



CODAN



Codan Limited
Annual Report 2006

ABN 77 007 590 605





Contents

2	Performance Summary
4	Chairman's Report
6	Chief Executive Officer's Report
8	About Codan
9	Communications Products
11	Broadcast Products
11	Printed Circuit Boards
12	Directors' Report
24	Lead Auditor's Independence Declaration
25	Income Statements
26	Statements of Recognised Income and Expense
27	Balance Sheets
28	Statements of Cash Flows
29	Notes to and forming part of the Financial Statements
59	Directors' Declaration
60	Independent Audit Report
62	ASX Additional Information
64	Corporate Directory

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



CODAN



Performance Summary

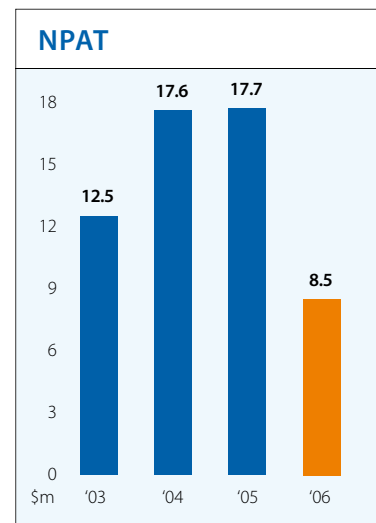
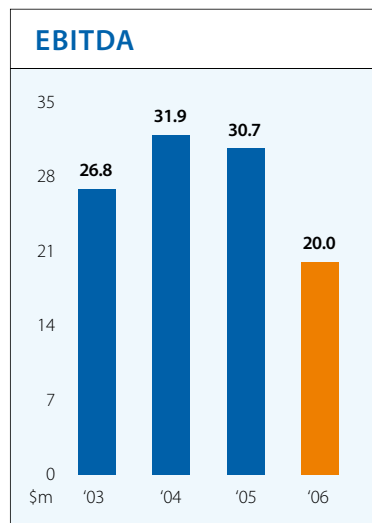
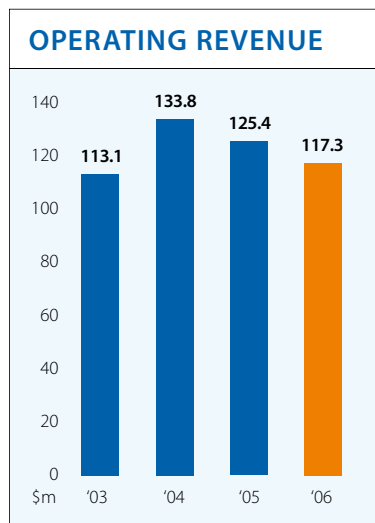
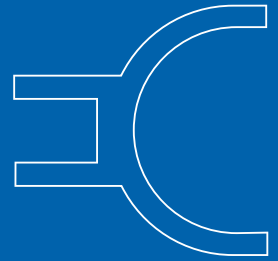


FINANCIAL PERFORMANCE	Year ended 30 June			
	Audited 2006	%	Audited 2005	%
Revenue				
Communications Products	\$106.7m		\$117.5m	
Other	\$10.6m		\$7.9m	
Total Revenue	\$117.3m	100.0%	\$125.4m	100.0%
EBITDA	\$20.0m	17.1%	\$30.7m	24.5%
Depreciation	(\$3.2)m		(\$2.8)m	
Amortisation of product development	(\$4.5)m		(\$3.8)m	
EBIT	\$12.3m	10.5%	\$24.1m	19.2%
Interest	(\$0.7)m		\$0.1m	
Net profit before tax	\$11.6m	9.9%	\$24.2m	19.3%
Tax	(\$3.1)m		(\$6.5)m	
Net profit after tax	\$8.5m	7.2%	\$17.7m	14.1%
Earnings per Share	5.2c		10.9c	
Dividend	6.0c		6.0c	

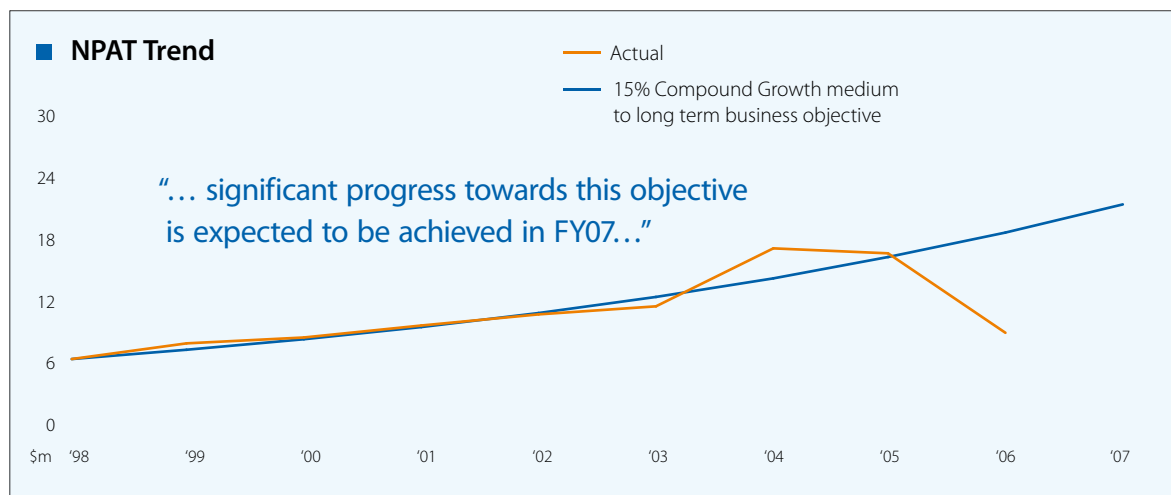
In accordance with current accounting standards (IFRS) there is no amortisation of goodwill in FY06 or FY05.

HALF YEAR COMPARISONS	Half Year Ended		
	Proforma June 2006	Audited Dec 2005	Increase %
Revenue			
Communications Products	\$55.9m	\$50.8m	
Other	\$4.8m	\$5.8m	
Total Revenue	\$60.7m	\$56.6m	7.2%
EBITDA	\$12.3m	\$9.4m	30.9%
Depreciation	(\$1.8)m	(\$1.4)m	
Amortisation of product development	(\$2.3)m	(\$2.2)m	
EBIT	\$8.2m	\$5.8m	41.4%
Interest	(\$0.4)m	(\$0.3)m	
Net profit before tax	\$7.8m	\$5.5m	41.8%
Tax	(\$2.4)m	(\$1.2)m	
Net profit after tax	\$5.4m	\$4.3m	25.6%

Profit for the second half has been adjusted by removal of the one off \$1.7 million restructure costs (\$1.2 million profit after tax impact).



The impact of a property sale has been excluded from 2004, and the 2003 and 2004 years have been restated to exclude the impact of goodwill amortisation in those years.



- ### Profit Improvement Programs Completed in FY06
- Expanded and upgraded Adelaide factory
 - Enterprise wide IT business system
 - Site amalgamations – from five operating sites to three
 - Expense base reduction including lower staff numbers
 - Selected product cost-downs
 - Product range review
 - focus on growth products
 - Selected price increases
 - Global distribution strategy review
 - focus on growth markets
- These programs will improve EBITDA in the order of \$5 million in FY07 and beyond

Chairman's Report



John Uhrig, AC
Chairman



Codan performed significantly less well than expected in FY06. All of the new product families released to market progressively during FY05 and FY06 were well received with strong growth in unit sales. However, overall sales growth was less than planned and therefore insufficient to overcome the negative impact of the stronger Australian dollar. Shareholders were alerted to this situation in my remarks at last year's AGM, and via subsequent announcements to the ASX.

In my comments in last year's annual report I noted that the company had managed the strengthening dollar in FY05 by reductions in product costs and strict control of expenses. As a result profit margins grew from FY04 to FY05. In the face of an even greater currency headwind in FY06, we did not take steps early in that year to further reduce costs, electing instead to accelerate new product launches and market development. In the absence of the planned sales growth profit margins declined substantially during FY06.

This situation has now been corrected by the implementation during the second half of a number of substantial profit improvement programs, including expense reduction and selective price increases. Thus we enter FY07 with a substantially lower cost base, strengthened business systems, increased factory capacity, and a strong market position with the new products already effectively launched in all product groups.

From this platform the outlook is positive, and the board declared a final dividend of 3.5 cents per share maintaining the annual dividend at last year's level of 6 cents per share fully franked.

The global market for the company's products remains strong. This, the lower cost base, and the sound platform for further growth created over the last two years gives rise to the board's expectation for much improved revenue,

profitability and cash flow in FY07. Codan's medium to long term business objective remains performance that tracks the company's 15% compound growth NPAT trend line. Although it is unlikely that profit will return to that line in one year, significant progress towards this objective is expected to be achieved in FY07.

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. The FY06 result excludes amortisation of goodwill, and where results of previous years are provided for comparison amortisation of goodwill has been added back to reported results. The carrying value of goodwill has been carefully reviewed and deemed to be appropriate.

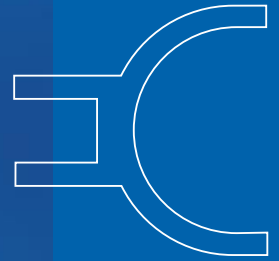
Codan's board has remained unchanged since the retirements and new appointments announced in last year's annual report. The Board regularly addresses succession and in accordance with corporate governance principles will continue to introduce over time new and where appropriate independent directors with the right experiences and qualifications.

We are grateful for the support of our highly skilled and committed people during a difficult year. It is as a result of their efforts that we can look forward to a stronger performance and a secure future.

A handwritten signature in black ink, appearing to read 'J. A. Uhrig'.

John Uhrig, AC
Chairman

"...we enter FY07 with a substantially lower cost base, strengthened business systems, increased factory capacity, and a strong market position with the new products already effectively launched in all product groups."



Chief Executive Officer's Report



Mike Heard
Chief Executive Officer

"...Codan expects growth in revenue and contribution to profit on all communication product groups..."

Business Performance

In a difficult year after tax profit fell substantially from the near record level of FY05.

The strength of the Australian dollar in FY06 compared to Codan's hedged position of US\$0.62 in the previous year reduced revenue by \$11.3 million and after tax profit by \$5.8 million. Thus except for the exchange rate impact there was modest revenue growth. Appreciable growth was achieved in unit sales volumes of the company's three new communications product families released to market progressively during FY05 and FY06. This growth was, however, insufficient to offset the impact of the exchange rate.

The full year profit was also reduced by one off expenses and provisions equivalent to \$1.2 million after tax. These charges arose from the restructuring and other profit improvement programs completed in the second half. Importantly, these programs are expected to have a positive impact on full year profit before tax in FY07 and beyond in the order of \$5 million.

