appraisal rating of 100% has been applied to all relevant executives.

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.

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

In considering the consolidated entity's performance and benefits to shareholders wealth the remuneration committee have regard to the following measures.

	2005	2004
Net profit after tax	16,204,132	16,677,771
Dividends paid	8,840,031	7,885,120
Change in share price	($0.50)	$0.55

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 only been included for the 2004 year.

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

Directors' and senior executives' remuneration

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

Directors	Base emolument $	Bonuses $	Non-cash benefits $	Super contributions $	Retirement benefits $	Total $
Non-executive						
John Uhrig	138,066	–	–	–	–	138,066
Irvine James Bettison	69,033	–	–	–	–	69,033
Brian Burns	63,333	–	–	5,700	–	69,033
Leon Davis	25,833	–	–	2,325	–	28,158
Peter Griffiths	63,333	–	–	5,700	–	69,033
Ian Wall	69,033	–	–	–	–	69,033
Alastair Wood	69,033	–	–	–	–	69,033
Dr David Klingner	43,750	–	–	3,937	–	47,687
Executive						
Michael Heard	506,758	189,000	–	66,609	–	762,367
Executive Officers						
Alan Gobolos	199,162	80,500	–	23,412	–	303,074
David Hughes	201,211	77,350	–	23,977	–	302,537
Peter Charlesworth	191,480	71,750	–	16,079	–	279,309
Donald McGurk	193,121	71,750	–	14,246	–	279,117
Steve Lukacs	151,676	38,536	–	35,274	–	225,486

No share options have been issued by the Company.

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 consolidated entity.

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

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

Peter Griffiths (Chairman) – Independent Non-Executive Director
Brian Burns – Non-Executive Director
Ian Wall – Non-Executive Director

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

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

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- assessing corporate risk assessment processes;
- reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- assessing the need for an internal audit function;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual 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 last rotated in 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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

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

Risk management

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

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

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

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

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

Comprehensive practices, have been established to ensure:

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

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

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

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

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

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

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

Ethical standards

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

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

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

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

- aligning the behaviour of the board and management with the code of conduct by maintaining appropriate core Company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

Communication with shareholders

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

In summary, the Continuous Disclosure policy operates as follows:

- the Managing Director and the Chief Finance and Information Officer are responsible for interpreting the Company's policy and where necessary informing the board. The Chief Finance and Information Officer is responsible for all communications with the ASX. Such matters are promptly advised to the ASX.
- the annual report is distributed to all shareholders including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. This review 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 four years, is made available on the consolidated entity's website within one day of public release, and is emailed to all shareholders who lodge their email contact details with the Company.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. The external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

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

PRINCIPAL ACTIVITIES

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

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

OPERATING AND FINANCIAL REVIEW

The Board of Codan Limited has announced an After Tax Profit of $16.2m for FY05. This compares with the reported profit for FY04 of $16.7m, which was a 50% increase on the prior year and which included a profit of $0.65m from the sale of a surplus property. Hence the FY05 After Tax Profit was in line with that earned in FY04 excluding the property sale, despite Codan's average hedged exchange rate for its net exposure to the US dollar increasing from 54 to 62 US cents to the Australian dollar.

Operating revenue for the year ended 30 June 2005 was $126.3 million.

The effect of the higher average hedged exchange rate in FY05 compared to FY04 was to reduce revenue by $9m and NPAT by $2.7m. This negative effect was partly offset by reductions in product costs and strict control of expenses. As a result, EBITDA, EBITA and EBIT margins have all grown since FY03 and cumulative business performance remains above Codan's objective of 15% compound growth over the medium to long term.

After a significant capital expenditure program totalling $20.5m, the business maintained its low gearing with year-end borrowings of $2 million. This program was directed to internal development of new products, new factory floor space, a whole of company enterprise resource planning business system and acquisition of operations, new products and technology, all to strengthen the company's platform for future growth.

Communications Products
Results were mixed with another strong performance for HF Radio but a weaker than expected performance for Satellite Communications. A major achievement of FY05 was the completion of development and acquisition programs for new HF radio, satellite communications and digital microwave radio (DMR) products. All of these products were released to the market during the second half and have been well received.

HF Radio – In an environment of world security concerns there was continued strong global demand from governments, businesses and humanitarian organisations for rapidly deployable and back up communications networks.

Satellite Communications – In addition to the substantial exchange rate impact on revenue, demand for private and back up communications in government networks fell after strong demand the previous year. The Board does not believe that market share was lost in this sector with the effect being the result of timing of the placement of orders.

Digital Microwave Radio (DMR) – The global market for cellular telephone infrastructure and therefore digital microwave radio is growing strongly. To improve the way this market is addressed, the company acquired technology enabling the manufacture and ongoing development of a complete new cost effective product range. Initial market response has been very positive following successful market launch in March.

Broadcast Products
The acquisition of the operations and technology of Talia Sound & Vision, completed in March, added complementary products to the existing product range. The business was launched globally under the Codan Broadcast brand and a worldwide distribution agreement was entered into with Ross Video of Canada.

In Australia, uncertainties in relation to the rollout of digital TV are still not resolved and this retarded growth in this market.

Printed Circuit Boards
The business performed to expectations and grew market share during the year.

Outlook

World security concerns, some global recovery in telecommunications and the new products released last year will continue to support demand for Codan's communications products for private and public infrastructure. This is expected to include an improvement in sales of satellite communications products for private government networks.

The Board expects the new DMR product range to be very successful in targeted international markets.

The Company's development of its TV Broadcast market is at a very early stage. The broadening of the product range via the Talia acquisition and development of export markets in Asia and globally via the Ross relationship will deliver growth in due course.

Expected profit growth in FY06 nonetheless may be limited by a continuing strong Australian dollar.

STATE OF AFFAIRS

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

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 2004 ordinary	3.0	4,861	100%	1 October 2004
– Interim 2005 ordinary	2.5	4,051	100%	1 April 2005
■ Declared after the end of the year:				
– Final 2005 ordinary	3.5	5,672	100%	3 October 2005

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

EVENTS SUBSEQUENT TO REPORTING DATE

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 34 to the financial statements.

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

LIKELY DEVELOPMENTS

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

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

- the redevelopment and expansion of the Newton manufacturing facility is well underway and is expected to be completed shortly. The factory floor space will increase by 92% and will result in increased manufacturing efficiency, reduced expenses and create manufacturing capacity for future growth.
- the project for Codan to replace its existing financial information systems is progressing in accordance with budget and the planned timetable. This project will remove duplication in existing systems, streamline processes, increase productivity, reduce risks and provide a suitable IT platform for future growth.

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

DIRECTORS' INTERESTS

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

	Ordinary shares
John Uhrig	11,389,016
Michael Heard	4,399,522
Jim Bettison	20,859,439
Brian Burns	11,389,016
Peter Griffiths	110,000
David Klingberg	–
David Klingner	20,000
Ian Wall	34,792,943
Alastair Wood	46,030,713

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify the current 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 in accordance with written advice provided by resolution to the Board Audit, Risk and Compliance Committee, 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 Professional Statement F1 Professional Independence, 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 24 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	
	2005	**2004**
	$	**$**
Statutory audit:		
– audit and review of financial reports (KPMG Australia)	99,010	99,010
– audit of financial reports (overseas KPMG firms)	16,577	12,133
	115,587	111,143
Services other than statutory audit:		
Other assurance services		
– due diligence services (KPMG related practices)	–	100,000
Other services		
– taxation compliance services (KPMG Australia)	68,526	109,440
– taxation compliance services (overseas KPMG firms)	28,508	43,783
	97,034	253,223

Rounding off

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

This report is made with a resolution of the directors:

J A Uhrig
Director

M K Heard
Director

Dated at Newton this 17th day of August 2005.