The second half was appreciably stronger than the first as Codan achieved greater market penetration with its new products. Second half revenue was \$60.7 million, 7.2% greater than the first half. Excluding the one off expenses and provisions referred to above, second half after tax profit was \$5.4 million, 25.6% greater than the first half.

Investment

Two major capital programs, the expansion and upgrading of the company's principal manufacturing facilities at Newton in Adelaide, and the new IT business system, were successfully completed in the first half and are in full, routine operation. The combined investment in infrastructure exceeded \$10 million and has already facilitated the significant reduction in costs and improvements in efficiency implemented via the profit improvement programs. Depreciation did, however, add to expense in FY06.

After the major product development programs of previous years, engineering effort was focused on increasing production and reducing the costs of the

newly released products. This was particularly important to ensure adequate capacity for and timely delivery of the new satellite communications product family as demand ramped up strongly. The focus now is on increasing capacity and reducing production cost for the new digital microwave radio product family.

Profit Improvement Program

As noted above, to reduce expenses and increase margins a number of restructuring and other profit improvement programs were concluded during the second half. The Brisbane design and manufacturing site and the Codan Broadcast site in Adelaide were closed and the operations of those sites consolidated into the company's main Adelaide facility. Staff numbers were reduced by more than fifty to approximately four hundred worldwide. The entire product range was reviewed to eliminate complexity and inefficiency and selective price increases were implemented. Global distribution strategy was reviewed to target and improve the company's access to key high opportunity markets. The positive benefit of these programs, in the order of \$5 million per annum before tax, will be derived in FY07 and beyond.

Communications Products

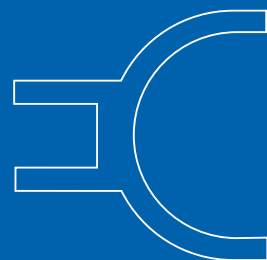
HF Radio

Demand for HF radio arising from world security concerns remained strong. Sales revenue was down but from the record levels of the previous two years. Focus on US based customers and the Chinese market was maintained and yielded good results for the second consecutive year. In July 2006 Codan released a high frequency radio tailored to the requirements of the Chinese market. The product is being very well received. US sales of HF radio continue to improve as government agencies test and approve Codan products. Good growth was achieved from the HF manpack product which was released to market in FY05.

These factors are expected to remain important and to deliver higher sales for HF radio in FY07.

Satellite Communications

The market for this product group was stronger in FY06 arising from world security concerns and a general



improvement in the world telecommunications market. The company improved market share as a result of very high demand for its new family of products released progressively during FY05 and FY06 and Codan reasserted its market leadership in this segment. The overall outcome was good growth in US dollar revenue offset by the negative exchange rate effect.

Further growth in sales of this product group is expected in FY07.

Digital Microwave Radio

The market was buoyant and the new product family released progressively during FY05 and FY06 was very well accepted by customers. Good sales of the product group were made for use in African cellular telephone networks. Strong growth in unit sales volume and revenue was achieved.

This trend is expected to continue in FY07 and deliver excellent growth in revenue and margin from this product group.

Other Business Activities

TV Broadcast Products

The performance of this product group was disappointing. A number of restructuring and other profit improvement programs were implemented in the second half. Better profitability is expected in FY07.

Printed Circuit Boards

This business activity continued to perform to expectations.

Outlook

The expectation is for ongoing strong demand for all communications product groups arising from world security concerns and growth in general telecommunications markets. Codan has reasserted its leadership in its segment of the satellite communications market. The digital microwave radio market is very large and growing, offering Codan major opportunity. The company commenced FY07 with a much stronger level of orders on hand than was the case in FY06.

In this environment the company expects continuing rapid uptake of its new communications products families, and improving performance in the US and Chinese markets. Some price increases have been implemented.

The market for TV broadcast products will also be quite strong as a result of growth in digital television.

The profit improvement programs have substantially reduced the company's cost base.

Thus Codan expects growth in revenue and contribution to profit from all communications product groups and improved profitability from TV broadcast products.

The company's exposure to the US dollar in FY07 is presently unhedged and currency exposure is limited to movements in the spot rate. The board is considering a number of options to mitigate this currency exposure.

Investment in factory and facilities projects will be much reduced in FY07 following the completion of major programs.

In summary, much improved revenue, profitability and cash flow is expected in FY07.

We thank Codan's people for their continued dedication to the company's success. Significant progress was made during the year in encouraging and empowering them to make decisions and act to improve the business. There is always more to be done in this regard, and it is essential to underpin growth.

The safety record of the company was again impressive. The safety and wellbeing of staff is the first item on every meeting agenda. This is particularly important because our staff travel widely in a world with many security concerns.

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

Codan has three business segments:

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

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

- high frequency (HF) radio communications;
- satellite communications; and
- digital microwave radio communications;

- **Broadcast Products** – a 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. This strategy continues to direct all growth initiatives, including diversification by acquisition.

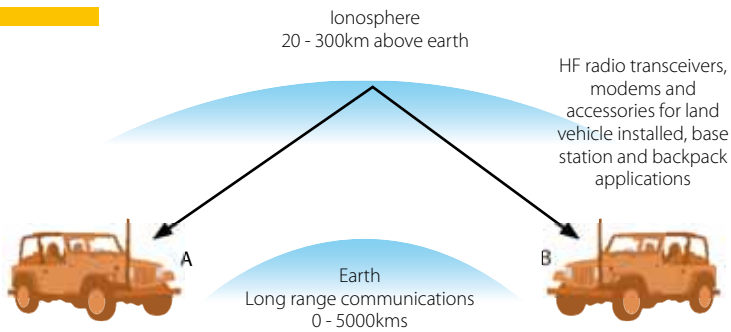
Codan operates under long established high standards of corporate governance, performance and financial control.

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 customers' requirements particularly the specific geographic, infrastructure and regulatory issues. In addition, Codan has extensive sales and distribution networks globally. Codan staff travel regularly to all parts of the globe to service customer needs.

Innovation and continual development of leading, quality products

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

Management and staff

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

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

Codan employs approximately 400 staff worldwide. The provision of safe, secure, challenging and rewarding employment for all staff is one of Codan's key objectives.

Codan's people focussed objectives are:

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

Business Segments

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.

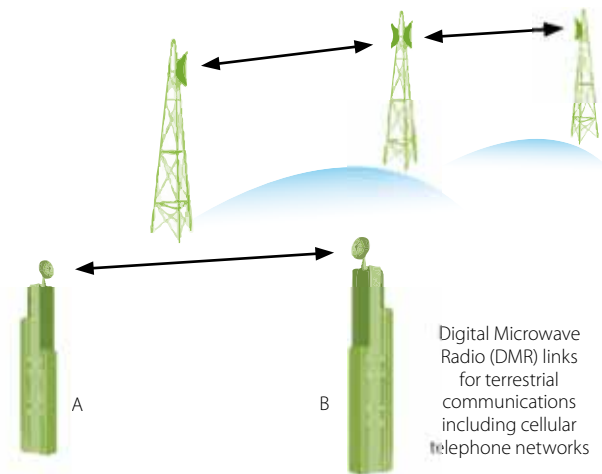
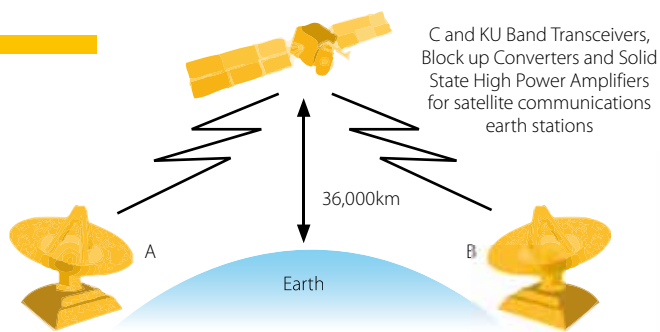
HF radio is typically used by organisations for first line and back-up operational communications of voice, fax or data, over long distances in any combination of mobile and fixed station configurations. HF radio will be chosen where low capital and operating cost, rapid deployment and the ability to 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.

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

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.

About Codan Continued



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, 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.

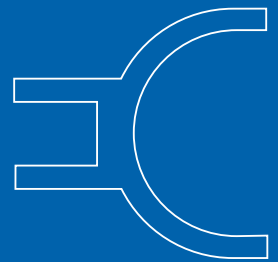
Codan BUCs are known for their very high reliability which is key to Codan customers' providing reliable communications services to remote parts of the world. Codan also places substantial focus in its BUC product development on achieving excellent transmit power to weight ratios. A high transmit power to weight ratio not only cuts freight costs to remote areas but is also particularly valued by customers who integrate transportable fly-away satellite terminals. Fly-away terminals are used by aid agencies, emergency services and the broadcast industry.

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.

The major customers for DMR links are:

- general telecommunications carriers for rapid deployment and extension of competing telecommunications services;
- cellular operators for the interconnection of cellular towers, particularly in countries in which mobile phone services have been deregulated. DMR links are used because they can be commissioned quickly and are cheaper than leasing cable or optical fibre services from an incumbent carrier;



- providers of alternate services for direct connection to users or to interconnect network nodes. These include Wireless Internet Service Providers, point-to-multipoint network providers, and WiMax Service Providers;
- private network operators. These customers include business, government, utilities, providers of emergency services, as well as health and education institutions. They use DMR links to connect not only voice services but also data networks such as Ethernet; and
- the users of video links. DMR links are used to pass video signals at rates up to 45Mbps.

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

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

Broadcast Products

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

Codan Broadcast designs and manufactures equipment used by TV broadcasters, video pre- and post-production houses and 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 principal 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. IMP specialises in the supply of high quality product for short to medium runs, rapid turnaround and prototyping applications. On-time delivery and excellent service are critical components of IMP's key competitive advantage.

Operations

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

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

Directors' Report

Codan Limited and its Controlled Entities



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

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 2006 and the auditor's report thereon.

DIRECTORS

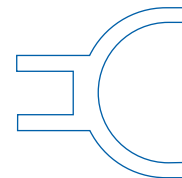
The directors of the Company at any time during or since the end of the financial year are:

John Uhrig AC BSC, DUNIV, HON. DECON, FAIM
Chairman, Non-Executive Director
Aged 77

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
Aged 58

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
Aged 74

Mr Bettison retired as a director in October 2005. He was one of the founders of the company and was appointed to the board in 1959. Mr Bettison was Chief Executive until 1985. He is a former Senior Deputy Chancellor of the University of Adelaide, member of the Commonwealth Government's Australian Space Board, member of the Divisional Advisory Committee, CSIRO Division of Radiophysics and board member of the Technology Development Corporation (South Australia).

Brian Burns AM FCPA, FCIS, FAICD
Non-Executive Director
Aged 67

Mr Burns was appointed to the board in 1996 (alternate director from 1990). Mr Burns is a former managing director of B Seppelt & Sons Ltd and a former chairman of the South Australian Government owned Institute of Medical and Veterinary Science and of Luminis Pty Ltd, the intellectual property commercialisation company of The University of Adelaide. He is a former director of ASX listed companies National Foods Limited (1991 to 2003) and Select Harvests Limited (1999 to 2004). He is a former director of Cascade Brewery Co. Limited and C-C Bottlers Limited. He has served the accountancy profession as the South Australian president of CPA Australia and as a member of the Auditing Standards Board of the Australian Accounting Research Foundation.

Peter Griffiths B.Ec (HONS), CPA, FAICD
Independent Non-Executive Director
Aged 64

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

David Klingberg AM BTECH (CIVIL), FTSE, FIEAUST, FAUSIMM
Independent Non-Executive Director
Aged 62

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

Dr David Klingner B.Sc (HONS), PHD, FAUSIMM
Independent Non-Executive Director
Aged 62

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.

Ian Wall BE, FSASM, MIE AUST, CPENG
Non-Executive Director
Aged 75

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.

Directors' Report

Codan Limited and its Controlled Entities

DIRECTORS (CONTINUED)

Alastair Wood ^{BE}

Non-Executive Director

Aged 75

Mr Wood retired as a director in October 2005. He was one of the founders of the Company and 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 continues to be retained by the Company as a consultant on engineering matters.

DIRECTORS' MEETINGS

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

Director	Board Meetings		Board Audit, Risk and Compliance Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
John Uhrig	13	13			2	2
Michael Heard	13	13				
Jim Bettison	4	5			1	1
Brian Burns	12	13	5	5	2	2
Peter Griffiths	13	13	5	5		
David Klingberg	12	13	4	4		
Dr David Klingner	11	13			1	1
Ian Wall	13	13	2	2		
Alastair Wood	5	5				

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.

COMPANY SECRETARY

Mr David Hughes ^{BA (Acc), CPA, AAIMM, CPMGR}

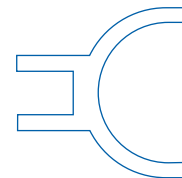
Mr Hughes was appointed to the position of company secretary in September 2000. Mr Hughes has responsibility for the financial control, reporting and information technology across the Codan group. Prior to joining Codan he was Executive General Manager, Information Services with Normandy Mining, Commercial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

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;
- 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 Wood and Bettison retired in October 2005 and Messrs Klingner and Klingberg were appointed as directors in December 2004 and July 2005 respectively. Mr Uhrig, who has been Chairman since 1986, has agreed to remain as Chairman until at least 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.

Directors' Report

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Performance Evaluation

The ASX Corporate Governance Council's 'Principles of Good Corporate Governance and Best Practice Recommendations' recommends the establishment of a nomination committee. The role of nomination of proposed directors is being conducted by the full board.

The board is currently reviewing its evaluation processes, and the Chairman has conducted reviews as necessary.

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
Dr David Klingner – Independent Non-Executive Director (appointed 25 November 2005)
Jim Bettison – Non-Executive Director (retired 28 October 2005)

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

Remuneration policies

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

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

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

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

Firstly, where the ratio of earnings before interest and taxes ('EBIT'), which is adjusted for the capitalisation of product development expenditure, to sales exceeds a predetermined threshold for the financial year a bonus is calculated based on a percentage of the executives normal salary package. This percentage is capped at a maximum of 35% of the salary package. For the year ended 30 June 2006 this bonus condition was not achieved and as a result no payments under this performance condition will be made.

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 2006 the growth performance measure was not achieved and as a result no payments under this performance condition will be made.

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

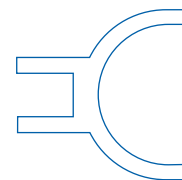
The board considers that the above performance-linked remuneration structure is appropriate.

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

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

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

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



Directors' and senior executives' remuneration

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

Directors	Base emolument \$	Bonuses \$	Non-cash benefits \$	Super contributions \$	Retirement benefits \$	Total \$
<i>Non-executive</i>						
John Uhrig	163,500	–	–	–	–	163,500
Irvine James Bettison	27,250	–	–	–	–	27,250
Brian Burns	75,000	–	–	6,750	–	81,750
Peter Griffiths	75,000	–	–	6,750	–	81,750
David Klingberg	68,750	–	–	6,188	–	74,938
Dr David Klingner	75,000	–	–	6,750	–	81,750
Ian Wall	81,750	–	–	–	–	81,750
Alastair Wood	27,250	–	–	–	–	27,250

Executive

Michael Heard	445,050	–	–	44,530	–	489,581
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Executive Officers	Base emolument \$	Bonuses \$	Non-cash benefits \$	Super contributions \$	Retirement benefits \$	Total \$
Allan Gobolos	207,450	–	–	18,933	–	226,383
David Hughes	206,252	–	–	16,843	–	223,095
Peter Charlesworth	184,568	–	–	16,545	–	201,112
Donald McGurk	204,293	–	–	15,361	–	219,654
Charles Nesbitt	131,258	18,750	–	11,089	–	161,097

The remuneration amounts disclosed above have been calculated based on the expense to the company for the financial year, therefore items such as annual leave and long service leave, taken and provided for, have been considered. As a result the remuneration disclosed may not equal the salary package as agreed with the executive in any one year. Mr C Nesbitt (General Manager Manufacturing) was promoted to the executive team and in this year of transition his base salary and bonus has been structured differently from the other executives.

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.

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

Peter Griffiths (Chairman) – Independent Non-Executive Director
 Brian Burns – Non-Executive Director
 David Klingberg – Independent Non-Executive Director (appointed 25 November 2005)
 Ian Wall – Non-Executive Director (retired 22 December 2005)

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.

Directors' Report

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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;
- 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;
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

Risk management

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

Oversight of the risk management system

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

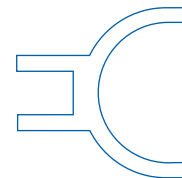
The Board Audit, Risk and Compliance Committee consider risk in order to ensure risks are identified, assessed and appropriately managed. The committee reports to the board on these matters on an ongoing basis.

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

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

Financial reporting

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

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

Environmental regulation

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

Internal audit

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

Effectiveness of risk management

The Managing Director and the Chief Finance and Information Officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be

operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Ethical standards

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

Conflict of interest

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

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

Code of conduct

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

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

Directors' Report

Codan Limited and its Controlled Entities

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

Trading in general company securities by directors and employees

The key elements of the Trading in General Company Securities by Directors and Employees Policy are:

- identification of those restricted from trading – directors and senior executives (all employees from manager upwards) may acquire shares in the Company, but are prohibited from dealing in Company shares:
 - except between twenty four hours and four weeks after either the release of the Company's half-year and annual results to the Australian Stock Exchange ('ASX') or the Annual General Meeting, or any other period as determined by the Board, and reported to the market, as being a period during which the market is believed to be fully informed of all matters relevant to the company's share price;
 - whilst in possession of price sensitive information not yet released to the market.
- raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares;
- requiring details to be provided of the subsequent confirmation of the trade; and
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

Communication with shareholders

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

In summary, the Continuous Disclosure policy operates as follows:

- the Managing Director 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. Reportable 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.

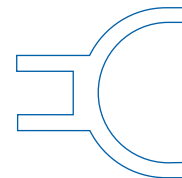
All of the above information, including that of the previous four years, is made available on the consolidated entity's website within one day of public release, and is emailed to all shareholders who lodge their email contact details with the Company.

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 \$8.5 million for FY06, 52.2% lower than for the previous year.

Operating revenue for FY06 was \$117.3 million, 6.5% lower than the previous year.

The strength of the Australian dollar in FY06 compared to Codan's hedged position of US\$0.62 in the previous year reduced revenue by \$11.3 million and After Tax Profit by \$5.8 million. Thus except for the exchange rate impact there was modest revenue growth. Appreciable growth was achieved in unit sales volumes of the company's new product families released to market progressively from late in FY05 and during FY06. This growth was however insufficient to offset the impact of the exchange rate on profit.

The full year profit was also reduced by one off expenses and provisions equivalent to \$1.2 million after tax. These charges arose from the restructuring and other profit improvement programs completed in the second half and advised to the market in the board's announcement of 18 May 2006. These profit improvement programs are expected to have a positive impact on full year profit before tax in FY 07 and beyond in the order of \$5 million.

Second half revenue was \$60.7 million, 7.2% greater than the first half. Excluding the one off expenses and provisions referred to above, second half After Tax Profit was \$5.4 million, 25.6% greater than the first half.

Two major capital programs, the expansion and upgrading of the company's manufacturing facilities at Newton in Adelaide, and the new IT business system, were completed in the first half. No major capital programs are planned for FY07. Working capital increased over FY06 as the company built inventory for volume growth from new products, and to allow for reduced production during the amalgamation of manufacturing sites in the second half of FY06. Year end borrowings increased to \$11.5 million.

Operations

Communications Products

HF Radio – Demand for HF radio arising from world security concerns remained strong. Sales revenue was less than in FY05 but was the second highest annual sales level ever achieved. Focus on US based customers and the Chinese market was maintained and yielded good results for the second consecutive year. Good growth was achieved from the HF manpack product which was released to market in FY05.

These factors are expected to remain important and to deliver higher sales for HF radio in FY07.

Satellite Communications – The market for this product group was stronger in FY06 arising from world security concerns and a general improvement in the world telecommunications market. The company improved market share as a result of very high demand for its new family of products released progressively during FY05 and FY06. The overall outcome was good growth in US dollar revenue offset by the negative exchange rate effect.

Further growth in sales of this product group is expected in FY07.

Digital Microwave Radio – The market was buoyant and the new product family released progressively during FY05 and FY06 was very well accepted by customers. Good sales of the product group were made for use in African cellular telephone networks. Strong growth in unit sales volume and revenue was achieved.

This trend is expected to continue in FY07 and deliver excellent growth in revenue and margin from this product group.

Broadcast Products

The performance of this product group was disappointing. A number of restructuring and other profit improvement programs were implemented in the second half. Better profitability is expected in FY07.

Printed Circuit Boards

This business activity continued to perform to expectations.

Outlook

FY07 commenced with a much stronger level of orders on hand than was the case in FY06. Growth in revenue is expected for all communications product groups. Higher prices have been achieved on some products. Growth in contribution to profit is expected from all communications product groups and from TV broadcast products. The restructuring and other profit improvement programs completed in the second half of FY06 are expected to have an additional positive impact on full year profit before tax in FY 07 and beyond in the order of \$5m.