Lead Auditor's Independence Declaration

Codan Limited and its Controlled Entities

KPMG

Lead Auditor's Independence Declaration under Section 307 of the Corporations Act 2001 to the directors of Codan Limited

To the directors of Codan Limited.

I declare that, to the best of my knowledge and belief, in relation to the financial year ended 30 June 2005 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

KPMG

PD Robertson
Partner

Adelaide
17 August 2005

Statements of Financial Performance

for the year ended 30 June 2005

		Consolidated		The Company	
		2005	2004	2005	2004
	Note	$'000	$'000	$'000	$'000
Revenue from sale of goods	2	125,455	132,954	117,184	124,838
Other revenues from ordinary activities	2	844	4,553	852	825
Total revenue		126,299	137,507	118,036	125,663
Cost of goods sold		65,564	69,440	60,897	64,713
Administrative expenses		8,282	8,851	7,739	9,072
Sales and marketing expenses		20,523	23,060	19,517	22,240
Research and engineering expenses		7,366	6,657	6,796	6,098
Borrowing costs	3	98	895	78	860
Share of net loss of associate accounted for using the equity method	13	–	48	–	–
Other expenses from ordinary activities		1,896	4,930	200	33
Profit from ordinary activities before related income tax expense		**22,570**	**23,626**	**22,809**	**22,647**
Income tax expense relating to ordinary activities	8	6,366	6,948	5,967	6,283
Net profit attributable to members of the parent entity	25	**16,204**	**16,678**	**16,842**	**16,364**
Non owner transaction changes in equity					
Increase in asset revaluation reserve	24	–	–	–	–
Net exchange difference on translation of financial statements of self-sustaining foreign operations	24	(72)	(40)	–	–
Total revenues, expenses and valuation adjustments attributable to members of the parent entity recognised directly in equity		(72)	(40)	–	–
Total changes in equity from non-owner related transactions attributable to the members of the parent entity		**16,132**	**16,638**	**16,842**	**16,364**
Basic earnings per share based on the weighted average number of shares:	5	10.0 cents	11.1 cents		
Basic earnings per share based on the closing number of shares:		10.0 cents	10.3 cents		
Net tangible assets per share based on the closing number of shares:		20.8 cents	18.3 cents		

The statements of financial performance are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 28 to 58.

Statements of Financial Position

as at 30 June 2005

		Consolidated		The Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
CURRENT ASSETS					
Cash	9	1,522	11,140	489	10,121
Receivables	10	22,849	14,391	24,321	14,034
Inventories	11	15,411	12,231	13,367	11,360
Current tax assets	8	–	6	–	–
Other	12	1,667	4,858	1,375	4,559
Total current assets		**41,449**	**42,626**	**39,552**	**40,074**
NON-CURRENT ASSETS					
Receivables	10	–	72	–	72
Investments accounted for using the equity method	13	–	–	–	–
Other financial assets	14	50	50	33,649	33,649
Property, plant and equipment	15	23,900	16,589	20,917	13,611
Product development	16	17,830	12,906	17,830	12,906
Intangible assets	17	19,226	19,457	–	–
Deferred tax assets	8	3,275	3,406	2,942	3,316
Total non-current assets		64,281	52,480	75,338	63,554
Total assets		**105,730**	**95,106**	**114,890**	**103,628**
CURRENT LIABILITIES					
Payables	18	20,220	15,090	17,663	12,960
Other liabilities	19	127	3,740	127	3,740
Interest bearing liabilities	20	3,395	343	13,536	9,941
Current tax liabilities	8	1,237	3,942	1,090	3,915
Provisions	22	4,166	4,214	3,715	3,868
Total current liabilities		**29,145**	**27,329**	**36,131**	**34,424**
NON-CURRENT LIABILITIES					
Interest bearing liabilities	20	26	309	–	138
Deferred tax liabilities	8	5,538	4,108	5,443	4,108
Provisions	22	2,443	2,074	2,207	1,912
Total non-current liabilities		8,007	6,491	7,650	6,158
Total liabilities		**37,152**	**33,820**	**43,781**	**40,582**
Net assets		**68,578**	**61,286**	**71,109**	**63,046**
EQUITY					
Contributed equity	23	23,046	23,046	23,046	23,046
Reserves	24	(89)	17	1,397	1,370
Retained profits	25	45,621	38,223	46,666	38,630
Total equity		**68,578**	**61,286**	**71,109**	**63,046**

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 28 to 58.

Statements of Cash Flows

for the year ended 30 June 2005

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		118,383	134,110	109,803	126,080
Cash payments in the course of operations		(94,006)	(102,066)	(78,505)	(88,136)
Interest received		216	269	184	236
Interest paid		(98)	(895)	(78)	(860)
Income taxes paid		(7,487)	(6,298)	(7,430)	(6,015)
Net cash provided by operating activities	29(ii)	**17,008**	**25,120**	**23,974**	**31,305**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for controlled entities		–	–	–	–
Payments for goodwill		(1,434)	–	–	–
Proceeds from sale of non-current assets		137	3,825	119	72
Payments for capitalised product development		(8,690)	(6,288)	(8,690)	(6,288)
Payments for property, plant and equipment		(10,395)	(4,885)	(9,809)	(4,192)
Net cash provided by / (used in) investing activities		**(20,382)**	**(7,348)**	**(18,380)**	**(10,408)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		2,000	–	2,000	–
Repayment of borrowings		(346)	(23,477)	(143)	(23,275)
Proceeds / (Loans) to / from related companies		(132)	2	(9,356)	(2,860)
Proceeds from issue of shares		–	18,957	–	18,957
Share buy-back		–	–	–	–
Dividends paid		(8,840)	(7,885)	(8,840)	(7,885)
Net cash provided by / (used in) financing activities		**(7,318)**	**(12,403)**	**(16,339)**	**(15,063)**
Net increase / (decrease) in cash held		(10,692)	5,369	(10,745)	5,834
Cash at the beginning of the financial year		11,140	5,772	10,121	4,287
Effects of exchange rate changes on the balances of cash held in foreign currencies		(39)	(1)	–	–
Cash at the end of the financial year	29(i)	**409**	**11,140**	**(624)**	**10,121**

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 28 to 58.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

(b) Principles of consolidation

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

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

Unrealised gains resulting from transactions with associates, including those related to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

(c) Revenue recognition

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

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

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

Interest income
Interest income is recognised as it accrues.

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

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

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

(d) Foreign currency

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

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

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

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

(e) Borrowing costs

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

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

(f) Taxation

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

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

Tax consolidation

The Company is the head entity in the tax consolidated group comprising all the Australian wholly owned subsidiaries.

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.

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or is expensed.

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

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

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

(h) Earnings per share

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

(i) Receivables

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

(j) Inventories

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

(k) Investments

Controlled Entities

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates

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

(l) Product development costs

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

(m) Goodwill

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

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

(n) Acquisitions of assets

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

Where settlement of any part of the cash consideration is deferred, the amount payable is recorded at its present value, discounted at the incremental borrowing rate of the consolidated entity. The costs of assets constructed by the consolidated entity include the cost of materials, direct labour and directly attributable overheads.