The company's exposure to the US dollar in FY07 is presently unhedged. The board is considering options to reduce currency exposure.

The board expects much improved profitability in FY07. Although it is unlikely that profit will return to the company's long term 15% compound growth trend line in one year, significant progress towards this objective is expected to be achieved.

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.

Directors' Report

Codan Limited and its Controlled Entities

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 2005 ordinary	3.5	5,672	100%	3 October 2005
– Interim 2006 ordinary	2.5	4,051	100%	3 April 2006
■ Declared after the end of the year:				
– Final 2006 ordinary	3.5	5,672	100%	3 October 2006

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

EVENTS SUBSEQUENT TO REPORTING DATE

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

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	12,169,336
Michael Heard	4,399,522
Brian Burns	11,580,737
Peter Griffiths	110,000
Dr David Klingner	100,000
David Klingberg	35,200
Ian Wall	34,792,943

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.

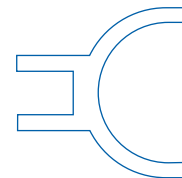
Insurance premiums

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 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	
	2006	2005
	\$	\$
Statutory audit:		
– audit and review of financial reports (KPMG Australia)	114,000	99,010
– audit of financial reports (overseas KPMG firms)	18,957	16,577
	132,957	115,587
Services other than statutory audit:		
Other assurance services		
– pre-implementation internal control systems review	62,515	–
– transition to International Accounting Standards	3,200	–
Other services		
– taxation compliance services (KPMG Australia)	54,664	68,526
– taxation compliance services (overseas KPMG firms)	27,046	28,508
	147,425	97,034

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 2006.

Lead Auditor's Independence Declaration

Codan Limited and its Controlled Entities



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

To the directors of Codan Limited.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 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.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'P D Robertson'.

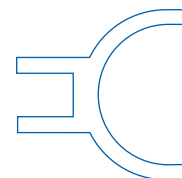
P D Robertson
Partner

Adelaide

17 August 2006



KPMG, an Australian partnership, is a member of KPMG International, a Swiss non-operating association



Income Statements

for the year ended 30 June 2006

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Revenue		117,301	125,440	106,437	117,169
Cost of sales		(66,095)	(65,564)	(59,299)	(60,897)
Gross profit		51,206	59,876	47,138	56,272
Other income	5	179	491	207	549
Administrative expenses		(8,380)	(8,128)	(7,320)	(7,587)
Sales and marketing expenses		(22,620)	(20,523)	(21,352)	(19,517)
Research and engineering expenses		(7,490)	(7,352)	(6,647)	(6,782)
Financing costs	6	(524)	(36)	(571)	(46)
Share of net loss of associate	13	-	-	-	-
Other expenses		(798)	(94)	(112)	(81)
Profit before tax		11,573	24,234	11,343	22,808
Income tax expense	8	(3,085)	(6,493)	(2,994)	(6,094)
Profit for the year		8,488	17,741	8,349	16,714
Earnings per share for profit attributable to the ordinary equity holders of the company:					
Basic earnings per share	3	5.2 cents	10.9 cents		
Net tangible assets per share		17.6 cents	18.6 cents		

The income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 29 to 58.

Statements of Recognised Income and Expense

for the year ended 30 June 2006

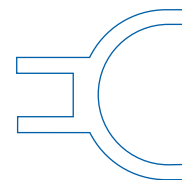
	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Exchange differences on translation of foreign operations	23	(112)	(72)	(189)	61
Gains on cash flow hedges taken to income statement	23	(127)	–	(127)	–
Net income recognised directly in equity		(239)	(72)	(316)	61
Profit for the period		8,488	17,741	8,349	16,714
Total recognised income and expense for the period		8,249	17,669	8,033	16,775

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

The statements of recognised income and expense are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 29 to 58.

Balance Sheets

as at 30 June 2006



	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CURRENT ASSETS					
Cash	9	1,336	1,522	732	489
Trade and other receivables	10	22,045	22,834	23,270	24,306
Inventories	11	17,273	15,411	15,726	13,367
Income tax receivable	8	613	–	542	–
Other	12	1,318	1,667	947	1,375
Total current assets		42,585	41,434	41,217	39,537
NON-CURRENT ASSETS					
Investments accounted for using the equity method	13	–	–	–	–
Investments	14	50	50	33,649	33,649
Property, plant and equipment	15	19,594	20,217	17,293	17,234
Product development	16	16,437	17,779	16,437	17,779
Intangibles	17	25,888	24,574	4,975	3,683
Deferred tax assets	8	26	22	–	–
Total non-current assets		61,995	62,642	72,354	72,345
Total assets		104,580	104,076	113,571	111,882
CURRENT LIABILITIES					
Payables	18	15,087	20,220	13,058	17,663
Other liabilities	19	–	127	10,803	10,412
Interest bearing borrowings	20	12,927	3,395	12,900	3,251
Income tax payable	8	109	1,237	–	1,090
Provisions	21	3,290	4,166	2,943	3,715
Total current liabilities		31,413	29,145	39,704	36,131
NON-CURRENT LIABILITIES					
Interest bearing borrowings	20	53	26	–	–
Deferred tax liabilities	8	1,689	1,881	2,046	2,097
Provisions	21	2,191	2,443	1,937	2,207
Total non-current liabilities		3,933	4,350	3,983	4,304
Total liabilities		35,346	33,495	43,687	40,435
Net assets		69,234	70,581	69,884	71,447
EQUITY					
Issued capital	22	23,685	23,685	23,685	23,685
Reserves	23	(184)	(72)	(128)	61
Retained profits	24	45,733	46,968	46,327	47,701
Total equity		69,234	70,581	69,884	71,447

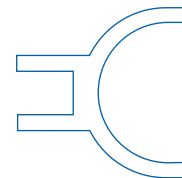
The balance sheets are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 29 to 58.

Statements of Cash Flows

for the year ended 30 June 2006

	Note	Consolidated		The Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers		118,720	118,383	107,764	109,803
Cash payments to suppliers and employees		(105,700)	(94,006)	(86,340)	(78,505)
Interest received		69	216	83	184
Interest paid		(828)	(98)	(821)	(78)
Income taxes paid		(5,023)	(7,487)	(4,722)	(7,430)
Net cash from operating activities	29(ii)	7,238	17,008	15,964	23,974
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for goodwill		–	(1,434)	–	–
Proceeds from sale of property, plant and equipment		59	137	57	119
Dividends received		41	–	–	–
Payments for capitalised product development		(3,207)	(8,690)	(3,207)	(8,690)
Acquisition of property, plant and equipment		(2,319)	(6,777)	(2,578)	(6,191)
Acquisition of intangibles (computer software)		(1,853)	(3,618)	(1,853)	(3,618)
Net cash from investing activities		(7,279)	(20,382)	(7,581)	(18,380)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		9,500	2,000	9,500	2,000
Repayments of borrowings		(230)	(346)	(138)	(143)
Proceeds / (Loans) to / from related companies		–	(132)	(8,066)	(9,356)
Dividends paid		(9,723)	(8,840)	(9,723)	(8,840)
Net cash from financing activities		(453)	(7,318)	(8,427)	(16,339)
Net increase / (decrease) in cash held		(494)	(10,692)	(44)	(10,745)
Cash at the beginning of the financial year		409	11,140	(624)	10,121
Effects of exchange rate fluctuations on cash held		21	(39)	–	–
Cash at the end of the financial year	29(i)	(64)	409	(668)	(624)

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 29 to 58.



Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Codan Limited (the 'company') is a company domiciled in Australia. The consolidated financial report of the company for the year ended 30 June 2006 comprises the company and its subsidiaries ('the consolidated entity'). The financial report was authorised for issue by the directors on 17 August 2006.

(a) Statement of compliance

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

International Financial Reporting Standards ('IFRS') form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ('AIFRS'). The financial reports of the consolidated entity and the company also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with AIFRS. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the company is provided in Note 33.

(b) Basis of preparation

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

AASB 119 Employee Benefits (December 2004)

AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures

AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement

AASB 2005-3 Amendments to Australian Accounting Standards (June 2005) amending AASB 119 Employee Benefits (either July or December 2004)

AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts

AASB 2005-5 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), and AASB 139 Financial Instruments: Recognition and Measurement

AASB 2005-6 Amendments to Australian Accounting Standards (June 2005) amending AASB 3 Business Combinations

AASB 2006-1 Amendments to Australian Accounting Standards (January 2006) amending AASB 121 The Effects of Changes in Foreign Exchange Rates (July 2004)

AASB 2006-2 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004)

AASB 7 Financial Instruments: Disclosure (August 2005)

AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) relating to financial guarantee contracts

AASB 2005-10 Amendments to Australian Accounting Standards (September 2005)

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

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

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards.

The accounting policies have been consistently applied by all entities in the consolidated entity.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

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

Associates

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

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.

(d) 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 taxation authorities.

Sale of goods

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

Rendering of services

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

Dividends

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

(e) Expenses

Operating lease payments

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

Finance lease payments

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

Net financing costs

Net financing costs include interest relating to borrowings, interest received on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets.

(f) Foreign currency

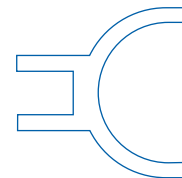
Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at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

The assets and liabilities of foreign operations are translated to Australian dollars at the foreign exchange rates ruling at the balance sheet date. Equity items are translated at historical rates. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the foreign operations.

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

(g) Derivative financial instruments

The consolidated entity has used derivative financial instruments to hedge its exposure to foreign exchange. In accordance with its policy, the consolidated entity does not hold derivative financial instruments for trading purposes.



However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement unless the derivative qualifies for hedge accounting.

Hedging

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

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

(h) Taxation

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

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

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

Tax consolidation

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

(i) Goods and services tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

(j) Cash and cash equivalents

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

(k) Receivables

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

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

(l) Inventories

Raw materials and stores, work in progress and finished goods are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work in progress, costs comprise direct materials, direct labour, other direct variable costs and allocated factory overheads necessary to bring the inventories to their present location and condition.

(m) Investments

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

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets

Product development costs

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products, is capitalised if the product is technically and commercially feasible and the consolidated entity has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is stated at cost less accumulated amortisation and impairment losses.

Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. Negative goodwill is recognised directly in the income statement.

Goodwill in relation to acquisitions prior to the transition to AIFRS, being 1 July 2004, is recognised on the basis of deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 have not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet as at 1 July 2004.

Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as incurred.

Amortisation

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets. The estimated useful lives in the current and comparative periods are as follows:

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

(o) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and directly attributable overheads.

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

Leased assets

Leases under which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance 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.

Depreciation

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

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

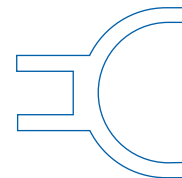
(p) Impairment

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

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill and then to reduce the carrying amount of the other assets in the cash generating unit on a pro rata basis.

Goodwill was tested for impairment at 1 July 2004, being the date of transition to AIFRS and no impairment losses were recorded.



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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Payables

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

(r) Interest bearing borrowings

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

(s) Employee benefits

Wages, salaries and annual leave

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

Long service leave

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

Superannuation

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

(t) Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amounts of which is uncertain. Provisions are determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

Dividends

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

Restructuring and employee termination benefits

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

Warranty

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.

Onerous contracts

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

(u) Accounting estimates and judgments

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

(v) Change in accounting policy

In the current financial year the consolidated entity adopted AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

Under AASB 139 the forward exchange contracts held by the company are considered financial instruments and are required to be recognised at fair value on the balance sheet. As the company has met the hedge accounting requirements under AASB 139 the movement in the fair value of the forward exchange contracts up to the date the hedged transaction occurs is accounted for through a hedging reserve account, which is accounted for as part of Equity.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the company's previous accounting policy the gain or loss on the forward exchange contracts was deferred to the balance sheet until the underlying hedged transaction occurred.

The effect of adopting these accounting standards is to reclassify the gain on forward exchange contracts as at 1 July 2005 of \$126,586 from Other Liabilities to a Hedging Reserve account in the Equity section of the balance sheet.

	Consolidated		The Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
(i) 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
(ii) 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
(iii) an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, was paid on 3 October 2005	5,672	-	5,672	-
(iv) an ordinary interim dividend of 2.5 cents per share, franked to 100% with 30% franking credits, was paid on 3 April 2006	4,051	-	4,051	-
	9,723	8,840	9,723	8,840

Subsequent events

Since the end of the financial year, the directors declared an ordinary final dividend of 3.5 cents per share, franked to 100% with 30% franking credits, the dividend of \$5,671,591 will be paid on 3 October 2006. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2006 and will be recognised in subsequent financial reports.

Dividend franking account

Franking credits available to shareholders for subsequent financial years (30%) **7,750** 8,826

The franking credits available are based on the balance of the dividend franking account at year end adjusted for the franking credits that will arise from the payment of the current tax liability. The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$2,430,681 (2005: \$2,430,681).

3. EARNINGS PER SHARE

Net profit used for the purpose of calculating basic earnings per share **8,488** 17,741

The weighted average number of shares used as the denominator number for basic earnings per share was 162,045,454 (2005: 162,045,454). There are no dilutive potential ordinary shares, therefore diluted EPS has not been calculated or disclosed.

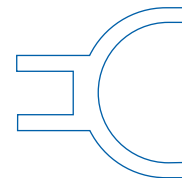
4. SEGMENT ACTIVITIES

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

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

Business segments

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



Geographical segments

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

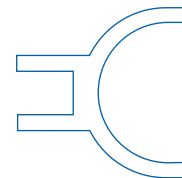
Business segments	Communications		Other		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue								
External segment revenue	106,639	117,474	10,662	7,966	-	-	117,301	125,440
Inter segment revenue	-	-	1,587	2,019	(1,587)	(2,019)	-	-
Total segment revenue	106,639	117,474	12,249	9,985	(1,587)	(2,019)	117,301	125,440
Other unallocated revenue							-	-
Total revenue							117,301	125,440
Result								
Segment result	18,377	29,705	(231)	811	72	(20)	18,218	30,496
Share of associates net loss							-	-
Unallocated corporate expenses							(6,645)	(6,262)
Profit from operating activities							11,573	24,234
Income tax expense							(3,085)	(6,493)
Net Profit							8,488	17,741
Non Cash Items								
Depreciation and amortisation	7,422	6,281	315	272	-	-	7,737	6,553
Assets								
Segment assets	90,492	89,480	10,744	11,337	-	-	101,236	100,817
Investments							50	50
Unallocated corporate assets							3,294	3,209
Consolidated total assets							104,580	104,076
Liabilities								
Segment liabilities	18,929	24,981	1,642	1,851	-	-	20,571	26,832
Unallocated corporate liabilities							14,775	6,663
Consolidated total liabilities							35,346	33,495

Geographical segments	Europe		North America		Asia		Australia / Oceania		Africa		Other		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External segment revenue by location of customers	36,642	50,721	29,224	26,471	13,488	18,254	13,520	12,266	21,759	16,554	2,668	1,174	117,301	125,440
Segment assets by location of assets	2,038	2,123	969	828	-	-	101,573	101,125	-	-	-	-	104,580	104,076
Acquisitions of non current assets	76	13	95	34	-	-	7,208	20,472	-	-	-	-	7,379	20,519

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
5. OTHER INCOME				
Dividend income	41	–	–	–
Other items	138	491	107	449
Rental income	–	–	100	100
	179	491	207	549
6. EXPENSES				
Net financing costs:				
Interest received	(110)	(216)	(83)	(184)
Net foreign exchange (gain) / loss	(194)	154	(167)	152
Interest expense	828	98	821	78
	524	36	571	46
Depreciation of:				
– Buildings	349	162	349	162
– Leasehold property	99	111	83	85
– Plant and equipment	2,180	2,293	1,772	1,820
	2,628	2,566	2,204	2,067
Amortisation of:				
– Product development costs	4,549	3,752	4,549	3,752
– Computer software	560	235	560	235
	5,109	3,987	5,109	3,987
Personnel expenses:				
Wages and salaries	21,906	21,669	15,873	16,410
Other associated personnel expenses	2,043	2,059	1,481	1,426
Contributions to defined contribution superannuation plans	2,150	2,067	1,692	1,670
Provided for long service leave	131	496	112	422
Provided for annual leave	1,534	1,526	1,331	1,352
	27,765	27,817	20,489	21,280
Impairment of trade receivables	63	(11)	58	(58)
Operating lease rental expense	680	637	157	170
(Profit) or loss on sale of property, plant and equipment	125	108	112	81
Restructuring costs expensed as incurred	1,778	–	1,204	–



	Consolidated		The Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000

7. AUDITORS' REMUNERATION

Audit services:

KPMG Australia – audit and review of financial reports	114	99	114	99
Overseas KPMG firms – audit of financial reports	19	17	–	–

Other services:

KPMG Australia – taxation services	55	69	55	69
KPMG Australia – other assurance services	66	–	66	–
Overseas KPMG firms – taxation services	27	29	12	6
KPMG related practices – due diligence services	–	–	–	–
	281	214	247	174

8. INCOME TAX

(a) Income tax expense

Current tax expense:

Current tax payable for the financial year	3,534	5,294	3,308	4,876
Adjustments for prior years	(383)	(519)	(381)	(463)
	3,151	4,775	2,927	4,413

Deferred tax expense:

Origination and reversal of temporary differences	(66)	1,718	67	1,681
Total income tax expense in income statement	3,085	6,493	2,994	6,094

Reconciliation between tax expense and pre tax net profit:

The prima facie income tax expense calculated at 30% on the profit from ordinary activities	3,472	7,270	3,403	6,842
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Decrease in income tax expense due to:

Additional deduction for research and development expenditure	151	390	151	390
Over provision for taxation in previous years	383	519	381	463
Share of associates profit	–	–	–	–
Sundry items	12	51	–	51
	2,926	6,310	2,871	5,938

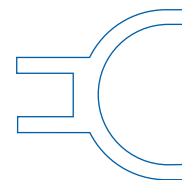
Increase in income tax expense due to:

Non-deductible expenses	41	58	38	54
Depreciation	85	86	85	86
Sundry items	33	39	–	16
Income tax expense	3,085	6,493	2,994	6,094

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
8. INCOME TAX (CONTINUED)				
(b) Current tax liabilities / asset				
Balance at the beginning of the year	(1,237)	(3,936)	(1,090)	(3,915)
Net foreign currency differences on translation of foreign entities	(12)	9	–	–
Tax payable transferred by entities in the tax consolidated group	–	–	(44)	(150)
Income tax paid / (received)	5,024	7,487	4,722	7,430
Adjustments from prior year	263	497	262	421
Current years income tax expense on operating profit	(3,534)	(5,294)	(3,308)	(4,876)
	504	(1,237)	542	(1,090)
Disclosed in balance sheet as:				
Income tax receivable	613	–	542	–
Income tax payable	(109)	(1,237)	–	(1,090)
	504	(1,237)	542	(1,090)
(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	–	–
Expenditure currently tax deductible but deferred and amortised for accounting	4,931	5,328	4,931	5,328
Sundry items	140	188	86	94
Set off of tax in relation to deferred tax assets:				
Difference in depreciation of property, plant and equipment	(32)	(47)	(32)	(40)
Provisions for employee benefits not currently deductible	(1,155)	(1,356)	(978)	(1,177)
Provisions and accruals not currently deductible	(2,191)	(1,821)	(1,961)	(1,725)
Sundry items	(4)	(412)	–	(383)
	1,689	1,881	2,046	2,097
(d) Deferred tax assets				
Future income tax benefit comprises the estimated benefit at the applicable rate of 30% on the following items:				
Sundry items	26	22	–	–
	26	22	–	–
9. CASH				
Petty cash	4	5	2	4
Cash at bank	1,332	1,517	730	485
Short term deposit	–	–	–	–
	1,336	1,522	732	489

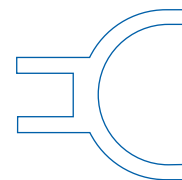


	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
10. TRADE AND OTHER RECEIVABLES				
Current				
Trade debtors	22,310	23,028	20,693	21,390
Less: Impairment losses recognised	(693)	(713)	(641)	(582)
	21,617	22,315	20,052	20,808
Other debtors	428	519	396	486
Loans to controlled entities	–	–	2,822	3,012
	22,045	22,834	23,270	24,306
11. INVENTORIES				
Current				
Raw materials	13,689	11,260	12,261	9,609
Work in progress	1,210	1,845	1,091	1,452
Finished goods	2,374	2,306	2,374	2,306
	17,273	15,411	15,726	13,367
12. OTHER ASSETS				
Prepayments	834	909	606	702
Deferred foreign currency hedge exchange difference and costs	–	127	–	127
Other	484	631	341	546
	1,318	1,667	947	1,375
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.				
14. INVESTMENTS				
Shares in controlled entities at cost	–	–	33,649	33,649
Unlisted shares at cost	50	50	–	–
	50	50	33,649	33,649