Expenditure is only recognised as an asset when the entity controls future economic benefits, it is probable that the costs will be incurred and the costs can be measured reliably.

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

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

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

(p) Revaluations of non-current assets

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

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

(q) Depreciation

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

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

Buildings	4% Straight line
Leasehold improvements	33% Straight line
Plant and equipment	13% to 40% Straight line

(r) Leased Assets

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

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

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

(s) Payables

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

(t) Interest bearing liabilities

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

(u) Employee benefits

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

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

Long service leave
The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows resulting from the employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

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

(v) Provisions

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

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

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

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

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The provision only relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired.

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

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

(w) Foreign exchange hedges

Anticipated transactions
Transactions are designated as a hedge of the anticipated specific purchase or sale of goods only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

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

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

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

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

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

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

(x) Use and revision of accounting estimates

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

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

	Consolidated		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenue from sale of goods				
Sales of goods revenue from operating activities	125,455	132,954	117,184	124,838
Other revenues				
From operating activities:				
Interest received	216	269	184	236
Other items	491	58	449	42
Net foreign exchange gain	–	375	–	375
Rental income	–	26	100	100
Dividends received from controlled entity	–	–	–	–
From outside operating activities:				
Proceeds from sale of non-current assets	137	3,825	119	72
Total other revenues	844	4,553	852	825
Total revenue from ordinary activities	**126,299**	**137,507**	**118,036**	**125,663**
3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE				
(a) Individually significant expenses / (revenues) included in profit from ordinary activities before income tax expense				
Proceeds on sale of surplus property in Brisbane	–	(3,750)	–	–
Selling expenses	–	98	–	–
Carrying value of property and related assets	–	3,002	–	–
Net gain on disposal	–	(650)	–	–

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
3. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE (CONTINUED)				
(b) Profit from ordinary activities before income tax expense has been arrived at after charging / (crediting) the following items:				
Depreciation of:				
Buildings	162	162	162	162
Leasehold property	111	19	85	10
Plant and equipment	2,528	2,409	2,055	1,846
	2,801	2,590	2,302	2,018
Amortisation of:				
Product development costs	3,766	3,905	3,766	3,788
Goodwill	1,665	1,617	–	–
	5,431	5,522	3,766	3,788
Total depreciation and amortisation	8,232	8,112	6,068	5,806
Borrowing costs:				
Related parties	–	57	–	57
Loans and overdrafts	98	838	78	803
Total borrowing costs	98	895	78	860
Bad debts written off / (recovered)	19	(17)	–	(33)
Provided for doubtful debts	(30)	375	(58)	311
Provided for long service leave	496	430	422	398
Provided for annual leave	1,526	1,562	1,352	1,414
Write down of goodwill	–	265	–	–
Operating lease rental expense	637	580	170	170
Net foreign exchange (gain) / loss	154	(375)	152	(375)
(Profit) or loss on sale of property, plant and equipment	108	(792)	81	(42)
4. AUDITORS' REMUNERATION				
Audit services:				
KPMG Australia – audit and review of financial reports	99	99	99	99
Overseas KPMG firms – audit of financial reports	17	12	–	–
Other services:				
KPMG Australia – taxation services	69	109	69	109
Overseas KPMG firms – taxation services	29	44	6	–
KPMG related practices – due diligence services	–	100	–	100
	214	364	174	308

	Consolidated		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
5. EARNINGS PER SHARE				
Net profit used for the purpose of calculating basic earnings per share	16,204	16,678		
The weighted average number of shares used as the denominator number for basic earnings per share was 162,045,454 (2004: 150,383,517).				
There are no dilutive potential ordinary shares, therefore diluted EPS has not been calculated or disclosed.				
6. DIVIDENDS				
(i) an ordinary final dividend of 2.9 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2003	–	3,981	–	3,981
(ii) an ordinary interim dividend of 2.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2004	–	3,904	–	3,904
(iii) an ordinary final dividend of 3.0 cents per share, franked to 100% with 30% franking credits, was paid on 1 October 2004	4,789	–	4,789	–
(iv) an ordinary interim dividend of 2.5 cents per share, franked to 100% with 30% franking credits, was paid on 1 April 2005	4,051	–	4,051	–
	8,840	7,885	8,840	7,885

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 $5,671,590 will be paid on 3 October 2005.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in subsequent financial reports.

Dividend Franking Account

	The Company 2005 $'000	The Company 2004 $'000
Franking credits available to shareholders for subsequent financial years (30%)	8,826	7,963

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.

7. SEGMENT ACTIVITIES

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

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

Business Segments

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

Geographical segments

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

7. SEGMENT ACTIVITIES (CONTINUED)

	Communications 2005 $000	Communications 2004 $000	Other 2005 $000	Other 2004 $000	Eliminations 2005 $000	Eliminations 2004 $000	Consolidated 2005 $000	Consolidated 2004 $000
Revenue								
External segment revenue	118,070	126,878	8,013	6,261	–	–	126,083	133,139
Inter segment revenue	–	–	2,019	2,140	(2,019)	(2,140)	–	–
Total segment revenue	118,070	126,878	10,032	8,401	(2,019)	(2,140)	126,083	133,139
Other unallocated revenue							216	4,368
Total revenue							126,299	137,507
Result								
Segment result	28,619	30,512	233	(254)	(20)	(61)	28,832	30,197
Share of associates net loss							–	(48)
Unallocated corporate expenses							(6,262)	(6,523)
Profit from ordinary activities							22,570	23,626
Income tax expense							(6,366)	(6,948)
Net Profit							16,204	16,678
Non Cash Items								
Depreciation and amortisation	7,382	7,313	850	799	–	–	8,232	8,112
Write down of goodwill	–	–	–	265	–	–	–	265
Assets								
Segment assets	88,459	67,747	10,759	7,897	–	–	99,218	75,644
Investments							50	50
Unallocated corporate assets							6,462	19,412
Consolidated total assets							105,730	95,106
Liabilities								
Segment liabilities	24,981	20,362	1,851	1,014	–	–	26,832	21,376
Unallocated corporate liabilities							10,320	12,444
Consolidated total liabilities							37,152	33,820

Geographical segments	Europe 2005 $000	Europe 2004 $000	North America 2005 $000	North America 2004 $000	Asia 2005 $000	Asia 2004 $000	Australia / Oceania 2005 $000	Australia / Oceania 2004 $000	Africa 2005 $000	Africa 2004 $000	Other 2005 $000	Other 2004 $000	Consolidated 2005 $000	Consolidated 2004 $000
External segment revenue by location of customers	50,721	57,339	26,471	30,180	18,254	13,012	13,125	17,890	16,554	14,832	1,174	4,254	126,299	137,507
Segment assets by location of assets	2,123	1,733	828	974	–	–	102,779	92,399	–	–	–	–	105,730	95,106
Acquisitions of non current assets	13	130	34	106	–	–	19,038	10,937	–	–	–	–	19,085	11,173