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
15. PROPERTY, PLANT AND EQUIPMENT				
Freehold land and buildings at cost	8,815	4,282	8,815	4,282
Leasehold property at cost	350	546	147	265
Accumulated amortisation	(140)	(218)	(125)	(119)
	210	328	22	146
Plant and equipment at cost	27,329	28,174	20,293	17,301
Accumulated depreciation	(16,762)	(16,888)	(11,839)	(8,808)
	10,567	11,286	8,454	8,493
Capital work in progress at cost	2	4,321	2	4,313
Total property, plant and equipment	19,594	20,217	17,293	17,234
Reconciliations				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
<i>Freehold land and buildings</i>				
Carrying amount at beginning of year	4,282	4,454	4,282	4,454
Additions	13	5	13	5
Transfer from capital work in progress	4,869	6	4,869	6
Disposals	–	(21)	–	(21)
Depreciation	(349)	(162)	(349)	(162)
Carrying amount at end of year	8,815	4,282	8,815	4,282
<i>Leasehold property improvements</i>				
Carrying amount at beginning of year	328	415	146	223
Additions	28	24	–	8
Disposals	(47)	–	(41)	–
Depreciation	(99)	(111)	(83)	(85)
Carrying amount at end of year	210	328	22	146
<i>Plant and equipment</i>				
Carrying amount at beginning of year	11,286	10,683	8,493	7,917
Additions	1,128	841	1,415	279
Transfer from capital work in progress	600	2,317	591	2,297
Disposals	(281)	(222)	(273)	(180)
Depreciation	(2,180)	(2,293)	(1,772)	(1,820)
Net foreign currency differences on translation of foreign entities	14	(40)	–	–
Impairment charge	–	–	–	–
Carrying amount at end of year	10,567	11,286	8,454	8,493



	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<i>Capital work in progress at cost</i>				
Carrying amount at beginning of year	4,321	737	4,313	717
Additions	1,150	5,907	1,150	5,899
Disposals	-	-	-	-
Transfers to property, plant and equipment	(5,469)	(2,323)	(5,461)	(2,303)
Carrying amount at end of year	2	4,321	2	4,313
Total carrying amount at end of year	19,594	20,217	17,293	17,234

16. PRODUCT DEVELOPMENT

Product development – at cost	35,635	32,516	35,635	31,123
Accumulated amortisation	(19,198)	(14,737)	(19,198)	(13,344)
	16,437	17,779	16,437	17,779

Reconciliation

Carrying amount at beginning of year	17,779	12,841	17,779	12,841
Capitalised in current period	3,207	8,690	3,207	8,690
Amortisation	(4,549)	(3,752)	(4,549)	(3,752)
	16,437	17,779	16,437	17,779

17. INTANGIBLES

Goodwill – at cost	28,499	28,477	-	-
Accumulated amortisation	(7,586)	(7,586)	-	-
	20,913	20,891	-	-
Computer software – at cost	8,470	6,621	8,470	6,621
Accumulated amortisation	(3,495)	(2,938)	(3,495)	(2,938)
	4,975	3,683	4,975	3,683
Total intangibles	25,888	24,574	4,975	3,683

Reconciliation

Goodwill

Carrying amount at beginning of year	20,891	19,457	-	-
Acquisitions	22	1,434	-	-
Impairment charge	-	-	-	-
	20,913	20,891	-	-

Computer Software

Carrying amount at beginning of year	3,683	300	3,683	300
Acquisitions	1,853	3,618	1,853	3,618
Amortisation	(560)	(235)	(560)	(235)
Disposals	(1)	-	(1)	-
Impairment charge	-	-	-	-
	4,975	3,683	4,975	3,683

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

Consolidated		The Company	
2006	2005	2006	2005
\$000	\$000	\$000	\$000

17. INTANGIBLES (CONTINUED)

Impairment tests for cash generating units containing goodwill

The following units have significant carrying amounts of goodwill:

Satellite communications equipment	15,214	15,214	–	–
Broadcast products	5,699	5,677	–	–
	20,913	20,891	–	–

The recoverable amount of the cash generating units are based on value in use calculations. Those calculations use cash flow projections based on a five year business plan. A terminal value has been determined at the conclusion of this five year period assuming a growth rate of 2.5%. A pre-tax discount rate of 13.3% has been used in discounting the projected cash flows.

18. PAYABLES

Current

Trade creditors	9,508	12,017	8,461	10,543
Other creditors and accruals	5,579	8,203	4,597	7,120
	15,087	20,220	13,058	17,663

19. OTHER LIABILITIES

Current

Loans from controlled entities	–	–	10,803	10,285
Net foreign currency hedge payable	–	127	–	127
	–	127	10,803	10,412

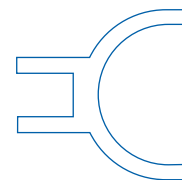
20. INTEREST BEARING BORROWINGS

Current

Bank overdrafts	1,400	1,113	1,400	1,113
Secured loans	27	282	–	138
Commercial bills	11,500	2,000	11,500	2,000
Unsecured loans	–	–	–	–
	12,927	3,395	12,900	3,251

Non-Current

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



	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
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	17,000	12,000	17,000	12,000
Documentary letters of credit	682	682	682	682
Equipment finance facility	1,080	2,080	200	1,200
Guarantee facility	1,350	1,350	1,230	1,230
Commercial credit card	135	135	115	115
	22,869	18,869	21,849	17,849
Facilities utilised at balance date:				
Bank overdraft	1,400	1,113	1,400	1,113
Multi option facility	11,500	2,000	11,500	2,000
Documentary letters of credit	156	–	156	–
Equipment finance facility	602	602	–	–
Guarantee facility	835	835	735	735
Commercial credit card	85	67	80	59
	14,578	4,617	13,871	3,907
Facilities not utilised at balance date:				
Bank overdraft	1,222	1,509	1,222	1,509
Multi option facility	5,500	10,000	5,500	10,000
Documentary letters of credit	526	682	526	682
Equipment finance facility	478	1,478	200	1,200
Guarantee facility	515	515	495	495
Commercial credit card	50	68	35	56
	8,291	14,252	7,978	13,942

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

20. INTEREST BEARING BORROWINGS (CONTINUED)

Bank Facilities

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

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	
	2006	2005	2006	2005
Weighted Average Interest rates				
Cash at bank	4.54%	4.38%	4.54%	4.38%
Short term deposits	–	5.11%	–	5.11%
Bank overdraft	8.80%	8.58%	8.80%	8.58%
Commercial bill	5.81%	5.70%	5.81%	5.70%
Equipment finance facility	7.39%	7.39%	7.39%	7.39%

	Consolidated		The Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000

21. PROVISIONS

Current

Employee benefits	1,672	2,156	1,325	1,705
Warranty repairs	1,618	2,010	1,618	2,010
	3,290	4,166	2,943	3,715

Non-Current

Employee benefits	2,191	2,443	1,937	2,207
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Reconciliation of warranty provision

Carrying amount at beginning of year	2,010	2,355	2,010	2,255
Provisions made during the year	926	1,054	926	1,154
Payments made during the year	(1,318)	(1,399)	(1,318)	(1,399)
	1,618	2,010	1,618	2,010

22. ISSUED CAPITAL

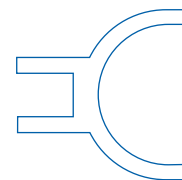
Share capital

162,045,454 (2005: 162,045,454) ordinary shares fully paid	23,685	23,685	23,685	23,685
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There has been no movement in share capital during the year.

Terms and conditions

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



	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
23. RESERVES				
Asset revaluation	-	-	-	-
Foreign currency translation	(184)	(72)	(128)	61
Hedging reserve	-	-	-	-
	(184)	(72)	(128)	61
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.				
Balance at beginning of year	-	34	-	34
Revaluation of land and buildings	-	-	-	-
Transfer to retained profits	-	(34)	-	(34)
Balance at end of year	-	-	-	-
Foreign currency translation				
The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.				
Balance at beginning of year	(72)	-	61	-
Net translation adjustment	(112)	(72)	(189)	61
Balance at end of year	(184)	(72)	(128)	61
Hedging reserve				
The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.				
Balance at beginning of year	-	-	-	-
Adjustment on change in accounting policy	127	-	127	-
Total recognised to income and expense	(127)	-	(127)	-
Balance at end of year	-	-	-	-
24. RETAINED PROFITS				
Retained profits at beginning of year	46,968	38,033	47,701	39,793
Transfers from reserves	-	34	-	34
Net profit attributable to members of the parent entity	8,488	17,741	8,349	16,714
Dividends recognised during the year	(9,723)	(8,840)	(9,723)	(8,840)
Retained profits at end of year	45,733	46,968	46,327	47,701

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

	Consolidated		The Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
25. COMMITMENTS				
(i) Capital expenditure commitments				
Aggregate amount of contracts for capital expenditure on plant and equipment	32	969	32	947
(ii) Non-cancellable operating lease expense and other commitments				
Future operating lease commitments not provided for in the financial statements which are payable:				
Within one year	997	610	566	110
One year or later and no later than five years	1,130	916	664	76
Later than five years	-	-	-	-
	2,127	1,526	1,230	186

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	31	294	-	143
One year or later and no later than five years	48	17	-	-
Later than five years	-	-	-	-
	79	311	-	143
Less: future finance charges	9	13	-	5
	70	298	-	138

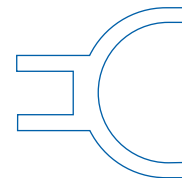
Lease and hire purchase liabilities provided for in the financial statements:

Current	27	282	-	138
Non-current	43	16	-	-
	70	298	-	138

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

26. 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 2005 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 years ending 31 March 2006 and 31 March 2007. The sales thresholds for the year ended 31 March 2006 were not achieved. 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.



27. 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:

	Floating \$000	Fixed interest maturing in		No interest \$000	Total \$000
		One year or less \$000	One to five years \$000		
2006					
Financial assets					
Cash assets	1,336	–	–	–	1,336
Receivables	–	–	–	22,045	22,045
Other assets	–	–	–	1,318	1,318
Other financial assets	–	–	–	50	50
	1,336	–	–	23,413	24,749
Financial liabilities					
Payables	–	–	–	15,087	15,087
Other liabilities	–	–	–	–	–
Bank overdraft	1,400	–	–	–	1,400
Secured loans	–	27	43	10	80
Commercial bills	11,500	–	–	–	11,500
Employee benefits	–	–	–	3,863	3,863
	12,900	27	43	18,960	31,930
2005					
Financial assets					
Cash assets	1,522	–	–	–	1,522
Receivables	–	–	–	22,834	22,834
Other assets	–	–	–	1,667	1,667
Other financial assets	–	–	–	50	50
	1,522	–	–	24,551	26,073
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

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

27. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(b) Foreign exchange risk

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

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

	Consolidated		Consolidated	
	2006	2005	2006	2005
	Weighted	Weighted		
	average rate	average rate	\$000	\$000
Sell US Dollars				
Not later than one year	–	0.7594	–	14,689

The consolidated entity classifies its forward exchange contracts, hedging forecasted transactions, as cash flow hedges and states them at fair value. As no forward foreign exchange contracts were held as at 30 June 2006 the fair value was nil.

(c) Credit risk exposures

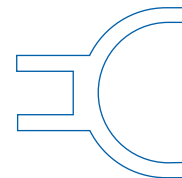
Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The credit risk on the financial assets of the consolidated entity is the carrying amount of the asset, net of any impairment losses recognised. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers in various countries and by credit insuring a portion 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.

28. CONTROLLED ENTITIES

Name / Country of incorporation	Class of Share	Interest Held	
		2006	2005
		%	%
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



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 balance sheet as follows:

	Consolidated		The Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Petty cash	4	5	2	4
Cash at bank	1,332	1,517	730	485
Short term deposits	-	-	-	-
Bank overdraft	(1,400)	(1,113)	(1,400)	(1,113)
	(64)	409	(668)	(624)

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

Profit from ordinary activities after income tax	8,488	17,741	8,349	16,714
Add/(less) items classified as investing or financing activities:				
(Profit) / loss on sale of non-current assets	125	108	112	81
Dividend income	(41)	-	-	-
Add /(less) non-cash items:				
Depreciation of:				
- Buildings	349	162	349	162
- Leasehold property	99	111	83	85
- Plant and equipment	2,180	2,293	1,772	1,820
Amortisation	5,109	3,987	5,109	3,987
(Decrease)/increase in income taxes	(1,928)	(996)	(1,726)	(1,322)
Share of associates net profit	-	-	-	-
Non cash intercompany transactions	-	-	8,628	7,898
Increase/(decrease) on net assets affected by translation	(146)	7	-	-
Net cash from operating activities before changes in assets and liabilities	14,235	23,413	22,676	29,425
Change in assets and liabilities during the financial year:				
Reduction/(increase) in receivables	698	(8,605)	755	(8,202)
Reduction/(increase) in inventories	(1,716)	(3,180)	(2,213)	(2,008)
Reduction/(increase) in other assets	440	3,338	518	3,320
Increase/(reduction) in payables	(5,260)	1,721	(4,729)	1,297
Increase/(reduction) in provisions	(1,159)	321	(1,043)	142
Net cash from operating activities	7,238	17,008	15,964	23,974

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

	Consolidated		The Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
30. EMPLOYEE BENEFITS				
Aggregate liability for employee benefits, including on costs:				
Current – other creditors and accruals	537	1,602	248	1,180
Current – employee entitlements	1,672	2,156	1,325	1,705
Non-current – employee entitlements	2,191	2,443	1,937	2,207
	3,863	4,599	3,262	3,912

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

	Consolidated		The Company	
	2006	2005	2006	2005
Assumed rate of increase in wage and salary rates	4.00%	4.00%	4.00%	4.00%
Discount rate	5.76%	5.13%	5.76%	5.13%
Settlement term (years)	20 years	20 years	20 years	20 years

Codan Executive Share Plan

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

The 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

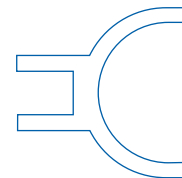
The Codan Employee Share Plan was approved by a resolution of the Company's shareholders and was established to provide certain employees with incentive rewards by giving them the opportunity to acquire shares. Shares are issued under the plan in the name of the participating employee to the plan and 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 \$18,839 (2005: \$79,910) is recognised as a receivable by the Company from employees under this plan.

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

Shares issued under the plan carry full dividend and voting rights. No shares have been issued under the plan in the 2005 or 2006 financial years.



31. KEY MANAGEMENT PERSONNEL DISCLOSURES

Remuneration of key management personnel by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced senior executives. The Remuneration Committee considers comparative companies, economic conditions and independent advice in assessing the remuneration packages of directors and senior executives. Remuneration packages can include a mix of fixed remuneration and performance based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to effect the broader outcome of increasing the consolidated entity's net profit. The remuneration structures take into account the overall level of remuneration for each director and executive, the executive's ability to control the relevant segments performance, and the amount of incentives within each executives remuneration.

Key management personnel may receive bonuses based on the achievement of two specific performance hurdles.

Firstly, where the ratio of earnings before interest and taxes ("EBIT"), which is adjusted for the capitalisation of product development expenditure, to sales exceeds a predetermined threshold for the financial year a bonus is calculated based on a percentage of the executives normal salary package. This percentage is capped at a maximum of 35% for the salary package. For the year ended 30 June 2006 this bonus condition was not achieved and as a result no payments under this performance condition will be made.

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 2006 the growth performance measure was not achieved and as a result no payments under this performance condition will be made.

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

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

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

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

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

The remuneration amounts disclosed have been calculated based on the expense to the company for the financial year, therefore items such as annual leave and long service leave, taken and provided for, have been considered. As a result the remuneration disclosed may not equal the salary package as agreed with the executive in any one year. Mr C Nesbitt (General Manager Manufacturing) was promoted to the executive team and in this year of transition his base salary and bonus has been structured differently from the other executives.

Notes to and forming part of the Financial Statements

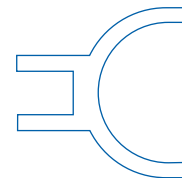
for the year ended 30 June 2006

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

The following table provides the nature and amount of all remuneration received by all directors of the Company for the year ended 30 June 2006.

		Primary			Post-employment		Other compensation		Total
		Salary and fees	Bonus	Long term incentive bonus	Non-monetary benefits	Super-annuation	Other post employment benefits	Termination benefits	
		\$	\$	\$	\$	\$	\$	\$	\$
Non-executive directors									
Mr J A Uhrig (Chairperson)	2006	163,500	–	–	–	–	–	–	163,500
	2005	138,066	–	–	–	–	–	–	138,066
Mr I J Bettison	2006	27,250	–	–	–	–	–	–	27,250
	2005	69,033	–	–	–	–	–	–	69,033
Mr I B Wall	2006	81,750	–	–	–	–	–	–	81,750
	2005	69,033	–	–	–	–	–	–	69,033
Mr A E R Wood	2006	27,250	–	–	–	–	–	–	27,250
	2005	69,033	–	–	–	–	–	–	69,033
Mr B P Burns	2006	75,000	–	–	–	6,750	–	–	81,750
	2005	63,333	–	–	–	5,700	–	–	69,033
Mr L A Davis	2005	25,833	–	–	–	2,325	–	–	28,158
Mr P R Griffiths	2006	75,000	–	–	–	6,750	–	–	81,750
	2005	63,333	–	–	–	5,700	–	–	69,033
Dr D Klingner	2006	75,000	–	–	–	6,750	–	–	81,750
	2005	43,750	–	–	–	3,937	–	–	47,687
Mr D Klingberg	2006	68,750	–	–	–	6,188	–	–	74,938
Executive directors									
Mr M K Heard (Managing Director)	2006	445,050	–	–	–	44,530	–	–	489,581
	2005	506,758	189,000	–	–	66,609	–	–	762,367
Total, all directors	2006	1,038,550	–	–	–	70,968	–	–	1,109,519
	2005	1,048,172	189,000	–	–	84,271	–	–	1,321,443

Mr L A Davis retired as a director in December 2004 and Mr A E R Wood and Mr I J Bettison retired as directors in October 2005. Dr D Klingner was appointed as a director in December 2004 and Mr D Klingberg was appointed as a director in July 2005.



The following table provides the nature and amount of all remuneration received by the key management personnel, other than directors, of the consolidated entity with for the year ended 30 June 2006.

		Primary			Post-employment		Other compensation		Total	
		Salary and fees	Bonus	Long term incentive bonus	Non-monetary benefits	Super-annuation	Other post employment benefits	Termination benefits		Insurance premiums
		\$	\$	\$	\$	\$	\$	\$	\$	
Executives										
Mr D McGurk										
<i>General Manager</i>	2006	204,293	-	-	-	15,361	-	-	-	219,654
<i>-Sales and Marketing</i>	2005	193,121	71,750	-	-	14,246	-	-	-	279,117
Mr D Hughes										
<i>Chief Finance and Information Officer</i>	2006	206,252	-	-	-	16,843	-	-	-	223,095
	2005	201,211	77,350	-	-	23,977	-	-	-	302,538
Mr P Charlesworth										
<i>General Manager</i>	2006	184,568	-	-	-	16,545	-	-	-	201,112
<i>Engineering</i>	2005	191,480	71,750	-	-	16,079	-	-	-	279,309
Mr A Gobolos										
<i>General Manager</i>	2006	207,450	-	-	-	18,933	-	-	-	226,383
<i>Business Development</i>	2005	199,162	80,500	-	-	23,412	-	-	-	303,074
Mr L Groves										
<i>General Manager</i>	2006	-	-	-	-	-	-	-	-	-
<i>Sales and Marketing</i>	2005	21,578	-	-	-	1,829	-	-	-	23,407
Mr C Nesbitt										
<i>General Manager</i>										
<i>Manufacturing</i>	2006	131,258	18,750	-	-	11,089	-	-	-	161,097
Total, all specified executives	2006	933,822	18,750	-	-	78,771	-	-	-	1,031,343
	2005	806,552	301,350	-	-	79,543	-	-	-	1,187,445

Mr L Groves ceased to be employed in August 2004 and Mr C Nesbitt has been the General Manager of Manufacturing for the 2006 financial year.

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

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

31. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Codan Limited held, directly, indirectly or beneficially, by key management personnel, including their personally related entities is as follows:

	Opening balance	Purchases	Sales	Closing Balance
Directors				
Mr J A Uhrig	11,389,016	780,320	–	12,169,336
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	191,721	–	11,580,737
Mr L A Davis	200,000	–	–	200,000
Mr P R Griffiths	110,000	–	–	110,000
Dr D Klingner	20,000	80,000	–	100,000
Mr D Klingberg	–	35,200	–	35,200
Mr M K Heard	4,399,522	–	–	4,399,522
Specified executives				
Mr D McGurk	1,000	–	–	1,000
Mr D Hughes	11,000	4,000	–	15,000
Mr P Charlesworth	10,000	–	–	10,000
Mr A Gobolos	778,407	–	–	778,407
Mr C Nesbitt	5,000	–	–	5,000

Other transactions with the Company or its controlled entities

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

A number of key management personnel, or their personally related entities, hold positions in other entities that result in them having control or 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 (2005: \$100,000) to the company during the year. The consulting terms are based on market rates for these types of services.