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
8. INCOME TAX				
(a) Income tax expense				
The prima facie income tax expense calculated at 30% on the profit from ordinary activities	6,771	7,087	6,842	6,794
Less: Tax effect of permanent differences				
Additional deduction for research and development expenditure	390	583	390	583
Over provision for Australian taxation in previous years	519	37	463	37
Share of associates profit	–	(14)	–	–
Profit on sale of property not assessable	–	225	–	–
Sundry items	178	93	178	128
	5,684	6,163	5,811	6,046
Add: Tax effect of permanent differences				
Amortisation of goodwill	499	485	–	–
Write down of goodwill	–	80	–	–
Non-deductible expenses	58	81	54	76
Depreciation	86	48	86	48
Sundry Items	39	91	16	113
Income tax expense	6,366	6,948	5,967	6,283
Income tax expense is made up of:				
Current income tax payable	4,797	7,371	4,455	6,685
Deferred income tax provision	1,430	(3)	1,410	15
Future income tax benefit	139	(420)	102	(417)
	6,366	6,948	5,967	6,283
(b) Current tax liabilities / asset				
Balance at the beginning of the year	(3,936)	(2,838)	(3,915)	(2,561)
Net foreign currency differences on translation of foreign entities	9	(25)	–	–
Tax payable transferred by entities in the tax consolidated group	–	–	(150)	(162)
Income tax paid / (received)	7,487	6,298	7,430	6,015
Income tax expense of entities in the tax consolidated group	–	–	–	(522)
Current years income tax expense on operating profit	(4,797)	(7,371)	(4,455)	(6,685)
	(1,237)	(3,936)	(1,090)	(3,915)
Disclosed in statement of financial position as:				
Income tax receivable	–	6	–	–
Income tax payable	(1,237)	(3,942)	(1,090)	(3,915)
	(1,237)	(3,936)	(1,090)	(3,915)

8. INCOME TAX (CONTINUED)	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
(c) Deferred tax liabilities				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:				
Difference in depreciation of property, plant and equipment	1	7	–	7
Expenditure currently tax deductible but deferred and amortised for accounting	5,349	3,912	5,349	3,912
Sundry items	188	189	94	189
	5,538	4,108	5,443	4,108
(d) Deferred tax assets				
Future income tax benefit comprises the estimated benefit at the applicable rate of 30% on the following items:				
Difference in depreciation of property, plant and equipment	47	28	40	28
Provisions for employee benefits not currently deductible	1,356	1,190	1,177	1,158
Provisions and accruals not currently deductible	1,821	2,083	1,725	2,083
Sundry items	51	105	–	47
	3,275	3,406	2,942	3,316
9. CASH				
Petty cash	5	5	4	4
Cash at bank	1,517	6,135	485	5,117
Short term deposit	–	5,000	–	5,000
	1,522	11,140	489	10,121
10. RECEIVABLES				
Current				
Trade debtors	23,043	14,468	21,405	13,262
Less: Provision for doubtful trade debtors	(713)	(743)	(582)	(640)
	22,330	13,725	20,823	12,622
Other debtors	519	666	486	622
Loans to controlled entities	–	–	3,012	790
	22,849	14,391	24,321	14,034
Non-Current				
Loans to associated companies	–	72	–	72

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
11. INVENTORIES				
Current				
Raw materials	11,260	8,308	9,609	7,739
Work in progress	1,845	1,672	1,452	1,370
Finished goods	2,306	2,251	2,306	2,251
	15,411	12,231	13,367	11,360
12. OTHER ASSETS				
Prepayments	909	740	702	545
Deferred foreign currency hedge exchange difference and costs	127	3,740	127	3,740
Other	631	378	546	274
	1,667	4,858	1,375	4,559
13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD				
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.				
Results of Associates				
Share of associates operating loss before income tax	–	(48)		
Share of associates income tax benefit	–	–		
Share of associates net loss – equity accounted	–	(48)		
Movements in carrying amount of investments				
Carrying amount of investment in associate at the beginning of the financial year	–	48		
Share of associates net loss	–	(48)		
Carrying amount of investment in associate at the end of the financial year	–	–		
14. OTHER FINANCIAL ASSETS				
Shares in controlled entities at cost	–	–	33,649	33,649
Unlisted shares at cost	50	50	–	–
	50	50	33,649	33,649

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
15. PROPERTY, PLANT AND EQUIPMENT				
Freehold land and buildings at cost	–	–	–	–
Freehold land and buildings at fair value – directors' valuation	4,282	4,454	4,282	4,454
	4,282	4,454	4,282	4,454
Leasehold property at cost	546	523	265	259
Accumulated amortisation	(218)	(108)	(119)	(36)
	328	415	146	223
Plant and equipment at cost	31,351	33,273	20,478	21,404
Accumulated depreciation	(19,826)	(22,290)	(11,746)	(13,187)
	11,525	10,983	8,732	8,217
Capital work in progress at cost	7,765	737	7,757	717
Total property, plant and equipment	23,900	16,589	20,917	13,611
(i) Reconciliations				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
Freehold land and buildings				
Carrying amount at beginning of year	4,454	7,517	4,454	4,616
Additions	5	–	5	–
Revaluations	–	–	–	–
Transfer from capital work in progress	6	–	6	–
Disposals	(21)	(2,901)	(21)	–
Depreciation	(162)	(162)	(162)	(162)
Carrying amount at end of year	4,282	4,454	4,282	4,454
Leasehold property improvements				
Carrying amount at beginning of year	415	262	223	121
Additions	24	172	8	112
Disposals	–	–	–	–
Depreciation	(111)	(19)	(85)	(10)
Carrying amount at end of year	328	415	146	223
Plant and equipment				
Carrying amount at beginning of year	10,983	8,880	8,217	6,175
Additions	1,015	3,452	453	2,847
Acquisitions through entity acquired	–	–	–	–
Transfer from capital work in progress	2,317	1,214	2,297	1,070
Disposals	(222)	(126)	(180)	(29)
Depreciation and amortisation	(2,528)	(2,409)	(2,055)	(1,846)
Net foreign currency differences on translation of foreign entities	(40)	(28)	–	–
Provision for asset write off	–	–	–	–
Carrying amount at end of year	11,525	10,983	8,732	8,217

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Capital work in progress at cost				
Carrying amount at beginning of year	737	690	717	554
Additions	9,351	1,261	9,343	1,233
Disposals	–	–	–	–
Transfers to property, plant and equipment	(2,323)	(1,214)	(2,303)	(1,070)
Carrying amount at end of year	7,765	737	7,757	717
Total carrying amount at end of year	23,900	16,589	20,917	13,611

(ii) Valuation of land and buildings

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

16. PRODUCT DEVELOPMENT

Expenditure brought forward – at cost	23,898	17,610	22,505	16,217
Capitalised in current period – at cost	8,690	6,288	8,690	6,288
	32,588	23,898	31,195	22,505
Accumulated amortisation	(14,758)	(10,992)	(13,365)	(9,599)
	17,830	12,906	17,830	12,906

17. INTANGIBLES

Goodwill – at cost	28,477	27,043	–	–
Accumulated amortisation	(9,251)	(7,321)	–	–
Write down to recoverable amount	–	(265)	–	–
	19,226	19,457	–	–

18. PAYABLES

Current

Trade creditors	12,017	7,001	10,543	6,444
Other creditors and accruals	8,203	8,089	7,120	6,516
	20,220	15,090	17,663	12,960