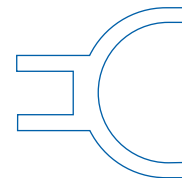
From time to time, directors and specified executives, or their personally related entities, may purchase goods from the consolidated entity. These purchases occur within a normal employee relationship and are considered to be trivial in nature.

32. OTHER RELATED PARTIES

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

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



33. EXPLANATION OF TRANSITION TO AIFRS

As stated in Note 1 these are the consolidated entity's first full year financial statements prepared in accordance with Australian Accounting Standards – AIFRS.

The accounting policies in Note 1 have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005, and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

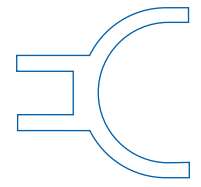
Reconciliation of profit	Note	Consolidated 30 June 2005			The Company 30 June 2005		
		Previous GAAP	Transition Effect	AIFRS	Previous GAAP	Transition Effect	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	33 (c)	125,455	(15)	125,440	117,184	(15)	117,169
Cost of goods sold		(65,564)	–	(65,564)	(60,897)	–	(60,897)
Gross Profit		59,891	(15)	59,876	56,287	(15)	56,272
Other operating income	33 (b), (g)	844	(353)	491	852	(303)	549
Administrative expenses	33 (g)	(8,282)	154	(8,128)	(7,739)	152	(7,587)
Sales and marketing expenses		(20,523)	–	(20,523)	(19,517)	–	(19,517)
Research and engineering expenses	33 (a)	(7,366)	14	(7,352)	(6,796)	14	(6,782)
Financing costs	33(g)	(98)	62	(36)	(78)	32	(46)
Share of net profits of associates		–	–	–	–	–	–
Other operating expenses	33 (a), (b)	(1,896)	1,802	(94)	(200)	119	(81)
Profit before income tax expense		22,570	1,664	24,234	22,809	(1)	22,808
Income tax expense	33 (d)	(6,366)	(127)	(6,493)	(5,967)	(127)	(6,094)
Profit for the period		16,204	1,537	17,741	16,842	(128)	16,714

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

33. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

	Consolidated						The Company					
	1 July 2004			30 June 2005			1 July 2004			30 June 2005		
	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000
Reconciliation of equity	Note											
Cash and cash equivalents		11,140	-	11,140	1,522	-	10,121	-	10,121	489	-	489
Trade and other receivables		14,391	-	14,391	22,849	(15)	14,034	-	14,034	24,321	(15)	24,306
Inventories		12,231	-	12,231	15,411	-	11,360	-	11,360	13,367	-	13,367
Current tax assets	6	6	-	6	-	-	-	-	-	-	-	-
Other		4,858	-	4,858	1,667	-	4,559	-	4,559	1,375	-	1,375
Total current assets		42,626	-	42,626	41,449	(15)	40,074	-	40,074	39,552	(15)	39,537
Receivables		72	-	72	-	-	72	-	72	-	-	-
Investments in associates		-	-	-	-	-	-	-	-	-	-	-
Other financial assets		50	-	50	50	-	33,649	-	33,649	33,649	-	33,649
Property, plant and equipment	33 (a), (b)	16,589	(299)	16,290	23,900	(3,683)	13,611	(299)	13,312	20,917	(3,683)	17,234
Product development	33 (a)	12,906	(65)	12,841	17,830	(51)	12,906	(65)	12,841	17,830	(51)	17,779
Intangible assets	33 (a)	19,457	299	19,756	19,226	5,348	-	299	299	-	3,683	3,683
Deferred tax assets	33 (d)	3,406	(3,316)	90	3,275	(3,253)	3,316	(3,316)	-	2,942	(2,942)	-
Total non-current assets		52,480	(3,381)	49,099	64,281	(1,639)	63,554	(3,381)	60,173	75,338	(2,993)	72,345
Total assets		95,106	(3,381)	91,725	105,730	(1,654)	103,628	(3,381)	100,247	114,890	(3,008)	111,882



Reconciliation of equity	Consolidated						The Company					
	1 July 2004			30 June 2005			1 July 2004			30 June 2005		
	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000	Previous GAAP \$'000	Transition Effect \$'000	AIFRS \$'000
Payables	15,090	-	15,090	20,220	-	20,220	12,960	-	12,960	17,663	-	17,663
Other liabilities	3,740	-	3,740	127	-	127	13,538	-	13,538	10,412	-	10,412
Interest bearing liabilities	343	-	343	3,395	-	3,395	143	-	143	3,251	-	3,251
Current tax liabilities	3,942	-	3,942	1,237	-	1,237	3,915	-	3,915	1,090	-	1,090
Provisions	4,214	-	4,214	4,166	-	4,166	3,868	-	3,868	3,715	-	3,715
Total current liabilities	27,329	-	27,329	29,145	-	29,145	34,424	-	34,424	36,131	-	36,131
Interest bearing liabilities	309	-	309	26	-	26	138	-	138	-	-	-
Deferred tax liabilities	4,108	(3,847)	261	5,538	(3,657)	1,881	4,108	(3,847)	261	5,443	(3,346)	2,097
Provisions	2,074	-	2,074	2,443	-	2,443	1,912	-	1,912	2,207	-	2,207
Total non-current liabilities	6,491	(3,847)	2,644	8,007	(3,657)	4,350	6,158	(3,847)	2,311	7,650	(3,346)	4,304
Total liabilities	33,820	(3,847)	29,973	37,152	(3,657)	33,495	40,582	(3,847)	36,735	43,781	(3,346)	40,435
Net assets	61,286	466	61,752	68,578	2,003	70,581	63,046	466	63,512	71,109	338	71,447
Issued capital	23,046	639	23,685	23,046	639	23,685	23,046	639	23,685	23,046	639	23,685
Reserves	17	17	34	(89)	17	(72)	1,370	(1,336)	34	1,397	(1,336)	61
Retained profits	38,223	(190)	38,033	45,621	1,347	46,968	38,630	1,163	39,793	46,666	1,035	47,701
Total equity	61,286	466	61,752	68,578	2,003	70,581	63,046	466	63,512	71,109	338	71,447

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

33. EXPLANATION OF TRANSITION TO AIFRS (CONTINUED)

Notes to the AIFRS reconciliations

(a) Intangibles

Product development

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 as product development have been 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 has been increased by this amount.

Other intangible assets

Software assets have been reclassified from property, plant and equipment to intangible assets on transition to AIFRS. This has resulted 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 is unchanged by the adoption of 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.

(b) Property, plant and equipment

Other than land and buildings all other property, plant and equipment has continued to be measured at cost. Land and buildings were previously measured at fair value, the company has elected to change the measurement basis from fair value to cost under AIFRS. On transition to AIFRS the carrying value of land and buildings has been deemed to be cost. As a result all property, plant and equipment is now measured at cost under AIFRS and the asset revaluation reserve recorded by the company has been 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 was reclassified from revenue to other expenses for the financial year ended 30 June 2005.

(c) 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 was no impact for the 2004 financial year.

(d) Income tax

Under AIFRS the tax entry that has resulted from a transaction that has impacted equity is also reflected in equity. The impact 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 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. Deferred tax balances related to the same tax authority have been offset.

(e) 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.

(f) Foreign currency

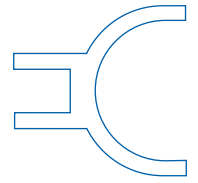
The consolidated entity has elected under AASB 1 to reset the balance of the foreign currency revaluation reserve to nil on transition to AIFRS. The foreign currency translation reserve as at 1 July 2004 was a debit balance of \$17,275.

(g) Net financing costs

Interest received of \$215,818 (Company \$183,883) has been reclassified from other income to net financing costs and the net foreign exchange losses of \$154,272 (Company \$151,860) have been reclassified from administration expenses to net financing costs.

Directors' Declaration

Codan Limited and 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 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Newton this 17th day of August 2006.

Signed in accordance with a resolution of the directors:

J A Uhrig
Director

M K Heard
Director

Independent Audit Report

to the Members of Codan Limited



SCOPE

The financial report and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, 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 2006. 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. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 First-time Adoption of Australian equivalents to International Financial Reporting Standards.

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.

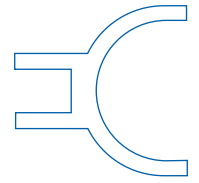
We formed our audit opinion on the basis of these procedures, which included:

- 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, an Australian partnership, is a member of KPMG International, a Swiss non-operating association



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 2006 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 2006

ASX Additional Information

for the year ended 30 June 2006

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

SHAREHOLDINGS AS AT 23 AUGUST 2006

Substantial shareholders

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

Shareholder	Number of ordinary shares
Interests associated with Kynola Pty Limited and Warren Glen Pty Limited	11,580,737
Interests associated with Starform Pty Limited and Pinara Pty Limited	12,169,336
Mackinnon Investments Pty Limited	20,859,439
IB Wall and PM Wall	34,792,943
Edal Pty Limited	46,030,713

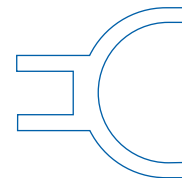
Distribution of equity security holders

Category	Number of Equity Security Holders Ordinary Shares
1 – 1,000	288
1,001 – 5,000	824
5,001 – 10,000	397
10,001 – 100,000	330
100,001 and over	39
Total	1,878

The number of shareholders holding less than a marketable parcel of ordinary shares is 55.

On market buy back

There is no current on market buy back.



Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Edal Pty Limited	46,030,713	28.4%
IB Wall and PM Wall	34,792,943	21.5%
MacKinnon Investments Pty Limited	20,859,439	12.9%
Starform Pty Limited	11,389,016	7.0%
Kynola Pty Limited	9,111,213	5.6%
MK and MC Heard	3,666,268	2.3%
LF Choate	3,211,260	2.0%
National Nominees Limited	2,536,413	1.6%
Warren Glen Pty Limited	2,469,524	1.5%
JP Morgan Nominees Australia Limited	2,425,001	1.5%
Sandhurst Trustees Limited (Aust Ethical Equities account)	1,419,564	0.9%
Argo Investments Limited	800,000	0.5%
Pinara Pty Ltd	780,320	0.5%
YA and EJ Gobolos	778,407	0.5%
RBC Dexia Investor Services Australia Nominees Pty Limited (BKCUST account)	748,405	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)	686,035	0.4%
ANZ Nominees Limited	655,167	0.4%
Total	144,538,417	89.2%

OFFICES AND OFFICERS

Company Secretary

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

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)
Brian Burns
Peter Griffiths
David Klingberg
David Klingner
Ian Wall

Company Secretary

David Hughes

Registered Office

81 Graves Street
Newton SA 5074

Auditor

KPMG
151 Pirie Street
Adelaide SA 5000

Registry

Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5001



www.codan.com.au