19. OTHER LIABILITIES

Current

Net foreign currency hedge payable	127	3,740	127	3,740

Notes to and forming part of the Financial Statements

for the year ended 30 June 2005

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
20. INTEREST BEARING LIABILITIES				
Current				
Bank overdrafts	1,113	–	1,113	–
Secured loans	282	343	138	143
Commercial bills	2,000	–	2,000	–
Unsecured loans	–	–	–	–
Loans from controlled entities	–	–	10,285	9,798
	3,395	343	13,536	9,941
Non-Current				
Secured loans	16	299	–	138
Commercial bills	–	–	–	–
Unsecured loans	10	10	–	–
	26	309	–	138
21. FINANCING ARRANGEMENTS				
The consolidated entity has access to the following lines of credit:				
Total facilities available at balance date:				
Bank overdraft	2,622	2,622	2,622	2,622
Multi option facility	12,000	34,000	12,000	34,000
Documentary letters of credit	682	562	682	562
Equipment finance facility	2,080	1,200	1,200	1,200
Guarantee facility	1,350	1,230	1,230	1,230
Commercial credit card	135	115	115	115
	18,869	39,729	17,849	39,729
Facilities utilised at balance date:				
Bank overdraft	1,113	–	1,113	–
Multi option facility	2,000	–	2,000	–
Documentary letters of credit	–	187	–	187
Equipment finance facility	602	642	–	642
Guarantee facility	835	743	735	743
Commercial credit card	67	–	59	–
	4,617	1,572	3,907	1,572
Facilities not utilised at balance date:				
Bank overdraft	1,509	2,622	1,509	2,622
Multi option facility	10,000	34,000	10,000	34,000
Documentary letters of credit	682	375	682	375
Equipment finance facility	1,478	558	1,200	558
Guarantee facility	515	487	495	487
Commercial credit card	68	115	56	115
	14,252	38,157	13,942	38,157

Bank Facilities

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

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

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Weighted Average Interest rates				
Cash at bank	4.38%	4.25%	4.38%	4.25%
Short term deposits	5.11%	5.10%	5.11%	5.10%
Bank overdraft	8.58%	8.50%	8.58%	8.50%
Commercial bill	5.70%	5.30%	5.70%	5.30%
Equipment finance facility	7.39%	7.39%	7.39%	7.39%

22. PROVISIONS

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Current				
Employee benefits	2,156	1,859	1,705	1,613
Warranty repairs	2,010	2,355	2,010	2,255
	4,166	4,214	3,715	3,868
Non-Current				
Employee benefits	2,443	2,074	2,207	1,912
Reconciliation of warranty provision				
Carrying amount at beginning of year	2,355	1,574	2,255	1,474
Provisions made during the year	1,054	2,193	1,154	2,193
Payments made during the year	(1,399)	(1,412)	(1,399)	(1,412)
	2,010	2,355	2,010	2,255

23. CONTRIBUTED EQUITY

	Consolidated 2005 $'000	Consolidated 2004 $'000	The Company 2005 $'000	The Company 2004 $'000
Share capital				
162,045,454 (2004: 162,045,454) ordinary shares fully paid	23,046	23,046	23,046	23,046
Movements in ordinary share capital during the year				
Balance at the beginning of the financial year	23,046	3,469	23,046	3,469
Shares issued for cash pursuant to a prospectus	–	19,415	–	19,415
Shares issued under the Codan Employee Share Plan	–	565	–	565
Transaction costs incurred on shares issued under the prospectus	–	(2,130)	–	(2,130)
Call on partly paid shares under the Codan Executive Share Plan	–	1,727	–	1,727
	23,046	23,046	23,046	23,046

23. CONTRIBUTED EQUITY (CONTINUED)

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

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

Terms and conditions

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

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
24. RESERVES				
Asset revaluation	–	34	1,336	1,370
Foreign currency translation	(89)	(17)	61	–
	(89)	17	1,397	1,370
Asset revaluation reserve				
The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets measured at fair value in accordance with AASB 1041.				
Balance at beginning of year	34	34	1,370	1,370
Revaluation of land and buildings	–	–	–	–
Transfer to retained profits	(34)	–	(34)	–
Balance at end of year	–	34	1,336	1,370
Foreign currency translation				
The foreign currency translation reserve records the foreign currency differences arising from the translation of self sustaining foreign operations.				
Balance at beginning of year	(17)	23	–	–
Net translation adjustment	(72)	(40)	61	–
Balance at end of year	(89)	(17)	61	–
25. RETAINED PROFITS				
Retained profits at beginning of year	38,223	29,430	38,630	30,151
Transfers from reserves	34	–	34	–
Net profit attributable to members of the parent entity	16,204	16,678	16,842	16,364
Dividends recognised during the year	(8,840)	(7,885)	(8,840)	(7,885)
Retained profits at end of year	45,621	38,223	46,666	38,630

	Consolidated		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
26. COMMITMENTS				
(i) Capital expenditure commitments				
The aggregate amount of contracts for capital expenditure on plant and equipment	969	342	947	329
(ii) Non-cancellable operating lease expense commitments				
Future operating lease commitments not provided for in the financial statements which are payable:				
Within one year	610	572	110	144
One year or later and no later than five years	916	1,131	76	16
Later than five years	–	–	–	–
	1,526	1,703	186	160
The consolidated entity leases property under non-cancellable operating leases expiring from one to five years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount and an adjustment for the consumer price index.				
(iii) Finance lease and hire purchase payment commitments				
Within one year	294	379	143	159
One year or later and no later than five years	17	311	–	143
Later than five years	–	–	–	–
	311	690	143	302
Less: future finance charges	13	48	5	21
	298	642	138	281
Lease and hire purchase liabilities provided for in the financial statements:				
Current	282	343	138	143
Non-current	16	299	–	138
	298	642	138	281

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

27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The consolidated entity enters into performance bonds in support of its obligations as a supplier of electronic equipment. During the year Codan Broadcast Products Pty Ltd acquired the assets of Talia Sound and Vision. Under this acquisition contract Codan Broadcast Products Pty Ltd is required to pay additional consideration of $661,000 if specified products exceed certain sales thresholds in the twelve month period ending 31 March 2006. No liability has been recorded for this possible payment and it is expected that any such payment under the terms of this contract will be accounted for as goodwill.

28. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest Rate Risk

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

2005	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	1,522				1,522
Receivables				22,849	22,849
Other assets				1,667	1,667
Other financial assets				50	50
	1,522	–	–	24,566	26,088
Financial liabilities					
Payables				20,220	20,220
Other liabilities				127	127
Bank overdraft	1,113				1,113
Secured loans		282	16	10	308
Commercial bills	2,000				2,000
Employee benefits				4,599	4,599
	3,113	282	16	24,956	28,367

2004	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	11,140				11,140
Receivables				14,463	14,463
Other assets				4,858	4,858
Other financial assets				50	50
	11,140	–	–	19,371	30,511
Financial liabilities					
Payables				15,090	15,090
Other liabilities				3,740	3,740
Bank overdraft and loans		343	299	10	652
Commercial bills					–
Employee benefits				3,933	3,933
	–	343	299	22,773	23,415

(b) Foreign exchange risk

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

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

	Consolidated		Consolidated	
	2005	2004	2005	2004
	Weighted average rate		$'000	$'000
Sell US Dollars				
Not later than one year	0.7594	0.6203	14,689	36,890

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

	Consolidated	
	2005	2004
	$'000	$'000
	Gains	Gains
Not later than one year	127	3,740
Later than one but no later than two years	–	–
	127	3,740

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

(c) Credit risk exposures

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

(d) Net fair values of financial assets and liabilities

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

	Consolidated		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
29. NOTES TO THE STATEMENTS OF CASH FLOWS				
(i) Reconciliation of cash				
For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:				
Petty cash	5	5	4	4
Cash at bank	1,517	6,135	485	5,117
Short term deposits	–	5,000	–	5,000
Bank overdraft	(1,113)	–	(1,113)	–
	409	11,140	(624)	10,121
(ii) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities				
Profit from ordinary activities after income tax	16,204	16,678	16,842	16,364
Add/(less) items classified as investing or financing activities:				
(Profit) / loss on sale of non-current assets	108	(792)	81	(42)
Add /(less) non-cash items:				
Foreign currency loss / (gain) on borrowings	–	(375)	–	(375)
Depreciation of:				
Buildings	162	162	162	162
Leasehold property	111	19	85	10
Plant and equipment	2,528	2,409	2,055	1,846
Amortisation	5,431	5,522	3,766	3,788
Revaluation of land and buildings	–	–	–	–
Write down of goodwill	–	265	–	–
(Decrease)/increase in income taxes	(1,138)	682	(1,464)	268
Share of associates net profit	–	48	–	–
Non cash intercompany transactions	–	–	7,898	9,227
Increase/(decrease) on net assets affected by translation	7	(13)	–	–
Net cash provided by operating activities before changes in assets and liabilities	23,413	24,605	29,425	31,248
Change in assets and liabilities during the financial year:				
Reduction/(increase) in receivables	(8,605)	975	(8,202)	1,012
Reduction/(increase) in inventories	(3,180)	(1,363)	(2,008)	(1,529)
Reduction/(increase) in other assets	3,338	5,433	3,320	5,514
Increase/(reduction) in payables	1,721	(5,465)	1,297	(5,871)
Increase/(reduction) in provisions	321	935	142	931
Net cash inflow provided by operating activities	17,008	25,120	23,974	31,305

30. CONTROLLED ENTITIES

(a) Particulars in relation to controlled entities

Name / Country of incorporation	Class of Share	Interest Held 2005 %	Interest Held 2004 %
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

During the financial year ended 30 June 2005 Provideo Systems Pty Ltd changed its name to Codan Broadcast Products Pty Ltd.

	Consolidated		The Company	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
31. EMPLOYEE BENEFITS				
Aggregate liability for employee benefits, including on costs				
Current – other creditors and accruals	1,602	1,777	1,043	1,180
Current – employee entitlements	2,156	1,859	1,705	1,613
Non-current – employee entitlements	2,443	2,074	2,207	1,912
	4,599	3,933	3,912	3,525
The present values of employee entitlements not expected to be settled within 12 months of reporting date have been calculated using the following weighted averages:				
Assumed rate of increase in wage and salary rates	4.00%	4.00%	4.00%	4.00%
Discount rate	5.13%	5.50%	5.13%	5.50%
Settlement term (years)	20 years	20 years	20 years	20 years
Number of Employees at year end	463	447	329	331

31. EMPLOYEE BENEFITS (CONTINUED)

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. In March 2004 all partly paid shares issued under the CESP were fully paid up with the Company receiving $1,726,800 and the company funded $469,200 for the purchase of 288,100 shares by the Codan Executive Share Plan Pty Ltd.

Summary of the shares issued under the plan:

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

The shares issued under the plan vest in the executive upon issue. The shares participate in dividends and carry voting rights. 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 has been approved by a resolution of the Company's shareholders and was established to provide certain employees with incentive rewards by giving them the opportunity to acquire shares. Shares are issued under the plan in the name of the participating employee to the plan and vest immediately in the plan.

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

In relation to the interest free loan the employee makes equal periodic instalments with full repayment within three years or by the date of termination of employment. The shares vest in the plan immediately and vest to the employee upon full repayment of the loan. As at reporting date $79,910 (2004: $150,553) is recognised as a receivable by the Company from employees under this plan.

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

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

	2005	2004
Number of shares at the beginning of the year	–	–
Number of shares issued to the plan	–	531,300
Number of shares distributed to employees	–	(531,300)
Number of shares forfeited	–	–
Number of shares at end of the year	–	–

32. DIRECTOR AND EXECUTIVE DISCLOSURES

Remuneration of directors and specified executives by the consolidated entity

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

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

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

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

		Primary				Post-employment		Other compensation		
		Salary & fees $	Bonus $	Long term incentive bonus $	Non-monetary benefits $	Super-annuation $	Other post employment benefits $	Termination benefits $	Insurance premiums $	Total $
Non-executive directors										
Mr J A Uhrig *(Chairperson)*	2005	138,066	–	–	–	–	–	–	–	138,066
	2004	*87,200*	–	–	–	–	–	–	–	*87,200*
Mr I J Bettison	2005	69,033	–	–	–	–	–	–	–	69,033
	2004	*43,600*	–	–	–	–	–	–	–	*43,600*
Mr I B Wall	2005	69,033	–	–	–	–	–	–	–	69,033
	2004	*43,600*	–	–	–	–	–	–	–	*43,600*
Mr A E R Wood	2005	69,033	–	–	–	–	–	–	–	69,033
	2004	*86,771*	–	–	–	–	*2,696*	–	–	*89,467*
Mr B P Burns	2005	63,333	–	–	–	–	5,700	–	–	69,033
	2004	*50,000*	–	–	–	–	*4,500*	–	–	*54,500*
Mr L A Davis	2005	25,833	–	–	–	–	2,325	–	–	28,158
	2004	*40,000*	–	–	–	–	*3,600*	–	–	*43,600*
Mr P R Griffiths	2005	63,333	–	–	–	–	5,700	–	–	69,033
	2004	*50,000*	–	–	–	–	*4,500*	–	–	*54,500*
Dr D Klingner	2005	43,750	–	–	–	–	3,937	–	–	47,687
	2004	–	–	–	–	–	–	–	–	–
Executive directors										
Mr M K Heard *(Managing Director)*	2005	506,758	189,000	–	–	–	66,609	–	–	762,367
	2004	*471,292*	*296,250*	–	–	–	*62,654*	–	–	*830,196*
Total, all directors	2005	1,048,172	189,000	–	–	–	84,271	–	–	1,273,756
	2004	*872,463*	*296,250*	–	–	–	*77,950*	–	–	*1,246,663*

32. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

		Primary				Post-employment		Other compensation		
		Salary & fees $	Bonus $	Long term incentive bonus $	Non-monetary benefits $	Super-annuation $	Other post employment benefits $	Termination benefits $	Insurance premiums $	Total $
Specified executives										
Mr D McGurk *General Manager Sales and Marketing*	2005	193,121	71,750	–	–	14,246	–	–	–	279,117
	2004	*168,349*	*126,000*	–	–	*16,555*	–	–	–	*310,904*
Mr D Hughes *Chief Finance and Information Officer*	2005	201,211	77,350	–	–	23,977	–	–	–	302,537
	2004	*187,408*	*143,273*	–	–	*21,912*	–	–	–	*352,593*
Mr P Charlesworth *General Manager Engineering*	2005	191,480	71,750	–	–	16,079	–	–	–	279,309
	2004	*170,184*	*95,095*	–	–	*15,346*	–	–	–	*280,625*
Mr A Gobolos *General Manager Business Development*	2005	199,162	80,500	–	–	23,412	–	–	–	303,074
	2004	*195,602*	*114,950*	–	–	*27,323*	–	–	–	*337,875*
Mr L Groves *General Manager Sales and Marketing*	2005	21,578	–	–	–	1,829	–	–	–	23,407
	2004	*202,237*	–	–	–	*17,651*	–	–	–	*219,888*
Mr S Lukacs *General Manager Codan Broadcast Products*	2005	151,676	38,536	–	–	35,274	–	–	–	225,486
	2004	*90,310*	*24,507*	–	–	*17,258*	–	–	–	*132,075*
Total, all specified executives	2005	958,227	339,886	–	–	114,818	–	–	–	1,412,931
	2004	*1,014,090*	*503,825*	–	–	*116,045*	–	–	–	*1,633,960*

Mr S Lukacs was appointed as General Manager Codan Broadcast Products in November 2003 and Mr L Groves ceased to be employed in August 2004.

Equity holdings and transactions

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

	Opening balance	Purchases	Sales	Closing Balance
Directors				
Mr J A Uhrig	11,389,016			11,389,016
Mr I J Bettison	20,859,439			20,859,439
Mr I B Wall	34,792,943			34,792,943
Mr A E R Wood	46,030,713			46,030,713
Mr B P Burns	11,389,016			11,389,016
Mr L A Davis	200,000			200,000
Mr P R Griffiths	110,000			110,000
Dr D Klingner	20,000			20,000
Mr M K Heard	4,399,522			4,399,522
Specified executives				
Mr D McGurk	1,000			1,000
Mr D Hughes	11,000			11,000
Mr P Charlesworth	10,000			10,000
Mr A Gobolos	1,178,407		(400,000)	778,407
Mr S Lukacs	10,000			10,000

Other transactions with the Company or its controlled entities

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

Mr A E R Wood provided consulting services of $100,000 (2004: $75,000) to the company during the year. The consulting terms are 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 consolidated entity. These purchases occur within a normal employee relationship and are considered to be trivial in nature.

33. NON-DIRECTOR RELATED PARTIES

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

The Company and 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 and paid rent to Codan (Qld) Pty Ltd for plant and equipment. The Company charges rent to IMP Printed Circuits Pty Ltd for their premises.

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

	Consolidated		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
33. NON-DIRECTOR RELATED PARTIES (CONTINUED)				
The aggregate amounts receivable from, and payable to, wholly-owned controlled entities and associated companies at reporting date is as follows:				
Receivables				
Current	–	–	3,012	790
Non Current	–	72	–	72
Payables				
Current	–	–	10,285	9,798
Dividends				
Dividends received by the company from wholly-owned controlled entities	–	–	–	–

34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The board has established a project, monitored by the Board Audit, Risk and Compliance Committee, to assess the impact of the transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

The Company's implementation project has consisted of assessing the impact of AIFRS, designing accounting policies and disclosures to comply with AIFRS, determining the impact as at the transition date of AIFRS and implementing the required changes to processes, policies and systems to ensure compliance with AIFRS.

Impact of transition to AIFRS

The impact of the transition to AIFRS disclosed in this note is based on the AIFRS standards that management expect to be in place when preparing the first complete AIFRS financial report. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial performance and financial position in accordance with AIFRS. This note provides only a summary, therefore further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, as a result the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this note.

The significant changes and elections in accounting policies adopted in preparing the Australian GAAP to AIFRS reconciliations are:

(a) Financial instruments

The company expects to take advantage of the election in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. There are no expected adjustments in relation to these standards for the 1 July 2004 transition balance sheet or for the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

As at 1 July 2005 the forward exchange contracts held by the company will be considered financial instruments and will be required to be recognised at fair value on the balance sheet. As the company expects to meet the hedge accounting requirements under AIFRS the movement in the fair value of the forward exchange contracts up to the date the hedged transaction occurs will be accounted for through a hedging reserve account.

This hedging reserve account will form part of Shareholders Equity and as a result no material impact is expected on the company's operating profit as a result of adopting this AIFRS.

(b) Intangibles

Goodwill

Under AIFRS goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of its written down value under Australian GAAP adjusted for reclassifications of other intangible assets not meeting the AIFRS recognition criteria. However no reclassifications are expected.

Product development

Under AIFRS expenditure on research activities will be expensed as incurred whereas under Australian GAAP certain research costs are able to be capitalised. As the company is focused on product development rather than research activities no adjustments are expected as a result of this change in accounting policy.

Under AIFRS staff training costs are not to be capitalised as an intangible asset. On transition to AIFRS staff training costs of $65,871 previously capitalised will be derecognised with an adjustment of $46,110 to retained earnings and $19,761 to deferred tax liability as at 1 July 2004. No staff training costs have been capitalised in the year ended 30 June 2005. The amortisation expense charged in the year ended 30 June 2005 under Australian GAAP in relation to staff training costs that were capitalised in prior years is $14,468 and as a result the AIFRS profit before tax for the year ended 30 June 2005 will be increased by this amount.

Other intangible assets

Software assets will be reclassified from property, plant and equipment to intangible assets on transition to AIFRS. This is expected to result in a reclassification of $299,627 for the company and the consolidated entity as at 1 July 2004 and $3,683,030 as at 30 June 2005.

Amortisation

Other than goodwill, the amortisation policy for intangible assets under current Australian GAAP will be consistent with AIFRS. Under AIFRS goodwill is not subject to amortisation but will be subject to an annual impairment test. The impact of this change in accounting policy will be an increase to operating profit of $1,664,845 for the year ended 30 June 2005.

(c) Impairment

Under AIFRS the carrying amount of the consolidated entity's non-current assets, excluding goodwill and deferred tax assets, will be reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. Where the carrying amount exceeds the recoverable amount an impairment loss will be recorded. Goodwill and intangible assets not yet ready for use will be tested for impairment annually.

An assets recoverable amount will be the greater of its fair value less costs to sell and its value in use. Value in use is calculated by reference to the discounted value of the asset's estimated future cash flows, these cash flows will be estimated based on the asset in its current condition and therefore will not include cash inflows and outflows from improving or enhancing the asset's performance or expected to arise from future restructurings which are not yet committed.

The Company has considered the requirements of AIFRS in relation to impairment as at 1 July 2004, being the transition date to AIFRS and also at 30 June 2005 and does not expect any impairment losses to be recorded.

34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(d) Property, plant and equipment

Other than land and buildings all other property, plant and equipment will continue to be measured at cost. Land and buildings are currently measured at fair value, the company expects to elect to change the measurement basis from fair value to cost under AIFRS. On transition to AIFRS the carrying value of land and buildings will be deemed to be cost. As a result all property, plant and equipment will be measured at cost under AIFRS and the asset revaluation reserve recorded by the company will be transferred to retained earnings on transition to AIFRS.

Under AIFRS the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis rather than separately recognising the consideration received as revenue. For the consolidated entity an amount of $136,908 is expected to be reclassified from revenue to other expenses for the financial year ended 30 June 2005, the adjustment for the company is expected to be $118,863.

(e) Revenue

Under AIFRS where the settlement terms of a sale transaction are deferred the sale transaction is to be recorded at fair value. The reduction to sales for the financial year ended 30 June 2005 for the company and consolidated entity is $15,329. There is no impact for the 2004 financial year.

(f) Income Tax

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP. Under the balance sheet approach, the income tax expense on the profit and loss account comprises a current and deferred tax expense. Current tax expense is the expected tax payable on the taxable income for the year 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 tax asset can be utilised.

The expected impact on the company and consolidated entity as at 1 July 2004 as a result of adopting this AIFRS is an increase in deferred tax assets of $511,195 and an increase in shareholders equity $638,994 and a decrease in retained earnings of $127,799. The impact for the year ended 30 June 2005 is an increase of $127,799 to tax expense and a $127,799 decrease to deferred tax asset.

(g) Business Combinations

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the 1 July 2004 AIFRS transition balance sheet.

Business combinations that occurred after 1 July 2004 have to be restated to comply with AIFRS. No adjustments are expected as a result of this process.

(h) Foreign currency

The consolidated entity expects to make an election under AASB 1 to reset the balance of the foreign currency revaluation reserve to nil on transition to AIFRS. The foreign currency translation reserve as at 1 July 2004 is a debit balance of $17,275.

(i) Borrowing costs

The company expects to elect to apply the alternative treatment allowed under AASB 123 and therefore will continue to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs will be expensed as incurred. As a result there is no expected impact on either the Company or consolidated entity in relation to this accounting policy under AIFRS.

Summary of transition adjustments

The following table sets out the expected adjustments to the statement of financial position of the Company and consolidated entity at transition to AIFRS as at 1 July 2004.

	Note	Consolidated as at 1 July 2004 AGAAP $'000	Consolidated as at 1 July 2004 AIFRS $'000	The Company as at 1 July 2004 AGAAP $'000	The Company as at 1 July 2004 AIFRS $'000
Total current assets		42,626	42,626	40,074	40,074
Receivables		72	72	72	72
Other financial assets		50	50	33,649	33,649
Property, plant and equipment	34(b)	16,589	16,290	13,611	13,312
Product development	34(b)	12,906	12,841	12,906	12,841
Intangible assets	34(b)	19,457	19,756	–	299
Deferred tax assets	34(f)	3,406	3,917	3,316	3,827
Total non-current assets		52,480	52,926	63,554	64,000
Total assets		95,106	95,552	103,628	104,074
Total current liabilities		27,329	27,329	34,424	34,424
Total non-current liabilities	34(b)	6,491	6,471	6,158	6,138
Total liabilities		33,820	33,800	40,582	40,562
Net assets		61,286	61,752	63,046	63,512
Contributed equity	34(f)	23,046	23,685	23,046	23,685
Reserves	34(d),(h)	17	34	1,370	34
Retained profits	34(b),(d),(f),(h)	38,223	38,033	38,630	39,793
Total equity		61,286	61,752	63,046	63,512

34. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Summary of transition adjustments

The following table sets out the expected adjustments to the statement of financial performance and financial position of the Company and consolidated entity for the year ended 30 June 2005.

		Consolidated as at 1 July 2004		The Company as at 1 July 2004	
		AGAAP	AIFRS	AGAAP	AIFRS
Statement of Financial Performance	Note	$'000	$'000	$'000	$'000
Revenue from sale of goods	34(e)	125,455	125,440	117,184	117,169
Other revenues from ordinary activities	34(d)	844	707	852	733
Total revenue		126,299	126,147	118,036	117,902
Cost of goods sold		65,564	65,564	60,897	60,897
Administrative expenses		8,282	8,282	7,739	7,739
Sales and marketing expenses		20,523	20,523	19,517	19,517
Research and engineering expenses	34(b)	7,366	7,352	6,796	6,782
Borrowing costs		98	98	78	78
Other expenses from ordinary activities	34(b),(d)	1,896	94	200	81
Profit from ordinary activities before tax expense		22,570	24,234	22,809	22,808
Income tax expense relating to ordinary activities	34(b),(e),(f)	6,366	6,493	5,967	6,094
Profit from ordinary activities after tax expense		16,204	17,741	16,842	16,714
Statement of Financial Position					
Total current assets	34(e)	41,449	41,434	39,552	39,537
Other financial assets		50	50	33,649	33,649
Property, plant and equipment	34(b)	23,900	20,217	20,917	17,234
Product development	34(b)	17,830	17,779	17,830	17,779
Intangible assets	34(b)	19,226	24,574	–	3,683
Deferred tax assets	34(e)	3,275	3,658	2,942	3,325
Total non-current assets		64,281	66,278	75,338	75,670
Total assets		105,730	107,712	114,890	115,207
Total current liabilities		29,145	29,145	36,131	36,131
Total non-current liabilities	34(b),(e)	8,007	7,986	7,650	7,629
Total liabilities		37,152	37,131	43,781	43,760
Net assets		68,578	70,581	71,109	71,447
Contributed equity	34(f)	23,046	23,685	23,046	23,685
Reserves	34(d),(h)	(89)	(72)	1,397	61
Retained profits		45,621	46,968	46,666	47,701
Total equity		68,578	70,581	71,109	71,447

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 25 to 58, 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 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

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

(c) The directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the chief executive officer and the chief financial officer for the financial year ended 30 June 2005.

Dated at Newton this 17th day of August 2005.

Signed in accordance with a resolution of the directors:

J A Uhrig
Director

M K Heard
Director

Independent audit report to the members of Codan Limited

Codan Limited and its Controlled Entities

KPMG

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration set out on pages 25 to 59 for both Codan Limited ("the Company") and Codan Limited and its Controlled Entities ("the Consolidated Entity"), for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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

Audit approach

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

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

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

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 Consolidated Entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

KPMG

P D Robertson
Partner

Adelaide

17 August 2005

ASX Additional information

for the year ended 30 June 2005

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

Cash raised from initial public offering of shares in Codan Limited

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

In the year ended 30 June 2005 the company has used the cash generated in a manner consistent with this objective.

Shareholdings as at 31 August 2005

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

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

Distribution of equity security holders

Category	Number of Equity Security Holders Ordinary Shares
1 – 1,000	327
1,001 – 5,000	947
5,001 – 10,000	477
10,001 – 100,000	308
100,001 and over	36
Total	**2,095**

The number of shareholders holding less than a marketable parcel of ordinary shares is 13.

On market buy back
There is no current on market buy back.

Shareholdings as at 31 August 2005 (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Edal Pty Limited	46,030,713	28.4%
Pamian Pty Limited (No. 2 account)	33,680,691	20.8%
MacKinnon Investments Pty Ltd	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%
Sandhurst Trustees Limited (Aust Ethical Equities account)	3,238,019	2.0%
LF Choate	3,211,260	2.0%
National Nominees Limited	2,808,685	1.7%
Warren Glen Pty Limited	2,277,803	1.4%
JP Morgan Nominees Australia Limited	1,174,309	0.7%
Pamian Pty Limited (No. 1 account)	1,112,252	0.7%
RBC Global Services Australia Nominees Pty Limited (BKCUST account)	1,024,246	0.6%
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%
The Ian Potter Foundation Limited	700,000	0.4%
Sandhurst Trustees Limited (Aust Ethical Balanced account)	650,908	0.4%
WK Hannaford and EK Hannaford	488,836	0.3%
Total	**144,494,424**	**89.2%**

Offices and Officers

Company Secretary

Mr David Hughes BA(Acc), CPA, AIMM

Principal Registered Office

81 Graves Street
Newton South Australia 5074

Telephone: (08) 8305 0311
Facsimile: (08) 8305 0411
Internet address: www.codan.com.au

Share Registry

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

Stock Exchange

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

Other Information

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

Corporate Directory

Directors

John Uhrig (Chairman)
Michael Heard (Managing Director and Chief Executive Officer)
Irvine James (Jim) Bettison
Brian Burns
Peter Griffiths
David Klingberg
David Klingner
Ian Wall
Alastair Wood

Company Secretary

David Hughes

Registered Office

81 Graves Street
Newton SA 5074

Auditor

KPMG
115 Grenfell Street
Adelaide SA 5000

Registry

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001

CODAN

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CODAN